HERDING BEHAVIOUR, AND THE EFFECT ON INVESTMENT DECISIONS OF RETAIL INVESTORS

Ms. Gopika G[1], **Dr. Resmi R**.[2]
[1]Assistant Professor, Postgraduate Department of Commerce, Sree Sankara College, Kalady, email:g.gopika@gmail.com; and Research Scholar, Govt. Maharaja's College, Ernakulam
[2]Research Supervisor and Assistant Professor, Department of Commerce,SreeSankaraVidyapeetom College, Valayanchirangara, Airapuram. Email: resmir@ssvcollege.ac.in

ABSTRACT

Financial markets are significantly influenced by various factors like changes in economic, legal and political processes that occur in an economy. Nevertheless, the most vital factor is the investor's reaction and perception. From the investor's point of view, investment decision making process is dependent on the psychology of the investor, which can be called as investor sentiments. This research aims to report the research of individual investor's sentiments, especially herding behaviour in a historical perspective. This research paper is intended to uncover the investor's psychology in investment decision making focusing on the investor's rationality by explaining factors that affect their investment decision. This research focuses on the herding behaviour of the investor and its effect on the investment decision making of the retail investors inErnakulam District.

Keywords: *Investor, Investor Sentiments, Investment, Investment decision making, perception, retail investor*

INTRODUCTION

In general, irrational behavior is considered behavioral bias. Behavioral biases are irrational beliefs about behaviors that may unconsciously influence our decision-making process. They are generally thought to be divided into two – emotional biases and cognitive biases. Both biases are usually the result of prejudice in the choice of one thing over the other. In general, cognitive prejudices include decision-making based on principles that may or may not be exact. Emotional biases usually occur spontaneously on the basis of an individual's personal feelings at the time the decision is taken.For a long time, everyone assumed that traditional finance theory was correct, because it states that investors think rationally and make conscious decisions; based on different emotional reactions or using economic models.

However, after a number of investigations, it has been noted that human decisions often depend on their nature, intuitions and habits, cognitive or emotional bias hidden deep in the back of one's mind. Individual investors are faced with more rational decision-making issues than institutional investors. (Ahamed, 2013)Small investors may not have all the relevant data for rapid and logical decision-making. People are unique creatures of financial behavior and, in different situations; they make decisions in their own way, not just in accordance with traditional financial rules. Investment decision-making processes based on forecasting and the knowledge of market participants are becoming increasingly unrealistic in the current global financial market. The main reason for savings is to cover post-retirement expenses and also to acquire wealth. And the investment is targeted at the excess of money after meeting the individual's expenses.

In finance and economics, behavioral bias refers to a tendency to make decisions that result in rational financial decisions due to faulty cognitive reasoning or emotionally influenced reasoning. Behavioral biases can have an effect on financial market participants' behavior and decisions. By understanding behavioral bias, financial market participants may be able to moderate or adjust to bias and, as a result, improve economic outcomes. Individual investment patterns depend on various factors, such as economics, personal and emotional conditions, etc. Due to the changes in these conditions, there is also a change in individual investment patterns and decisions.

1.1 OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVES:

1) To determine the emotional biases that affect the investors decision on various investments.