INFLUENTIAL PSYCHOLOGICAL FACTORS THAT AFFECT THE INVESTMENT DECISION- A BIBLIOGRAPHIC VIEW

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ABSTRACT

The rationale of the article is to analyse and understand the influential psychological factors that cooperate in playing a key part in determining the investment decisions. This subject has already been scanned and surveyed by various researchers worldwide. In psychology of the stock, a book written by Seldon (1912), talks about the values in the stock market that the exchange of the prices are somehow interrelated with the degree of the mental attitude of an individual before trading and investing (Kotien, 2012).

Keywords: Investment, Psychological Factors, Investors, Decision.

While there are so many diverse psychological factors that affects the decision of an investor, Obamuyi, in one of his research studies about the factors that influence the decisions of the investors in the capital market, reviewed that the capital market investment is undertaken by an investor basically for three fundamental objectives: a) liquidity maintenance; b) Wealth maximisation and c) Risk minimisation. This further indicates that any rationale investor is somehow influenced by the above mentioned objectives while making any investment decision in the market (Obamuyi, 2013).

In the other research paper Barber and Odean (2001) assisted on to the model of psychological theoretical framework and speculated that the overconfident investors trade extremely in the market Reena (2014); Kyle and Wang (1997) alleged that overconfident investors earns higher expected returns than any rational investor as it serves as a significant role in increasing up the quantity of transactions Ton Dao (2014); Chandra (2012); Barber and Odean (2001), reviewed that as compared to women, men are more overconfident and like to trade more frequently in the stock market Obamuyi (2013); Further Maditinos et al. (2007), reviewed that the individual investors depend on newspapers and media while the professional investors look more into the technical and fundamental side of an analysis while making an investment decision Reena (2014) in her study observed that risk propensity and risk perception are also termed to be considered as an important factor while investing. According to (Slovic, 2000) having a risk perception acts as a subjective position in shaping up the finest alternatives from the rest of the other options. An investor’s attitude towards the risk subjects to different levels of risks. Individuals investors plans on taking risks by following their own perception and interpretation which eventually influences and strikes in their behaviour towards taking risky investment decisions. According to Barber, Odean, Zuhu (2005) the opinions and sentiments of retail and individual investors does influence the prices of stocks, as their trading is thoroughly and systematically correlated. A distinctive theoretical research carried on by Gervais et al. (2002) constituted that excessive optimism frequently causes a positive impact because it encourages managers to spend in more. Nevertheless, excessive optimism can have a negative impact as it can direct the organizations or investors to agree to invest and spend in the activities and projects that have negative assets and higher risks. Excessive pessimism is opposed over optimism (Mutswenje, 2009). According to Hilton (2001) pessimistic investors consider the future events to be worse and negative and believe that an undesirable outcome outweighs the goods in life. According to Biekhchandani and Sharma (2001) herd behaviour is normally observed when a shareholder or investor instead of depending upon and having confidence in their own strategic data, tries to imitate the actions of other fellow investors and follows their movement in the market. Researchers indicate that a rationale individual investor should always try and control their emotions in order to keep away from being influenced and affected by the public’s decision (Ton Dao, 2014; Clause, 2003). A research conducted by Paul White reviews that the investors or the individual’s assessment about the stocks shifts on the basis of how others in the market present data and information to them. Such as stocks that have exciting stories affects people in a way that they try to forecast higher return on the stocks (Jayaraj, 2013; Saunders, 2007; Saunders, 2009). The study conducted by Al Tamimi (2005) found out that the majority of the influencing factors in ranking of value and importance were: to get rich quick, expected corporate earnings, religious reasons, stock marketability, firm’s past performance and government holdings whereas the minimal influencing factors were minimising risk, rumours, opinions of friends and family, expected losses in an alternative and different local investments and the gut feeling (Obamuyi, 2013; Lodhi, 2014).

In a research study by Giridhari Mohanta and Sathya (2011), it was found that the investors make rational decisions while investing and also invest in diverse avenues in order to satisfy and fulfil their psychological and social needs. Along with the fulfilment they also expect to receive various benefits like security, safety, easy purchase, liquidity and tax benefits. Also Gaurav Kabra and Manoj Kumar (2010) analysed that most of the investors use some or the other reference and source before any kind of investment decisions. They seek proper information before jumping into conclusion of the investing decision (Jains & Dashora, 2012). According to Somil (2007); Riaz (2012) it is analysed that an investor has ideal information about his surroundings and accordingly makes the decisions with the main objective of maximisation of profit. Prices of the stocks were also found to be influenced by the reactions of the rational investors (Obamuyi, 2013; Bhatt & Chauhan, 2014).

The main purpose of the study is to determine the factors that affect the investing decision of the investors. It is clearly evident from the literature review that there exists a secured and close relation between the psychological factors that affects the investors mind completely before they take any investment decision.

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