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Topic of Research: Behavioral Biases and their Impact on Individual investors-A Study based in Delhi NCR

Findings

The study provides a thorough and in-depth examination of the behavioral biases of Indian individual investors. An integrated research model developed for the study was used to investigate the factors (socio-demographic and investor sophistication variables) that influence behavioral biases as well as those that are affected by these behavioral biases in terms of performance and satisfaction variables. Thus, the current study attempted to provide a comprehensive view of the underlying mechanisms of behavioral biases and their consequences in the Indian context. The research examined the presence of behavioral biases using a sample of individual investors in Delhi-NCR. According to the survey findings, Indian investors exhibit a variety of behavioral biases, including overconfidence, representativeness, loss aversion, anchoring, mental accounting, regret, and availability. Therefore, the study's results are consistent with the idea that individual investors do not always make rational decisions. Instead, making financial decisions is influenced by emotions, heuristics, and other biases. It has been observed that behavioral biases are influenced by various demographic and investor sophistication variables. The study's findings show that gender, age, education, occupation, and income are the most important demographic variables influencing individual investors' behavioral biases. In terms of gender, the findings show that males appear to be more overconfident in their stock market knowledge than females, and females are more sensitive to losses than male investors. Moreover, older investors are more likely to exhibit overconfidence, representativeness, and mental accounting than younger investors. An important finding of the study is that higher education reduces the chances of investors being biased in their decisions, and postgraduate investors are less likely to be overconfident and anchored in their financial decisions. Self-employed persons appear to be more overconfident than salaried-class investors. With regard to the income of the respondents, evidence suggests that higher-income group people are more prone to overconfidence and mental accounting, and lower-income group people are more inclined towards loss aversion. Another interesting observation is that investor sophistication variables such as investment experience, trading frequency, and the number of stocks in the portfolio also influence the degree of behavioral biases exhibited by Indian individual investors. Investment experience contributes to the overconfidence bias, whereas trading frequency increases availability bias among investors and the number of stocks in the portfolio influences the degree of regret aversion displayed by a person. Overall, the evidence confirms that individual investors in India are susceptible to different behavioral biases and demographic and investor sophistication variables are related to these biases.

The present study also extends the current knowledge base about the relationships between behavioral biases, perceived investment performance, investment satisfaction, and financial satisfaction. Overconfidence availability, anchoring, and regret are found to have a positive and significant impact on the perceived investment performance of individual investors. Further, heuristics and mental accounting bias have a significant and positive impact on the investment satisfaction and financial satisfaction of individual investors in Delhi-NCR. Moreover, it is also found that the effect of behavioral biases on financial satisfaction passes through investment performance and investment satisfaction, i.e. these two variables play the role of significant mediators in the relationship between behavioral biases and financial satisfaction which is one of the most important findings of the present research. Overall the study concludes that psychological biases should not always be considered as risk factors because sometimes they have a flip side that can beneficial for the financial well-being of individual investors.