I. INTRODUCTION

Behavioral finance explains how behavioral biases such as emotions, cognitive errors, and other factors influence individuals in their saving pattern and investment decision making. Since the mid-1950s, the field of finance has been dominated by the traditional finance model developed by the economist of the University of Chicago. The Central assumption of the traditional finance model is that people are rational. Standard Finance theories are based on the premises that investor behaves rationally and stock and bond markets are efficient. Though, financial economist were assuming that people (investors) behave rationally when making financial decisions, psychologists have found that economic decision are made in an irrational manner, so they challenge this assumption of standard finance. Cognitive error and extreme emotional bias can cause investors to make bad investment decisions, thereby meaning that they act in irrational manner.[1]Over the past decade, field of behavioural finance has evolved to consider how personal and social psychology influence financial decisions and behaviour of investors in general. Traditionally, finance as well as economics have focused on model that assume rationality. The behavioural insights have emerged from the application of experimental psychology in finance and economics. behavioural finance is relatively a new field which seeks to provide explanation for people's financial decisions. Behavioral finance is a combination of behavioral and cognitive psychological theory with conventional economics and finance.

According to Ritter (2003,p.429), behavioral finance is based on psychology which suggest that human decision process are subject to several cognitive illusions and biases. These illusions are divide into four groups: Heuristics factors(Representativeness, Overconfidence, Anchoring, Gambler's fallacy, Availability bias), Prospect factors (Loss, Regret, Mental accounting) market factors (Price changes, Market information, Past trends of stocks, Fundamentals of underlying stocks, customer preference, over reaction to price changes) and Herding factors (Buying and selling decisions of other investors, choice of stocks to trade of other investors, Volume of stocks to trade of other investors, Speed of herding). [2] Hence it is very important to understand the

[1]Hirschey, Mark and John Nofsinger. 2008. *Investments: Analysis and Behaviour*. P. 210. Ed. SIE,
[2]Mr.K.Riyazahmed&Dr.MG.Saravanaraj, 'A Study on Factors Influencing Buying Behavior of Securities in Indian Stock Markets *SNS Journal of Marketing' – Volume VII, Issue I, July 2015 – December 2015 (Bi annual) ISSN 0975 7627*

behavioral factors which influence the investment decision for the individuals investors towards various investment avenues.

Evolution of Behavioural Finance:

Standard finance theory is accepted world-wide from market level perspective. But in1960s and 1970s, new wave in field of finance has been started by psychologist, study of heuristics found many biases and limit to cognitive resources, through examining economic decisions. Recognition of the contribution that behavioural analysis is now significant in financial economics was reflected in 2002 with Awards of the Nobel Prize in economics to professor of psychology, Daniel Kahneman, where he detailed the heuristics and biases that occur when making decisions under uncertainty.

In 2013, Robert Shiller honored with noble prize for his work on empirical analysis of stock prices, wherein he argued that rational investors would price a stock at the present value of expected future dividends. However, he found (assuming that the real interest rate is constant) that stock prices fluctuate more than can be explained by fluctuations in dividends. Shiller attributed this larger-than-expected variance to psychological factors, arguing that investors must not be acting rationally (or, at least, not perfectly rationally). Because of this, he concluded, the stock market must be inefficient[3].

In 2017, Richard Thaler received noble prize for his contribution in developing nudge theory. He works on how do human traits govern individual economic decisions and what effect do they have on markets as a whole? Since the 1980s, Richard Thaler has analyzed economic decision-making with the aid of insights from psychology. He has paid special attention to three psychological factors: the tendency to not behave completely rationally, notions of fairness and reasonableness, and lack of self-control. His findings have had a profound influence on many areas of economic research and policy. In nudge theory, he signifies that humans, being not-so-rational, often need encouragement or intervention — a nudge — to get going and do what's best

[3] The Library of Economics and Liberty, retrieved from (https://www.econlib.org/library/Enc/bios/Shiller.html)

for the country or society at large. It says that people, rather than being forced, can be encouraged and influenced to pursue or desist from certain actions through nudges."[4].

Theories of Behavioural Finance

1. **Prospect Theory:**

The theory was formulated in 1979 and further developed in 1992 by Amos Tversky and Daniel kahneman. The theory states that people make decisions based on the potential value of losses and gains rather than the final outcome, and that people evaluate these losses and gains using certain heuristics. Prospect theory assumes that losses and gains are valued differently, and thus individuals make decisions based on perceived gains instead of perceived losses. Also known as "loss-aversion" theory, the general concept is that if two choices are put before an individual, both equal, with one presented in terms of potential gains and the other in terms of possible losses, the former option will be chosen.

2. **Loss aversion theory:**

This theory refers to people's tendency to strongly prefer avoiding losses to acquiring gains. Most studies suggest that losses are twice as powerful, psychologically, as gains.

3. **Mental accounting theory:**

Mental accounting theory, framing means that the way a person subjectively frames a transaction in their mind will determine the utility they receive or expect. It is a tendency of the brain to create short cuts with how it perceived the information and ending up with outcomes that is difficult to be viewed in any other way. The results of these mental accounting are that it influence decisions in unexpected ways.

4. **Investor's Disposition Effect:**

The disposition effect is an anomaly discovered in behavioural finance. It relates to the tendency of investors to sell whose price has increased, while keeping assets that have dropped in value. Investors are less willing to recognize losses (which they would be forced to do if they sold assets which had fallen in value), but are more willing to recognize gains. This is irrational behavior, as the future performance of equity is unrelated to its purchase price.

[4] https://www.nobelprize.org/prizes/economic-sciences/2017/thaler/facts/

Individual Investor Issues and their relation to Investment Behaviour

Investment Behavioural Characteristics	Individual Investor Issues
Impatience, excessive trading of securities, "chasing returns" Relying on other investors decision-making Relying on invalid informational sources	**Herding Factors**
Inability to utilize information Valuing recent information over historical	**Anchoring Factors**
Holding on to value-losing securities and selling profitable ones	**Regret Factors**
Valuing certain opportunities different depending on how they are expressed	**Prospect Factors**

II. LITERATURE REVIEW

Dr.P.Amaraveni, & Mrs.M.Archana, (2017)[1] The objective of the study is to determine the various alternative investments and the factors while selecting the investment avenues and relationship between the savings and investment patterns among preferred investor's behaviour towards investment Avenues of the individual investors of Warangal city by different age group. The study finds that there is a significant relationship between the income of the respondents and the objectives of investment.

Jyoti Kumari, (2017)[2] The study found that Demographic factors such as income level, occupation, no. of family members and age-group of the respondents significantly impact their risk appetite scores but Demographic Factors such as educational qualification and gender of the respondents do not significantly impact heir risk tolerance scores. The study suggested that it would have interesting result if research takes place in similar fashion with investors and non-investors based in the outskirt of Ranchi and Research needs to be there in getting data in rating scale on the facets identified so that the same can be used for cluster analysis.

Mark KY Mak, (2017)[3] The study explored that investors' psychological, sociological and demographic factors are significant predictors of their investment behaviour/preferences. The study also stated that the research would be more interesting if more financial transaction data and investors' characteristics should be collected to make the results more generalized and convincing.

K.Riyazahmed, (2015)[4] The study revealed that most of the behavioral variables have high impact on individual investors decision making in the Indian stock market.

MeghaGoyal, Dr. Anukrati Sharma (Aug. 2014)[5] The study has conducted to answer few important questions about preferences of the investment instruments such as real estate, bullion, precious stones, money market and capital market etc., investment pattern adopted in a specific manner and objectives behind opting a particular investment instrument. The research found that tax advantage in any investment take last place in investor's mind then it indicate the tax concessions given by the government on any investment are less attractive so tax benefits and long term saving need to be increased for promoting long term investment by the government and policy makers.

Hassan et. al., (2013)[6] Investors, who are not literate enough to do the detailed financial analysis base their decisions on various heuristics like fear, affect the heuristics and anger. Fear helps investors in taking precaution in financial decision making process, while affect heurists and anger have negative impact on the decision making process of the investors.

Palanivelu and Chandrakumar (2013)[7] the developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make a leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment was considered the crucial determinant and capital formation had to be supported by appropriate volume of saving.

Shahzad et.al. (2013)[8] Advocates of behavioural finance have been able to explain a number of these biases as psychological characteristics and these behavioural traits have a significant relation with the decision making process of the investors.

Chaturvedi and Khare (2012)[9] The two key aspects of investment are preferences and pattern. Benefit is expected in the future and tends to be uncertain. In some investments (like stock options) risk element is dominant attribute while in some investment (like govt. bonds) time is dominant attribute .There are various factors which affects investors' portfolio such as annual income, government policy, natural calamities, economical changes etc.

Le PhuocLuong& Doan Thi Thu Ha, (2011)[10] The study explored that Heuristics factors – positive correlation, herding factors have positive correlation and prospects factors have negative correlation on investment performance. The study also suggested to have further research to confirm the findings of this research with the more diversity of respondents.

Sophia jasmine (2010)[11]This thesis work concludes that more than rationality, irrationality ruled the minds of investors. Behavioral finance concepts like anchoring, over-reactions, under-reactions, and herd behavior was clearly evident in the behavior of investors.

Hosamane and Niranjan (2010)[12]Understanding of the behavior of investment provides an important insight into the process of economic development. The economic growth critically depends on capital accumulation and it stems from investment. The economy's productive capacity can be expanded by investment spending as a dynamic variable, on long life capital goods which embody technical advance.

Chuan Sun Shu in his study "The influence of investor psychology on disposition effect"(2009)[13] the findings revealed that investor psychology will truly affect investor behavior of selling gain stocks & holding loser stocks. The investors must recognize this fact and try to practice some mechanism to control this irrational behavior.

Dirk G Thomas, Thomas K. McDermott (2009)[14] Journal of Banking and Finance, volume 34 issue 8 august 2010, "Is gold a safe haven against stock market", examines the role of gold in the global financial system. A descriptive and econometric analysis for a sample spanning a 30 years period from 1979 to 2009 shares that gold both a hedge and a safe haven for major European stock markets and US and not for emerging market like BRIC countries. The study found that gold was a strong safe haven for most developed markets during the peak of that recent financial crisis.

KunalWadhwani, (2009)[15] "Opportunities and Challenges of investing in Indian Real Estate‖ This particular thesis identifies the opportunities in India that have caused global capital to flow into Indian real estate and the key factors driving Indian real estate. It explains the challenges of investing in Indian real estate and seeks to provide strategies for navigating the real estate landscape in India. They also present the suggestions and future prospects of real estate in the country

Paragparikh in his book "value investing and behavioural finance" (2009)[16] states that behavioural finance comes as an antidote to investor anxiety and a guide to sane and safe investment decisions during the time when market upheavals are eroding investors, confidence, dooming life's earnings and corporate fortunes, and whipping up mass hysteria. Using investing trends in Indian capital markets over the last three decades, it shows how collective behavioual biases affect investment decisions, returns and market vagaries.

Thaler, (2008)[17]Another tendency among people was recognized that they segregate their money into different accounts based on varying criterions and treat these accounts differently, leading to another behavioural bias known as "Mental Accounting"

Skala, Dorota, in their paper "Overconfidence in psychology and Finance – An Interdisciplinary Literature Review" (2008)[18] The author concluded that overconfidence in the corporate context may affect not only a company's internal financing structure, but also its interactions with other market participants through merger and acquisition activity.

SathyaSwaroop D, S. Moharana in their study titled "Behavioural Finance – A new paradigm in stock market"(2008)[19] gave a brief introduction to behavioural finance. The decision-making by individual investors is usually based on their age, education, income, investment portfolio, and other demographic factors. The impact of behavioural aspect of investing is, however, often ignored.

James S Doran Peterson and Colby Wright in their work "market efficiency and its importance to individual investors-surveying the exports"(2007)[20] The results proved that the primary driver of a finance professor's propensity to actively invest is one's confidence in his own abilities to beat the market, regardless of his opinion of the efficiency of the US stock market.

Shefrin, 2007)[21]Gambler"s Fallacy is believed to be a product of "Representativeness" and analysts are prone to exhibit Gambler"s Fallacy

Rahul Verma and GokeeSoydemic (2006)[22] examined the degree to which U.S. individual investor sentiments are propagated abroad. Previous studies construe investor sentiments as fully irrational; the authors find contrary evidence that individual institutional investor sentiments are driven by both rational and irrational factors, with distinct effects on domestic and international stock market returns.

Pompian, (2006)[23] Throughout the past five decades researchers have distinguished specific biases in their studies and behavioural finance research relies on a broad collection of evidence pointing to the ineffectiveness of human decision making in various economic decision circumstances.

Odean (2004)[24] A common trait among investors is a general over confidence of their ability when it comes to pricing stocks and to decide when to enter or exit a market. and he manifests that traders who conduct trades were average and had under performance compared to market. Further, psychologists have determined that over confidence causes people to overestimate their knowledge, under estimate risks and exaggerate their ability to control events.

Kaneko, (2004)[25] The standard finance theory argues buying and selling of a security should have been outcome of various relevant but significant factors other than the purchase price of the security itself, however, research has shown that investors base their buying-selling decisions on their sale prices and sales price acts as reference for their decision. This effect is known as "disposition effect".

Chen et al, (2004)[26]Under difficult and risky situations investors make predictable, non-optimal choices because of heuristic simplifications. Thus, behavioural biases abstractly are defined in the same way as systematic errors are in judgment

Ritter, (2003)[27]Behavioural finance cannot be considered as a separate discipline but instead a part of main stream finances.

MalenaJhonson, HenrikLindblom and Peter plan in their master's thesis which was submitted in the year (2002)[28], titled "Behavioural Finance-and change of investor behavior during and after the speculative bubble at the end of 1990's, mentioned about the change in investor behavior during and after speculative bubble. The results suggested that the behavior of market participant during the speculative bubble was to some extent irrational and the composition of investments has changed as a consequence of the speculative bubble.

Rabin & amp; Thaler, (2001)[29] While the expected utility theory implies that people depart from risk neutrality only when facing prospects that might have a major effect in lifetime wealth, which is not true. Loss Aversion, i.e. tendency to feel the pain of a loss more acutely than the pleasure of an equal gain, and mental accounting i.e. the tendency to isolate each risky choice, must be the key components of a good descriptive theory of risk attitudes. Economists should realize that now expected utility theory is an ex-hypothesis, and should concentrate on developing better descriptive model of choice under uncertainty.

Kahneman and Tversky, 1971; Shefrin, 2000)[30] Sometimes an investor operates in stock market under the perception that errors in random events are self-correcting and present trend will reverse automatically, is generally referred to as "Gamblers Fallacy Bias"

Camerer,&Weber (1998)[31] Even when the past price trends are not known and investors were told that price changes are independent, investors want to know past trends and these past trends act as reference points and this effect is known as reference point effect‟.

Somasundaram (1998)[32] has found that bank deposits and chit funds were the best known modes of savings among investors and the least known modes were Unit Trust of India(UTI) schemes and plantation schemes. Attitudes of investors were highly positive and showed their intention to save for better future. Nearly two-thirds of the investors were satisfied with their savings. Both income and expenses of a family influenced the level of satisfaction over savings. A large proportion of investors were concerned about their children's well-being. Among the dissatisfied investors, majority were of the opinion that cost of living was too high. The most common mode of investment was bank deposits. However, a shift was noticed from bank deposits to other forms of investments. Almost all the investors had invested in gold and silver. Among several parameters in investing, safety of money was considered to be the most important element. Next, the investors expected regular return from their investments.

Tversky& Kahneman, (1986)[33] Framing also results in the violation of the rule ofdominance. The role of transparency and the significance of framing are consistentwith the concept of bounded rationality

Bondt&Thaler, (1985)[34]In the situations of decision making under uncertainty under standard finance investors‟ decisions are assumed to follow the rules of probability. But in violation to Bayes‟ rule, most people over-react to unexpected and dramatic news events.

HershShefrin's book "Beyond greed and fear: understanding behavioural finance and the psychology.[35]The book in fact is the first comprehensive treatment of behavioural finance. The book is about recognizing the influence of psychology on oneself and on others and particularly on financial environment.

III. RESEARCH GAP

With the given literature review, it is observed that there were studies on behavioral factors relating with investment in securities like shares, mutual funds, bonds etc. But no other earlier study has focused on studying the impact of behavioral factors on various investment avenues like gold/jewelry, real estate, chit fund, fixed deposits/bank deposits in isolation. Further, these are the most preferred mode of investment for larger group of population like middle and lower middle income individuals, fixed salaried persons and so on. Certainly, their investment preference will be influenced by the behavioral factors like their belief, what they heard from the social peer, herding behavior, anchoring, and so on. Hence, the proposed study is undertaken to fill this gap. Where in, the impact of these behavioral factors on individuals' investment decision on these most desirable select avenues of investment will be studied.

IV. STATEMENT OF THE PROBLEM

The investment decision of the individual plays an important role in defining the market trend. According to traditional theory of finance, economically the man is a rational person. But behavioral finance school of thought signifies that man may not be always rational in his investment decision making, and argues that behavioral factors influence the choice of investment. With this backdrop, the proposed study is designed to explore influence of behavioural factors on individual investment decisions, in general as well as on selected modes of investment in specific. Primarily, the proposed study attempts to know the influence of behavioral factors on the different investment avenues such as gold, jewelry, real estates, chit funds, and fixed deposits/bank deposits. Further, the study also works on association between investment decision and different demographic characteristics like age, gender, family income, education, and occupation. This study hopes to help the individual investors to know how the behavioral factors affect their various investment decisions.

V. NEED AND IMPORTENCE OF THE STUDY

Investment is a commitment of fund[5]; a fund is pool of savings from larger number of individuals who exhibits some belief, expectation, and other behavioral traits. The present study

[5]Retrieved from Investment management: Prof. PrashantaAthma, kalyani Publisher 2016.

emphasizes on influence of the psychological factors, like what runs in the mind of a human (investor),while making investment decisions. The whole of finance is being managed by human beings. Consequently, understanding their investment behavior is very important. Money is invested by one self, by his family members, his friends, and investment consultant, who all are humans. Hence, understanding human behavior, psychology, and other aspects of decision making is imperative. From the day behavioral finance first proposed by Daniel Kahnemanin 1972, till the nudge theory proposed by Richard thaler, recipient of noble laurite in 2017, it is proved that behavioral biases truly influence the individuals while making their investment decision. Therefore, most of the desirable basic investment modes like gold, real estate, fixed deposits, chit funds which are the contributions of larger section of the population, are also subject to the psychological traits. Hence, there is a need to know the impact of such biases on their investment decision.

VI. OBJECTIVES OF THE STUDY

The objectives of the present research study are given below:

1) To study the significance of behavioral finance theories
2) To find the association between demographic variables and the behavioral factors in investment making decision.
3) To study the impact of behavioral factors on individual investment decision in gold/jewelry and real estates.
4) To study the impact of behavioral factors on individual investment decision in chit fund and fixed deposits /bank deposits.

VII. HYPOTHESES OF THE STUDY

1. H_{01}: There is no association between demographic factors and behavioral factors on investment decision making of individual investors.
2. H_{02}: There is no significant impact of behavioral factors on individual investment decision in gold/jewelry and real estates
3. H_{03}: There is no significant impact of behavioral factors on individual investment decision in chit fund, bank fixed deposits.

VIII. RESEARCH METHODOLOGY

The proposed study is descriptive in nature, as it primarily explains the investment decision making of individuals based on select behavioral factors. Subsequently, primary data will be collected from the individual investors by administering a structured questionnaire. Hence, the data will be collected from the 500 individual investors residing in Hyderabad of Telangana state by using convenient sampling method. In the first stage, the investment behavior of individual investor, in general, will be studied by associating the demographic factors and behavioral factors. In the second stage, particular investment avenues such as gold/jewelry, real estates, chit fund, fixed deposits/bank deposits. Secondary data such as concepts of behavioural finance theories, literature review has been collected from text books, journals, and E- Resources.

The period of the data collection for the proposed study is May 2019 to September 2019. The collected data will be analyzed through descriptive statistical tools like mean standard deviation, multiple regression, and inferential statistical tools like Chi-square, Anova, Factor analysis and relevant tools will be used.

IX. SCOPE OF THE STUDY

The study is confined to the individual investors residing in Hyderabad district of Telangana state. Though, there are numerous investment avenues are available, investment alternatives such as gold/jewelry, real estates, chit fund, fixed deposits/bank deposits are considered for the proposed study. The select investment instruments are widely known and accepted by most middle and lower middle income citizens who are larger part of the population.

X. CHAPTER SCHEME

Chapter-I Introduction

Chapter-II Conceptual Framewok of Behavioral finance

Chapter-III Demographic profile and its association with behavioral factors on investment decision

Chapter-IV Impact of behavioral factors on investment decision towards gold/jewelry and real estates.

Chapter-V Impact of behavioral factors on investment decision towards chit fund and fixed deposits /bank deposits

Chapter-VI Findings, conclusion and suggestions

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