# Investor's Biases And Investment Decision Towards Equity Investments In Tamil Nadu

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*Abstract*

This study examines the investor's biases and investment decision towards equity investments in Tamil Nadu. The study is used to descriptive research design. Here, Overconfidence Bias, Social Learning, Financial Awareness, Economic Expectations, Self enhancement bias, mood factors and emotional factors considered as an independent variable. Based on this, 650 investors are drawn by purposive sampling technique. From this, 613 investors companies are used for this study. It is found that Overconfidence Bias, Social Learning, Financial Awareness, Economic Expectations, Self enhancement bias, mood factors and emotional factors are high influence the investment decision.

Keywords: Investments, overconfidence Bias, Social Learning, Financial Awareness, Tamil Nadu.

**Introduction**

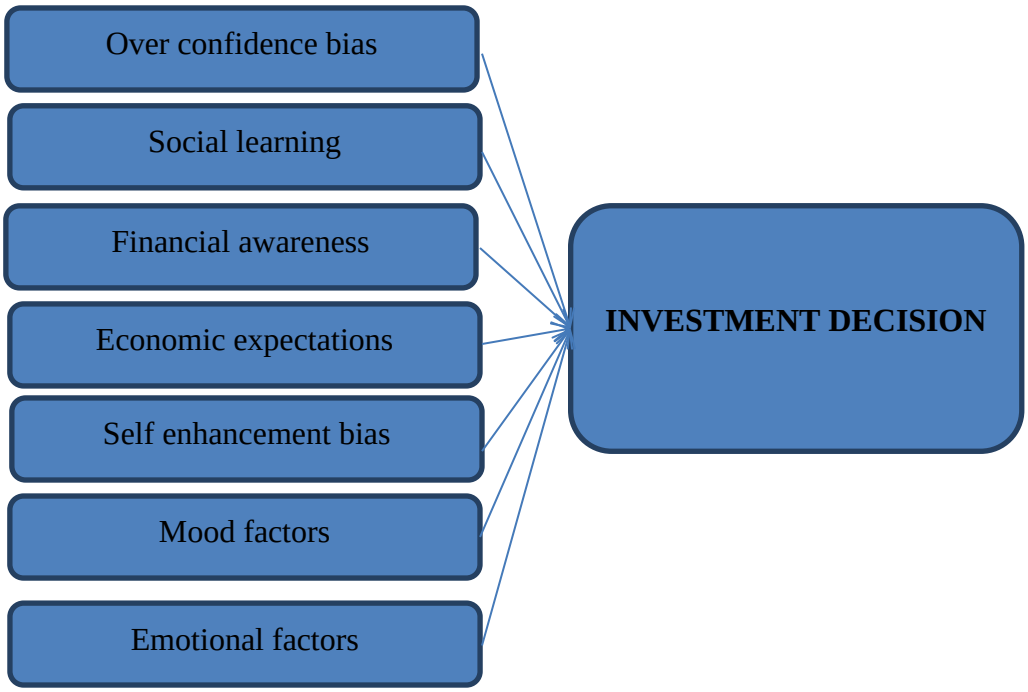
The investors biases is comes under the Behavioral finance concepts. The behavior finance is related psychology behavior of human decision-making processes. The decision making process is various form but in this research mainly focused on investors biases and investment decision making taken by individuals and institutions. Sha and Ismail (2020) claimed that investors taking decisions based on the marketing information related to the market. It was found that the investors are influenced by behaviour biases on investment decision.

It was corroborated by John Jacob & Jayakrishnan (2015) stated that the various biases that occur can be detrimental, as it can lead to a risk miscalculation that may

occur. Besides, such biases are also difficult to control because they are invisible and directly linked to thought processes involving emotions or feelings. Olsen (1998) warned that the main purpose of behavioral finance understands the influence of psychological factors systematically in the financial market so that each individual will be more prudent in decision making. Maximum of the investors in the stock market are experienced in this field as they are making investment in stock market for more than five years.

Kengatharan (2014), Qadri and Shabbir (2014) and Nofsingera and Varmab (2013) have established that psychological factors do have relationships and impacts on the decision making of investors in their stock markets. Bashir et al. (2013) revealed that investors are not always as rational as they are portrayed to be. These anomalies can be explained by a new emerging area of finance called behavioral finance. The overconfidence bias which is related to the self- attribution bias is the tendency of an individual to attribute his success to his own talent and ability while blaming 'bad luck' for his failure, making himself overestimating his talent. Qadri & Shabbir (2013), Lim (2012), Qureshi et al. (2012) and Bashir et al. (2013) have found overconfidence to have positive significant impact on investors' decision making.

**Framework of the study**



**Objective of the study**

- To find out the investor's opinion towards behaviour bias and equity investors' investment decision.
- To analyze the factors influence an investor's bias on Investment decision

**Hypothesis of the study**

- Ho: investor's bias does not influence the Investment decision

**Research methodology**

The study is used to descriptive research design. The study is focused on factors influence an investor's bias on Investment decision. The present study considers the Investment decision is a dependent variable. Here, Overconfidence Bias, Social Learning, Financial Awareness, Economic Expectations, Self enhancement bias, mood factors and emotional factors considered as an independent variables. Based on this, 650 investors are drawn by purposive sampling technique. From this, 613 investors companies are used for this study. After collecting the data it was entered in to SPSS package for the further analysis. In order to answer the research objectives and test the hypothesis, relevant statistical tools are applied.

**Table 1 Overconfidence Bias**

| | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| I make riskier investments for maximum gain | 134 (21.9%) | 254 (41.4%) | 126 (20.6%) | 45 (7.3%) | 54 (8.8%) | 4.17 | 0.65 |
| I feel myself qualified to make investment decisions | 143 (23.3%) | 237 (38.7%) | 126 (20.6%) | 53 (8.6%) | 54 (8.8%) | 4.53 | 0.69 |
| I feel I can predict future share prices better than others | 139 (22.7%) | 231 (37.7%) | 126 (20.6%) | 63 (10.3%) | 54 (8.8%) | 4.18 | 0.72 |
| I think that I have complete knowledge of stock market | 107 (17.5%) | 218 (35.6%) | 180 (29.4%) | 72 (11.7%) | 36 (5.96%) | 3.69 | 0.80 |
| I am confident of my ability to do better than others in picking stocks | 197 (32.1%) | 210 (34.3%) | 117 (19.1%) | 54 (8.8%) | 35 (5.7%) | 4.47 | 0.81 |

Table 1 explains the Overconfidence Bias. Here, risk investments make maximum gain, qualified to make

investment decisions, predict future share prices, complete knowledge of stock market and ability to do better stocks picking are considers as overconfident statements. The researcher has been applied frequency analysis to find out the Overconfidence Bias among the investors. 41.4 percent of the investors are agreed that the risk investments make maximum gain. 38.7% of the investors are agreed that their qualification make investment decisions. 37.7%% of the investors are agreed that predict future share prices. 35.6% of the investors are agreed that complete knowledge of stock market. 34.3% of the investors are agreed that confident of my ability to do better than others. It is found that majority of the investors agreed that investments make maximum gain.

**Table 2 Social Learning**

| | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| I follow the stock market on TV | 97 (15.8%) | 266 (43.4%) | 143 (23.3%) | 53 (8.6%) | 54 (8.8%) | 4.51 | 0.71 |
| I easily access the latest reports, prospectus and financial statements of any company | 152 (24.8%) | 300 (48.9%) | 62 (10.1%) | 45 (7.3%) | 54 (8.8%) | 4.27 | 0.57 |
| I usually attend seminars, conferences & Workshops on stock market | 168 (27.4%) | 266 (43.4%) | 72 (11.7%) | 63 (10.3%) | 44 (7.2%) | 4.25 | 0.60 |
| I visit stock market websites regularly | 194 (31.6%) | 240 (39.2%) | 90 (14.7%) | 45 (7.3%) | 44 (7.2%) | 4.22 | 0.54 |
| The CSE often hold educational programs to educate the public regularly | 193 (31.5%) | 169 (27.6%) | 153 (25%) | 62 (10.1%) | 36 (5.9%) | 4.21 | 0.60 |
| My peers influence me to take stock market decision | 168 (27.4%) | 266 (43.4%) | 71 (11.6%) | 45 (7.3%) | 63 (10.3%) | 4.23 | 0.59 |
| I have trouble paying attention to the information on the stock market | 184 (30%) | 196 (32%) | 108 (17.6%) | 72 (11.7%) | 53 (8.6%) | 4.09 | 0.66 |

Table 2 explain the Social Learning bias of investor while investment. Social Learning bias statements are follow the stock market, usually attend seminars, visit stock market websites, CSE often hold educational programs, take stock market decision and information on the stock market. Descriptive statistic is computed. They follow the stock market

is 48.9 % of the investors are agreed. They usually attend seminars 43.4 % of the investors are agreed. They visit stock market websites 39.2 % of the investors are agreed. They CSE often hold educational programs 31.5 % of the investors are strongly agreed. They take stock market decision 43.4 % of the investors are agreed. They have information on the stock market 32 % of the investors are agreed.

It is inferred that follow the stock market, usually attend seminars, visit stock market websites, CSE often hold educational programs, take stock market decision, information on the stock market are agreed opinion towards the Social Learning bias of investor while investment.

**Table 3 Financial Awareness**

| | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| I am knowledgeable on stock market activities | 168 (27.4) | 141 (23%) | 134 (21.9%) | 72 (11.7%) | 98 (16%) | 4.02 | 0.62 |
| I understand the role of brokerage firms | 240 (39.2%) | 230 (37.5%) | 81 (13.2%) | 26 (4.2%) | 36 (5.9%) | 4.12 | 0.62 |
| I have trust on existing trading system | 168 (27.4%) | 283 (46.2%) | 72 (11.7%) | 45 (7.3%) | 45 (7.3%) | 4.34 | 0.68 |
| Listed companies publish financial statements regularly | 159 (25.9%) | 185 (30.2%) | 180 (29.4%) | 72 (11.7%) | 17 (2.8%) | 4.33 | 0.68 |
| I seek financial advice from brokers, intermediaries or financial services companies | 179 (29.2%) | 229 (37.4%) | 107 (17.5%) | 53 (8.6%) | 45 (7.3%) | 4.38 | 0.74 |
| Stock exchanges publish reports on corporate developments in a regular manner | 197 (32.1%) | 210 (34.3%) | 117 (19.1%) | 54 (8.8%) | 35 (5.7%) | 4.47 | 0.81 |

Table 1 explains the Financial Awareness Bias. Here, knowledgeable on stock market, role of brokerage, trust on existing trading, financial statements regularly, financial advice and Stock exchanges publish reports are considers as Financial Awareness statements. The researcher has been applied frequency analysis to find out the Overconfidence Bias among the investors. 27.4 percent of the investors are strongly agreed that the knowledgeable on stock market. 39.2 percent of the investors are strongly agreed that the role of brokerage. 46.2 percent of the investors are agreed that the trust on existing trading. 30.2 percent of the investors are agreed that the

financial statements regularly. 37.4 percent of the investors are agreed that the financial advice. 34.3 percent of the investors are agreed that the Stock exchanges publish reports. It is found that knowledgeable on stock market, role of brokerage are high level opinion about financial awareness.

**Table 4 Economic Expectations**

| | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| The country economic conditions affect stock prices in stock market. | 169 (27.6%) | 247 (40.3%) | 108 (17.6%) | 44 (7.2%) | 45 (7.3%) | 4.05 | 0.55 |
| The best time to invest in shares | 197 (32.1%) | 210 (34.3%) | 117 (19.1%) | 54 (8.8%) | 35 (5.7%) | 4.47 | 0.81 |
| International financial market affect local share prices. | 158 (25.8%) | 186 (30.3%) | 126 (20.6%) | 62 (10.1%) | 81 (13.2%) | 4.22 | 0.75 |
| I consider that company performance during the past years | 116 (18.9%) | 219 (35.7%) | 152 (24.8%) | 63 (10.3%) | 63 (10.3%) | 4.15 | 0.74 |

Table 4 discusses the Economic Expectations. Here, Country economic conditions affect stock prices, the best time to invest in shares, International financial market affect local share prices and company performance during the past years. The mean values, it is observed that the country economic conditions affect stock prices (4.05), best time to invest in shares (4.47), international financial market affect local share prices (4.22) and Consider the previous year performance (4.15).

It is found that the best time to invest in shares, global market affect local share prices, Country economic conditions affect stock prices, and company performance during the past years are high level investment biases by investors point of view.

**Table 5 Self enhancement bias**

| | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| I have the ability to cut losses | 175 (28.5%) | 231 (37.7%) | 90 (14.7%) | 63 (10.3%) | 54 (8.8%) | 4.25 | 0.76 |
| I am more knowledgeable than average investor | 184 (30%) | 150 (24.5%) | 144 (23.5%) | 63 (10.3%) | 72 (11.7%) | 4.21 | 0.73 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Often, I am able to pick winning stocks | 168 (27.4%) | 257 (41.9%) | 80 (13.1%) | 27 (4.4%) | 81 (13.2%) | 4.40 | 0.70 |
| I am familiar with trading process | 184 (30%) | 187 (30.5%) | 99 (16.2%) | 90 (14.7%) | 53 (8.6%) | 4.44 | 0.68 |
| I have access to vast amount of information | 130 (21.2%) | 241 (39.3%) | 117 (19.1%) | 63 (10.3%) | 62 (10.1%) | 4.13 | 0.62 |
| Others seek information on stock from me | 124 (20.2%) | 158 (25.8%) | 197 (32.1%) | 63 (10.3%) | 71 (11.6%) | 4.14 | 0.65 |

Table 5 explains the Self enhancement bias. Here, ability to cut losses, more knowledgeable, pick winning stocks, familiar with trading process and vast amount of information and seek information are identified as Self enhancement bias. The frequency analysis values are 37.7 % of the investors are agreed ability to cut losses. 30% of the investors are strongly agreed more knowledgeable. 41.9 % of the investors are agreed pick winning stocks. 30.5 % of the investors are agreed familiar with trading process. 39.3 % of the investors are agreed vast amount of information. 32.1% of the investors are neutral seek information.

**Table 6 MOOD FACTORS**

| **MOOD FACTORS** | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| My happiness mood influences my market activity | 162 (26.4%) | 174 (28.4%) | 152 (24.8%) | 71 (11.6%) | 54 (8.8%) | 4.18 | 0.67 |
| I invest mostly in companies with stable expected returns | 168 (27.4%) | 113 (18.4%) | 206 (33.6%) | 81 (13.2%) | 45 (7.3%) | 4.14 | 0.67 |
| My calmness mindset influences my market activity | 124 (20.2%) | 158 (25.8%) | 197 (32.1%) | 63 (10.3%) | 71 (11.6%) | 4.14 | 0.65 |
| I am always actively participate in market activity | 168 (27.4%) | 257 (41.9%) | 90 (14.7%) | 45 (7.3%) | 53 (8.6%) | 4.16 | 0.65 |
| I usually invest in companies what I am familiar with | 159 (25.9%) | 257 (41.9%) | 72 (11.7%) | 62 (10.1%) | 63 (10.3%) | 4.16 | 0.68 |
| I am actively involved in market activity despite of | 123 (20.1%) | 230 (37.5) | 179 (29.2%) | 45 (7.3%) | 36 (5.9%) | 4.19 | 0.72 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| any angriness situations influences me | | | | | | | |

Table 6 explains the mood factors. Here, the mood factors statement such as mood influences their market activity, stable expected returns, calmness mindset influences their market, participate in market activity, familiar companies, and angriness situations influences them. The observed mean values are mood influences my market activity (4.18), stable expected returns (4.14), calmness mindset influences my market (4.14), participate in market activity (4.16), familiar companies (4.16) and angriness situations influences them (4.19) are strong opinion towards the mood factors. It is as mood influences their market activity, stable expected returns, calmness mindset influences their market, participate in market activity, familiar companies, and angriness situations influences them are strong opinion towards the mood factors while investment.

**Table 7 EMOTIONAL FACTORS**

| **EMOTIONAL FACTORS** | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| My positive outlook encourages me | 124 (20.2%) | 158 (25.8%) | 197 (32.1%) | 63 (10.3%) | 71 (11.6%) | 4.14 | 0.65 |
| I looking my opportunity to invest after a deep fall in the market | 116 (18.9%) | 219 (35.7%) | 152 (24.8%) | 63 (10.3%) | 63 (10.3%) | 4.15 | 0.74 |
| I am very excited to approach the market | 115 (18.8%) | 284 (46.3%) | 134 (21.9%) | 54 (8.8%) | 26 (4.2%) | 4.54 | 0.66 |
| If profit on my investment I will continues. | 184 (30%) | 150 (24.5%) | 144 (23.5%) | 63 (10.3%) | 72 (11.7%) | 4.21 | 0.73 |
| I get a loss, after using all my ideas | 168 (27.4%) | 257 (41.9%) | 80 (13.1%) | 27 (4.4%) | 81 (13.2%) | 4.40 | 0.70 |
| I am a long-term investor's | 159 (25.9%) | 185 (30.2%) | 180 (29.4%) | 72 (11.7%) | 17 (2.8%) | 4.33 | 0.68 |
| If loss happens, I'll sell all my stocks | 124 (20.2%) | 158 (25.8%) | 197 (32.1%) | 63 (10.3%) | 71 (11.6%) | 4.14 | 0.65 |

Table 7 discusses the emotional factors. Here, They looking my opportunity to invest after a deep fall in the market, They very excited to approach the market, If profit on their investment they will continues, The get a loss, after using all my ideas, They are long-term investor and If loss happens, I'll sell all my stocks are considered as emotional factors. The analysis values such as their positive outlook encourages them are neutral at 32.1. They looking my opportunity to invest after a deep fall in the market is agreed at 35.7. They very excited to approach the market is agreed at 46.3. If profit on their investment they will continues is strongly agreed at 30. The get a loss, after using all my ideas is agreed at 41.9. They are long-term investor's is agreed at 30.2. If loss happens, I'll sell all my stocks is neutral at 32.1

**TABLE 8 INVESTMENT DECISION**

| **INVESTMENT DECISION** | SA | A | N | DA | SDA | Mean | S.D |
|---|---|---|---|---|---|---|---|
| I search for investment options. | 123 (20.1%) | 230 (37.5) | 179 (29.2%) | 45 (7.3%) | 36 (5.9%) | 4.19 | 0.72 |
| I rely on intermediaries making investments. | 139 (22.7%) | 231 (37.7%) | 126 (20.6%) | 63 (10.3%) | 54 (8.8%) | 4.18 | 0.72 |
| I prefer investment based on low transaction cost. | 107 (17.5%) | 218 (35.6%) | 180 (29.4%) | 72 (11.7%) | 36 (5.96%) | 3.69 | 0.80 |
| My investments are diversified. | 115 (18.8%) | 284 (46.3%) | 134 (21.9%) | 54 (8.8%) | 26 (4.2%) | 4.54 | 0.66 |
| Using trend analysis to invest in stocks will fetch good results. | 159 (25.9%) | 185 (30.2%) | 180 (29.4%) | 72 (11.7%) | 17 (2.8%) | 4.33 | 0.68 |
| Knowledge of stock market leads to sound discretion. | 193 (31.5%) | 169 (27.6%) | 153 (25%) | 62 (10.1%) | 36 (5.9%) | 4.21 | 0.60 |

Table 8 explains the investor's perception towards investment decision towards Stock investment. Investment decision is analysed with 6 statements in the five point scale. Frequency analysis is applied. From the analysis, it is revealed that the respondents have agreed on all of the eight statements related to Investment decision. It is showed that the percentage of the respondents who agreed on the

statements is higher than respondents who are disagreed on it. Here, almost all of the respondents (37.5%) agreed that a search for investment options. 37.7 % of the investors are agreed that intermediaries making investments. 35.6 % of the investors are agreed that low transaction cost. 46.3 % of the investors are agreed that diversified investment. 30.2 % of the investors are agreed that invest in stocks raise good results. 31.5 % of the investors are strongly agreed that Knowledge of stock market. It is found that investment options, intermediaries making investments, low transaction cost, diversified investment, invest in stocks raise good results and Knowledge of stock are high level investment decision making opinion towards equity market.

**Figure 1 Path model of investors biases on Investment decision**

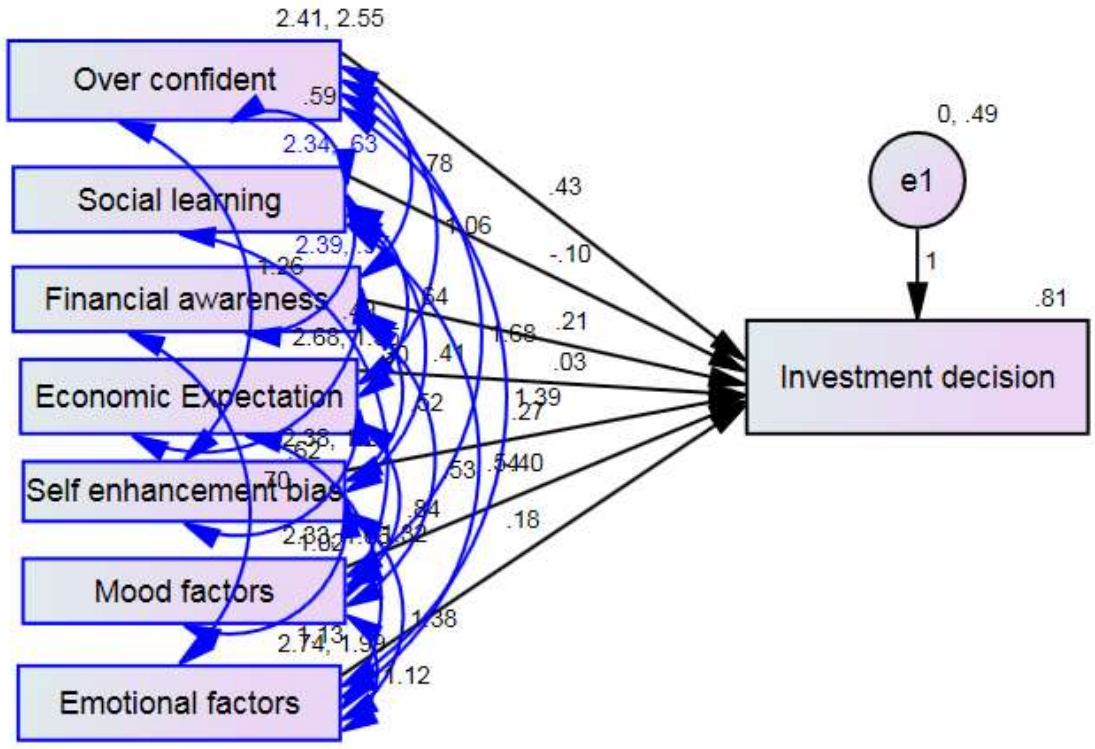



**Table - 9 SEM Model for Fit Indices**

| Measurement | Values |
|---|---|
| Chi-square | 181.360 |
| X2/df | 15.113 |
| RMSEA | 0.187 |

| | |
|---|---|
| RMR | 0.031 |
| CFI | 0.921 |
| GFI | 0.924 |
| AGFI | 0.713 |

Table 9 the chi-square test statistic was used for hypotheses testing to evaluate the appropriateness of a structural equation model. For a good fit, the ratio X2/df should be smaller as possible. As there no absolute standards exist, a ratio between 2 and 3 indicate of a 'good' (or) 'acceptable' data model fit, respectively.

In this model, the researcher has obtained a ratio of 15.113 but with significant test of 0.000. The value of RMSEA for a good model should be less than 0.005. Huand Bantler (1999) suggested that RMSEA should be equal to 0.08 as a cut off criterion. In this model, RMSEA is equal to 0.187.

RMR, usual rule of thumb, for this index is less than 0.05 indicates of good fit relative to the base line model. Here, RMR is 0.031. Comparative Fit Model (CFI) usual rule of thumb, for this index is 0.921 indicates of good fit relative to the default model, while values greater than 0.95 may be interpreted as acceptable fit, here, it is 1.00;

Goodness of fit index (GFI) is that 0.95 indicate good fit relative to the baseline model, whereas values greater than 0.90 are usually interpreted as indicating as acceptable fit, GFI is 0.924.

Adjusted goodness of fit (AGFI) is 0.90 indicate of a good fit, while values greater than 0.85 are acceptable, here AGFI is 0.716; All the goodness of fit results fall into a acceptable level of fit as suggested by Hair et.al (1998), sehumaeken and Lomax (1996). It is understood that different fit indices assess fit in different ways and the researcher has relied on almost all indices to reach a judgment concurring the overall fit of the model.

**Conclusion**

This study is exam the investors biases lead an investment decision. The most of the investors are taking the decision through so many factors such as over confidents, emotional factors and economic condition and self enhancement bias. It is suggested that the stock market regulators and policymakers such as SEBI and stock market. It is found that Overconfidence Bias, Social Learning, Financial Awareness, Economic

Expectations, Self enhancement bias, mood factors and emotional factors are high influence the investment decision.

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