Behavioural Finance: Investors Self Attribution and Overconfidence

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Abstract- Self attribution and overconfidence both are behavioural finance principles, from which investors suffer. In this paper, an examination has been made to discover the mental qualities like Risk Aversion, Regret, Overconfidence and Self Attribution biases of the investors. The present study concludes whether investor’s behaviour is rational as presumed under the efficient market hypothesis or investor suffers from self attribution or overconfidence biases. These biases are profound established in investors and can be ascribed to their gender, age and their association in the market. The study finds out that some of the investor having overconfidence bias is higher than those having self attribution bias. Overconfidence bias is reduced with the age and gender, while self attribution bias is increasingly overwhelming among the investors.

Keywords: Behavioural Finance; Investor’s Self Attribution; Overconfidence.

I. INTRODUCTION:

Behavioural Finance analyzes the manipulation of psychological factors in the evolution of the financial market. In other words, financial markets inefficiency is contemplated in light of the mental hypotheses and perspectives. Behavioural finance principles include overconfidence bias, self attribution bias, emotions, and social forces. The paradigm of behavioural finance suggests that investment decisions are influenced on a large scale by psychological and emotional factors. The following primary feelings are included in the human being emotional behaviour like greed, ambition, satisfaction, fear, panic, anxiety, envy or vanity.

Self Attribution: The self attribution predisposition is an inclination of a person to ascribe constructive outcome to their own abilities and to unsuccessful property results of hard luck. Investors who are experienced with positive results start to develop a magnified opinion.

Overconfidence: This bias can be seen when an investor realises too much on his judgment, forethought, and abilities. It reflects an illusion of knowledge/ control/ competency or experience. The overconfidence can show the way to either speeding up into not well thought or on the contrary delaying in decisions.

II. LITERATURE REVIEW:

Till now, numerous studies have been embraced whereby the effect of psychology on the investor’s behaviour and basic leadership are considered. These examinations have attempted to built-up certainty that investors basic leadership is impacted by their psychology and consequently speculators' conduct isn't totally rational. Real research considers in the in the area of investors’ self-attribution, and overconfidence frame of mind has been done by experts.

Ms. Kanu Jain and Ms. Sahaj Wadhwa (Dec. 2012) in their research paper Behavioural Biases and Investment Process, has carried out a study on Investors are suffering from overconfidence or self attribution biases. They have dissected distinctive individual qualities of investors make them increasingly inclined to these kinds of biases. The researchers conclude that psychology plays a role in investment decision making and its role cannot be invalidated.

Ms. Darshita Ganatra (2013) in her paper A Study on the Investment Psychology – Behaviour Finance, chosen a gathering of Professors and Students to think about the components influencing venture choices. She completed a comparative study of the conduct of understudies and teachers as investors. The researcher
concluded her study on various analyses of anchoring, mental accounting, Gambler’s Fallacy, and herd behaviour biases.

Sharma Amlan Jyoti (2014) in his study Understanding Cognitive Dissonance – The Behavioural Finance Principles, studied that an essential presentation of the idea of conduct fund pursued by the dialog of psychological disharmony idea simplified including the highlights and the approaches to defeat the discord in speculation choices.

P.B. Suryawanshi and Dr. Anand G. Jumle (June 2016) in their research paper Comparison of Behavioural Finance and Traditional Finance for Investment Decisions, elaborated the distinction in the customary back framework and the behavioural finance and its applications in basic leadership. They discover that the customary hypothesis trusts that the investors are rational, balanced and they act cleverly in the finance market. The analysts break down the utility of models of behavioural finance for better speculation choices. They closed their investigation by discovering that to keeping away from biases heuristics investors’ needs to painstakingly investigation of the market or needs to pursue specialized subtleties given by the specialists.

Sujata Kapoor and Jaya M. Prosad (2017) in their paper Behavioural Finance: A Review, described that significance of behavioural finance and its unique position in bringing the gaps between real-life situations and traditional theories. Both the specialists have presumed that the behavioural finance manages the investigation of investors' psychology and its role in settling on monetary choices or financial decisions. This documented loosens up the presumption of rationally present in the standard financial principles and clarifies that genuine investors are affected by their mental predispositions, i.e., self attribution and overconfidence.

III. RESEARCH OBJECTIVES:

The main objectives of this study are to feature the confinements of the conventional finance principles and the importance of the development of social fund discipline in the investigation of the investor's behaviour in terms of overconfidence and self attribution biases.

The study is attempted for the following objectives:

i. To see whether the investors are suffering from self attribution or overconfidence biases.

ii. To see whether different investors make them more biased in terms of overconfidence and self attribution or not.

IV. RESEARCH METHODOLOGY:

The paper is reasonable and elucidating in nature, and it depends on the hole in research of writing survey of research papers distributed in national and global diaries, books distributed by prestigious distributing houses, statistical surveying magazines, monetary diaries and the investigations accessible over web based sources.

V. RESULTS AND DISCUSSION:

5.1. Investor’s Overconfidence in Own Decision Making: It has been seen that a few investors’ are increasingly certain about their choices and would prefer not to refute them. A case of such circumstance is that a few investors’ do not prefer to move their property regardless of whether they are not performing admirably for quite a while. These types of investors try to justify that their investment decisions are always right.
5.2. **Role of Investors Emotions in Investment**: Emotions of an investor are playing a vital role in investment decision making. The investors are a typical person with feelings and role of feelings in investment decisions making cannot be ruled out.

5.3. **Role of Experience in Investment**: Experience of an investor in investment decision making definitely makes the investor wiser and affect their decision making. Investments made by investors are based on past experiences.

5.4. **Role of Market Research in Investment**: Before making any investment the investor carried out market research by his own sources. Market research affects self attribution to an investor for making their investments.

VI. **LIMITATIONS OR RESTRICTIONS OF THE STUDY:**

The present study is having following real impediments or limitations:-

i. Hardly any parts of the self attribution and overconfidence hypotheses have been incorporated into the study. Further viewpoints can be incorporated into the examination to look at the specific standards of behavioural finance.

ii. This study carried out on a conceptual basis; deep study can be done through primary data collection like a collection of data through the distribution of questionnaires among the investors.

iii. Feedback from investors in difference areas of investment may also affect the result of the study.

VII. **FINDINGS AND CONCLUSIONS:**

From the above investigation, we see that there are certainly unique deficiencies of investors’ self attribution and overconfidence standards in behavioural finance. The above hypothesis has been tried ordinarily by the specialists at various circumstances prompting ends some time good to it and some time not in support. The weaknesses of self attribution and overconfidence are brought up by the behavioural finance measurements especially the investors’ rationally concept. The study reaches the following findings and conclusions:-

i. The suffering of an investor having overconfidence bias is higher than those having self attribution bias.

ii. Various social elements like knowledge, education, economic status, and gender also affect the investor’s behaviour.

iii. Rationality, conventional and behavioural finance are also affecting the investors in their investment decisions.

VIII. **SCOPE FOR FURTHER STUDY:**

Following further examinations might be done in accordance with this paper:-

i. To study the impact of behavioural finance on investment patterns of investors.

ii. To study the impact of various principles of behavioural finance such as adaptive attitude, herd behaviour, and loss aversion.
iii. Impact of investor’s emotions in their investment psychology.

iv. To study contradictions in behavioural finance such as rationality concept, emotional investing, informational accuracy, demographic factors, and interdisciplinary grounds.

IX. REFERENCES/ BIBLIOGRAPHY:


