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A STUDY ON MUTUAL FUND INVESTMENT DECISION BY INDIVIDUAL INVESTORS BEHAVIOURAL PERSPECTIVES

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Abstract

One of the most important financial aspects of a person's life, investing is the activity in which the best possible profits should be anticipated in order to keep up a comfortable quality of living. The manner in which individuals invest their money is influenced by a number of behavioural characteristics to varying degrees. The primary objective of this study is to investigate the influence that behavioural factors have on the choices that individual investors in Lucknow City make in relation to mutual funds. In addition, the purpose of this investigation is to investigate how individuals choose to invest their money in order to maximise the return on their investments and improve their future. The statistical evidence demonstrates that there are a variety of behavioural characteristics that play a very major part in the investment decision making pattern of the individuals, which in turn has an influence on the economic state of the population as a whole. The purpose of this article is to make an attempt to explain how the individual's perspective, attitude, and conduct might have an influence on the investments that they make in mutual funds. Data is obtained from both primary and secondary sources, and then factor analysis is done in order to evaluate the hypothesis.

keywords: *Mutual fund , individual*

Introduction

Because of the fact that when it comes to money and investing, we are not always as reasonable as we believe we are, there is an entire field of study that explains our often unusual behaviour towards investment. A significant portion of economic theory is predicated on the assumption that people act rationally and that the investing process takes into account all of the information that is currently available. However, researchers who have been looking into this assumption and questioning it have found evidence that rational conduct is not always as widespread as we may assume it to be. This assumption is the central tenet of the theory. Investors do not always behave in accordance with the economic theory; however, individuals may take mental shortcuts to arrive at a decision, particularly under conditions of risk and uncertainty, particularly when there is time pressure or when other factors make it difficult to evaluate the available choices. This is especially true in situations where there is a risk and uncertainty. Behavioral finance is a new paradigm in the field of finance that tries to complement the conventional theories of finance by including behavioural considerations into the decision-making process. Behavioral finance is also known as behavioural economics. This research aims to understand and forecast the systemic repercussions of psychological decision-making processes on financial markets. In addition to this, it places an emphasis on the integration of psychological and economic theory in order to facilitate the making of better financial choices. Individuals make attempts to analyse the market before investing, but nobody knows how successful those attempts are going to be. As a result, decision making is a difficult process, and individuals require models of finance to analyse the expected risk and return associated with an investment. However, decisions cannot be made by relying on just one aspect, and individuals even make investments by taking a variety of factors into consideration.

MUTUAL FUNDS

A mutual fund is a pool of money that is gathered from several individuals and then invested in accordance with a predetermined set of investment alternatives. A mutual fund is a type of trust that pools the savings of a number of participants who have the same objective in terms of their finances. When investors pool their resources, a mutual fund is born out of the collaboration. As a result, it is a pool of funds contributed by many investors. After the funds have been gathered in this manner, they are subsequently put into capital market instruments such as shares, debentures, and many other securities. The capital appreciations achieved and the income that is generated as a result of these investments are distributed to the unit holders of the company in a manner that is proportional to the number of units that each investor owns. The fact that the same group of people, known as investors, are both the people who put money into the fund and the ones who benefit from it is one of the most significant aspects of a fund. When referring to an investment vehicle known as a mutual fund, it is important to note that investors contribute to the pool and also profit from the pool. The term "mutual fund" refers to a pool of money that is owned jointly by several investors. The business of a mutual fund is to invest the monies that have been gathered in accordance with the preferences of the investors who first formed the pool of money. In most cases, the investors will employ professional investment managers to build a product and then offer it for investment to the investors. This project reflects a portion of the overall pool as well as the pre status investment goals. A mutual fund provides investors with the option to participate in a diversified, professionally managed basket of assets at a cost that is relatively modest. As a result, mutual funds are the investment that are most suited for the average person.

FEATURES THOSE INVESTORS LIKE IN MUTUAL FUND:

It is because of all of the benefits that mutual funds offer that they are quickly becoming the most popular kind of investment vehicle. They have an advantage over other forms and channels of investing parties for investors who have limited resources available in terms of CapitaLand's capability to carry out rigorous reserve management and market monitoring. These are the primary benefits that are provided by mutual funds to each and every investor:

Professional Management: Mutual funds provide their clients with the services of experienced and qualified experts, supported by a specialised investment research team that evaluates the performance and prospects of firms and picks assets that are suited to accomplish the objectives of the plan.

Diversification: Mutual funds make investments in a variety of firms that operate in a wide range of different industries and market segments. The decrease in risk that results from this diversification is a direct result of the fact that it is extremely rare for all equities to fall in value simultaneously and in the same proportion. By investing in a mutual fund, you may attain the same level of diversity with a lot less money than you could on your own.

Convenient Administration: Investing in a mutual fund may cut down on the amount of paperwork you have to fill out and help you avoid numerous difficulties, including late payments, faulty delivery, and having to follow up with brokers and other businesses. Investing does not have to be complicated or time-consuming when you use mutual funds.

Return Potential: Due to the fact that they invest in a diverse portfolio of different assets, mutual funds have the potential to deliver a better return over the course of a medium- to long-term investment horizon.

Low Costs: Since the benefits of scale in brokerage, custodial, and other fees translate into lower costs for investors, mutual funds are a relatively less expensive way to invest when compared to directly investing in the capital markets. This is because the benefits of scale translate into lower costs for investors.

Liquidity: When investing in open-end schemes, a mutual fund will return an investor's money quickly and at prices that are connected to the fund's net asset value. In closed-end schemes, investors have the option of selling their units on a stock exchange at the current price of the market, or they may take advantage of the capability of direct repurchase by the mutual fund at prices that are connected to the fund's NAV.

Transparency: In addition to transparency on the precise investments made by your scheme, the proportion invested in each class of assets, and the investment strategy and outlook of the fund management, you get frequent information on the value of your investment. This information is provided to you.

Flexibility: You are able to systematically invest or withdraw cash according to your preferences and requirements by utilising features such as regular investment plans, regular withdrawal plans, and dividend reinvestment plans. These options are all included in the platform.

Affordability: Individual investors might not have the financial resources necessary to purchase high-quality stocks. A mutual fund, which typically has a huge corpus, makes it possible for even a very modest investor to reap the benefits of the fund's investing approach.

Well Regulated: All mutual funds are required to be registered with SEBI, and their operations are governed by stringent laws whose primary purpose is to safeguard the financial interests of investors. SEBI conducts routine checks on the business practises of mutual fund companies.

Behavioral Factors Which Affect Individual's Investment

Representativeness is the degree to which an event resembles its population or the degree to which an event is similar to its parent population (De Bondt & Thaler, 1995, page 390). Representativeness is defined as the degree to which an event is similar to its parent population (Kahneman & Tversky, 1974, p.1124). There is a risk that representativeness will lead to certain biases, such as individuals placing an excessive amount of importance on more recent experiences while ignoring the average rate over the longer term (Ritter, 2003, p.432). One common manifestation of this fallacy is the tendency for investors to extrapolate a company's high long-term growth rate based on a few quarters of growing revenue (Waweruetal., 2008, p.27).

Anchoring is a term that refers to the phenomenon that occurs in the financial markets when a value scale is anchored by recent data. When selling or assessing a security, investors almost usually reference the price at which the investment was made initially. Therefore, prices in the present day are frequently dictated by prices in the past. Anchoring is related in some way to representativeness since it represents the fact that individuals frequently concentrate on recent experiences and have a tendency to be more optimistic when the market is going up and more gloomy when it is going down (Waweru et al.,2008,p.28)

Overconfidence may be defined as the tendency for an individual to place an excessive amount of reliance on the accuracy of their own assessments of their own knowledge and abilities (De Bondt & Thaler, 1995, p.389). Numerous studies have demonstrated that one of the side effects of investors is excessive trading. There is research that demonstrates that financial analysts make only minor adjustments to their evaluation of a firm, even when there is substantial evidence demonstrating that the evaluation is no longer accurate. Investors and analysts sometimes exaggerate their level of expertise in the sectors in which they operate (Evans, 2006, p.20)

The term "availability bias" refers to the phenomenon that occurs when individuals rely overly on information that is easily accessible. In the stock trading area, this bias manifests itself through investors' preference for investing in local companies that they are familiar with or about which they can easily obtain information, despite the fundamental principles known as diversification of portfolio management for the purpose of optimising returns.

Aversion to Regret: Regret is an emotion that develops after people make errors in judgement. Investors prevent regret by not selling shares that are declining in value but are prepared to sell shares that are gaining in value. In addition, investors typically feel greater remorse over hanging onto losing equities for an excessive amount of time as opposed to selling winning stocks too quickly.

Loss aversion is a term that describes the varying degrees of emotional distress that individuals experience in response to a loss or gain of comparable magnitude.

There is data to suggest that people are more troubled by the possibility of losses than they are delighted by gains of similar value.

In addition, it has been demonstrated that a loss that follows a prior gain causes less pain than normal, but a loss that follows a loss appears to cause more pain than normal. According to Lehenkari and Pertinent's research (2004, page 116), both good and negative returns in the past might improve the negative link between an investor's selling tendency and their capital losses. This finding suggests that investors are risk averse and want to avoid taking losses.

Richard Thaler is credited with coining the term "mental accounting." Thaler (1999) described mental accounting as the "collection of cognitive operations employed by individuals and families to organise, assess, and keep track of financial activities." As a consequence of this, people have a propensity to segregate their finances by putting their money in many accounts for a wide range of personal reasons. Based on his own empirical research, Rockenbach (2004, page 524) believes that the link between various investment opportunities is frequently ignored, despite the fact that doing so would be beneficial for achieving arbitrage-free pricing.

Herd behaviour: In the context of the financial markets, the term "herding" refers to the phenomenon of reciprocal imitation leading to a convergence of activity (Hirshleifer and Teoh, 2003). Investors have a tendency to make this error, which is the most prevalent one, when they follow the investing decisions done by the majority. The primary cause for this is the pressure or influence that comes from other students. The initial public offering (IPO) of Reliance Power in 2008 is a good example of a situation in which many investors subscribed to the offering without having complete information about it. Herd behaviour is used by investors because they are concerned about what others will think of their investing choices and want to conform to the behaviour of their peers (Scharfstein and Stein, 1990).

Objectives of the Study:

1. to determine the process that individual investors in mutual funds follow while making investment decisions in the city of Lucknow.
2. To investigate how mutual funds are put to use

Research Methodology

This study is exploratory in character, and it is based on both primary and secondary sources of data. The work takes a descriptive approach. Research has been conducted by developing a structured questionnaire to evaluate the data, and the factor analysis approach has been utilised since there are two or more variables. This was done so that a clear knowledge of the investing behaviour of investors on mutual funds could be achieved. Books, research articles, case studies, magazines, newspapers, and academic journals are all examples of secondary sources.

Analysis and Results

The collection of theories is taken into consideration for the analysis of data in order to get an understanding of the influence that behavioural elements have on the decision-making process of individuals. The second analysis is carried out by developing a structured questionnaire in order to evaluate the facts included within the data that is already accessible.

Behavioral Theories Applied for the Study

In this analysis, the behavioural components are classified according to four different behavioural theories in order to classify the various behaviour patterns in one place.

Table 1. Behavioral factors influencing the investment decision making

Theory	Behavioral Variable
Heuristic Theory Factors	• Representativeness • Overconfidence • Anchoring • Gambler's fallacy • Availability bias

Prospect Theory Factors	• Loss aversion • Regret aversion • Mental accounting
Market & Price Factors	• Market information • Past trends of stocks • Fundamentals of underlying stocks • Customer preference • Over-reaction to price changes
Herding Factors	• 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

As regard to the influence of behavioural elements on their investment decisions, and the six-point scale is respectively from 1-6: Highly Disagree, Somewhat Disagree, Neutral, Somewhat Agree, and Highly Agree.

Table 2 Summary of Statistics:

Variable	Observations	Obs. with missing data	Obs. without missing data	Minimum	Maximum	Mea n	Std. deviation
1.Representativeness	50	0	50	1.000	5.000	3.960	0.947
2.Over confidence	50	0	50	1.000	5.000	3.400	1.030
3.Anchoring	50	0	50	1.000	5.000	3.520	1.165
4.Availability bias	50	0	50	2.000	5.000	4.160	0.912
5.Loss aversion	50	0	50	1.000	5.000	3.080	1.175

6.Regret aversion	50	0	50	1.000	6.000	3.600	1.229
7.Mental accounting	50	0	50	2.000	5.000	3.980	0.892
8.Market Information	50	0	50	2.000	5.000	4.580	0.758
9.Past trends of stocks	50	0	50	1.000	5.000	3.460	1.216
10.Fundamentals of underlying stocks	50	0	50	2.000	5.000	4.180	0.962
11.Buying and Selling decisions of other	50	0	50	1.000	5.000	3.640	1.064
12.Speed of herding	50	0	50	1.000	5.000	2.840	1.167

According to the statistics presented in the previous paragraph for the purpose of the calculation of factor analysis, the behavioral variables and their investment performance can be determined by taking into account the following four factors: the first factor is herding, which refers to the phenomenon in which the choice of stock, volume, and buying and selling of funds by an individual investor is influenced by the decisions made by other investors. The second aspect is known as heuristic, and it involves fast responding to changes, having faith in one's own talents and understanding of the stock market, depending on prior experiences, and attempting to predict how changes in stock prices will reflect individual behaviour. The third consideration is prospect, which is connected to the past gain risk seeking and prior loss risk adverse or avoiding selling shares when their value has declined or vice versa. Prospect is related to the prior gain risk seeking and prior loss risk averse. The final one is market, which indicates that the study will be focused on market information such as stocks, corporate image, and customer

Design of Questionnaire

The questionnaire that is being used for the research has been broken up into two sections:

a. Personal information

b. Behavioral factors influencing investment decisions.

The 6-point Likert scales are used for seeking the responses from the respondents in order to know their opinion and attitudes and to evaluate the individuals' degrees of agreement preference and market trends. The rating scale was adopted for the purpose of studying the behavioural factors of individuals, and for this purpose, the Likert scale was used. In this instance, the factor analysis reveals behavioural variables that influence individual investment decisions as well as the variables of investment performance. The purpose of the survey's twenty-four questions is to investigate the extent to which different behavioural characteristics impact individuals' investment choices and to ascertain investors' assessments of their own investment performance. In order to determine the factors to which the behavioural variables and investment performance belong, an exploratory factor analysis is performed. This analysis is applied for the behavioural variables.

Table 3: Total Variance Explained for Factors:

	Herding Factor	Heuristic Factor	Prospect Factor	Market Factor
Eigen value	2.517	1.884	1.125	0.514
Proportion of Variance (%)	20.976	15.700	9.372	4.281
Cumulative Variance (%)	20.976	36.676	59.275	63.556

The variables of herding, heuristics, prospect, and market have been put together into a linked factor, as can be seen in Table 3. Because the factor loadings of some of the variables have factor loadings that are lower than 50%, some of those variable's factor loadings have been excluded from the study. This result not only demonstrates that the behavioural factors that influence individuals' choices regarding investments can be categorised into the same four factors as the previously discussed theories—namely, herding, heuristics, prospect, and market—but it also demonstrates that hypothesis 1 is correct .

Table 4 The influence of behavioural elements on the decision-making process regarding investment:

Factors	Mean	Standard Deviation
Herding	3.880 3.240	1.054 1.234
Heuristics	3.520	1.159
Prospect	3.080 3.960	1.187 1.241
Market	2.920	1.256

- If the variables' means are less than 2, it indicates that they have a very small influence.
- The fact that the factors have minimal impacts is shown by mean values ranging from 2 to 3.
- If the mean values are between three and four, it indicates that the factors have a modest influence.
- If the mean values are more than 5, this indicates that the factors have a very strong influence..

It is evident from the table that herding, heuristics, and prospect factor and its variable have a moderate influence on the process of making investment decisions, but market factor has a minimal impact on the process of making investment decisions. The evidence presented here does not provide support for the second hypothesis which states that the behavioural aspects of individuals have an impact on the investing decisions those individuals make. However, variables of all behavioural elements have a beneficial impact on the decision making process regarding investments. The fact that the impact was moderate demonstrates, among other things, that there is an influence of factors on the investment decision made by individuals.

Table 5 Impact of Behavioral Factors on Investment Decision and Investment Return:

Factors	Mean	Standard Deviation
1. Representativeness	3.600	0.957
2. Confidence level	3.600	0.957
3. Anchoring	3.520	1.159
4. Availability bias	3.840	0.898

The above Table 5. uses a grouping of the four characteristics known as representativeness, confidence level, anchoring, and availability bias to determine the return on investment that a person can achieve as a result of making an investment. It is stated that the mean value of all four factors are higher than the mean value, which is having a moderate impact on the investment decisions that give return to individuals. However, the rate of return can be considered by highlighting the four primary factors of research, which in turn have influence on these variables also through their correlation. The table that follows illustrates the association between the many different factors and variables.

Findings

1. The first aspect in the research is whether the various factors related to behavior have an influence on the investment decision making process or not. Through the analysis of present research, it has been explained briefly how it is interrelated and interconnected.
2. The correlation and coefficient of variations of factors and variables of behavioural finance explains that various factors influence the behavior of individual investors.
3. The investment behavior pattern of individuals is linked and connected with the various factors of behavioral finance.
4. Some individuals do not rely only on certain factors for investing and it is based on their own behavior towards investment.
5. The variance and matrix shows the relationship between various factors and variables.

Conclusion

The individual choices that people make about their investments are impacted by a variety of economic circumstances. Even while individuals are the ones who are ultimately responsible for making decisions, the way in which they think about money can be impacted by a variety of circumstances, all of which have a significant bearing on the decisions that are made. The investing patterns are also related with risk, the degree to which they are able to tolerate it, and how they behave in relation to the risk and return pattern both have a role in determining the outcome. Every person has a plan for the future that includes their money, and it is thus not surprising that they are estimating the return on their investment for their own advantage. Before making an investment, many different considerations are considered, both from the perspective of the individual who will be making the investment as well as the firm that will be making the investment and the economy as a whole. In the case of the economy, the standard of living of people, the development of individuals' economic conditions, and the standard of life style of people are all interrelated and interconnected to each other. The companies' sources of funds are based on the investment decisions of the investors. How can they get funds to their business? Therefore, the investing behaviour of individuals is influenced by a variety of elements that are behavioural in nature.

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