A STUDY ON BEHAVIOURAL FINANCE WITH SPECIAL REFERENCE TO GEOJITH FINANCIAL SECURITIES LTD, MALAPPURAM, KERALA

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ABSTRACT

Behavioral finance is a new area of financial research that recognizes the psychological element in the financial decision making. Thus challenging traditional models that assume, investors will always weigh risk/ return factors rationally and act without bias. Behavioral finance is the study of how investors make decisions and how these decisions that affect the stock prices and broad market movements. Investors are human and humans aren't perfectly rational in decision making. When they buy on emotion, they not only jeopardize their own investment plans, but also create opportunities for others in the securities market. Closely associated with behavioral economics, the concept seeks to explain what occurs when emotional responses are involved in decisions that impact the stock market and prices of individual stock, market prices in selected markets, and allocation of financial resources in both savings and spending habits.

Keyword :-*Behavioral finance1, over confidence bias2, availability bias3, loss aversion bias4, herd behaviour5*

1.INTRODUCTION-1

Behavioral finance is a new area of financial research that recognizes the psychological element in the financial decision making. Thus challenging traditional models that assume, investors will always weigh risk/ return factors rationally and act without bias. Behavioral finance is the study of how investors make decisions and how these decisions that affect the stock prices and broad market movements. Investors are human and humans aren't perfectly rational in decision making. When they buy on emotion, they not only jeopardize their own investment plans, but also create opportunities for others in the securities market. Closely associated with behavioral economics, the concept seeks to explain what occurs when emotional responses are involved in decisions that impact the stock market and prices of individual stock , market prices in selected markets, and allocation of financial resources in both savings and spending habits. Some of the psychological variables that causes the investors to behave in irrational manner such as over confidence bias, availability bias, loss aversion bias, herd behavior and mental accounting,etc. when using the labels "conventional" or "modern" to describe finance , it talks about the types of finance that is based on the rational and logical theories, such as Capital Asset Pricing Model and Efficient Market Portfolio. These theories assume that people, for most part, behave rationally and predictable manner. But in practice it is found that investors sometimes behave irrationally due to some reasons. The study focus on the irrational behavior of the investors in Indian capital market, by conducting a survey in Kerala with special reference to Geojith Financial Securities Ltd , Malappuram

2.STATEMENT OF THE PROBLEM-2

According to conventional financial theory, the investors, for the most part are" wealth maximizers" and exhibit rational behavior in purchasing decisions. However there are many instances were emotion and psychology influence investors' decision making, causing them to behave in unpredictable or irrational manner. Such anomalies can be explained with the help of behavioral finance. One of the major impediments in making the rational investment decision is the extent of investors' biases present in the stock market. So in order to make efficient investment decision investor has to identify these investors' biases present in the market. The present study has made attempts to identify these investors biases.

3.OBJECTIVES OF THE STUDY-3

3.1primary objectives-1

- To study the presence of various behavioral biases in Indian stock market

3.2secondary objectives-2

- To examine which all the biases are influencing the investor most and also the least, while taking the investment decisions.

4.SCOPE AND SIGNIFICANCE OF THE STUDY-4

The study helps to get an insight in to some of the underlying reasons and biases that causes some people to behave irrationally while making investment decisions. The scope of study extends to explain the action of the investors which cannot be explained by the conventional theories. The behavioral finance principles, if studied can be applied by the asset management organizations, mutual fund etc for constructing portfolios which would maximize the wealth of the investors. The primary data is collected from investors of Geojith Financial Securities Ltd ,Malappuram, Kerala

5.CONCEPTUAL MODELS-5

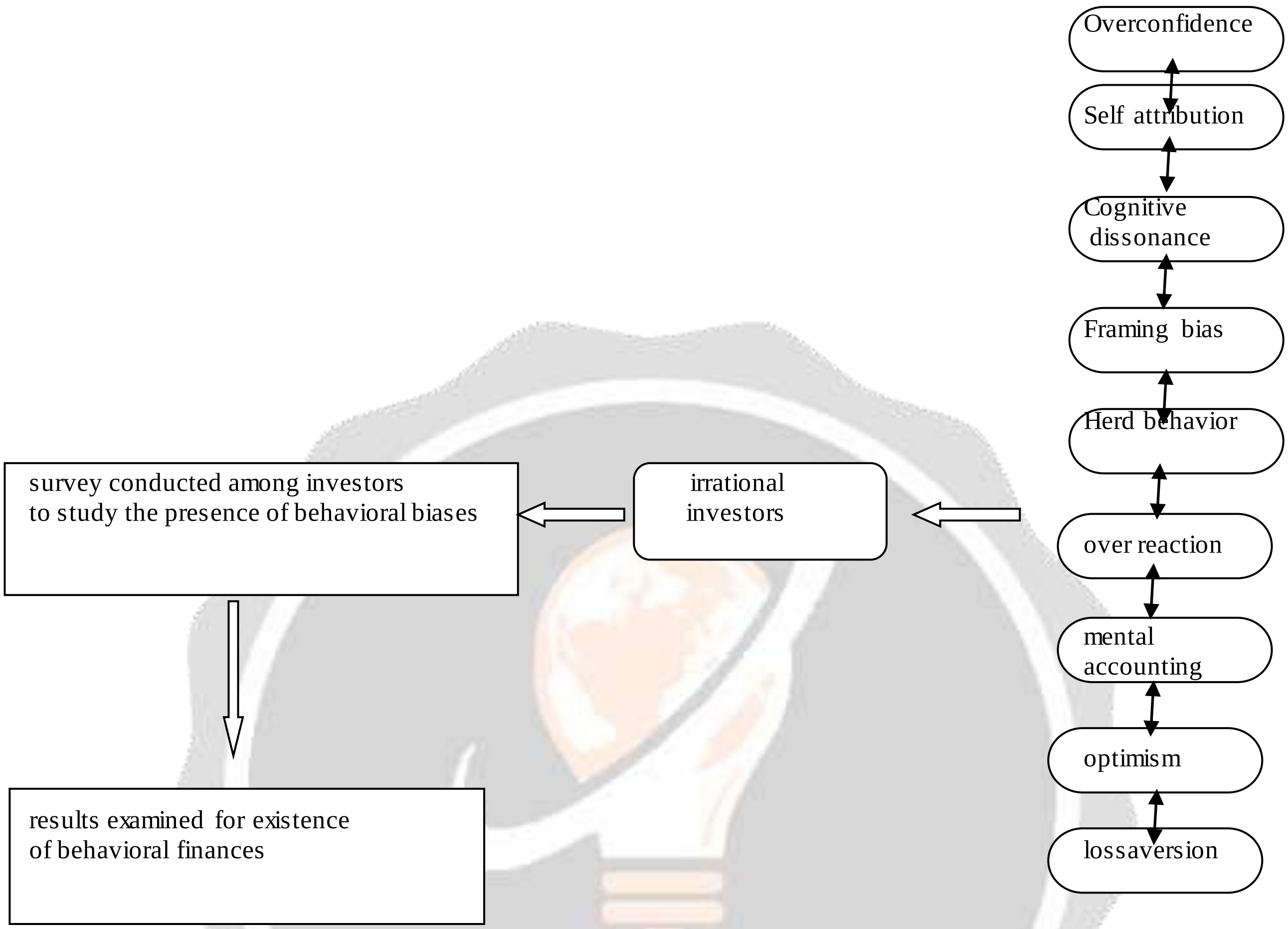

Fig-1: Conceptual model

6.VARIABLES OF THE STUDY-6

The variables of the study are overconfidence, over reaction or availability bias, mental accounting bias, optimism, herd behavior, self attributions, loss aversion, framing bias, cognitive dissonance, control bias, conservatism bias, recency bias, status quo bias, and conformation bias

7.RESEARCH METHODOLOGY-7

Descriptive research design is used for the study to describe the irrational behavior of the investors. The study is based only on Primary data. It is collected by using questionnaires, which is to be distributed to the investors in Geojith Financial Securities Ltd, Malappuram,Kerala. The samples are selected from the investors in Geojith Financial Securies Ltd, Malappuram,Kerala. They were selected by using convenient sampling method. The classified data is tabulated and statistical tools like percentages, mode, etc are used for analyzing data and the data is presented using frequency tables, diagrams and graphs etc for more clarity.

7.1 primary data analysis-1

- Population: the stock market investors in Geojith Financial Securities Ltd, Malappuram, Kerala
- Sample size: 50 investors

- Sampling technique: convenience sampling. , as the respondents were selected according to the convenience of the investigator and percentages, mode, etc were used for the analysis and calculation of data

8.LIMITATIONS-8

- Due to time constraint, the survey was limited to sample size of 50 and the survey was conducted among the investors in Kerala, which is only a entire part of the whole market.
- The existence of behavioral biases is examined only among a small group of investors , so the conclusion is not final
- The findings of the study is based on the assumption that the investors have gives correct information
- The duration of study was limited to a period of 25 days, so that the extensive study and deep study could not be possible.

9.FINDINGS-9

Individual investors would be having specific biases the study was extended to survey to identify the individual biases present in the market. Hence the survey on impact of behavioral impact on investors was done, the findings are the following

- The survey conducted points out that majority of respondents were susceptible to loss aversion bias, conformation bias, status quo bias, and cognitive dissonance bias.
- Majority of investors not subject to the availability bias , mental accounting bias, framing bias and herd behavior.
- Majority of investors who were found to be biased in the self- attribution test were subjected to self enhancement rather than to self – protecting bias.

10.SUGGESTIONS-10

The investors are advised to conduct a detailed analysis regarding the stock market before making an investment decisions. The investors are suggested to take necessary care regarding various biases present in the stock market and to diagnostic tests to be conducted on biases in order to devise appropriate strategy which would maximize the wealth of the investors.

11.CONCLUSION-11

The study was conducted among the investors of Geojith Financial Securities Ltd, Malappuram, Kerala. The minor project titled "a study on behavioral finance with special reference to Geojith Financial Securities Ltd, Malappuram, Kerala. Behavioral finance provides explanations for why investors make irrational financial decisions. It demonstrates how emotions and cognitive errors influence investors in the decision making process the various causes that led to behavioral finance are anchoring, overconfidence, and herd behavior, over and under reaction and loss aversions. In essence, behavioral finance approach investigates the behavioral pattern of investors and tries to understand how investment patterns guide investment decisions. Behavioral finance offers many useful insights for investment professionals and thus provides a framework for evaluating active investment strategies for the investors.

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