Role of Emotions on Individual Investors in Investment Decisions (A Case of Indian Capital Market of Bareilly City)

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Abstract

Modern finance theorists have assumed that stock market investors always behave in a "rational" manner. The rational behavior assumes that decision-making by investors involves collection of relevant information from corporate balance-sheets and other sources, and their objective appraisal using time-tested investment tools and models. Behavioral finance examines human actions which affect investment performance at virtually every level for individuals and professional institutional investors. This study has given an idea about the impact of various psychological and emotional factors in the investment decision of Indian middle class retail individual investors.

The findings of the study reveal that the investors prefer hot stocks for investment purpose and representativeness is one of the important factors in their investment decision making, also found investors are not very confident about their portfolio performance. Anchoring and representativeness past experiences, etc. Thus it can be concluded that emotions play a key role in investment decisions so various emotional variables related to heuristic, market and risk tolerance should be considered for investment decision and theory of rational investor cannot be implemented in today's time.

Introduction

Modern finance theorists have assumed that stock market investors always behave in a "rational" manner. The rational behavior assumes that decision-making by investors involves collection of relevant information from corporate balance-sheets and other sources, and their objective appraisal using time-tested investment tools and models. But over the past decade, it has been proved time and again that human "emotions" play as important a role in informed investment decision-making as does logic. And out of this insight has emerged the bedrock of financial discipline called "behavioral finance", the brainchild of a group of psychologists and financial economists such as Amos Tversky, Daniel Kahneman, Richard Thaler, Meir Statman and Hersh Shefrin among others. Most of the work done by them has spanned fallible behavior by investors, investment analysts, corporate and the stock markets, in general.

Most studies undertaken by this discipline have focused on protecting retail investors from themselves. Essentially, this means helping human beings use their emotions to make the right decisions and avoid wrong decisions as far as possible. This is because human beings act at one moment with cold and calculated logic and tremendous self-control, but the next moment succumb to the vagaries of emotions..

The area of research that examines the issues related to investor Psychology is known as behavioral finance. Behavioral finance examines human actions which affect investment performance at virtually every level for individuals and professional institutional investors. Some of the key fallible behaviors (by no means exhaustive) of individual/retail investors are:

- Overconfidence
- Loss aversion
- Mental accounting
- Contradictory postures
- Investor overreaction

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A number of emotional factors are there which affects the investment decisions of the retail investors like their financial commitment, old age security, family responsibilities etc

Scope of Study

In conventional financial theory, investors are assumed to be rational wealth-maximisers, following basic financial rules and basing their investment strategies purely on the risk-return consideration as the factors expected to influence investment decisions. Traditional economic theory assumes that people are rational agents who make decisions objectively to take advantage of the opportunities available to them.

Investors think of themselves as rational and logical. But when it comes to investing, their emotional inclinations, ingrained thought patterns and psychological biases, color how they perceive the world and how they make decisions.

Investment decisions need to undergo a thorough analysis of the situations prevailing based on a number of factors, however regardless of the varied information available that justifies rationality and irrationality, investors are keen to avoid uncertainties associated with the ultimate decisions they engage in. It is against this background that this study sought to fill the gap by determining the factors that appear to influence the individual investment decisions, and included not only the factors investigated by previous studies and derived from prevailing behavioral finance theories, but also introduced additional factors that have been found to influence the stockholders' investment decisions in emerging local market

This study will give an idea about the impact of various psychological and emotional factors in the investment decision of Indian middle class retail individual investors and give a new insight for the retail investors who do not have complete idea of market information and sentiments of the market. Retail investors often guided by the emotions and feelings which in turn based on various psychological and advice from expert so this study will help in understanding the behavior of investors and will help them to take decision rationally and not driven by emotions.

Review of Literature

Behavioral finance is based on psychology which suggests that human decision processes are subject to several cognitive illusions. These illusions are divided into two groups: illusions caused by heuristic decision process and illusions rooted from the adoption of mental frames grouped in the prospect theory.

Apart from the behavioral theories following researches have carried out in the field of behavioral finance and effect of various demographic variables in the formation of emotion in investment decision making .

A study of Thaler (1980) reveals that investors also tend to place their investments into separate mental accounts, performing a type of mental accounting

A Study by Guven sevil, Mehmet sen and Abdullah Yalama, revealed basic concept of behavioral finance like Regret Aversion, expectancy theory, overconfidence and cognitive dissonance have a direct impact on retail investors.

Decisions processes of small investors at Istanbul stock exchange have shown that investors are not rational as per the traditional finance theory. According to the theory emphasis should not only with on “what should be done” but should also consider “what is already done”. It seems inevitable that behavioral approach and its explanation will have an important role in these structuring efforts.

A study by Saurabh Singh identifies, understands and explains that how human emotions influence the investors' decision making process. The element of emotions silently contributes towards increasing the probability of mistake on the part of investors' itself and consequently resulting in false or biased expectations as regards to future returns to be gained from present investment leading to mispricing of securities in the market.

A study by Syed Tabassum Sultana on An Empirical Study of Indian Individual Investors' Behavior reveals the dependence of risk tolerance on independent variables like age, financial commitments and life cycle of the investor.

A study by Thomas Wai Kee Yuan and Chris Wang Wai, Chen on investment risk tolerance before and after recent financial Tsumani revealed that risk tolerance of investors after the financial Tsumani dramtic changes to conservative and less were to investment risk.

A study on Risk tolerance of individual investor in an emerging market by Jasim Y A.Ajmi reports that investors risk tolerance decline when they have more financial commitments as well as when they are approaching towards their retirement age or are retired.

A study by john Gilliam on influence of birth order on financial risk tolerance reports that first born individuals were shown to be significantly less risk tolerant than later born individuals Love D.A (2010) investigated the impact of demographic shocks on optimal decisions about savings, life insurance and most certainly assets allocation and found that marital status transition could have important effects on optimal house hold decisions particularly in the cases of widowhood and divorcee. His empirical evidence shows that divorce and widowhood have particularly strong effects on allocations and that these effects differ significantly by gender age and number of children.

Collard (2010) has done survey on investors investment behavior and she has found that when individuals are faced with complex decisions such as pensions fund investment choices, there is strong evidence that individuals do not behave according to economic theories, instead they use a range of psychological strategies and are influenced by them in number of ways. That may result in decisions that are less than optimal in terms of providing them adequate income on retirement. A study by Yao, R. & Hanna, S.D. (2005).reveals that men and women have different risk tolerance level and status of married and unmarried also have impact of risk tolerance Mittal and Vyas (2008) explored the relationship between demographic factors and the investment personality exhibited by the investors. Empirical evidence suggested that factors such as income, education and marital status effect an individual's investment decisions. Further the results revealed that investors in India can be classified into four dominant personalities namely casual, technical, informed and cautious.

Nagpal and Bodla (2009) attempted to bring out the life style characteristics of the respondent through an empirical analyses and their influence on investment performances and found that in-spite of the phenomenal growth in the security market and quality IPOs, the individual investors prefer less risky investments. They also found that investors are on a trap of some kind of cognitive illusion such as over confidence and narrow framing. They considered multiple factors and seek diversified information before executing some kind of investment transaction.

Kannadhasan (2010) Investigated on the role of behavioural finance in investment decisions and found that human decisions are subjected to various cognitive illusions. The susceptibility of an investor to a particular illusion is likely to be a function of various psychological variables, and the investor has to take necessary steps to minimize or avoid illusions for influencing their investment decision making process.

Prentice (2007) investigated the difficulties in ethical decision making and found that decisions that have an ethical aspect are subject o various biases in how people see the situation and how they tend to behave. He described many of the cognitive biases and decision heuristic that can create ethical traps. Insights presented by him can assist the well intentioned to do the right thing in difficult situations.

Objectives of The Study

On the basis of the above stated literature review, following are the objectives of this study:

OBJECTIVE 1:

To Discuss the Theories of Behavioural finance which helps in analyzing the impact of behavior of different individual retail investors on their financial decisions.

OBJECTIVE 2:

To analyze the effect of various heuristic emotional variables i.e. overconfidence, anchoring, gambler's fallacy, availability bias, etc. on investment decision making of individual retail investors.

OBJECTIVE 3:

To analyze the effect of Risk in Emotional Behavior of Individual Retail Investor and Degree of Risk Tolerance in Investment Decisions.

Research Methodology

Sources of Data

The study will mainly base on **primary data** which would be collected through a well structured questionnaire. The data would be collected by direct interview method, mail a questionnaire, extensively in Bareilly City of Uttar Pradesh, identifying investors through share broker officers and financial institutions. Those Investors would be identified on the basis of proven track record of investment in stock market and having sound knowledge about investment in capital market.

Apart from primary sources, **Secondary sources** like research papers, magazines, books, etc also will be used.

Respondent selection

Sample Size – 100 Respondents

Category of Respondents – Individual Investors

Sample Area – Bareilly City

Theories of Behavioural Finance

6.1 Heuristics Theory of Behavioral Finance Heuristics are defined as the rules of thumb, which makes decision making easier, especially in complex and uncertain environments by reducing the complexity of assessing probabilities and predicting values to simpler judgments.

In general, these heuristics are quite useful, particularly when time is limited but sometimes they lead to Biases. Kahneman and Tversky seem to be ones of the first writers studying the factors belonging to heuristics when introducing three factors namely representativeness, availability bias, and anchoring. Waweru also list two factors named Gambler's fallacy and Overconfidence into heuristic theory.

Representativeness:

It refers to the degree of similarity that an event has with its parent population or the degree to which an event resembles its population.

Representativeness may result in some biases such as people put too much weight on recent experience and ignore the average long-term rate. A typical example for this bias is that investors often infer a company's high long-term growth rate after some quarters of increasing. Representativeness also leads to the so-called "sample size neglect" which occurs when people try to infer from too few samples. In stock market, when investors seek to buy "hot" stocks instead of poorly performed ones, this means that representativeness is applied. This behavior is an explanation for investor overreaction.

Gamblers' fallacy:

The belief that a small sample can resemble the parent population from which it is drawn is known as the "law of small numbers" which may lead to a Gamblers' fallacy. More specifically, in stock market, Gamblers' fallacy arises when people predict inaccurately the reverse points which are considered as the end of good (or poor) market returns. In addition, when people subject to status quo bias, they tend to select suboptimal alternative simply because it was chosen previously

Anchoring:

It is a phenomena used in the situation when people use some initial values to make estimation, which are biased toward the initial ones as different starting points yield different estimates. In financial market, anchoring arises when a value scale is fixed by recent observations. Investors always refer to the initial purchase price when selling or analyzing. Thus, today prices are often determined by those of the past. Anchoring makes investors to define a range for a share price or company's income based on the historical trends, resulting in under-reaction to unexpected changes. Anchoring has some connection with representativeness as it also reflects that people often focus on recent experience and tend to be more optimistic when the market rises and more pessimistic when the market falls

Overconfidence:

When people overestimate the reliability of their knowledge and skills, it is the manifestation of overconfidence many studies show that excessive trading is one effect of investors. There is evidence showing that financial analysts revise their assessment of a company slowly, even in case there is a strong indication proving that assessment is no longer correct. Investors and analysts are often overconfident in areas that they have knowledge

Overconfidence is believed to improve persistence and determination, mental facility, and risk tolerance. In other words, overconfidence can help to promote professional performance. It is also noted that overconfidence can enhance other's perception of one's abilities, which may help to achieve faster promotion and greater investment duration

Availability Bias:

It happens when people make use of easily available information excessively. In stock trading area, this bias manifest itself through the preference of investing in local companies which investors are familiar with or easily obtain information, despite the fundamental principles so-called diversification of portfolio management for optimization.

In this research, five components of heuristics: Overconfidence, Gambler's fallacy, Availability bias, Anchoring, and Representativeness are used to measure their impact levels on the investment decision making.

6.2 Prospect Theory of Behavioural Finance

Expected Utility Theory (EUT) and prospect theory are considered as two approaches to decision-making from different perspectives. Prospect theory focuses on subjective decision-making influenced by the investors' value system, whereas EUT concentrates on investors' rational expectations.

EUT is the normative model of rational choice and descriptive model of economic behavior, which dominates the analysis of decision making under risk. Nonetheless, this theory is criticized for failing to explain why people are attracted to both insurance and gambling. People tend to under-weigh probable outcomes compared with certain ones and people response differently to the similar situations depending on the context of losses or gains in which they are presented Prospect theory describes some states of mind affecting an individual's decision-making processes including Regret aversion, Loss aversion and Mental accounting.

Regret is an emotion occurs after people make mistakes. Investors avoid regret by refusing to sell decreasing shares and willing to sell increasing ones. Moreover, investors tend to be more regretful about holding losing stocks too long than selling winning ones too soon.

Loss Aversion refers to the difference level of mental penalty people have from a similar size loss or gain. There is evidence showing that people are more distressed at the prospect of losses than they are pleased by equivalent gains. Moreover, a loss coming after prior gain is proved less painful than usual while a loss arriving after a loss seems to be more painful than usual.

In addition, both positive and negative returns in the past can boost the negative relationship between the selling trend and capital losses of investors, suggesting that investors are loss averse. Risk aversion can be understood as a common behavior of investor, nevertheless it may result in bad decision affecting investor's wealth.

Mental accounting is a term referring to "the process by which people think about and evaluate their financial transactions". Mental accounting allows investors to organize their portfolio into separate accounts. From own empirical study, Rockenbach (2004, p.524) suggests that connection between different investment possibilities is often not made as it is useful for arbitrage free pricing.

6.3 Market Factors

Financial markets can be affected by investors' behaviors in the way of behavioral finance. If the perspectives of behavioral finance are correct, it is believed that the investors may have over- or under-reaction to price changes or news; extrapolation of past trends into the future; a lack of attention to fundamentals underlying a stock; the focus on popular stocks and seasonal price cycles.

These market factors, in turns, influence the decision making of investors in the stock market. The factors of market that have impact on investors' decision making: Price changes, market information, past trends of stocks, customer preference, over-reaction to price changes, and fundamentals of underlying stocks.

Normally, changes in market information, fundamentals of the underlying stock and stock price can cause over/under-reaction to the price change. These changes are empirically proved to have the high influence on decision-making behavior of investors.

In general, market factors are not included in behavioral factors because they are external factors influencing

investors' behaviors. However, the market factors influence the behavioral investors (as mentioned above) and rational investors in different ways, so that it is not adequate if market factors are not listed when considering the behavioral factors impacting the investment decisions.

6.4 Herding Effect on Investing Decision

Herding effect in financial market is identified as tendency of investors' behaviors to follow the others' actions. Practitioners usually consider carefully the existence of herding, due to the fact that investors rely on collective information more than private information can result the price deviation of the securities from fundamental value; therefore, many good chances for investment at the present can be impacted.

In the perspective of behavior, herding can cause some emotional biases, including conformity, congruity and cognitive conflict, the home bias and gossip. Investors may prefer herding if they believe that herding can help them to extract useful and reliable information. Whereas, the performances of financial professionals, for example, fund managers, or financial analysts, are usually evaluated by subjectively periodic assessment on a relative base and the comparison to their peers. In this case, herding can contribute to the evaluation of professional performance because low-ability ones may mimic the behavior of their high-ability peers in order to develop their professional reputation

In the security market, herding investors base their investment decisions on the masses' decisions of buying or selling stocks. In contrast, informed and rational investors usually ignore following the flow of masses, and this makes the market efficient. Herding, in the opposite, causes a state of inefficient market, which is usually recognized by speculative bubbles.

In general, herding investors act the same ways as prehistoric men who had a little knowledge and information of the surrounding environment and gathered in groups to support each other and get safety. There are several elements that impact the herding behavior of an investor, for example: overconfidence, volume of investment, and so on. The more confident the investors are, the more they rely on their private information for the investment decisions. In this case, investors seem to be less interested in herding behaviors. When the investors put a large amount of capital into their investment, they tend to follow the others' actions to reduce the risks, at least in the way they feel. Besides, the preference of herding also depends on types of investors, for example, individual investors have tendency to follow the crowds in making investment decision more than institutional investors.

For other decisions: choice of stock, length of time to hold stock, and volume of stock to trade, investors seem to be less impacted by herding behavior. However, these conclusions are given to the case of institutional investors; thus, the result can be different in the case of individual investors because, as mentioned above, individuals tend to herd in their investment more than institutional investors.

Summary of behavioral factors influencing the investors' decision making

In summary, behavioral factors influencing the investors' decision-making are divided into three groups: heuristic, prospect and herding effect.

(1) Heuristic Theory Variables

- Representativeness
- Overconfidence
- Anchoring
- Gambler's fallacy
- Availability bias

(2) Prospect Theory Variables

- Regret aversion
- Loss aversion
- Mental accounting

(3) Herding Effect (Herding variables lead to behavioral change)

- Buying and selling decisions of other investors
- Choice of stock to trade of other investors
- Volume of stock to trade of other investors
- Speed of herding

(4) Market variables lead to behavioral change

- Price changes
- Market information
- Past trends of stocks
- Fundamentals of underlying stocks

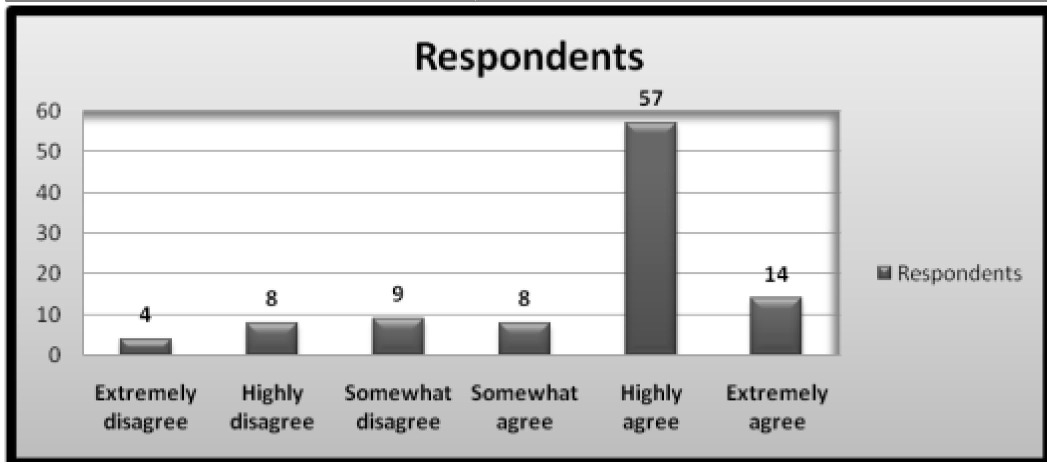
- Customer preference
- Over-reaction to price changes

Data Analysis and Interpretation

Q1. You buy 'hot' stocks and avoid stocks that have performed poorly in the recent PAST.

This question is asked to know the effect of representativeness factor on the investment decision of the Investor. This is evident from the following data that almost 79% of the respondents are agreed with the fact that they prefer to invest in those stocks which are performing well in present time avoid those stocks which perform poorly in the past. 21% of the respondent are not agree with the fact that they fol l ow the representativeness in their decision making. So it is very clear that most of the investors prefer hot stocks for investment purpose and representativeness is one of the important factors in their investment decision making.

	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat agree	Highly Agree	Extremely Agree
RESPONDENTS	4	8	9	8	57	14



Q2. You USE trend analysis of SOME representative stocks to make investment DECISIONS for all stocks that you invest.

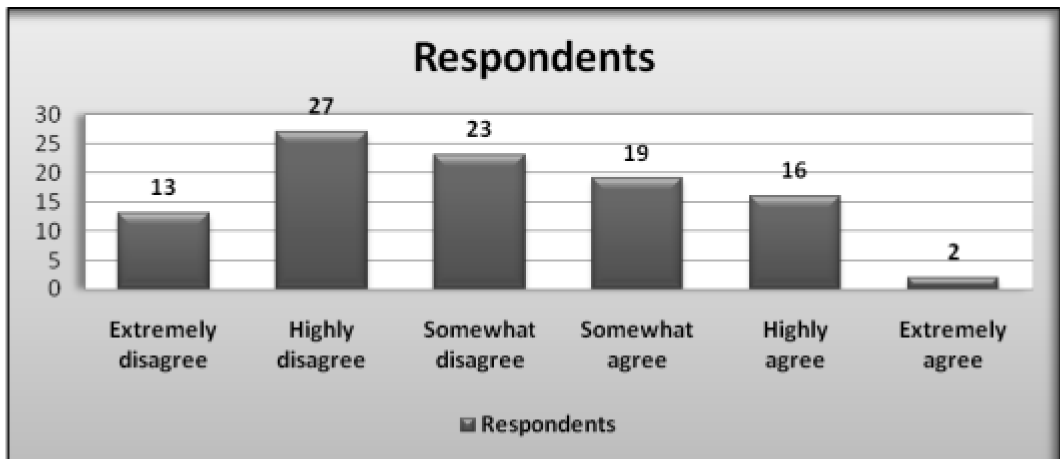
This question is asked to check the degree of representativeness in investment decision making. As a result 63 % of the respondents are not agreed with the fact that they follow the trend analysis of representative stocks to make investment for all the stocks. 37 % are agreed with the statement but only 2% are extremely agreed and 16% are highly agree so mostly investors do not follow the trend analysis of some representative stocks for investment in other stocks. A conclusion can be drawn that investors are not follow blindly the trend analysis of representative stock for investment decision for all stocks that they invest so we can say that Investors follow the trend analysis of individual stock independently for investment decision.

Q3. You believe that your SKILLS and knowledge of stock market can help you to outperform the market.

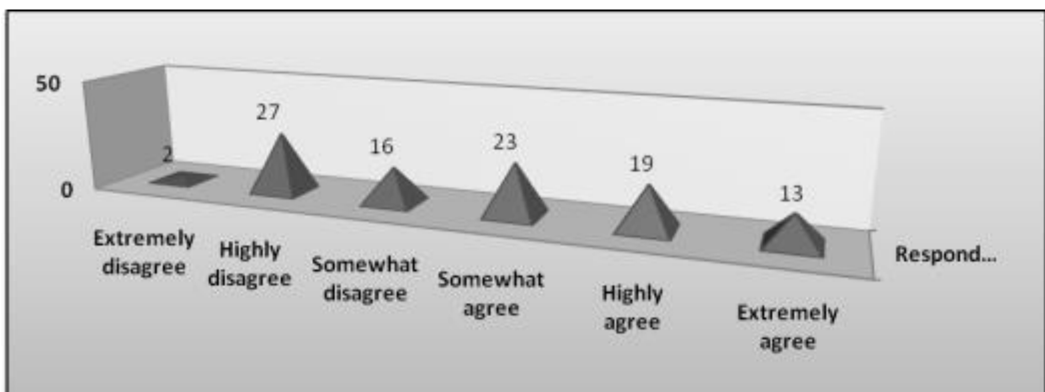
This question is asked to know the level of overconfidence of the investors in investment decision making. Overconfidence of the fact that their portfolio returns can beat the market returns and perform superior than market performance. This is evident from the given data that 55% of the respondents are of the opinion that they can outperform the market on the basis of their knowledge and skills. 39% of the respondents are of the

opinion that either they are somewhat agree or somewhat disagree. This shows that 39% of the respondents are in the line of confusion or we can say that they are not confident about their superior performance in comparison to market performance. 29% is totally disagree that they can outperform the market so we can conclude that all investors are not overconfident about their performance of overbeating the market. Only 32% of respondent are extremely agree or highly agree so level of overconfidence don't have a deep impact on the investment decision.

	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat agree	Highly agree	Extremely Agree
RESPONDENTS	13	27	23	19	16	2



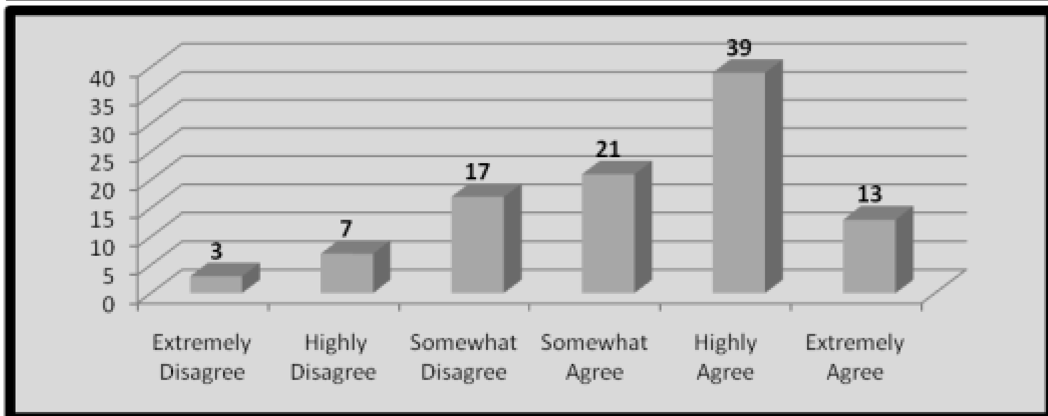
	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat agree	Highly Agree	Extremely Agree
RESPONDENTS	2	27	16	23	19	13



Q4. You rely on your PREVIOUS EXPERIENCES in the market for your next INVESTMENT.

This question is asked to know the effect of Anchoring (phenomena used in the situation when people use some initial values to make estimation, which are biased toward the initial ones as different starting points yield different estimates). In the survey 73% of the respondents are of the opinion that utilize their past experience for next investment. Only 27% of the respondent don't follow the statement and in 27 respondent only 10 respondent highly disagree or extremely disagree and 17 respondent are somewhat agree with the fact so mostly investors are agree with the fact that they utilize there past experiences for next Investment and they take some initial purchase price when selling or buying. Thus investors define a range for a share price based on the historical trends, resulting in under reaction to unexpected changes.

	Extremely DISAGRee	Highly DISAGRee	Somewhat DISAGRee	Somewhat agree	Highly agree	Extremely Agree
RESPONDENTS	3	7	17	21	39	13



Q5. You forecast the changes in stock PRICES in the future BASED on the recent stock PRICES.

This question is asked to know that whether the investors use present or current stock price for the estimation of changes in future stock price. In this survey 46% of the respondent of the opinion that they consider the recent price of stock for forecast the changes in stock prices in future. Out of hundred respondent 39% either somewhat agree or somewhat disagree show that they are in a state of confusion so 54% don't believe in forecasting of prices on the basis of recent stock prices. The results show that most of the investor doesn't follow the current price of stock for future estimation of price so we can say that they don't use initial values for investment decisions.

From this data we can conclude that (Anchoring and representativeness)past experiences play a important role in investment decisions and most of investors follow their previous experience for investment decisions but only the recent price of stock cannot be used for investment decision making.

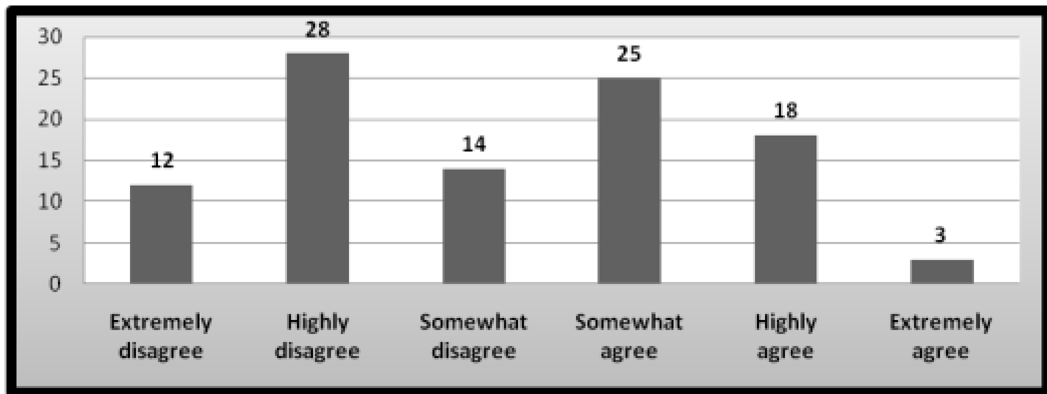
Q6. You are normally able to anticipate the end of good or poor market RETURNS

This question is asked to check that whether the investors predict inaccurately the reverse points which are considered as the end of good or poor market returns. In this survey 64% of the respondent of the opinion that they can anticipate the end of result of market returns. 61% respondent are of the view that they are somewhat agree

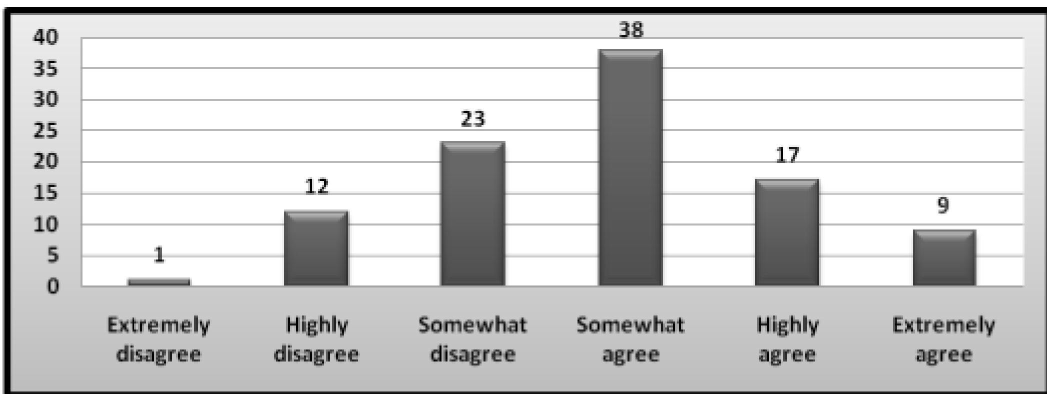
or disagree regarding the anticipation of end of good or poor market reurns.34 investor disagree with the statement in which 64% is somewhat disagree which means state of confusion means investors are not fully agreed with the statement. Thus we can say that people are not very sure about the predictability of end market returns.

To conclude we can say that most of the investor is not able to predict the reverse point which is considered as the end of good and poor market return.

	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat agree	Highly agree	Extremely Agree
RESPONDENTS	12	28	14	25	18	3



	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat agree	Highly agree	Extremely Agree
RESPONDENTS	1	12	23	38	17	9

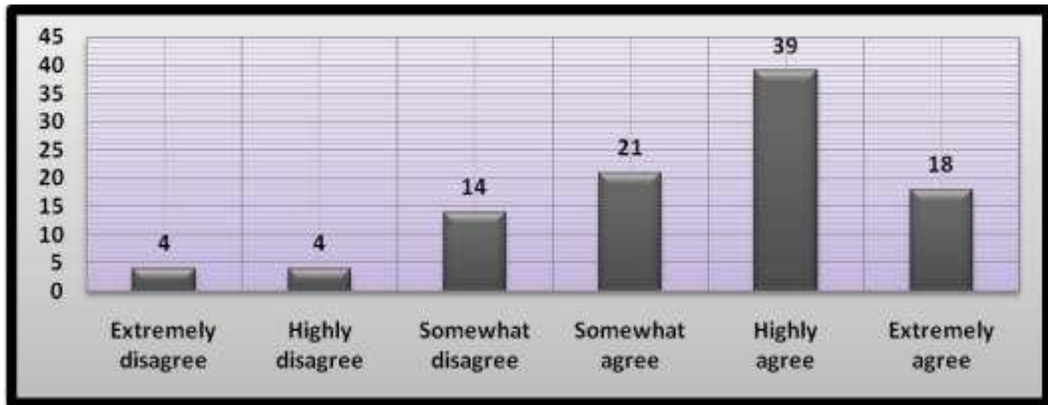


Q7. You prefer to buy local stocks than international stocks because the information of local stocks is more available.

Availability bias happens when people make use of easily available information excessively. In stock trading area, this bias manifest itself through the preference of investing in local companies which investors are familiar with or easily obtain information, despite the fundamental principles so-called diversification of portfolio management for optimization.

This question is asked to check the ability bias in the investment decision of investors. In the survey 78% of the respondents are of the opinion that they prefer local stock to purchase because of availability of information rather than international stock. Only 22% of the respondent prefer for international stock. The available data shows that ability bias is considered as an important consideration in investment decision making. Thus we can conclude that in investment, investors prefer local companies in which they are more familiar with or easily obtain information is available despite of fundamental principle of diversification of stock investment.

	Extremely DISAGRee	Highly DISAGRee	Somewhat DISAGRee	Somewhat Agree	Highly agree	Extremely Agree
RESPONDENTS	4	4	14	21	39	18



Q8. You consider the information from your close friends and relatives as the reliable reference for your investment decisions.

This question is asked to know the use of available information in investment decision. In this survey 75% of the respondents think that information provided by their relatives is a reliable source of information and they use it for investment purpose. 65% of the respondent are extremely agree or highly agree with the fact. Out of 25 respondents which are not agree with the statement, 18 are somewhat disagree means they are not fully agreed with the statement. Thus we can say that people rely to a great extent to the information which is easily available and provided by relatives and friends

To conclude we can say that ability bias is having a deep impact on the investment pattern of individual investor and play a key role in the emotions at the time of investment decision and play a key role in emotion formation of investor at the time of investment.

RISK TOLERANCE

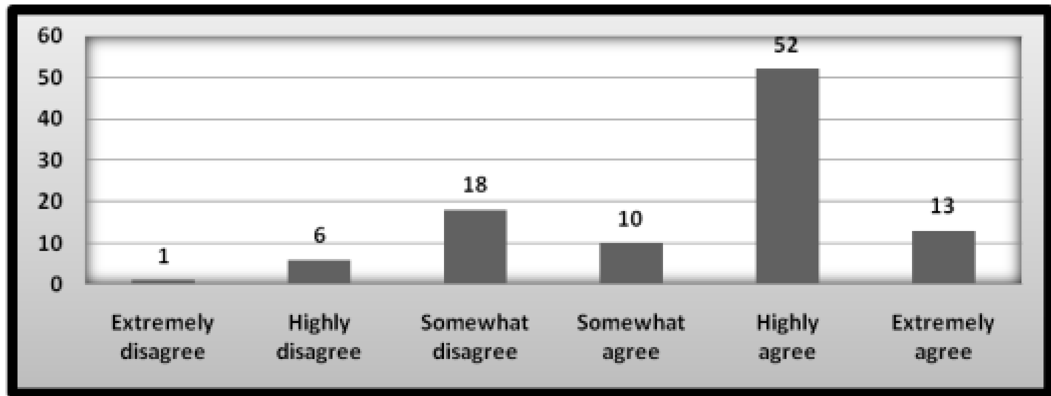
This question is asked to know the impact of risk in their investment decision. In survey 49% of the respondents consider risk as an important consideration at the time of investment. 51% of the respondent are not agree with the statement that they do not consider risk as an important consideration. Thus we can say that investors do not consider risk element in their investment decision rather

they prefer return an important consideration in investment consideration.

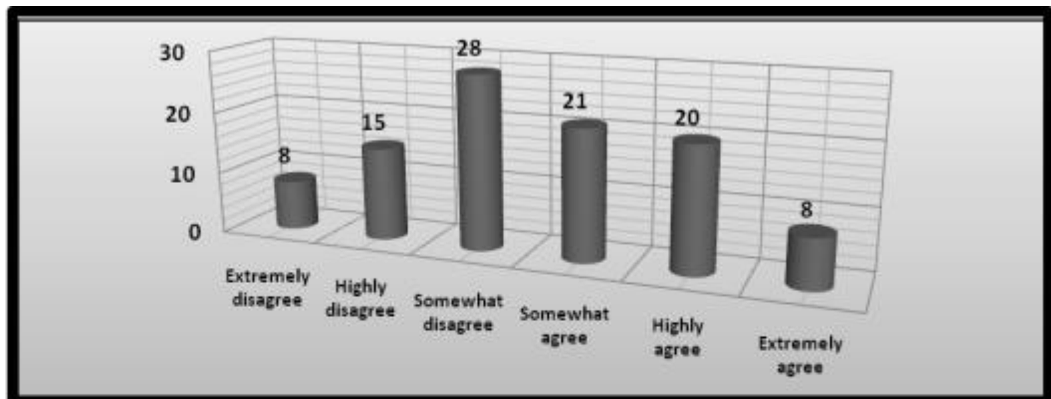
Q10. You consider high risk tolerance level in choosing the stock in your investment decision to earn heavy return.

This question was asked to know the degree of risk tolerance to be taken by investors in their investment decision to earn extra return. In the study it is found that 58% of the respondents are not agree with the high level of risk tolerance in investment decision.52% are agree to take high degree of risk tolerance in investment decision to earn extra returns but only 17 respondent are ready to take high or extreme degree of risk tolerance so we can say that most of respondents are not ready to take a high degree of risk in their investment decisions to earn extra returns.

	Extremely DISAGREe	Highly DISAGREe	Somewhat DISAGREe	Somewhat Agree	Highly agree	Extremely Agree
RESPONDENTS	1	6	18	10	52	13



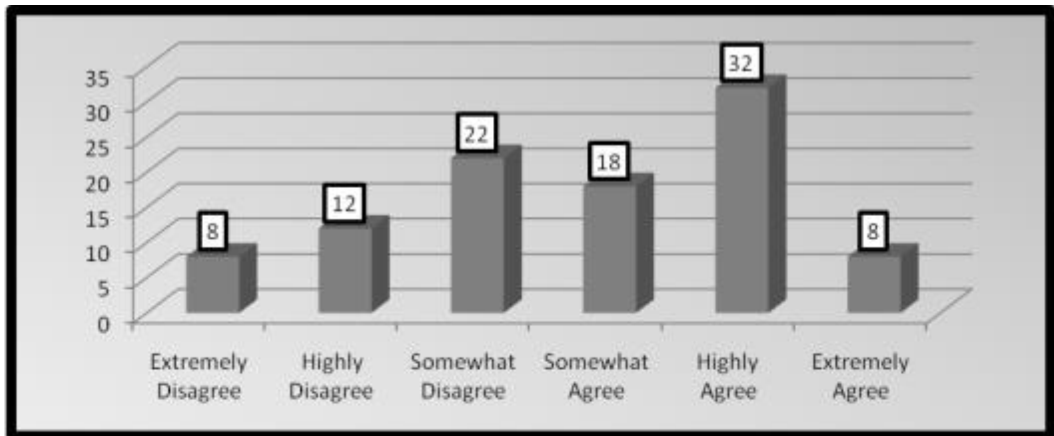
	Extremely DISAGREe	Highly DISAGREe	Somewhat DISAGREe	Somewhat Agree	Highly agree	Extremely Agree
RESPONDENTS	8	15	28	21	20	8



Q11. You CONSIDER low RISK tolerance level in your investment DECISION to earn SOME extra RETURNS from your investment.

This question is asked to know the fact that the investors would accept the low level of risk if they are offered with slightly higer rate or return in comparion of normal return. In the study, 58% of the respondents are agree with the fact that they prefer low level of risk tolerance in investment decisions to earn higher returns however only 8% of total respondent are disagree with low degree of risk tolerance with investment decision.so we can say that generally investor prefer to have low degree of risk tolerance to earn some extra returns rather than high level of risk tolerance to earn extra returns.

	Extremely DISAGREE	Highly DISAGREE	Somewhat DISAGREE	Somewhat Agree	Highly agree	Extremely Agree
RESPONDENTS	**8**	**12**	**22**	**18**	**32**	**8**



Findings of the Study

8.1 FINDINGS Related to HEURISTIC Factor

(1) Most of the investors prefer hot stocks for investment purpose and representativeness is one of the important factors in their investment decision making. Investors are not following blindly the trend analysis of representative stock for investment decision for all stocks that they invest so we can say that Investors follow the trend analysis of individual stock independently for investment decision. By studying both the factor we can conclude that representativeness has an impact on investment decision but investors do not follow the representativeness blindly and they do analysis before investment decision.

(2) Investors are not very confident about their portfolio performance this shows that they cannot predict the accurate performance of their stock so a conclusion can be drawn that investors somehow depends on various sources to find the appropriate investment avenue.

(3) Anchoring and representativeness past experiences play a important role in investment decisions and most of investors follow their previous experience for investment decisions but only the recent price of stock cannot be used for investment decision making.

(4) We can say that most of the investors are not able to predict the reverse points which are considered as the end of good and poor market return so Gambler's fallacy has a least impact on emotions at point of investment.

(5) The ability bias is having a deep impact on the investment pattern of individual investor and plays a key role in the emotions at the time of investment decision and play a key role in emotion formation of investor at the time of investment.

In totality if we see the effect of heuristic variables in emotion formation at the time of investment, it is very high but various variables have different impact on emotion at the time of investment. If we shall see the results we shall find that variable "representativeness" has a impact on investor decision making but investor don't blindly follow the representativeness.

Another heuristic variable "overconfidence" has a very low level of impact on investment decision. In this study Anchoring and representativeness)past experiences play a important role in investment decisions and most of investors follow their previous experience for investment decisions

8.2 FINDINGS Related to RISK Element

(1) Mostly investors do not consider risk element in their investment decision rather they prefer return an important consideration in investment decisions. Returns is the primary elements while taking investment decisions and shows a positive side of emotions of investors while risk is a secondary element and investors see it as a negative side of emotions of So we can say that investors show a positive side of emotions in investment decisions in comparison of risk.

(2) Those who consider risk element in their investment decision they are not ready to take high degree of risk tolerance to earn extra returns. Investors prefer safety of their fund instead of high degree of returns. investor prefer to have low degree of risk tolerance to earn some extra returns rather than high level of risk tolerance to earn extra returns. Thus we can say that most of respondents are not ready to take a high degree of risk in their investment decisions to earn extra returns and risk element play a key role in emotions of investors at the time of investment.

Conclusion of the Study

Investment decisions are taken by human and various past studies show that all humans are rational in investment decision making but we may conclude that emotions play a very important role in investment decision making. There are various factors in our environment which affect our investment decisions due to formation of emotions in investment decision. Various heuristic variable like representativeness, overconfidence, gambler fallacy, ability bias are few variables that affects the emotions of investor and changes in emotions will lead to change in investment decision making which leads to commit mistakes in decision making. Degree of risk tolerance and various market factors that generally we follow in our daily life for investment decisions play a key role in investment decision. Even the degree of various variables may be different from individual to individual but we cannot avoid the presence of these factors in decision making, Thus it can be concluded that emotions play a key role in investment decisions so various emotional variables related to heuristic, market and risk tolerance should be considered for investment decision and theory of rational investor cannot be implemented in today's time.

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