NAGINDAS KHANDWALA COLLEGE OF SCIENCE, COMMERCE, ARTS AND MANAGEMENTS STUDIES (AUTONOMOUS) MALAD (WEST)

A PROJECT REPORT ON

"INVESTIGATING FACTORS INFLUENCING INVESTMENT DECISION OF YOUNG INVESTORS IN MUMBAI"

SUBMITTED BY:
DEETI MAKWANA

TYBMS SEM VI

SUBMITTED TO:
UNIVERSITY OF MUMBAI

PROJECT GUIDE
DR. SWAPNA JOSHI

ACADEMIC YEAR
2020-21

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CERTIFICATE

This is to certify that **Ms. Deeti Ramesh Makwana** has worked and duly completed her project work for the degree of Bachelor of Management Studies under the Faculty of Commerce in the subject of **Research Project** and her project is entitled, **"Investigating factors influencing investment decision of young investors"** under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is her own work and facts reported by her own personal findings and investigations.

Sjosl. 3/3/21

Name and Signature of Guiding Teacher

Dr. Swapna Joshi

Date of Submission: 3/3/21

N. K. COLLEGE OF COMM. ARTS & MGMT. STUDIES & S. N. K. COLLEGE OF SCIENCE MALAD, MUMBAI 400 064.

Seal of the College

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NAGINDAS KHANDWALA COLLEGE OF SCIENCE
MALAD (W), MUMBAI 400 064.

DECLARATION BY LEARNER

I the undersigned **Ms. Deeti Ramesh Makwana** hereby, declare that the work embodied in this project titled "**Investigating Factors influencing investment decision of young investors in Mumbai**", forms my own contribution to the research work and has not been previously submitted by any other University for any other Degree/Diploma to this or any other University.

Whenever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, hereby further declare that all the information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Deeti

Name and Signature of the learner

Ms. DEETI RAMESH MAKWANA

Certified by

Name and signature of the Guiding Teacher

Dr. SWAPNA JOSHI

EXECUTIVE SUMMARY

Everyone thinks fundamental analysis and technical analysis are the key to a successful investment. What people fail to understand is, just analyzing charts & balance sheet is not enough. After great recession of 2008, many investors have learn their lesson that market works on human sentiments and to understand it Behavioral finance plays a significant role.

Behavioral Finance is not just studying others' behavior but also about learning self discipline as well as managing emotions while making investment decision. People often forget that emotions are inevitable part of human beings because of which they tend to make errors and are not always rational. This research helps to identify different kinds of view through which human sees the investment world. Behavioral Biases which consist both. Cognitive bias and Emotional bias are the essential element when we learn behavioral finance. An introduction of Behavioral Corporate Finance has also been mentioned as financial industry is dynamic and of changing nature it's important to stay updated with the latest studies about human psychology.

With the help of random sampling participant were asked a set of questions regarding their response to some of the scenarios. The sample was from Mumbai and main focus was on young investors. As young investors are always enthusiastic and quick in decision making it becomes important to know how their mind process when it comes to investment and trading. It was interesting to know the findings like. majority of investors fall prey to representativeness bias. self attribution bias and self control bias.

The conclusion and suggestion part highlights four buckets of decision making bias. Moreover. it also list many ways to overcome different kind of bias. However. the most significant part of overcoming behavioral finance is to pay attention to the details and go through rational analysis, thinking about the decision from every angle and every perspective. Believe in the facts rather than falling into the trap of confirmation bias and even over-confidence bias. Stay open minded when certain experts speaks. Be careful from framing effect which people use to represent selective data in such a way that human tend to neglect the minor but essential parts.

Lastly to sum it all up, Behavioral Finance is an emerging study which is important for all to know. It is a branch of human psychology which studies financial behavior of individual as well as market as a whole. It can be helpful in analyzing the new trend and mitigate risk from future events. Also. preparing us to be ready to confront and be fully aware about the upcoming uncertainty. Be it a 18 years old fresher in the financial market or brokers and financial institutions' dealers with years of experience. behavioral finance scope is much wider to cover it all under one umbrella.

ACKNOWLEDGEMENT

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me the chance to do this project.

I would like to thank my **Principal. Dr. (Mrs.) Ancy Jose** *and* **Vice Principal, Dr. Mona Mehta** for providing the necessary facilities required for completion of this project.

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I would like to thank my College Library, for having provided various reference books and magazines related to my project.

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INTRODUCTION

Behavioral Finance

Behavioral Finance is a sub-field of Behavioral Economics which focuses on study of Individual behavior regarding financial decision making and how it impacts the overall financial markets. It suggests that psychological influence and biases affect the financial behavior of Financial Practitioners & also, influences and biases can be the source which explains all types of market peculiarity especially in the stock market. For instance, sudden fall or rise of stock prices. Behavioral Finance has different perceptions and can be viewed through different angles. Many people assume that Returns are the only or main influence on financial practitioners but there are other factors as well which can be kept under observation. Under this study, it is assumed that participants are not always perfect or rational as they are psychologically influential with abit of normal and self controlling tendencies. One of the key characteristics of this study is the influence of biases.

Traditional Finance v/s Behavioral Finance

Traditional Finance has an assumption that investors are rational, they have all the information they need to make an informed decision also, and their decisions are not based on emotions. On the other hand, Behavioral Finance considers the psychological aspect of investors and how investors are irrational while making investment related decisions. Major difference between Traditional Finance and Behavioral Finance are stated below:

a. The first and foremost difference is that traditional finance considers investors as rational beings acting on information but behavioral finance considers that investors tend to be biased and driven by emotions, rumors and biasness.

b. Traditional finance assumes investors have all the information first handed, unlimited access to data on which they can act upon. Whereas, in reality that's not the case. Information paases hand by hand and it first reflects on the price of the security. Regardless of how accurate and timely the information is, investors tend to make errors in judgement.

c. Efficient market is another assumption traditional finance makes. According to it, investors are self controlled and practical in their decision. Market shows all the relevant and current information along with the actual value of the underlying asset. However, Behavioral Finance understands that markets are inefficient because of market anomalies and volatilities leading to rise and fall in the market making it inconsistent.

d. Under traditional finance, continuous dynamic optimization and equilibrium exist. On the opposite side, behavioral finance has emotions, optimism, pessimism, greed and fear dominant decisions.

Nature of Behavioral Finance

1. Behavioral Finance has a wider scope than just being a part of Finance
2. It includes Micro economic theory, psychology and evaluating financial behavioral of people
3. It eliminates the unrealistic assumptions made under traditional finance
4. Behavioral Finance is considered as Science
5. Behavioral Finance considered as Art

Scope of Behavioral Finance

1. To evaluate the reason behind market anomalies
2. Understand relationship between Standard Finance & Behavioral Finance
3. Identification of different investor's personalities
4. Understand the risk and hedging strategies of investors
5. Examine contagion effect of various events
6. Identify ways to overcome the biased view and how to avoid making decision under emotions

Micro & Macro Behavioral Finance

Behavioral finance has two branches namely, Micro Behavioral Finance and Macro Behavioral Finance.

Micro Behavioral finance distinguishes individuals from totally rational economic beings. It questions rational decision making. It isolated the individual from all the other factors to study its emotional and cognitive aspect in detailed form and assumes 'All factors remain constant' as it is assumed under Micro economics.

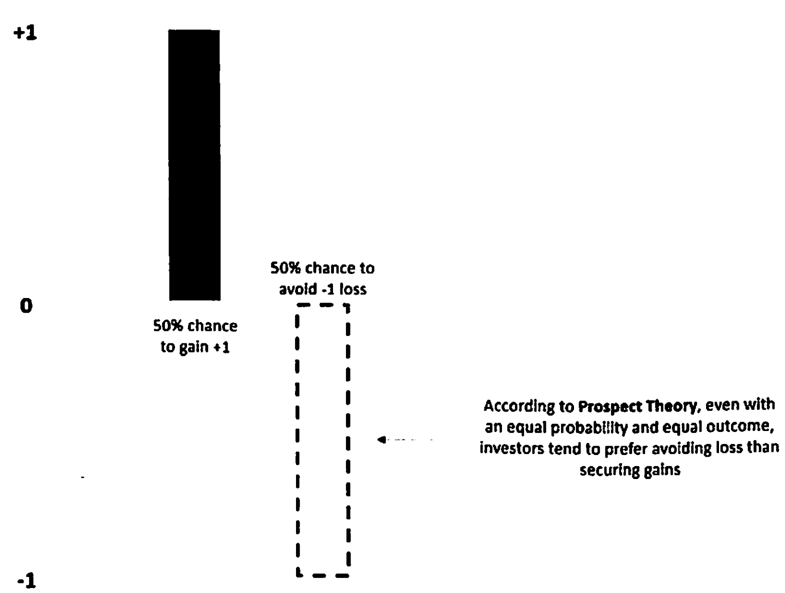
Macro Behavioral Finance is similar to Macro economics as it studies Market as a whole: considering every factor that impacts the Market. It analyses market anomalies, distinguish it from efficient market assumed under traditional behavioral finance. Whilst it questions informational efficiency of financial markets. It is stated by macro behavioral finance that financial markets are impacted by behavioral influences. The Dot-com crash of 2000-01 is one example of the same.

Prospect Theory

One of the psychological theory known as Prospect theory is a theory of decision and discovers application in behavioral finance and behavioral economics. It was introduced by Daniel Kahneman and Amos Tversky in 1979. This theory was referred to and was awarded to Kahneman the 2002 Nobel Memorial Prize in Economics. It was contained in the research paper 'Prospect Theory: An analysis of decision under risk' published in 'Econometrica' Journal in 1979.

Prospect theory is a psychology theory that portrays how individuals settle on choices when given choices that include risk, probability and uncertainty. It holds that individuals settle on choices dependent on perceived losses or gains. Given the decision of equivalent probabilities, most of the people would decide to hold the wealth that they as of now have, as opposed to risk the chance to build their current wealth. Individuals are normally averse to the chance of losing, with the end goal that they would prefer to avoid losses as opposed to face a challenge to make an equivalent gain. From the result of controlled studies, it portrays how people evaluate their losses and gain perspective in an asymmetric way (loss aversion). For instance, for certain people, the pain from losing $1,000 must be repaid by the delight of acquiring $2,000. Hence, as opposed to the expected utility theory (decision that a totally rational agent would make), prospect theory intends to portray the real conduct of individuals.

Originally when this theory was developed, the term prospect meant the anticipated consequences of a lottery. In any case, prospect theory can likewise be applied to the expectation of different types of behavior and choices.



Source: Corporate Finance Institute®

- **Phases of Prospect Theory**

1. **Editing Phase**

The editing phase cites how individuals associated with decision making characterize the options for choices or the framing effect. The effect clarifies how an individual's decision is affected by the phrasing, order, or method in which the decisions are introduced.

A guide to exhibit the framing effect can be the decisions that cancer patients are given. Typically, cancer patients are given the decision of going through a medical procedure or chemotherapy to treat their sicknesses, and they settle on a choice dependent on whether the result measurements are introduced regarding survival rates or death rates. When the decisions have been framed and prepared for decision making, the theory enters the subsequent phase.

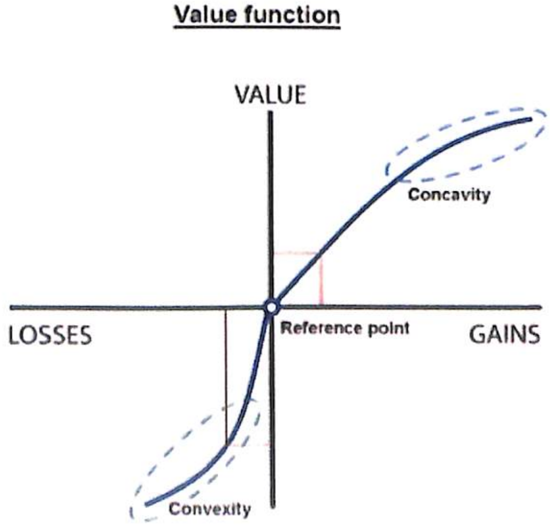
2. **Evaluation Phase**

In the evaluation phase, individuals will in general act as though they would settle on a choice dependent on the likely results and pick the alternative with a higher utility. The phase uses statistical analysis to gauge and compare the results of each prospect. The evaluation phase involves two functions, i.e., the value function and the weighting function, which are applied to compare the possibilities.

The functions of evaluation phase are also known as the cornerstone of Prospect theory

The two cornerstones are as mentioned below:

A. Value Function



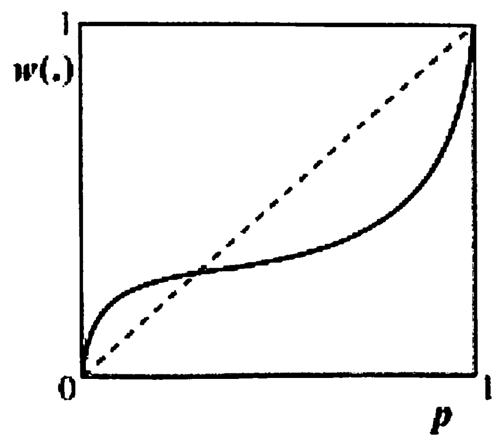
Source: CFA Institute

The value function is characterized as gains and losses comparative with a psychologically neutral reference point. As we can see in the above diagram, the value function is S-shaped; concave in the area of gains over the reference point, convex in the region of losses. In this manner, every unit expansion in gains (loss) has diminishing value as gain (Losses) increases. It can be explained as, the subjective between gaining nothing and gaining $100 is more prominent than the difference between gaining $100 and gaining $200. At last, the value function is more extreme for losses than for gains. This infers that losing $100 is more undesirable than acquiring $100 is pleasant.

B. Weighting Function

Known as the second cornerstone of the prospect theory, the main component of the probability weighting function is that small probabilities are over weighted, and large probabilities are underweighted. The probabilities weighting function is for the most part not well behaved close to the end-points. Extreme low probability results can be misrepresented or disregarded altogether. Essentially, small differences between high probability and certainty are some of the time dismissed, at times highlighted. As per Kahneman and Tversky this is so in light of the fact that individuals think that it's hard to comprehend and evaluate extreme probabilities.

As shown in the diagram below, the straight line is the estimated probability distribution and curved line is the weight given to gains & losses



Source: ScienceDirect.com

- **Features**

1. **Certainty**

   When given a few alternatives to look over, people show a strong preference for the choice with certainty. They will forfeit the alternative that offers more expected pay to accomplish more certainty. For instance, assume that a lottery gives two choices, A and B.
   Choice A gives an ensured win of $100 while choice B gives the chance of winning $200, with a 70% possibility of winning and 30% possibility of losing. A great many people will pick choice A since it gives an ensured win, despite the fact that it offers a lower return compared to B.

2. **Small probabilities**

   Individuals will in general dismiss little probabilities regardless of whether there is a chance of losing all their wealth. By dismissing the little probabilities, individuals end up picking higher-risk alternatives with higher probabilities.

3. **Relative positioning**

   Relative positioning implies that individuals will in general focus less on their last pay or riches, and more on the relative gains or losses that they will get. If their relative position doesn't improve with an increase in pay, they won't feel good. This implies that individuals will in general compare themselves with their neighbors, companions, and relatives, and are less keen on whether they are in an ideal situation than they were a few years back.
   For instance, if everyone in the workplace gets a 20% raise, no individual will feel good. In any case, if the individual gets a 10% raise, and others don't, that individual will feel good and richer than every other person.

4. **Loss aversion**

   Individuals will in general give more weight to losses as opposed to gains made by taking a specific alternative. For instance, if an individual makes $200 in gains and $100 in losses, the individual will focus less on the gains despite the fact that they arose with a $100 net gain. This shows that individuals are more worried about losses as opposed to gains.

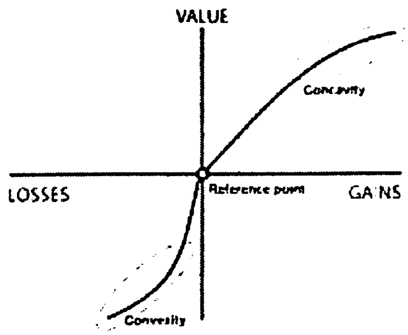
- **Criticism**

One of the criticisms of the prospect theory is that it needs psychological explanation for the interaction it discusses. The analysis that came from different psychologists who takes note of elements such as human emotional and affective responses that are significant in making decision processes are missing in the model

- **Prospect Theory v/s Expected utility theory**

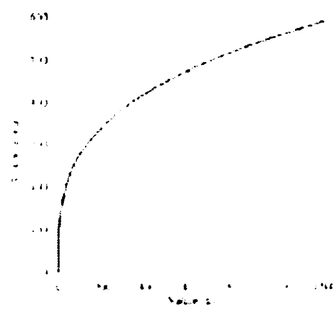
Value function

(cornerstone of prospect theory)



Utility function

(expected utility theory)



Source: CFA Institute

Absolute values does not matter, only relative values (changes) matter	Only absolute values matter, not relative values (in wealth)
Convex in losses, concave in gains	General risk aversion because of concavity
Risk aversion in gains, risk seeking in losses	In general, sure options are preferred
Gains are felt lesser than losses of the same magnitude	Losses & gains are felt in same way

Mental Accounting and Disposition Effect

Mental accounting and disposition effects are the direct application of Prospect theory.
Mental accounting, a behavioral economics idea presented in 1999 by Nobel Prize-winning financial analyst Richard Thaler, touches on the various qualities individuals put on money, in view of subjective criteria, that frequently has detrimental outcomes. Mental accounting frequently drives individuals to settle on silly investment choices and act in financially counterproductive or detrimental manners, for example, financing a low-interest savings account while carrying a credit card with large balances. Mental accounting biases are often called the Disposition effect. To stay away from the mental accounting predisposition, people should regard money as perfectly fungible when they distribute among various accounts, be it a budget account (ordinary everyday costs), an optional spending account, or a wealth account (Investments & savings).

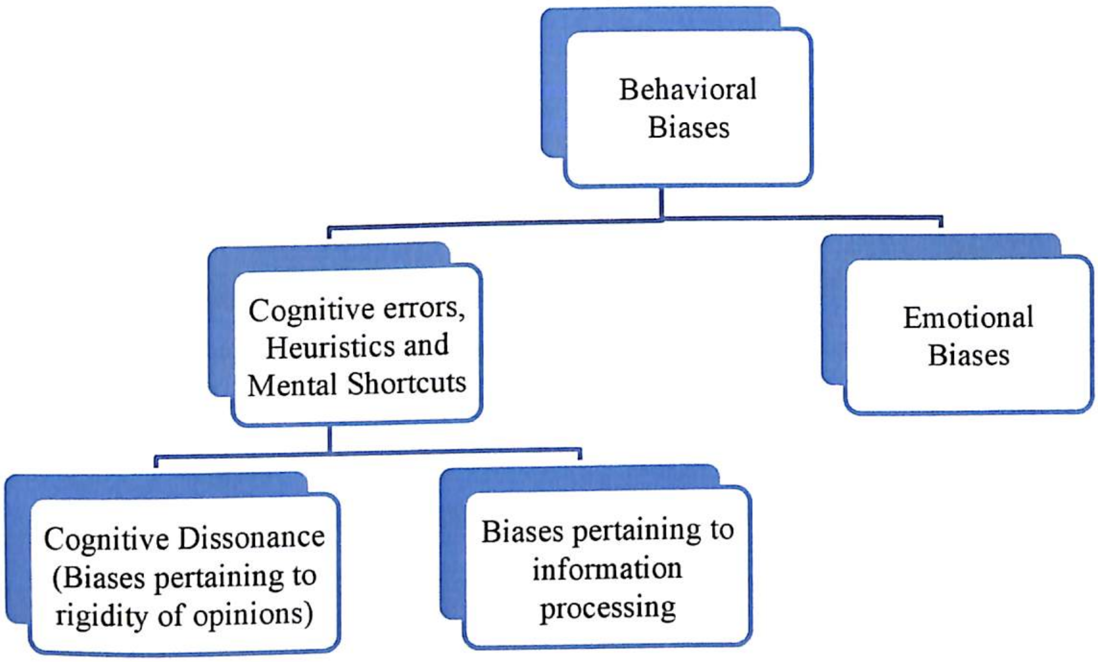
Mental accounting (or psychological accounting) endeavors to portray the cycle whereby individuals code, order and assess economic outcomes. Mental accounting manages the budgeting and classification of consumptions. Individuals spending cash into mental records for costs (e.g., saving money to buy a home) or cost categories (e.g., gas money, clothing, utilities). Mental records are accepted to be a self control strategy. Individuals attempt to make mental accounts as an approach to oversee and monitor their spending and assets. Individuals additionally are expected to make mental accounts to encourage saving funds for bigger purposes (e.g., a home or schooling cost). In the same way as other psychological processes, it can incite biases and systematic departures from rational, maximization of value behavior, and its implications are robust. Understanding the defects and failures of mental accounting is crucial for using sound judgment and decreasing human errors.

Individuals will in general experience mental accounting in investments also. For example, numerous investors split their portfolio between safe portfolios and speculative ones for the reason that they can prevent the negative returns from speculative investment from affecting the total portfolio. For this situation, the distinction in net wealth is zero, whether or not the investor holds different portfolios or one bigger portfolio. The only difference in these two circumstances is the measure of time and efforts the investor takes to separate out the portfolios from each other.

Mental accounting regularly drives investors to settle on irrational choices. Borrowed from Daniel Kahneman and Amos Tversky's theory on loss aversion, Thaler offers this example. An investor possesses two stocks: one with a paper gain, the other with a paper loss. The investor is required to raise money and should sell one of the stocks. Mental accounting is one-sided toward selling the winner despite the fact that selling the failure is normally the rational choice, because of tax loss benefits just as the way that the losing stock is a weaker investment. The pain of understanding a loss is a lot for the investor to bear, so the investor sells the winner to prevent oneself from the pain. This is the loss aversion effect that can lead investors to drift with their choices.

Behavioral Biases

Behavioral biases hit us all as investors and can change depending on our personality type. These biases can be psychological, illustrated by a propensity to think and act with a specific goal in mind or adhere to a general guideline. Biases can likewise be emotional: a propensity to make a move depending on feelings and not the actual facts.



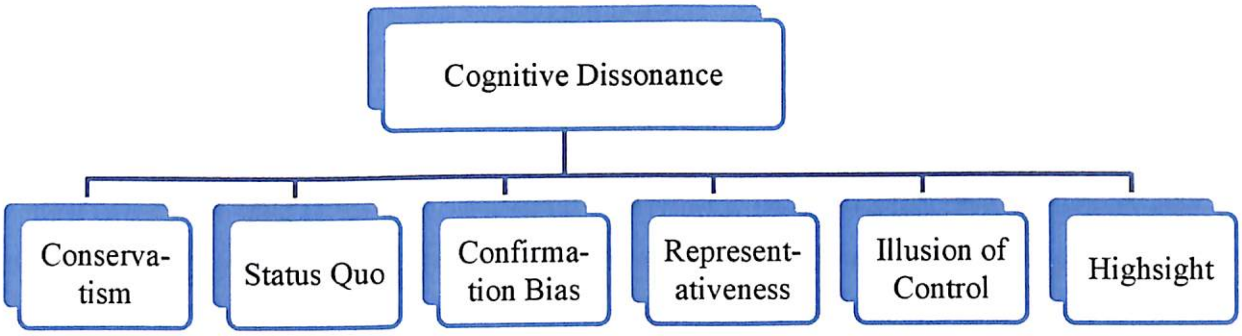
(Diagram 1)

1. Cognitive errors, Heuristics and Mental Shortcuts

➢ **Cognitive Dissonance (Biases pertaining to rigidity of opinions)**

In the field of psychology, cognitive dissonance happens when an individual holds conflicting beliefs, thoughts, or values, and is regularly experiencing mental pressure when they take part in an activity that conflicts with at least one of them. As per this theory, when two activities or thoughts are not psychologically consistent with one another, individuals do all in their ability to transform them until they become consistent with their beliefs, ideas and values.

Some examples of cognitive dissonance are as follows:



(Diagram 2)

- **Conservatism**

Conservatism makes people overweight base rates and to under-react to evidence. Conclusively, they neglect to respond as a rational individual would even with new proof. When conservatism-biased investors do respond to new data, they do so very slowly. Recent studies recommend investors make systematic errors in processing new data that might be beneficially exploited by others. When individuals see an organization's profit go up quite a while in uptrend, they imagine that pattern will continue. Such overconfidence pushes prices excessively high and produces effects that helps prove over reaction theory true. Offering high-quality, advice by a professional is likely the most ideal approach to assist a customer avoid this kind of common bias.

- **Status quo**

When a person prefers to stay in the current situation it is known as Status Quo bias. In economics, individuals make seemingly non rational decisions to stay with suboptimal situations.
For instance, it is rational to save towards a pension plan but some individuals do not withdraw money even though it's rational and wise to withdraw when the purpose of saving is served.

- **Confirmation**

Confirmation bias is the propensity to look for, decipher, favor, and review data in a way that confirms or upholds one's earlier beliefs and values. Individuals show this bias when they select data that upholds their perspectives, disregarding contrary information, or when they decipher vague proof as supporting their current attitude. The impact is strongest for desired outcome, for emotionally charged issues, and for profoundly settled in beliefs. Confirmation bias can't be disposed of altogether, however it tends to be overseen, for instance, by schooling and training in critical thinking skills.

- **Representativeness**

Representativeness heuristic bias happens when the similarities in object or occasions confuses individuals' reasoning in regards to the outcome of a result. Individuals as often as possible tragically believe that two comparable things or occasions are more firmly associated than they really are. This representativeness heuristic is a typical data processing error in behavioral finance theory.

Let us take an example of Laura Smith. She is 31, a smart & brilliant student. She studied economics as her major at college and, as a student, she was passionate about the issues of discrimination and equality.

Is it almost certain that Laura works at a bank? Or on the other hand, is it almost certain that she works at a bank AND is dynamic in the feminist movement?

Numerous individuals when posed this question go for alternative 2, that Laura works in a bank but on the other hand is dynamic in the feminist movement. However, that is incorrect. The fact is, in giving that response, they've really been influenced by representativeness heuristic bias.

Sometimes you need to consider that you need to pass judgment on things carefully as statistically and logically, instead of mere appearance.

The subsequent choice, "Laura works in a bank and is dynamic in the feminist movement" is a subset of the alternative 1, "Laura works in a bank." Because of that fact, alternative 2 can't be more probable than the first.

- **Illusion of control**

Illusion of control portrays the propensity of people to accept that they can control or possibly impact results when, indeed, they can't. At the point when subject to the illusion of control bias, individuals feel as though they can apply more control over their current circumstance than they really can. Illusion of control bias can lead investors to exchange more than is reasonable, to keep up under-diversified portfolios or as far as possible orders and other such methods to encounter a misguided feeling of control over their speculations. This bias contributes, when all is said in done, to investor carelessness. Profits from long-term investment results are not affected by the immediate-term beliefs, feelings, and driving forces that often surround financial transactions. Instead, success or failure is typically a result of uncontrollable components like corporate performance and general economic conditions.

- **Highsight**

Hindsight bias is a psychological phenomenon that permits individuals to persuade themselves after an occasion that they had precisely anticipated it before it occurred. This can lead individuals to presume that they can precisely foresee different occasions. Hindsight bias is concentrated in behavioral economics since it is a typical common failing of individual investors.

Investors feel pressure to time their stocks purchase completely to maximize their profits. At the point when they make a loss, they regret not acting prior. With regret comes the thought that they saw it coming from the beginning. But in fact, it was one of the numerous prospects that they may have expected. Whichever one of them works out, the investor becomes persuaded that they saw it coming.

Financial bubbles are consistently dependent upon considerable hindsight bias after they burst. Following the dotcom bubble in the late 1990s and the Great Recession of 2008, numerous intellectuals and analysts showed obviously how occasions that appeared to be trivial at the time were really harbingers of future financial crises. They were correct, however other simultaneous occasions supported the assumption that the boom times could never end.

In fact, if a financial bubble was not difficult to spot as it happened, it would probably have been avoided altogether.

The usual subjects of hindsight bias are not on that scale. Quite a few investors who had the passing idea, at some point during the 1980s, that Bill Gates was a splendid fellow or that a Macintosh was a flawless item may profoundly regret not accepting stock in Microsoft or Apple route in those days when they "saw it coming." Actually, they may experience the ill effects of hindsight bias.

Investors ought to be cautious while assessing their own capacity to anticipate what recent developments will mean for the future presentation of protections. Accepting that one can anticipate future outcomes can lead to overconfidence, and pomposity can prompt picking stocks not for their financial exhibition but rather on a hunch.

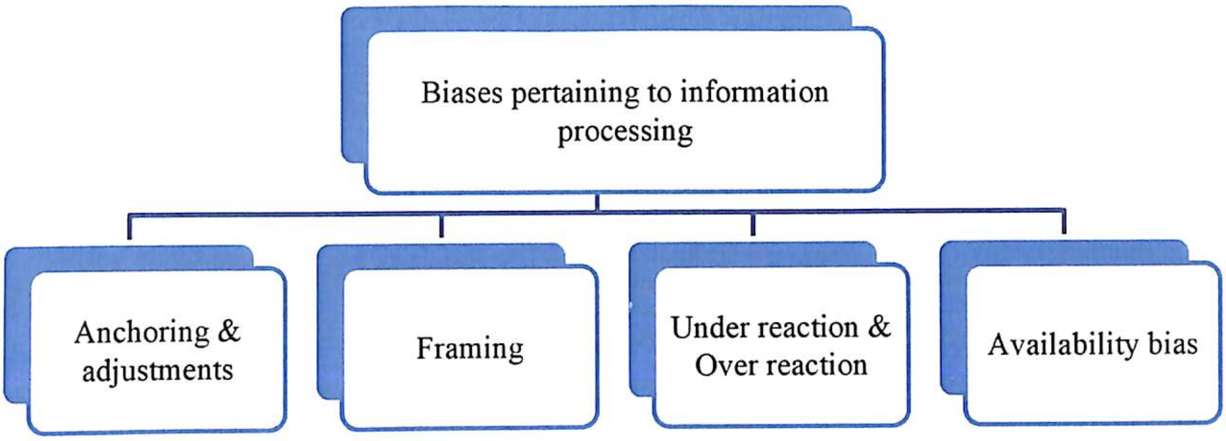
Hindsight bias can occupy investors from an objective analysis of an organization. Adhering to intrinsic valuation techniques encourages them to settle on choices on information driven factors and not close to personal ones.

Intrinsic value refers to the view of a stock's actual value, in light of all parts of the business and might correspond with the current market value.

An intrinsic valuation will regularly consider qualitative factors, for example, an organization's business model, corporate governance, and target market. Quantitative factors, for example, financial statement analysis offer bits of knowledge into whether the current market cost is precise or if the organization is overvalued or undervalued.

Analysts largely rely on the discounted cash flow model (DCF) to decide an organization's intrinsic value. The DCF will consider an organization's free cash flow and weighted average cost of capital (WACC)

- **Biases pertaining to information processing**



(Diagram 3)

- **Anchoring and adjustments**

Anchoring and adjustment refers to a cognitive heuristic that impacts how individuals access probabilities in a natural way. As per the anchoring and adjustment heuristic, individuals uses a specific beginning stage ("the anchor") and make adjustments until they reach an acceptable value after some time. The heuristic was first hypothesized by psychologist and economist Daniel Kahneman and cognitive psychologist Amos Tversky.

Anchoring is a cognitive bias found in individuals, where they rely on facts given before a choice or an assessment is made. The facts might be totally unrelated or even ridiculous; however research shows that they altogether impact the result.

Anchoring is perceived to be a subconscious or semiconscious phenomenon, while adjustment around the anchor is a lot of a cognizant choice. The system that drives the anchoring effect is related to a comparative idea called suggestion.

An adjacent idea to anchoring is the possibility of suggestion. Suggestion is the point at which one makes an assessment dependent on some association and makes adjustments dependent on the same.

For instance, a research found that estimated price of vehicles from luxurious car manufacturers like Audi or Mercedes were reliably higher than those for Volkswagen, which is a mass-market manufacturer. The difference is on the grounds that individuals partner the vehicle manufacturers with specific attributes in their memory. It frames the basis of semiconscious anchoring.

Subconscious anchoring happens when there is practically no association that an individual makes, or the anchor is clearly incorrect. In such a circumstance, either the individual imagines a circumstance where the anchor might be correct, or the incorrect anchor can in any case prompt a suggestion that could lead to anchoring as mentioned about.

Anchoring Index

The anchoring index is the measure of the effect of anchoring on trial results. It is determined as follows:

$$\text{Anchoring Index} = \frac{\Delta \text{ Estimate}}{A_H - A_L}$$

Where:

Δ Estimate – Difference in average estimates of those given higher anchor and lower anchor

A_H – The high anchor

A_L – The low anchor

Trials:

In one test, visitors to the San Francisco Exploratorium were posed two arrangements of inquiries about the height of the tallest redwood tree. The questions asked were:

1. Is the highest redwood tree taller or shorter than 1,200 feet?
2. What is your thought about the height of the tallest redwood?

The other question set were something similar, yet the anchor was 180 feet.

1. Is the highest redwood tree taller or shorter than 180 feet?
2. What is your speculation about the height of the tallest redwood?

The result of the trial above illustrated the anchoring impact. The visitors who were given the 1,200 feet anchor speculated, on average, the tallness to be 844 feet. Then again, those given the 180 feet anchor delivered an average estimate of 282 feet. The anchoring index for our situation was (844 – 282) / (1200 – 180) = 562/1020, which is around 55%.

Anchoring and adjustment can be seen in finance. For instance, one may get anchored to the result of a valuation model and settle on choices or negotiate around it. It ignores the model errors that emerges from incorrect assumptions or if the model is reasonable to begin with.

Individuals might be anchored to figures in an arrangement or a forecast that may not be relevant to the current circumstance. Henceforth, it is essential to see if one is being anchored and put forth a conscious effort to re-evaluate choices and look for feedback.

- **Framing**

Framing bias happens when individuals settle on a choice dependent on the manner in which the data is introduced, rather than simply on the actual facts. Similar facts introduced in two distinct manners can prompt individuals settling on various decisions or choices. In behavioral finance, investors may respond to a specific opportunity in an unexpected way, contingent upon how it is introduced to them.

The stating, or how an investment is "framed", can cause us, as investors, to change our decisions about whether the investment is positive or negative.

The issue which is fascinating is that when investors don't know all the relative facts and information, or in a circumstance where there are numerous unknown components, there is, indeed, a high possibility of reflexive choice. The likelihood of being affected by framing bias is, thus, increased.

The following are some instances of framing in finance:

Alternative 1: "In Q3, our Earnings per Share (EPS) were $1.25, compared with $1.27 expectations."

versus

Alternative 2: "In Q3, our Earnings per Share (EPS) were $1.25, compared with Q2, where they were $1.21."

Obviously, choice 2 makes a superior showing of framing the earnings report. The manner in which it is introduced – as an improvement over the past quarter – puts a more certain spin on the EPS number.

How to protect against framing bias? Some things which you can do as an investor is to consistently challenge the framing. Consider rewording the data you're perusing and see what impact, if any, that has on your decision. The key thing is attempting to kick in the logical, intelligent way to deal with decision and dodge impulsive, reflexive choices.

For instance, an equity research report may accompany a ton of assessment and bias mentioned in the research. Attempt to eliminate any editorial/judgment remarks and take a look at just the key numbers and underlying assumptions driving the valuation. After that come to your own end results, instead of being influenced by how the data is introduced to you.

- **Under reaction and overreaction**

Overreaction is an emotional reaction to newly received information. In finance and investing, it is an emotional reaction to a security like a stock or other investment, which is driven either by greed or fear. Investors overcompensating to news cause the security to turn out to be either overbought or oversold, until it returns to its intrinsic value.

Generally, investors are not rational. Rather than valuing all freely known information perfectly and instantly, as the efficient market theory assumes, they are frequently influenced by cognitive and emotional biases.

Some of the most influential work in behavioral finance concerns the initial under-reaction and correspondent overreaction of prices to newly received information. What's more, numerous funds now use behavioral finance strategies to misuse these biases in their portfolios, particularly in less efficient markets like small-cap stocks.

Funds that try to exploit overreaction: search for organizations whose earnings have been decreased because of some bad earning news, however the news is probably going to be temporary. Low price-to-book stocks, also called value stocks, are an illustration of such stocks.

Opposite to overreaction, under reaction to new information is bound to be perpetual and the cause is 'anchoring', a term that describes individuals' connection to old information, which is particularly strong when that data is critical to a cognizant method of explaining the world (otherwise called a hermeneutic) held by the investor. Anchoring thoughts like "brick and mortar retail stores are dead" can make investors dismiss undervalued stocks and profit making opportunities.

Overreaction examples:

All asset bubbles are instances of overreaction, from the Tulip Maniac in Holland in the seventeenth century to the sudden rise of crypto currencies in 2017.

Asset bubbles forms when the rising price of an asset begins to attract investors as the primary source of return as opposed to the fundamental returns offered by the asset. For stocks, the "fundamental" return is the growth of the organization and dividend offered by the stock.

The "fundamental return" of a tulip bulb during the 1600s was the excellence of the blossom it created, which is a difficult outcome to measure. Since investors didn't had a proper method to quantify the attractive quality of the bulbs, price was utilized as that measurement, and on the grounds that the price of bulbs was continually going up, it made the unfounded belief that the bulbs were intrinsically valuable—and a good investment.

Overreaction to the potential gain holds until the smart money starts to exit the investment, so, all things considered the value of the security begins to fall creating an overreaction to the drawback.

On account of the dotcom bubble of the late 1990s and mid 2000s, the market correction put numerous unprofitable organizations out of commission, yet in addition brought down the value of good stocks to bargain levels. Amazon (AMZN) peaked before the dotcom bubble burst at $86.88 on Dec. 6, 1999, and fell to its low of $6.98 in September of 2001, a loss of 92.5%. As of January 2021, the stock is about $3,300—a 470-fold increment.

- **Availability**

The availability bias is the human tendency to imagine that instances of things that come promptly to mind are more representative than the actual situation. The psychological phenomenon is only one of various cognitive biases that hamper critical thinking and, accordingly, the legitimacy of our choices.

The availability bias results from a cognitive shortcut known as the availability heuristic, characterized as the dependence on those things that we promptly consider to empower fast choices and decisions. That dependence causes us avoid laborious fact checking and analysis however improves the probability that our choices will be imperfect.

Normally, the things that are most noteworthy can be inferred most rapidly in our mind. But, there are various variables that impact how well we recall things. For instance, we will in general recollect things that we noticed ourselves more effectively than things that we just found out about. For instance, startups which are personally known to us and which are successful make us over estimate the success rate of all the start ups even though statistical data shows the opposite. Likewise, individuals recall clear occasions like plane accidents and lottery wins, driving a few of us to overestimate the probability that our plane will crash or, hopefully - yet similarly erroneous - that we will win the lottery. In these cases, the availability bias drives a few group to abstain from flying no matter what and drives others to depend on a major lottery win as a retirement plan.

Other cognitive biases incorporate the confirmation bias, which includes giving excessive trustworthiness to materials that help our own beliefs and mentalities, and oneself serving predisposition, which includes putting a positive spin on our own exercises and interpreting uncertain information such that suits our own purposes.

Cognitive biases are among various sorts of mistakes that humans are inclined to. Awareness with the tendency to make such blunders is one of the initial steps needed to improve our ability for critical thinking.

2. Emotional Biases

(Diagram 4)

➢ **Loss aversion**

Loss aversion is a propensity in behavioral finance where investors are so fearful of losses that they center on attempting to keep away from a loss more so than on making gains. The more one encounters losses, the more likely they are to get inclined to loss aversion.

Examination on loss aversion shows that investors feel the pain of a loss more than twice as strongly they feel the pleasure in making a profit.

Numerous investors don't recognize a loss as being such until it is figured it out. Therefore, to try not to encounter the pain of a "real" loss, they will keep on clutching an investment even as their losses from it increases. This is on the grounds that they can dodge psychologically or emotionally confronting the reality of their loss as long as they haven't yet finished off their trade. In their subconscious, if not their conscious, figuring, the loss doesn't "count" until the investment is closed. The negative impact of this, obviously, is that investors often keep on clutching losing investments any longer than they ought to and wind up enduring a lot greater losses than needed. That is what loss aversion resembles.

All things considered, how would you guard against the loss aversion bias? One viable advance is to consistently utilize firm stop-loss orders to limit your possible loss in any trade. That sort of pre-commitment to continually restricting your danger assists with relieving the propensity to fall into a loss aversion trap.

The following are some examples where investor falls prey to loss aversion bias:

Investing in lower return investment even if there is guaranteed higher return investment with higher risk.

Not selling a stock that you hold when your current rational analysis of the stock obviously demonstrates that it ought to be sell off as an investment

Selling a stock that has gone up marginally in value just to realize a gain of any amount , when your analysis shows that the stock ought to be held longer for a lot bigger profit

Telling oneself that an investment isn't a loss until it's realized (i.e., when the investment is sold)

How about we take a look at certain instances of how an organization or an individual can sensibly limit exposure to risk and losses:

1. Hedge a current investment by making a subsequent investment that is inversely related to the main investment
2. Investing in securities with relatively low price volatility
3. Government bonds investment
4. Purchasing insurance products which gives guaranteed rate of return
5. Consciously stay mindful of loss aversion as a likely shortcoming in your investing decision.
6. Invest in organizations that have a extremely strong records in balance sheet and Cash flow statement.

- **Over optimism**

Individuals will in general overestimate the likelihood of positive occasions and under estimate the likelihood of negative occasions happening to them later on (Sharot, 2011). For instance, we may under estimate ourselves getting cancer and overestimate our future accomplishment on job. Various components can clarify unreasonable confidence, including perceived control and being in good mood.

- **Overconfidence**

Overconfidence bias is a propensity to hold a false and misleading assessment of our skills, intellect, or talent. To put it in simple words, it's an egotistical belief that we're superior to what we really are. It very well may be a dangerous bias and is prolific in behavioral finance and capital markets.

Understanding where the markets are going is the main skills in finance and investing. In this industry, most market experts believe themselves to be better than expected in their insightful skills. In any case, it is obviously a statistical impossibility for most analysts to be above the average analyst.

James Montier led a survey of 300 expert fund managers, asking on the off chance that they trust themselves better than expected in their capacity. Some 74% of fund managers reacted in the positive. 74% accepted that they were better than expected at investing. Also, of the excess 26%, most though themselves as normal. To put it simple words, practically nobody thought they were less than ideal. Once more, these figures address a statistical impossibility.

It's entrancing to perceive that it is so regular to hear fund managers state something like, "I know everybody thinks they're better than expected, yet I truly am."

The risk of an overconfidence bias is that it makes one inclined to making mistakes in investing. Overconfidence will in general make us not exactly fittingly careful in our investment choices. Large numbers of these mistakes originate from Illusion of knowledge and/ or Illusion of control Following are the ways to explore illusion of knowledge and control, and think about how we can prevent ourselves from the overconfidence bias.

Generally, confidence is viewed as strength, in investing; however it is more of a weakness too. Cautious risk management is critical to effective investing. However, being mistakenly overconfident in our investment choices meddles with our capacity to rehearse great risk management. The overconfidence bias regularly drives us to see our investment choices as safer than they really are.

Beam Dalio, author of the world's biggest hedge fund, Bridgewater and Associates, has remarked ordinarily that being overconfident can prompt heartbreaking outcomes. In a meeting with Forbes, he attributed a significant amount of his prosperity to avoiding any overconfidence bias. Dalio states that he makes it a point to stay keenly mindful of the chance of his analysis being erroneous. "I knew that no matter how confident I was in making any single bet, that I could still be wrong." With that outlook, he generally endeavors to consider most pessimistic scenario situations and take appropriate steps to limit his risk of losses.

Dalio's statement in regards to his analytical ability is an incredible one coming from somebody who, apparently, is one individuals who may be well justified in thinking themselves above average at investing.

➢ **Illusion of knowledge**

We as a whole are dependent upon illusion of knowledge bias when we think we know more than we really do. This, joined with the overconfidence bias, can make us imagine that our analysis is more exact than what can be induced from the data we have. One human propensity to manage uncertainty is to gather more and more data as could reasonably be expected. This inclination worsens the illusion of knowledge bias in light of the fact that as we gather more data, we will in general think we have better data and we know better compared to we in any case would have had we not gathered a lot of data.

➢ **Self attribution**

A self attribution bias is a propensity in behavioral finance to credit great results to our skill and awful results to sheer luck. Put another way, we pick how to credit the reason for a result dependent on what makes us look best. Absolutely, a large portion of us can consider things that we've done and discovered that when everything is working out as expected, it's unmistakably because of our skill. At that point, when things don't work out as expected, we'll simply have losses.

Self-attribution is a cognitive phenomenon by which individuals quality disappointments to situational factors and victories to dispositional factors. Self-attribution instructs investors to accidentally take on wrong levels of financial risk and to trade too aggressively, amplifying personal market volatility. Self-attribution bias regularly drives investors to trade more than is reasonable. This bias drives investors to "hear what they want to hear." Holding a concentrated stock position can be related with self-attribution and has to be avoided.

➢ **Self control**

Self-control bias which is a human tendency that makes individuals neglect to act in quest for their long-term, overall objectives due to an absence of self-discipline. Numerous individuals are infamous for showing an absence of self-control with regards to money. Self-control bias can make investors spend more today to the cost of putting something aside for later. It might make investors neglect to get ready for retirement. Self-control bias can cause asset-allocation unevenness issue and can likewise make investors dismiss basic financial principal, like compounding of interest, dollar cost averaging, and similar discipline behavior that, whenever clung to, can help make huge long-term wealth. The advantages of self-discipline in investing are hard to get. The outcomes, be that as it may, are well worth it.

➢ **Endowment**

The endowment effect portrays how individuals will in general esteem things that they own more profoundly than they would in the event that they didn't have a place with them. This implies that dealers regularly attempt to charge more for a thing than it would cost somewhere else.

Suppose a couple of months ago, you purchased a concert ticket for $100. You just discovered that you will not have the option to make it to the concert all things considered, so you choose to exchange your ticket. You price the ticket at $150, on the grounds that simply selling it at market worth would feel like you were missing out.

The endowment effect can affect us both as purchasers and as vendors. From one perspective, this bias is effortlessly misused by advertisers and sales representative: any strategy that makes us feel the psychological ownership over an item can urge us to spend more on it. Then again, as vendors, the endowment effect can lead us to price things unreasonable, in light of a confused sense that if we don't, we'll loss out.

The endowment effect can make us overspend when we're purchasing things, prompting additional costs that accumulate over the long run. In the mean time, this predisposition can prompt opportunity costs—that is, gains that we pass up—in the event that it makes us overprice our old stuff to where we don't sell it.

The endowment effect is normally clarified as a result of loss aversion, the way that we despise losing things more than we appreciate acquiring them.

In view of loss aversion, when we're confronted with settling on a choice, we will in general focus more on what we lose than on what we acquire. Accordingly, as a rule, we are one-sided to keep up the norm, as opposed to shake things up and risk sustaining losses. In one test by Daniel Kahneman and Amos Tversky, two of the establishing fathers of behavioral economics, members were approached to imagine that they were in one of two positions; we should call them Job A and Job B. They were told they've been given a chance of moving to the next employment opportunity, A or B. The new position was superior to their present one out of one aspect, yet was more regrettable in another. Kahneman and Tversky tracked down that regardless of which work they began in, the vast majority would not like to move to the next one.

Another part of loss aversion is the way that, when we decide, we typically underestimate opportunity costs. Opportunity costs are benefits that we pass up when we pick one option over another, rather than out of pocket costs, which is the immediate payment you make in an exchange. In the endowment effect, when we attempt to over charge a purchaser for something we own, it is incompletely on the grounds that we are more centered around the out of pocket cost (losing that thing) than we are on opportunity that we pass up if the purchaser doesn't agree to our price. Although the endowment effect was initially attributed totally to loss aversion, different specialists have recommended a couple of different clarifications that are better upheld by proof. One of these comes from a 2012 paper by Ray Weaver and Shane Frederick, who contend that the endowment effect really happens in light of the fact that individuals are attempting to try not to get suckered into a bad deal. This view is known as reference price theory.

As per this view, when purchasers and vendors approach a transaction, they frequently have distinctive reference prices, or thoughts regarding how much something is worth. Purchasers would prefer not to pay more than they might suspect a thing is worth, however dealers would prefer not to sell for not less than that of item's market price. So, for instance, in the event that you were attempting to sell a mug that regularly retails at $3, you presumably wouldn't have any desire to make due with anything short of that, since then you would feel like you're missing out. Nonetheless, for a purchaser who's just casually interested in getting a mug, $1 may be the most he will pay.

As such, the endowment effect happens when there's a gap between a purchaser's willingness to pay and a dealer willingness to sell at a specific price. Some of the time this gap shows up on the grounds that, when attempting to choose what a sensible price for something is, purchasers will look to the most reduced accessible price as a reference point, while merchants take a look at the most elevated ones. For instance, in the event that you were reselling a $250 ticket for a b-ball game, and you saw that a few group were exchanging comparable seats for $400, you may feel like a sucker in the event that you sold for less than that. Then, individuals who are hoping to purchase tickets like yours see that others have gone for nearer to the first price, as they're not able to pay your higher price.

Regardless of whether something doesn't in fact have a place with us, we may in any case feel like it's by one way or another our own. Many researchers have investigated the amount it takes for us to build up a feeling of ownership over something, and the appropriate response ends up being not definitely. This implies that there is additionally a pretty low threshold for the endowment effect to kick in.

- **Regret aversion**

People going through regret aversion bias hesitate most at moments that actually merit aggressive behavior. Person having this kind of bias seeks to avoid getting pain emotionally of regret associated with poor choice. People with regret averse nature try to avoid distress arising from errors of commission and errors of omission. Regret aversion causes investors to anticipate and fear the pain of regret that comes with incurring a loss or forfeiting a profit. The potential for financial injury is not the only disincentive that these investors face; they also dread feeling responsible for their own misfortunes. Regret aversion can cause investors to shy away, unduly, from markets that have recently gone down. Regret aversion leads investors to prefer stocks of subjectively designated good companies, even when an alternative stock has an equal or a higher expected return.

- **Home bias**

Home bias is the bias for investors to invest most of their portfolio in domestic equities, overlooking the benefits of broadening into foreign equities. This bias was initially accepted to have emerged because of the additional challenges related with investing in foreign equities, for example, lawful limitations and extra exchange costs. Different investors may just show home bias because of an bias for investing in what they are familiar with as opposed to moving into the unknown markets.

Diversification diminishes risk by designating investments among different asset types, geographic districts, and businesses. It means to expand returns by investing across various regions to diminish the opportunity that a market occasion can weaken the whole portfolio.

By not investing beyond one's specific country or region, investors can turn out to be too focused in the developments of their domestic market and economy, expanding the volatility risk level to the portfolio. At the point when an investor isn't as expected around the world broadened, they may botch freedoms to invest in more quickly developing business sectors.

Further diversification benefits can be acquired by investing in foreign business sectors since they will in general be less-firmly associated with domestic performance. For instance, a financial decline in the U.S. economy may not adversely influence China's economy too drastically; consequently, holding investments in Chinese equities can give investors a degree of assurance against losses because of a negative change in the American economy.

That being said, as a result of globalization, the economies of various nations are turning out to be increasingly more intertwined and a negative downturn in one economy can affect others. For instance, the subprime emergency in the U.S. that prompted the Great Recession affected economies everywhere on the world. An enormous explanation, obviously, is that the U.S. economy is the biggest on the planet and has connections with most of the nations. Be that as it may, it is imperative to focus on these elements when investing in foreign equities to decide whether real diversification is being accomplished.

Investing in foreign business sectors can likewise be tax beneficial relying upon the tax laws of the country that is being invested in. Numerous nations, especially developing business sector ones, make beneficial tax laws for foreign investors, especially those from emerging countries, to draw in investment and prod development.

U.S. investors would in any case need to pay taxes on their benefits procured abroad however might have the option to benefit from the foreign tax credit. The foreign tax credit evades double taxation, which is the point at which the foreign nation taxes the investments thus does the U.S. The foreign tax credit can decrease your tax obligation on a dollar-for-dollar basis by the lower of the sum taxed in the foreign country or the U.S. tax obligation.

Decoy Effect

Being expertise in consumer behavior, and your own decision making advancement, is a priceless expertise and the decoy effect critically affects both consumer behavior and your own choices. A post, the decoy effect: How you are affected to pick without truly knowing it on the Conversation blog, composed by Gary Mortimer, deconstructs the decoy effect into its key components. The decoy effect is principally utilized in item valuing, with organizations using it to drive clients to a more costly or productive other option.

For instances, a restaurant outlines the decoy effect. The menu may offer two dishes. One is a cheeseburger, side and drink for $5. The second is a double burger, different sides and unlimited beverage for $10. You would intellectually make some estimation of their general worth yet it isn't evident that the more costly choice is a superior worth. You would choose if doubling everything would be worth it?

Using the decoy effect, the restaurant may offer those two alternatives however add a third one, a double burger, one side and a regular beverage for $9. For $4 more than the $5 alternative, you are getting a bigger burger. Be that as it may, for only one dollar more, you get the bigger burger in addition to an additional side and a bigger beverage. Along these lines the $10 choice resembles an incredible deal. But in reality, it is no more of a deal than the $5 meal when you had two alternatives, however now due to the decoy effect the vast majority would choose the $10 meal.

Asymmetric dominance effect

Clients change their bias between two choices when a third choice is introduced, a phenomenon called asymmetric dominance. This effect recommends a decoy is valued to make one of the other choices substantially more attractive. The decoy alternative is dominated as amount, quality, additional highlights, etc. Organizations don't value the decoy to create deals however to prod clients towards the objective determination.

Choice overload

The decoy effect is empowered by another wonder, choice overload. As clients face numerous alternatives, the further choices increases nervousness and ruin decision making. Clients then adjust by decreasing the quantity of measures they use for picking, perhaps using cost and volume to settle on the best worth. Mortimer states, "through manipulating these key choice attributes, a decoy steers you in a particular direction while giving you the feeling you are making a rational, informed choice."

Using the decoy effect for good

While the decoy effect can be abused to drive consumers to over-evaluated choices, it can likewise be utilized to feature the estimation of a choice that is in both the supplier's and client's wellbeing.

The decoy effect is an amazing asset in driving consumer choices. At the point when you are choosing between choices, rather than take a look at the overall estimation of every alternative straightforwardly compare the others, understand the worth and settle on the ideal choice for yourself. While making choices for your clients, consider using the decoy effect to feature the advantages of choices that your clients are bound to favor rather than fooling them into some unacceptable buy.

Behavioral Corporate Finance

Behavioral corporate finance brings in conversation customary thoughts regarding corporate finance and remuneration strategies. "Behavioral corporate finance argues that in many senses, corporations are natural arbitrageurs" (David Adler). Theories from behavioral finance are in the situation to explain the distinctions in corporate financial policies and capital structures. Behavioral corporate finance concentrates how investors and supervisors act. Studies indicated that investors experience the ill effects of overconfidence; they tend to overestimate their own capacities and chances for progress, driving stock costs from ordinary levels. The main psychological traps met in behavioral corporate finance are: narrow framing, hindsight bias, confirmation bias, herding behavioral conservatism, wishful thinking, opaque framing, representativeness bias, the role of effects, and overconfidence. Careless directors over estimate the future cash flow from project use a lot obligation and tend to feel that their stocks are mispriced by the market. Below there are four main pillars of behavioral corporate finance: closed-end funds puzzle, management, aggregate earnings guidance and the role of dividends.

Conflicts of interests which go among employees, shareholders, regulators and external stakeholders (threats and weaknesses in corporate governance) represent a significant cause of the latest global financial crisis. The problem is conflict of interest, which is a global issue and not local. The mimic philosophy of boards of directors, made them miserably fail in their fiduciary duties towards their shareholders. Furthermore, the cash bonus for short-term performance seems to be more pleasing than stock ownership or stock options. It has been studied that individuals have a sensibility to conform to an authority, to be cut off by their peers. The reason for that are corporate officers and directors are more loyal to their CEO (Direct Boss) than to their shareholders and to the law, even if it can result into a clear financial doom. Corporate governance reforms suggest for instituting independent directors or non-executive board members, committees formed by independent directors. They are supposed to show more rationality and ethics in corporate governance. But that's just in theory, because there is evidence that they are attached to CEOs in other informal ways. Many corporate governance failures could have been averted if directors would have asked serious questions and demanded clear answers from their team. Behavioral factors like cognitive dissonance, reciprocal favor trading or group conformity have impacted the independence and the authority of so called independent directors. Many CEOs hire independent directors through personal contacts and friendship which ultimately compromises the role of non executive or independent directors.

The actual global financial crisis has shown that the severe problems faced by financial companies are regarding the risk management practices. Some of the risks were too complex and complicated to be assessed by the board: many of the directors did not even understand exactly what kind of instruments their banks were trading. Because they did not have the necessary technical financial expertise or business experience in order to fully assess the consequences of their decisions. In large financial companies even if there are risk committees, their opinions and suggestions are barely left to be heard and assessed. Share ownership probably represents the best way to link shareholders' interests with CEOs interests and wealth. Workers/ Employees like Traders, salesmen and executives are not enough motivated / remunerated to concentrate too much on long lasting sustainability, over decades of time.

CEO's choices reflect in great part, the CEO's own style instead of a bunch of measures controlled by the firm. Aggressive CEOs will in general abuse influence, over indebt their organizations and will in general grow through acquisitions. Despite what is generally expected, the traditionalist CEOs will in general keep up more money and will in general develop freely, naturally in a sustainable way (excluding acquisitions). It has been examined that organizations with over confident CEOs put more and participate in more acquisitions. Also, arrogant supervisors are more averse to pay dividends, rather utilizing the assets to make investment and have higher debt proportions and depend long term debt. Their outcome demonstrates that miscalibration relies upon individual abilities, notwithstanding corporate qualities. It is easier for a CFO to give a larger number of shares when an organization is overvalued than it is for a hedge fund to short overvalued shares; if the shares are not really overvalued, the results to the CFO's own work are modest compared with those for the mutual funds manager. Overvalued organizations will in general build capital while the modest organizations will in general repurchase their share. Standard of ethics in the process of decision making is vital, particularly in the financial system. It is notable that banks sell confidence, not cash. Ethics goes beyond controlling from unethical conduct on account of potential costs of exposure. Heuristic bias or cognitive dissonance, for instance, can likewise influence ethical decision making. Culture has an incredible significance for the mentalities of workers. The way of life of making the best choice regardless of the expense makes organizations less vulnerable particularly when comes to trading. Brokers are given strong incentives to make extraordinary profits, however if they don't progress well, & they make losses, they don't need to repay the losses, and the most noticeably terrible thing that may happen to them is simply to be terminated. Practically, there is no incentive for respecting sound trading practices and having a prudent money management. Numerous banks didn't create adequate operational limits that would confine the bank's overall exposure to securities, derivatives or subprime loans. Did banks overlook risk, mental reasons or on the grounds that they truly didn't have a clue? Why their risk manager neglected to address the main problems? For what reason did banks hold the most risky asset? As per a research, narrow framing and opaque framing were the two mental traps that banks went up against with. They presented incomplete risk, didn't unveil data with the individuals who required and got long and short positions, darkening the way in which positions were structured. Another reason for trouble in financial sector may be the pay structure that made little acknowledgment of risk issues (representatives had no direct incentive to focus on risk when deciding, setting up unrealistic profit goals and profit orientation for short term).

The work of professional portfolio managers has always been a subject for controversial conversations among experts over a long term. Younger funds tend to fail to meet expectations however it remains a secret why investors have a greater will to invest into younger funds. The impact of managerial turnover would be that new funds should show above normal NAV returns; Funds with longer managerial experience should display beneath normal NAV returns. Just great managers would leave voluntarily, meaning the discount should increase (if the fund is trading at a premium, the premium should decrease) around voluntary separations or pay increases. As the time passes by, the fund may be traded either at premium or at discount, depending on the managerial abilities and the expectations of shareholders. In case that management fees equal the value added (at least these are the expectations of shareholders), the funds are traded at par. For what reason would investors buy a closed-end fund at its IPO price, realizing that it is probably going to fall to a discount, when they could buy instead an open-end fund that is guaranteed always to trade at par.

Investors' irrationality may be a potential explanation. Fees represent a cost for the fund and they are subtracted from the net asset values of the funds. If managers don't generate sufficient value added, over the value of the fees, the fund shall be traded at discount. Depending on which one is greater, the value added or the fees, the fund shall be purchased at premium or discount. The things are somewhat more complicated, it's all about the market sentiments. If a fund is purchased at a discount, the discount may widen if the sentiment of the irrational investors turns to be pessimistic. The discount changes after some time as investors change their beliefs about the manager's ability to create wealth.

RESEARCH METHODOLOGY

Statement of the Problem

In this delusional world, people tend to make decisions in a rush or being biased. It is important to study the reason being biased and making decisions under the influence of emotion. Also, holding losses for a long period and booking profits too early, the fear of missing out in the bulls run ultimately leading to entering the market at the wrong time.

Objective of the Research:

1. Investigate the influence of Economic agents' behavior in our daily life.
2. Reasons behind unsatisfactory returns of Investors
3. Purpose of Investors holding undiversified portfolios
4. Study investors' biases while collecting information for their financial decision
5. Explanation for Investor not learning & repeating preview mistakes

Methodology of Data Collection

Primary data and secondary data was used for the research. Primary Data was collected by use of Google form and secondary data was collected from different sources.

Primary Data collection is done through Quantitative methods like surveys with the help of Google forms.

The aim was to study the practical aspect of Behavioral Finance on young investors. If one wants to study human behavior in any field, he/she needs to approach the audience directly and record their response in different situations. While collecting data from the respondent it was made sure that their data is safe, secure and confidential; any kind of mentioning or publishing would not happen. As the data is related to their investment style and financial aspect, it's not ethical to disclose their names. Hence, no names are being mentioned. The only criteria to fill up this form was to be +18 yrs of age. The form was designed using Google form's features like multiple choice and rating scale. Selecting the sample was easier as the targeted respondent were the young adults from Mumbai using Random Sampling. It was not important for the respondent to specifically be an investor as the form had various questions relating to bets, rating your own asset. However, there were investment related questions too but it was made sure that nin financial adults too under the question with the help of short description. Respondents had 14 days of time to submit their response through the link circulated on WhatsApp. Total number of responses totals to 101 people.

Method of Analysis includes analyzing answers given by the people and interpreting them with the help of various theories given under Behavioral Finance.

Due to the pandemic, face to face interview was not possible with the participants. It would have been more accurate to record their response through the answers they give and their body language. Also communication would have been better and effective. However, online forms are convenient to use and analysis becomes more quick and smart with the help of different softwares.

Scope of Study

Whilst the increase in the number of Demat account holders, the impact on the financial market is poorly understood as volatility and uncertainty was witnessed by many. It even led to one sided Indian stock market trend. The aim of this study is to study the impact of different types of potential investors on the financial markets by analysing their decision making style and emotional stability when it comes to money related situations.

Limitations

The scope of the study is limited to recording 101 responses between the ages of 18 years and 30 years who were contacted using WhatsApp mobile application. Even the time limit given to submit the response was 14 days. Each participant was asked to complete a short questionnaire in order to evaluate their future actions on certain situations which can be linked to their financial literacy, their way of thinking and risk taking appetite.

Scope of Further Research

The limitations of the research can be addressed in the future as studying human behavior is never enough. There's a big constraint and limited data to access. In future, this problem can be solved and with the help of large data the entire market moment can be estimated accurately.
Markets are changing as they are dynamic, along with it even humans behavior and way of thinking too changes. Different theories can be proposed for the dynamic financial market as and when the time comes with a variety of products and services.

LITERATURE REVIEW

- **Behavioral Finance Foundations for investors by Michael Stupavsky, CFA**

The research conducted by Michael Stupavsky covers all the basic information which has to be known by the investor to have a foundation of Behavioral Finance along with a zest of corporate behavioral finance.

He has classified biases into two parts namely, biases based on cognitive errors and biases based on emotional responses. His research has different kind of examples explaining the concept of day to day life situation wherein a person gets biased in his decision making.

- **Too much pay, too much Deference: Behavioral Corporate Finance, CEOs and Corporate Governance by Troy. A. Paredes**

In this article, Professor Paredes thinks about the application of behavioral corporate finance, and of CEO over confidence particularly for corporate governance. Until now, corporate governance has focused on tackling conflict of interest and on motivating supervisors to work hard. In other words, on traditional agency problems. Corporate governance has not undertaken the need to remedy the sort of "good faith mismanagement" that outcomes when CEOs are over certain, although with good intentions and hard working.

Additionally, detailing the impacts of CEO overconfidence, Professor Paredes theorizes that CEO overconfidence is really a result of corporate governance. First, Professor Paredes clarifies that high executive remuneration gives positive criticism to a CEO and signs that the chief executive is a triumph. Studies show that positive criticism and ongoing achievement can result in over confidence. Surely, the actual process of winning the competition to turn into the top executive probably makes a CEO extremely confident. Focusing on the connection between CEO pay and CEO over confidence offers another behavioral way to deal with executive remuneration that undertakes the effect of executive compensation on managerial psychology and decision making. Second, a CEO-driven model of corporate governance is popular in the United States as the board, subordinate officials, watchmen, judges, and investors defer to chief executive even in the post-sarbanes-oxley era. Professor Paredes proposes that CEOs can get overconfident because of the broad corporate control amassed in their hands and the way that they are once in a while truly tested.

- **Role of Behavioral Finance in portfolio selection and investment decision making by Senthamizhselvi. A & Vedantam Seetha Ram**

Behavioral Finance is a psychological report in finance, which specially focuses on Individual level cognitive biases. It emerged over a period of time; Behavioral Portfolio Theory goes about as a base for concept relating to behavioral finance. The behavioral portfolio theory was introduced by Hersh Shefrin and Meir Statman (2000) through the theory of necessities from Maslow (1943). This elective plan called Maslowian Portfolio Theory (MAPT).The beginning of Behavioral finance is partitioned into Psychological, Financial and Economic. This article depends on empirical review, conceptual and literature based study concentrated primarily on Behavioral Portfolio Theory and the researcher used Emerald insight database which accumulates explicitly the reputed Investment Journals from 1960-2017. This paper helps in better comprehension about the rise and development of Behavioral Finance and how it assists with understanding the direction of financial investors towards their portfolio development and investment decisions.

- **Thinking, Fast and Slow by Daniel Kahneman**

Thinking, Fast and Slow is a bestselling book distributed in the year 2011 by Nobel Memorial Prize in Economic Sciences laureate Daniel Kahneman. It was the 2012 winner of the National Academies Communication Award for best creative work that helps the public understanding topics regarding behavioral science, engineering and medicine.

The book sums up research that Kahneman led over many years, in association with Amos Tversky. It covers every one of the three periods of his profession: his initial work concerning cognitive biases, his work on prospect theory, and his later work on happiness. The integrity of his work has been raised questions amidst the psychological replication crisis.

The main thesis is that of a polarity between two methods of thought: "System 1" is fast, emotional and instinctive: "System 2" is slower, more deliberative, and more intelligent. The book delineates rational and irrational inspirations/triggers related with each kind of thinking interaction, and how they correspond one another, starting with Kahneman's own exploration on loss aversion. From framing decisions to individuals' propensity to replace a tough question with one which is easier to reply, the book sums up a several decade of research to recommend that individuals have a lot of confidence in human judgment.

The book also shares numerous insights from Kahneman's work with the Israel Defense Forces and with the different offices and associates that have added to his education as a researcher.

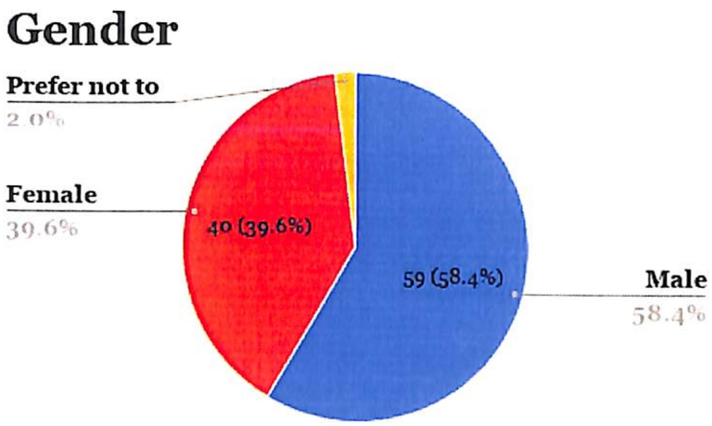
- **Behavioral finance: New research trends, socionomics and investor emotions by Adrian Mitroi & Alexandru Oproiu**

  The paper presents a study of standard investment analysis, technical and fundamental, and builds up an elective more comprehensive approach that ought to incorporate tenets of behavioral finance. In the quest for understanding the behavior of the market player, the fundamental argument depends on the assumption that the risk appetite increases exactly at the worst moment - when the ability to expect additional risk diminishes significantly. The paper targets illustrating that financial investor psychological bias lead to performance of investment to shift to the mean in the long run and by following the pattern, the financial market population dismisses significant sustainable benefits. As a reflection of the behavioral bias and impacts, the measurable exhibition upholds the end that markets don't do random walk.

DATA ANALYSIS, INTERPRETATION & PRESENTATION

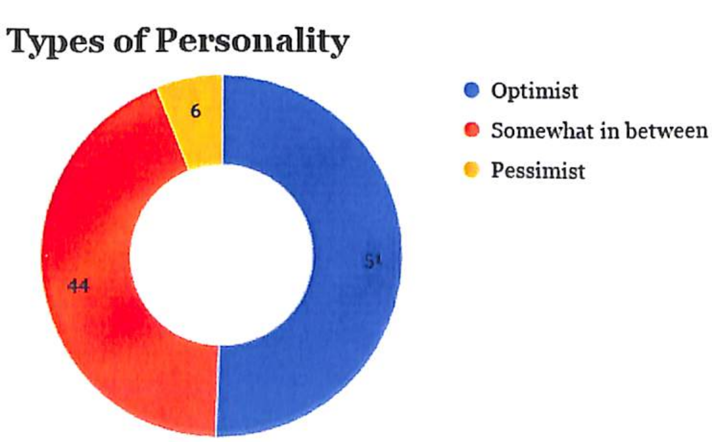
Below analysis of data have been shown:

There were in total **101 responses** out of which **40** were **female** participants and **59** were **male** participant. The pie chart for the same is as shown below:



(Diagram 5)

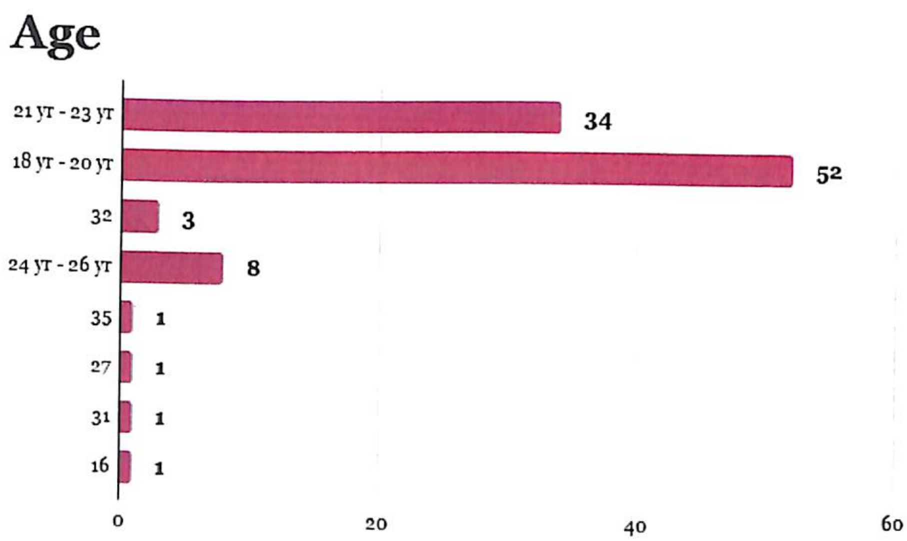
The next query asked was about the personality of the participants. Personality included were Optimistic, Pessimistic and In between. The table shown below represents gender- wise responses of participants. It is been observed that out of total responses of 59 male, 59.32% were optimistic which is the higher among male and less number of male respondent were pessimistic i.e 6.78% . Among female respondent, maximum respondent think that they are somewhat in-between optimistic and pessimistic.



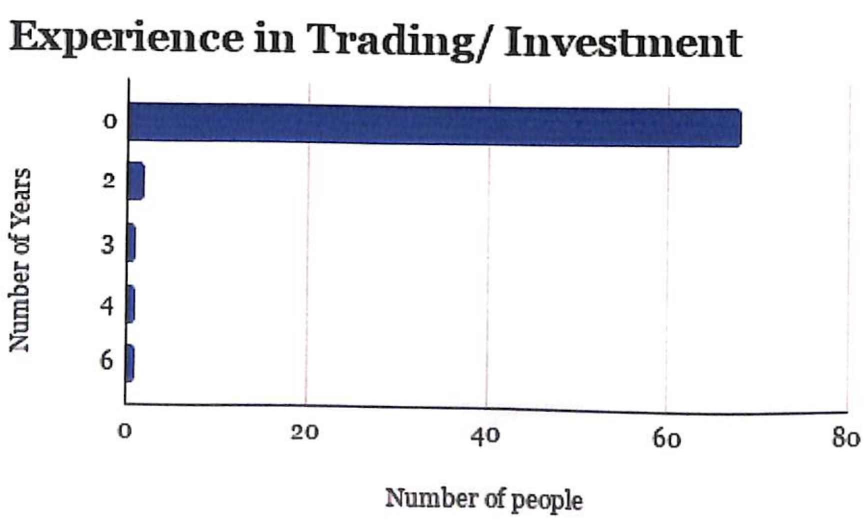
(Diagram 6)

Gender	Optimistic	Pessimistic	In between
Male	59.32%	6.78%	37.29%
Female	45.00%	5.00%	52.50%
prefer not to say	0.00%	0.00%	100.00%

(Table 1)



(Diagram 7)



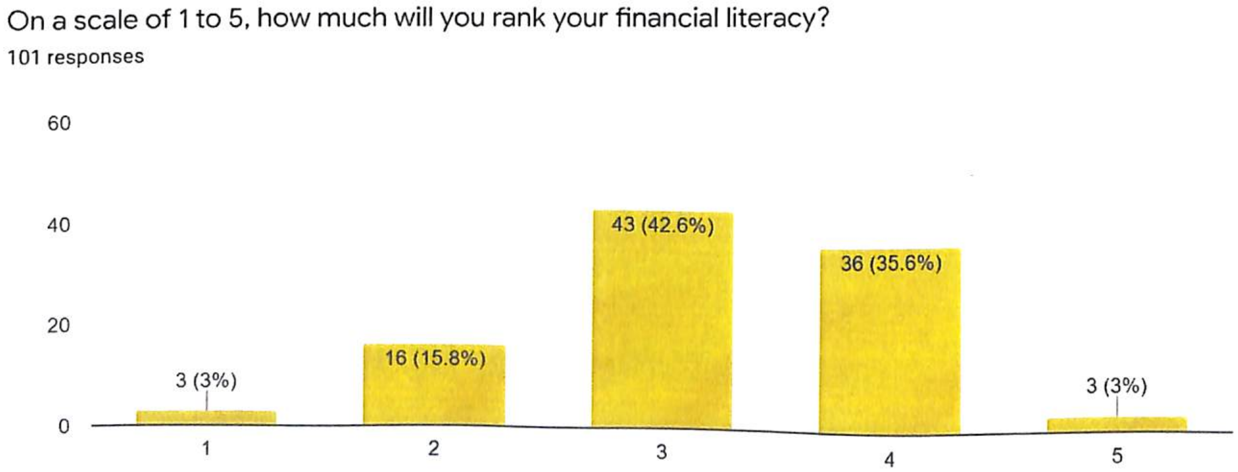
(Diagram 8)

Numbers in %

Age	0	less than 1 yr	1	2	3	4	5	6
18-20 yrs	80.77	15.38	0.00	3.85	0.00	0.00	0.00	0.00
21-23 yrs	55.88	32.35	5.88	0.00	2.94	2.94	0.00	0.00
24 yr - 26 yr	62.50	0.00	0.00	0.00	12.50	25.00	0.00	0.00
greater than 26 yrs	28.57	0.00	0.00	28.57	0.00	14.29	0.00	28.57

(Table 2)

The above table has been calculated as percentage of number of investment experience to their particular age group total. For example, total participant falling into the age group of 18-20 yrs is 53 and responses with 0 zero investment experience & age between 18-20 yrs is 41. Hence, 41/53*100= 80.77%. According to the table, out of total participant of age group 18-20 yrs 80.77% have zero years of trading/ investment experience. Even between the age groups of 21-23 yrs and 24-26 yrs maximum participant has no trading experience. However, members above 26 yrs has a tie between zero trading experience and 6 yrs of trading experience.

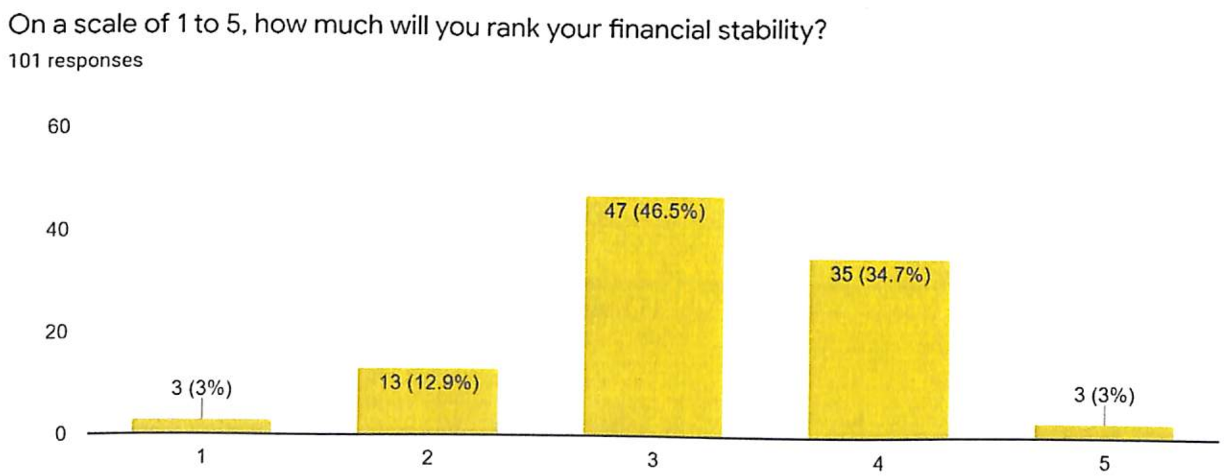


(Diagram 9)

Age	1	2	3	4	5
18-20 yrs	3.85%	17.31%	46.15%	30.77%	1.92%
21-23 yrs	2.94%	11.76%	50.00%	32.35%	2.94%
24 yr - 26 yr	0.00%	25.00%	0.00%	62.50%	12.50%
greater than 26 yrs	0.00%	14.29%	28.57%	57.14%	0.00%

(Table 3)

When it comes to financial literacy, out of total people having age between 18-20 yrs only 1.92% people have the highest literacy. Between 21-23 yrs only 2.94%, 24-26yrs only 12.%. Though 57.14% participant having age greater than 26 yrs have ranked themselves '4' which means they are proficient in financial subject.

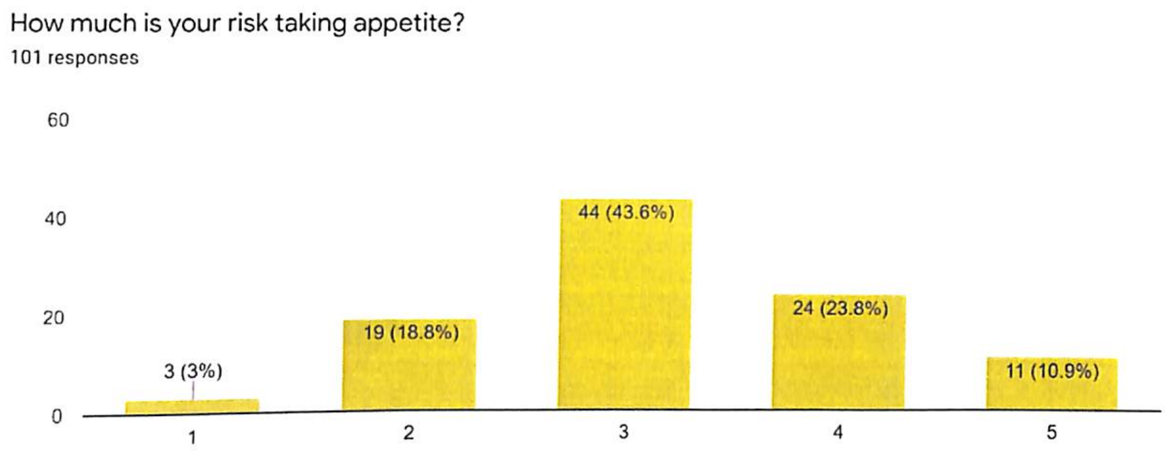


(Diagram 10)

Age	1	2	3	4	5
18-20 yrs	3.85%	13.46%	51.92%	28.85%	1.92%
21-23 yrs	2.94%	14.71%	47.06%	32.35%	2.94%
24 yr - 26 yr	0.00%	0.00%	25.00%	62.50%	12.50%
greater than 26 yrs	0.00%	14.29%	28.57%	57.14%	0.00%

(Table 4)

The highest percentage of financial stability is seen between 24-26 yrs participant with 21.50% on the 5th scale which is the most stable.



(Diagram 11)

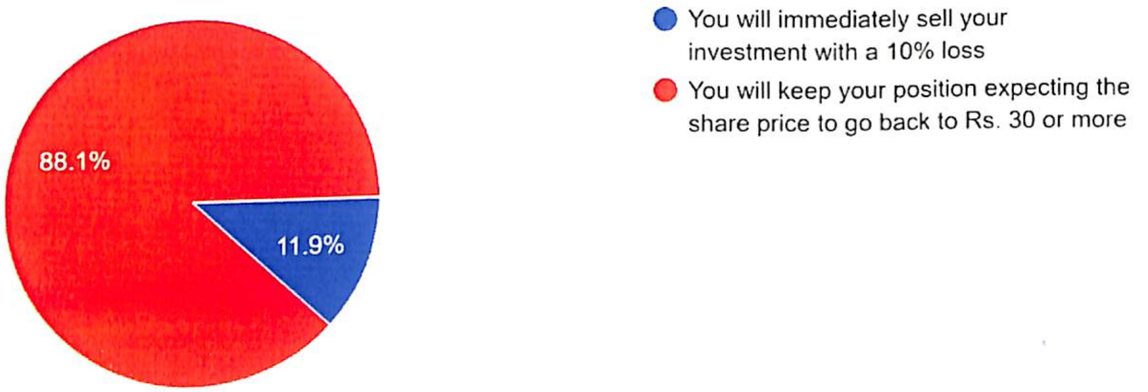
Age	1	2	3	4	5
18-20 yrs	1.92%	19.23%	48.08%	19.23%	11.54%
21-23 yrs	5.88%	20.59%	38.24%	26.47%	8.82%
24 yr - 26 yr	0.00%	12.50%	37.50%	37.50%	12.50%
greater than 26 yrs	0.00%	14.29%	42.86%	28.57%	14.29%

(Table 5)

The most risk averse people are between the age group of 21-23 yrs. The reason for the same can be job performance pressure, lack of financial knowledge and experience & much more. The most risk seeking people are people whose age is greater than 26 yrs. It can be because they have trading experience, stable job, high financial literacy and financial independence.

Participants were given a scenario wherein, they were asked the following question:
Think of the following investment situation. You bought 100 shares of company ABC for Rs. 30 per share. Therefore, the value of your current investment position is Rs. 3,000. Next trading day, the share price declined by 10% to Rs. 27. Therefore, the value of your current investment position now is Rs. 2700.

For which 2 options were given shown in the picture below.



(Diagram 12)

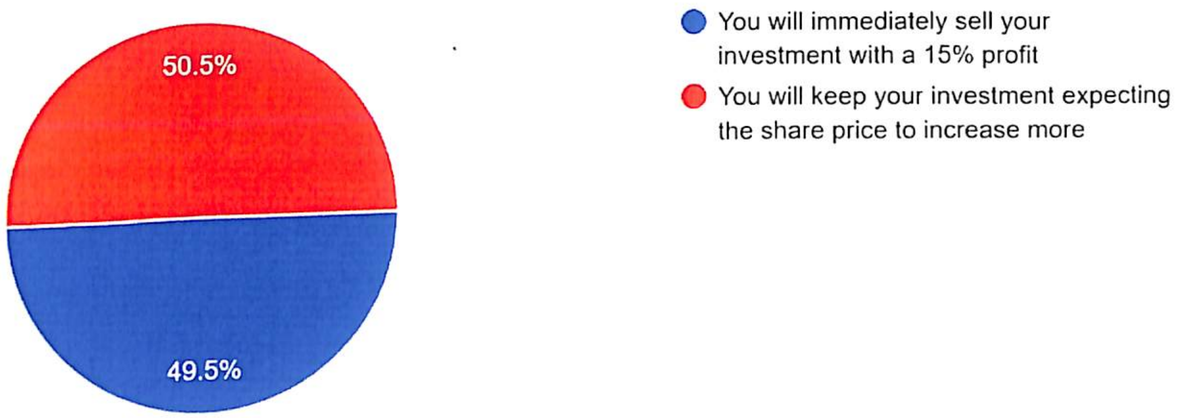
At times of loss

Personalities	Hold	Sell
optimistic	43.56%	6.93%
pessimistic	2.97%	2.97%
somewhat in between	41.58%	1.98%

(Table 6)

It is to be noted that participant who are optimistic will hold the position even though it's making losses. However, holding lose making position for too long hoping that it will go up someday is

simply not a smart investment move. It's better to sell the lose making investment sooner before it starts making more lose and block our funds in that particular security.
Again, similar type of question was raised against the member but this time the investment was increased by 15% i.e gain of Rs. 3/share. It is interesting to know maximum number of people will try to sell off the security booking only paper profit.



(Diagram 13)

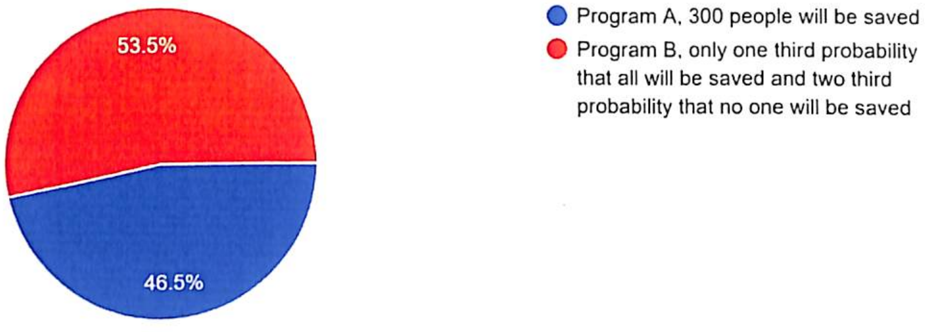
At times of profit

Personalities	Hold	Sell
optimistic	27.72%	7.92%
pessimistic	3.96%	1.98%
somewhat in between	18.81%	24.75%

(Table 7)

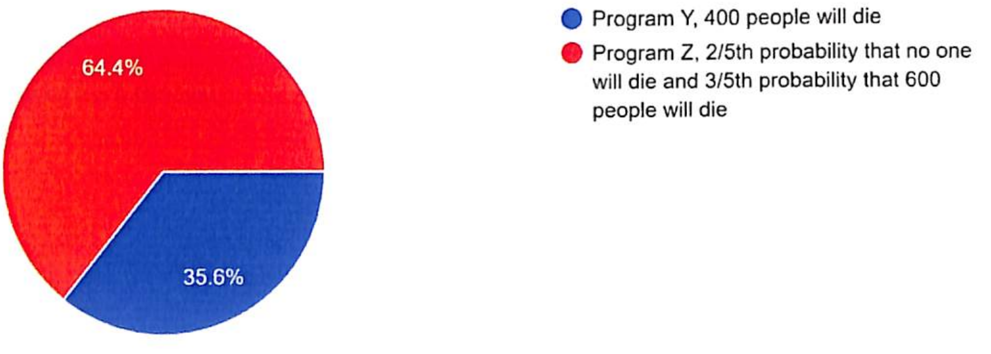
These two example helps us to prove prospect theory right which states that people will holds lose making position for too long in the hope that it will make some profit some day. But, people tend to sell off securities which can gives bigger gains in future sign of risk averse nature.
It's human tendency to choose options based on the way it is represented to us. To understand this bias, members were asked the below mentioned 2 questions.

Imagine one imaginary country Zililand with a population of 1000, it has unusual disease outbreak. Doctor suggests following two program, which one will you select?
101 responses



(Diagram 14)

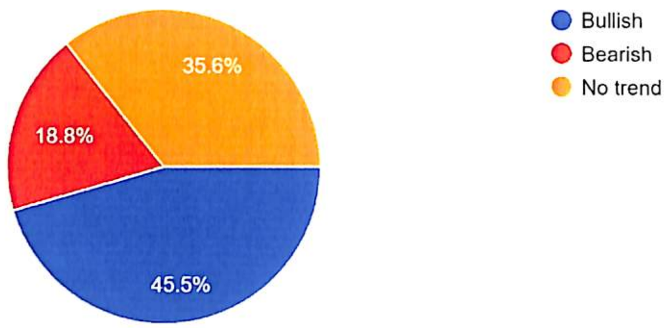
Again, Imagine the same country Zililand with a population of 1000, it has unusual disease outbreak. Doctor suggests following two program, which one will you select?
101 responses



(Diagram 15)

It is very much evident that when people are presented a positive wording choice they choose it over the probable choice. For instances, in diagram 14, the straight affirmative choice was to save 300 people which was selected by 53.5% of respondent whereas, in diagram 15, the second choice included '600 people will die' which was in fact a probability. As members choose to neglect the probability part and ended up choosing the 1st program.

If Nifty 50 index is bullish for straight 3 trading days, what you think would be the trend on 4th day?
101 responses



(Diagram 16)

Prediction about the trend after consecutive uptrend

Personalities	Bullish	Bearish	No trend
optimistic	26.73%	12.87%	10.89%
pessimistic	3.96%	0.00%	1.98%
somewhat in between	14.85%	5.94%	22.77%

(Table 8)

If we look at table 8, it has three things to interpret:

A) Optimistic people think that good things happened in past hence, good things will continue to happen in future too. On the other hand, people who are in between optimistic & pessimistic, thing that there will be no trend which again is in between bullish and bearish choice.

B) Majority of people are looking at the question with representativeness bias in which similar incidence/ event confuses the individuals and hampers their reasoning ability.

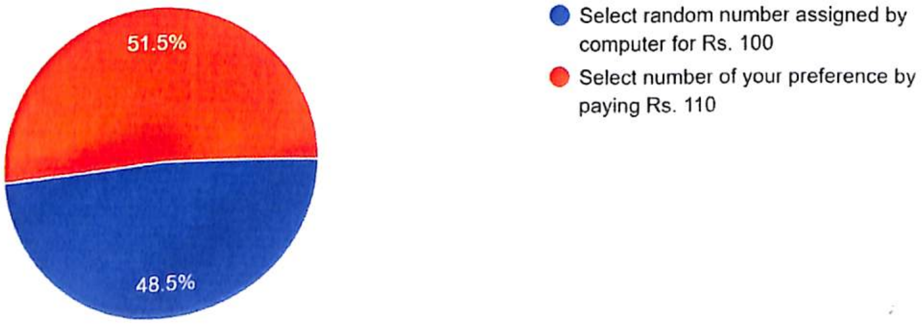
C) It can be over optimization done for the 4th day trend.

Shaam is very bright and smart student. He won three consecutive bets with his friend of Rs. 100 each. Again, he has a chance to play a bet of Rs. 100 with his friend, if you were Shaam what would you do from the following?

(Diagram 17)

Over confidence is too dangers when it comes to investment and trading. In diagram 17, as the question asked was 'should Shaam bet again or not?'. The 45 respondent who choose to bet for the 4th time are the ones who are over certain for a particular event/ incident ultimately leading to more loss.

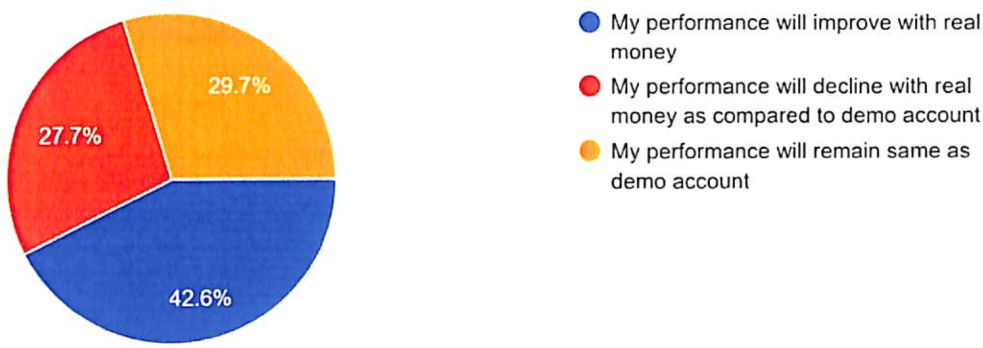
If you were told to buy a lottery ticket, how you'll select the lottery number in order to win?
101 responses



(Diagram 18)

Few people believes if they choose their lottery number according to their lucky number, birth date, special occasion date or even horoscope specified dates then they can surely win the lottery due to which they even agree to pay more. The 48.5% participant who selected 2nd option are the ones who things selecting number of their own preference will result in them winning the lottery.

You started trading in a demo account and performed exceptionally good. What you think of you trading with real money?
101 responses



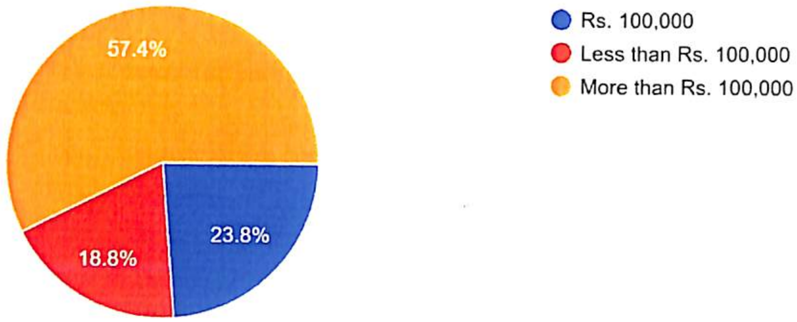
(Diagram 19)

	Financial Literacy				
Performance will..	1	2	3	4	5
Decline	66.67%	18.75%	30.23%	25.00%	33.33%
Improve	0.00%	62.50%	41.86%	36.11%	66.67%
Remain same	33.33%	18.75%	27.91%	38.89%	0.00%

(Table 9)

You want to sell your car and want to price it. Your friend had brought similar second hand car for Rs. 100,000. At what price you will sell your car?

101 responses



(Diagram 20)

You own a house which you bought for Rs. 500,000. Current value of your house is Rs. 450,000. At what price do you think your house should be valued?

Number of responses	Responses
45	More than Rs. 5,00,000
27	Rs. 5,00,000
23	Less than Rs. 5,00,000
1	Rs. 4,80,000
1	Between Rs. 4,50,000 to Rs. 5,00,000
1	If market rates have gone down then I'll barely think of selling it. Unless and until progress
1	Depends on the real estate
1	Sell for less than Rs. 5,00,000 but not less than Rs. 4,50,000
1	Between Rs. 4,50,000 to Rs. 5,50,000

(Table 10)

Diagram 20 and table10 represents the endowment bias. When a person own a thing or is personally attached with it, it is probable to happen that he/she will value that thing more than those of similar nature or characteristics.

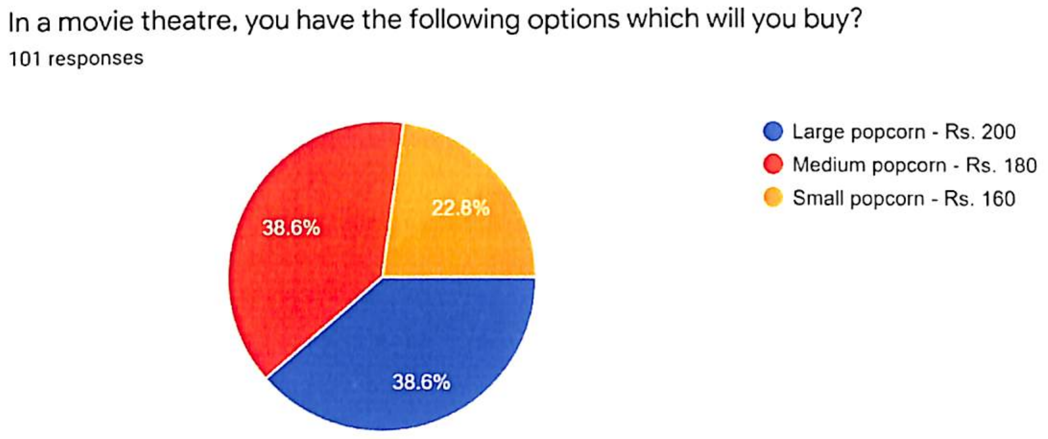
You were making good profit in the stock market but suddenly the market crash due to recession. Also, your portfolio started to make losses. What do you think can be the reason for the same?

Number of responses	Responses
59	You were making profit because of your skills and loss due to recession
38	You were making profit because of your good luck and loss due to lack of skills
1	Markets are a function of various macro factors and even skillful fund managers suffer losses during recession. Hence profits and losses both are caused by market forces
1	Making profit because market was not volatile to small changes now making loss because in recession market has become more volatile to small changes
1	It is always about time
1	As per me, real investors are those, who don't get affected by short term loss/gain. Keep the investment for the long term, and earn more profits.

(Table 11)

Table 11 is an example of self attribution. If something good happens individual things it happened because he/she worked so hard and it's all because of him/her. In case, that same individual ends up making loss he/she will start blaming things on their luck.

When recession comes it gives many prior signals which a well experienced and well knowledgeable investor will identify. But people with self attribution bias thinks that they were making profits because of their skills and looses because of their own luck being bad.

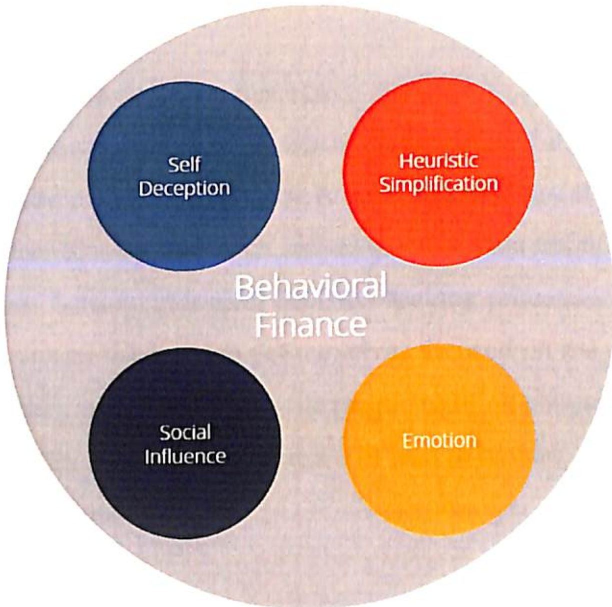


(Diagram 21)

To understand the concept of Decoy effect, diagram 21 can be quite useful. As we can see, most of the participant have selected large popcorn and medium popcorn completely neglecting the small popcorn. This is due to the decoy effect. When an individual is given two options he/she can get confused which one to choose. However, if he/she is being presented with a middle option, their decision making becomes quick and simple to choose.

CONCLUSION & SUGGESTIONS

Behavioral finance views investors as "normal" but being subject to decision-making biases and errors. We can break down the decision-making biases and errors into at least four buckets.



Source: Corporate Financial Institute

1. Self-Deception

The concept of self-deception is a limitation to the way we learn and process information in our mind. When we mistakenly think that what we know is more than what we actually do, we tend to miss information that is necessary to make an informed decision.

2. Heuristic Simplification

We can scope out from another bucket that is often called heuristic simplification. Heuristic simplification refers to errors because of information-processing.

3. Emotion

Another bucket of behavioral finance is related to emotion, which was briefy explained in the introduction session. Basically, emotion in behavioral finance refers to decision making based on current emotional state. Individual's current mood generally take decision making off track from rational or normal thinking.

4. Social Influence

The meaning of the social bucket is how our decision making is often influenced by others.

Overcoming Behavioral Finance Issues

There are various ways to cope up with the negative behavioral tendencies relating to investing. Below are some strategies investors can use to protect themselves from being biased.

1. Focus on the Process

Mainly, there are two approaches to decision-making:

Reflexive – Our default option which includes going with our gut, and it is effortless and automatic.

Reflective – This approach requires effort to engage in actively; it's logical and methodical

Relying on a reflexive decision-making approach makes us more vulnerable to deceptive biases and social & emotional influences. Setting up logical decision-making processes can be beneficial to protect ourselves from such errors. We need to get ourselves focused on the process rather than the result. If you are advising others, try to encourage the people to think about the process rather than just the possible results. Concentrating on the process will lead to better choices because the process helps to make reflective decision-making.

2. Prepare, Plan and Pre-Commit

Behavioral finance educates us to invest by preparing, planning, and making sure that we pre-commit. A famous quote by Warren Buffet says, "Investing success doesn't correlate with IQ after you're above a score of 25. Once you have ordinary intelligence, then what you need is the temperament to control urges that get others into trouble."

Behavioral Biases are a common barrier in the way of investment success. Indeed, even the most rational person will be powerless against dealing on poor investment decisions dependent on erroneous or emotional reaction to new information. Behavioral biases add to the documented tendency of investors to accomplish inferior returns compared with market benchmarks. Investors who have a strategy for staying away from behavioral biases are bound to procure investment achievement.

3. Manage feelings

Studies show that investors feel more prominent pain from investment losses than fulfillment from investment gains. Investors who were hurt by the blasting of the technology bubble in 2000 and the worldwide financial crisis in 2008 have a legitimately heightened fear of investment losses. Feelings added to pain selling at several pivotal moments in 2016, remarkably in January regarding worries about China, just as in the early hours following the Brexit vote in June and the election of President

Donald Trump in November. Investors who calmly evaluated the investment suggestions were bound to profit by the chances given by every occasion.

4. Seek contrary opinions

Confirmation bias is the propensity to look for opinions that validate a person's perspective. The 2016 U.S. presidential election campaign was significant for the extent to which confirmation bias was the main focus point to the election narrative. Numerous electors got their report from sources thought to support one ideological group over another. with Trump citizens having a tendency to get news from Fox (and Breitbart) and Hillary Clinton citizens from CNN and the New York Times. Investors are vulnerable against confirmation bias. as excessively numerous investors look for approval from sources that help their investment thesis. while trying not to go against their own point of view. The best investors look for contrarian views. then analyze the strengths of the competing arguments.

5. Be a "renter" not an owner

Investors often build up an unfortunate connection to a stock. Sometimes the connection is attached because of personal association with the organization; in different cases. investors neglect to comprehend that a "great" organization may not always be a "great" stock. Some very well managed and profitable organizations become excessively costly comparative to earnings prospects. in other cases well managed and profitable organizations get abandoned by disruptive economic forces. Netflix (NFLX) and Facebook (ticker: FB) are considered by numerous individuals to be extraordinary organizations. however at current earnings multiples it is harder to think of them as good investment stocks. Best Buy Co. (BBY) was viewed as an extraordinary organization for a long time. yet changes in retailing brought about by the "Amazon" impact made Best Buy stock a laggard for much of this decade. Numerous successful investors consider their stocks "rentals." which makes the emotional distance important to remain objective about decisions whether to sell or continue to hold.

6. Don't chase yesterday's winners

Investors generally overlook legal disclosures that past performance isn't an assurance of future performance. "Performance chasing" is a typical phenomenon. with cash flowing into recent winners and away from recent losers. Investors erroneously anticipate that recent success should continue into the future. Be that as it may. performance generally reverts to long term averages. so pursuing last year's winners generally prompts lagging performance and an endless loop of high turnover.

7. **Beware of crowded trades**

Achievement breeds imitation in the investment business, and a group of imitators can end an effective investment strategy. Quantitative investment techniques acquired popularity in the early part of the 2000s, however many "quants" end up as a component of a crowd that invested into similar stocks. The quant boom finished badly with the "quant quake" of 2007, as the group set out toward the exit at the same time. Well known trades have a way of getting excessively popular, as investors burned by the technology bubble, the BRIC craze, and currency "carry" trades have found. Inversions of fortune can be especially difficult for investors who are among the last into a packed exchange. Following the group can be a bad idea, and investors should get their work done prior to joining a packed exchange.

8. **Pay more attention to detailed analysis than to stories**

People like stories, and generally make a story that upholds their investment decisions. Midstream energy MLPs, for example, oil and gas pipelines became famous investments a couple of years prior, offering appealing historical returns, predictable cash flows, and protection from inflation. At the point when energy prices began to decrease, the well known narrative was that midstream energy organizations would not be vulnerable against declining prices, given long term, volume based agreements. The "story" and reality got diverged, nonetheless, as declining oil prices prompted declining volumes, which thus prompted excess capacity and financial pressure factors all through the oil and gas industry. Midstream energy organizations felt the pain of declining energy prices, and midstream MLPs that historically were uncorrelated to energy prices unexpectedly had a high relationship to energy prices. It is risky to get hostage to a thematic "story" and critical to finish the research needed to identify any flaws in narrative.

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APPENDIX

(Questionnaire)

- Your Name

- Your Gender:

  a) Male

  b) Female

  c) Prefer not to say

- Your Age:

  a) 18 - 20 years

  b) 21 - 23 years

  c) 24 - 26 years

  d) Other

- Experience in Trading/ Investment? :

  a) 0

  b) Less than 1 year

  c) 1 year

  d) 2 years

  e) 3 years

  f) 4 years

  g) 5 years

  h) 6 years

  i) 7 years

  j) 8 years

  k) Other

- What you think of your personality?

  a) Optimist

  b) Pessimist

  c) Somewhat in-between

- On a scale of 1 to 5, how much will you rank your financial literacy?
    a) 1
    b) 2
    c) 3
    d) 4
    e) 5
- On a scale of 1 to 5, how much will you rank your financial stability?
    a) 1
    b) 2
    c) 3
    d) 4
    e) 5
- On a scale of 1 to 5, How much is your risk taking appetite?
    a) 1
    b) 2
    c) 3
    d) 4
    e) 5
- Think of the following investment situation. You bought 100 shares of company ABC for Rs. 30 per share. Therefore, the value of your current investment position is Rs. 3,000. Next trading day, the share price declined by 10% to Rs. 27. Therefore, the value of your current investment position now is Rs. 2700. As the investor you have to decide for one of the following two options:
    a) You will immediately sell your investment with 10% loss
    b) You will keep your position expecting the share price to go back to Rs. 30 or more

- Think of the following investment situation. You bought 100 shares of company XYZ for Rs. 20 per share. Therefore, the value of your current investment position is Rs. 2,000. Next trading day, the share price increased by 15% to Rs. 23. Therefore, the value of your current investment position is Rs. 2,300. As the investor you have to now decide for one of the following two options:
    a) You will immediately sell your investment with a 15% profit
    b) You will keep your investment expecting the share price to increase more

- Imagine one imaginary country Zililand with a population of 1000, it has unusual disease outbreak. Doctor suggests following two program, which one will you select? :
    - a) Program A. 300 people will be saved
    - b) Program B. only one third probability that all will be saved and two third probability that no one will be saved

- Again. Imagine the same country Zililand with a population of 1000, it has unusual disease outbreak. Doctor suggests following two program, which one will you select? :
    - a) Program Y. 400 people will die
    - b) Program Z. $2/5^{th}$ probability that no one will die and $3/5^{th}$ probability that 600 people will die

- If Nifty 50 index is bullish for straight 3 trading days, what you think would be the trend on 4th day? :
    - a) Bullish
    - b) Bearish
    - c) No trend

- Shaam is very bright and smart student. He won three consecutive bets with his friend of Rs. 100 each. Again, he has a chance to play a bet of Rs. 100 with his friend, if you were Shaam what would you do from the following?
    - a) Bet Rs. 100 for the 4^{th} time
    - b) Won't bet
    - c) Other

- If you were told to buy a lottery ticket, how you'll select the lottery number in order to win? :
    - a) Select random number assigned by computer for Rs. 100
    - b) Select number of your preference by paying Rs. 110

- You started trading in a demo account and performed exceptionally good. What you think of you trading with real money? :
  - a) My performance will improve with real money
  - b) My performance will decline with real money as compared to demo account
  - c) My performance will remain same as demo account

- You want to sell your car and want to price it. Your friend had brought similar second hand car for Rs. 100.000. At what price you will sell your car? :
  - a) Rs. 1.00,000
  - b) Less than Rs. 100,000
  - c) More than Rs. 100,000

- You were making good profit in stock market but suddenly the market crash due to recession. Also your portfolio started to make loss. What do you think can be the reason of the same?:
  - a) You were making profit because of your skills and loss due to recession
  - b) You were making profit because of your good luck and loss due to lack of skills
  - c) Other

- Your friend invested in Reliance Ltd. and made profit of Rs. 100. Also, there's another stock of HDFC Ltd. which is going to break the resistance level, indicating an uptrend. In which stock will you invest?
  - a) HDFC Ltd.
  - b) Reliance Ltd.

- You own a house which you brought for Rs. 500.000. Current value of your house is Rs. 450.000. At what price you think your house should be valued?
  - a) Rs. 4.50.000
  - b) Rs. 5.00.000
  - c) More than Rs. 5,00.000