International Research Journal of Education and Technology
ISSN 2581-7795

IMPACT OF LOSS AVERSION AND ANCHORING EFFECT ON INVESTMENT DECIONS

Anson Varghese Philip

Student, Kristu Jayanti college (Autonomous) Bengaluru

ABSTRACT

Behavioural finance biases can influence our judgment about how we spend our money and invest. The most common pitfalls include mental accounting errors, loss aversion, overconfidence, anchoring, and herd behaviour.To evaluate the impact of demographical factor on loss aversion and anchoring effect. To evaluate the impact of demographic factor on investment decision. The significant value is greater than 0.05, therefore there is no significant difference between male and female with anchoring effect on investment decision by individual investors. This study shows that the significant value is less than 0.05, it accepts the alternative hypothesis. So, there is a significant relationship between year of experience and influence of loss aversion bias on investment decision. The relationship between education and investment decision of investment decision by individual investors, p value for "buy a share as per my interest or as per my broker suggestion" and, "investment decisions of other investors while I decide to buy or sell stocks" and "others investing decision has an impact on my decision making" is less than 0.05. Therefore, we accept the alternative hypothesis. The P value of remaining perception of investment decision by individual investors was greater than 0.05 so null hypothesis accepted.

Key words: behaviours basis, anchoring effect, loss aversion, investment decision, decision making.

INTRODUCTION

Research has demonstrated that when people face complex decisions, they often rely on basic judgments and preferences to simplify the situation rather than acting completely rationally. Behavioural finance biases can influence our judgment about how we spend our money and invest. The most common pitfalls include mental accounting errors, loss aversion, overconfidence, anchoring, and herd behaviour. Understanding these biases can help you overcome them and make better financial decisions.

This can skew our judgment, and prevent us from updating our plans or predictions as much as we should. Loss aversion in behavioural refers to a phenomenon where a real or potential loss is perceived by individuals as psychologically or emotionally more severe than an equivalent gain.

STATEMENT OF THE PROBLEM

The study is conducted to find out the effect of anchoring on investment decision made by individual investors and to evaluate the risk perception of investment decision making with the help of questionnaire which consisted of questions such as is anchoring bias effecting their investment decision making and so on.

OBJECTIVE

- To evaluate the impact of demographical factor on loss aversion and anchoring effect.
- To evaluate the impact of demographic factor on investment decision.

METHODOLOGY OF THE STUDY

Research design

Study is empirical research based on impact of loss aversion and anchoring effect on investment decision.

Sample design

The sample was drawn from. The convenience sampling method was adopted for data collection. Sample size is 100 respondents.

Tools used for data collection

Questionnaires were administered to collect from the respondents.

Tools for analysis and interpretation

The collected data will be analysed with the help of various financial tools like T-test and avova

REVIEW OF LITERATURE

Costa et. al. (2018) studied on "Behavioural economics & finance: bibliometric analysis of scientific fields" in order to conduct bibliometric analysis in the major areas of behavioural economics & its subset areas of Behavioural Finance for which 2617 articles have been analysed data have been collected using Web of Science database & it was found that the area of behavioural economics is more broad-ranging than behavioural finance which in turn is by-product of behavioural economics.

Cohen, Ayton, Clacher & Thomas (2019) studied on "Behavioural biases in pension finance trustees' decision making" in order to better understand the monetary choices made by pension finance trustees & identify future avenues of investment. It was found that trustees are heavily dependent on advises, generally make decisions in groups & also like to make decisions on behalf of others.

Shah et. al. (2018)has conducted a study on "Heuristic biases in investment decision making and perceived market efficiency: A survey at the Pakistan stock exchange" with an aim to understand how heuristics influences financial decisions of individuals who are keenly trading on Pakistan stock exchange for study 143 investors have been used. Results recommend that heuristic biases like anchoring, availability, representativeness & overconfidence don't have any impact on investment decisions of Pakistani investors.

Zahera& Bansal (2018) studied on "Do investors exhibit behavioural biases in investment decision making? A systematic review" in which a systematic review analysis has been conducted by searching keywords connected to behavioural finance on variety of working papers, journals, published books & conference events from year 1979 to 2016 & classified the data on the basis of author, bias, year and country. In study 17 different types of biases have been identified.

Geetika Madaan, Sanjeet Singh (2019) conducted study "An Analysis of Behavioural Biases in Investment Decision-Making". The impact of behavioural biases in investment decision-making in National Stock Exchange. The results show that overconfidence and herding bias have significant positive impact on investment decision. Overall results conclude that individual investors have limited knowledge and more prone towards making psychological errors. The findings of the study also indicate the existence of these four behavioural biases on individual investment decisions. This study will be helpful to financial intermediaries to advice their clients. Further, study can be elaborated to study other behavioural biases on investment decisions

ANALYSIS AND DISCUSSION

Aim: To evaluate the impact of demographical factor on loss aversion and anchoring effect.

H_0: There is no significant difference between gender and anchoring effect on investment decision by individual investors.

H_1: There is significant difference between gender and anchoring effect on investment decision by individual investors.

Table 1 Independent sample t-test

	Sum of Squares	df	Mean Square	F	Sig.
I consider the 1 of a stock before investing in it	2.656	3	0.885	1.127	0.342
	74.637	95	0.786		
	77.293	98			

Anchoring biases is affecting my investment decision making	1.886	3	0.629	0.715	0.545
	83.528	95	0.879		
	85.414	98			
Considering anchoring biases helps in better investment decision	1.842	3	0.614	0.944	0.423
	61.794	95	0.650		
	63.636	98			

Table 1 shows the result of the t-test administrated on the data at 5% significant level. Here the P value is greater than 0.05, therefore there is no significant difference between male and female with anchoring effect on investment decision by individual investors.

H_0: There is no significant difference between year of experience and influence of loss aversion bias on investment decision by individual investor.

H_1: There is significant difference between year of experience and influence of loss aversion bias on investment decision by individual investor.

Table 2 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Loss aversion is influencing investment decision making	3.969	2	1.984	3.482	0.035
	54.718	96	0.570		
	58.687	98			
After a prior loss I became more loss averse	26.870	2	13.435	21.948	0.000
	58.766	96	0.612		
	85.636	98			
My main aim is to earn money even though I incurred losses	60.189	2	30.095	53.072	0.000
	54.437	96	0.567		
	114.626	98			
Loss averse may tend	38.569	2	19.285	49.945	0.000

to limit my investment	37.067	96	0.386		
	75.636	98			
Past losses limit my investment decision making	10.203	2	5.101	7.538	0.001
	64.969	96	0.677		
	75.172	98			

Table 2 shows the significant difference between year of experience and influence of loss aversion bias on investment decision**.** Here the significant value is less than 0.05, we accept the alternative hypothesis. So, there is significant relationship between year of experience and influence of loss aversion bias on investment decision.

Aim: To evaluate the impact of demographic factor on investment decision.

H_0: There is no significant difference between education and investment decision by individual investor.

H_1: There is significant difference between education and investment decision by individual investor.

Table 3 ANOVA

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Decision on the volume of stock purchased by 5s have an impact on my investment decision	0.404	1	0.404	0.390	0.534
	100.505	97	1.036		
	100.909	98			
I follow investment decisions of other investors while I decide to buy or sell stocks	2.761	1	2.761	4.186	0.043
	63.986	97	0.660		
	66.747	98			
others investing decision has an impact on my decision making	3.960	1	3.960	4.745	0.032
	80.949	97	0.835		
	84.909	98			
I usually buy a share as per my interest or as per my broker suggestion	5.761	1	5.761	7.998	0.006
	69.875	97	0.720		
	75.636	98			
I usually buy more of a single share than investing in various avenue	1.273	1	1.273	1.600	0.209
	77.171	97	0.796		
	78.444	98			

I usually ignore market conditions and take decisions without any expert advise	0.379	1	0.379	0.463	0.498
	79.278	97	0.817		
	79.657	98			
My personal feelings or emotions have an impact on my investment decision making	0.002	1	0.002	0.001	0.972
	132.907	97	1.370		
	132.909	98			

Table 3 shows the significant difference between education and investment decision by individual investors. The calculated value of F statistic with degree of freedom was computed perception of individual investors on their decision. The p value "buy a share as per my interest or as per my broker suggestion" and, "investment decisions of other investors while I decide to buy or sell stocks" and "others investing decision has an impact on my decision making" is less than 0.05. Therefore, no evidence to accept the null hypothesis retain the alternative hypothesis. The P value of remaining investment decision by individual investors was greater than 0.05 so alternative hypothesis was rejected in favour of null hypothesis.

FINDIGS

- The significant value is greater than 0.05, therefore there is no significant difference between male and female with anchoring effect on investment decision by individual investors.
- This study shows that the significant value is less than 0.05, it accepts the alternative hypothesis. So, there is a significant relationship between year of experience and influence of loss aversion bias on investment decision.
- The relationship between education and investment decision of investment decision by individual investors, p value for "buy a share as per my interest or as per my broker suggestion" and, "investment decisions of other investors while I decide to buy or sell stocks" and "others investing decision has an impact on my decision making" is less than 0.05. Therefore, no evidence to accept the null hypothesis and retain the alternative hypothesis. The P value of remaining perception of investment decision by individual investors was greater than 0.05 so alternative hypothesis was rejected in favour of null hypothesis.

CONCLUSION

Individual investor's behaviour is extensively influenced by various biases that highlighted in the growing discipline of behaviour finance. The purpose of this study is to examine the effect of anchoring biases on individual investment decisions. Result of the study indicated that gender does not influence the anchoring effect on the investment decision by individual investors. Year of experience doesn't influence the loss aversion bias. Education influences the investment decision of individuals except some

perceptions of individuals like “buy a share as per my interest or as per my broker suggestion” and, “investment decisions of other investors while I decide to buy or sell stocks”.

REFERENCE

Costa et. Al,(2018), behavioural economics and behavioural finance: a bibliometric analysis of the scientific fields, https://doi.org/10.1111/joes.12262

Cohen, Ayton, Clacher & Thomas, (2019). Behavioural biases in pension fund trustees' decision-making. *Review of Behavioural Finance*, 11(2), pp. 128-143. Doi: 10.1108/RBF-05-2018-0049

Shah, S.Z.A., Ahmad, M. and Mahmood, F. (2018), "Heuristic biases in investment decision-making and perceived market efficiency: A survey at the Pakistan stock exchange", *Qualitative Research in Financial Markets*, Vol. 10 No. 1, pp. 85-110. https://doi.org/10.1108/QRFM-04-2017-0033

Zahera& Bansal (2018**)** studied on “Do investors exhibit behavioural biases in investment decision making? A systematic review March 2018Qualitative Research in Financial Markets DOI: 10.1108/QRFM-04-2017-0028

Geetika Madaan, Sanjeet Singh (2019) conducted study "An Analysis of Behavioural Biases in Investment Decision-Making https://www.researchgate.net/journal/International-Journal-of-Financial-Research-1923-4031 DOI: 10.5430/ijfr.v10n4p55