Empirical Economics Letters, 20, 5(1): (May 2021)

ISSN 1681 8997

Heuristics Biases among Investors and its Impact on Investment Decision and Performance

Mushtaq Ahmad Shah

Mittal school of Business, Lovely Professional University
Punjab, India

Email: mushtaq.26118@lpu.co.in

B.D. Mishra

Department of Management Studies
Guru Ghasidas Central University
Bilaspur Chhattisgarh, India

Email: biswadeep_m@hotmail.com

Abstract: Investing in capital market is asset across the globe; however, with a population of more than a billion in India, only about 1% of total population actively participate in capital market. Low participation in capital markets is mainly due to a low level of awareness and prejudice in investment choices. Errors and biases which are based on intuitions, sensation and cognitive biases impelled the investors to take irrational decisions. In this context, this study attempts to find out the impact of heuristic factors on investment decision and performance. Using a structured questionnaire, the primary data are collected randomly from 182 individual investors trading on NSE from Punjab. Descriptive Statistics, Factor analysis and Structural Equation Modeling (SEM) are employed for analysing data and testing hypothesis. Results reveal that the 'Availability of information', 'Overconfidence', 'Representativeness' and 'Price anchoring' are significant predictors of heuristic behaviour and that there is a significant impact of heuristics on investors investment decision and performance. The findings of the study would be productive for investors and policy makers to have a better understanding of behavioural factors and device strategies which lead to better returns.

Keywords: Behavioural Finance, Heuristics, Investment Analysis

1. Introduction

The widely recognized finance theories such as Modern Portfolio Theory (MPT), Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT) are the quantitative financial models which are grounded on rational characteristics in investment decision. However, several studies are there which are not supporting traditional theories (Fama and French, 1998). The limitations in traditional theories have lead to behavioural finance theory. It is evident that investment appraisal and selection are not always based on rationality (Kishore, 2004). But most of the decisions are based on the intuitions, emotions