Asian Journal of Information Science and Technology (AJIST)
Vol1.No.2 2013 pp 22-25.
available at: www.goniv.com
Paper Received :15-09-2013
Paper Published:28-12-2013
Paper Reviewed by: 1. John Arhter 2. Hendry Goyal
Editor : Prof. P.Muthukumar

Significant Appraisal of Investors Decision Making Process in Stock Market

R.Vasudevan
Research Scholar of Manonmanium Sundaranaar University
Tirunelveli.
Faculty, Dept. of Management Studies
Sri Sankara Arts & Science College
Enathur, Kanchipuram.

Dr.S.Ramachandran
Director - Management Studies
Bharath University
Chennai.

ABSTRACT

The aim of this is to give a brief introduction about behavioral finance and it is motivating the new tendencies of research in prospect. It gives more information's to the rational investors to take decisions in stock market business and how investor's control or reducing their risk in different situations.

Keywords: Decision-Making, Behavioural finance, Risk, Return

1. Introduction:

In mid – 1980's there was a gradual increase in the slow rise in the new paradigm – behavioral finance in the young branch of science. It's theoretical and experimental evolutions are already well-researched in the areas of finance by psychologists literature by 'Kahneman and Tversky" (1972, 1973, 1979). In that case the *deposition effect*, which is called as *prospect theory*, has been applied by 'Shefrin and Statman (1985)'.

"Behavioral finance" is to study the influence of psychology on the behavior of the investors and the markets. Behavioral finance is very interesting subject because of it helps, explain why and how markets might be inefficient. Behavioral finance deals with the capacity of the investor's and his ability to analyze information and systematic procedure in decision making. Thus, at the end of the millennium, various theoretical models has been framed which is momentum, multiple empirical research papers published in journals.

However behavioral finance is comparing with the status of leading paradigm on par by means of neoclassical paradigm. But there are not long used while the study deals with mutual funds, trades by the clients of a single brokerage firm, huge contributions, they lack several aspects in market dynamics because the various investor groups behave in different fashion of extreme potentiality to come out from stress. In the height of the above discussion, how the different classes of investors get decisions under different situations and how they route the information.

Asian Journal of Information Science and Technology (AJIST)
Vol1.No.2 2013 pp 22-25.
available at: www.goniv.com
Paper Received :15-09-2013
Paper Published:28-12-2013
Paper Reviewed by: 1. John Arhter 2. Hendry Goyal
Editor : Prof. P.Muthukumar

Behavioral finance is a concept that has become widely popular in recent years. Even though the concept has just recently found its place in the literature, and it would not be wrong to say that behavioral finance has had its place in the subconscious of humans since the time humans started to be engaged in Investment and consumption activities.

Behavioral finance focuses on how investor's interpret results in order to make investment decisions based on information and how they act with their investment decisions.

Behavioral finance has recently emerged in academic studies as a new paradigm to explain the anomalies found when empirically testing the efficient market hypothesis, but it has emerged so firmly it seems it is going to stay for a long; in fact; some waves of opinion point it out as a new discipline in the near future.

Behavioral finance is the new paradigm where financial markets are studied using models, and it is to study the influence of psychology on the behavior of financial markets and investors. It is very interesting subject why because it helps, explain why and how markets might be inefficient.

In contrast, behavioral finance assumes that in some situations, financial markets are informationally inefficient. Not at all devaluations are caused by psychological biases, however and some of them due to temporary variations or changes in demand and supply.

Behavioral finance using models in which some middleman's are not fully rational, either because of their preferences and choices, example for assumption about preferences is that people are gain, loss and it will make people to feel better and worse, mistaken beliefs are due to people are bad Bayesians.

The concepts of Decision-making process as clearly understand through following diagram.

Objectives of the study:

- To understand the new applied science of good decision making process of investors.
- To examine and managing behavioral decisions and preferences of the investors.
- To give the suitable explanations for the financial crisis.
- To know the investigating ways of the Investor's.
- To learn the risk perceptions of the investor's and how it can be controlled or managed by investor's.
- To analyze the behavior of the Investor's under risk and uncertainty circumstances.

Importance of the study:

These procedures will enable them to better understanding what investors actually do in a given set of situations an it's explains how markets respond given the natural proclivities of investors. This paper focuses on how successful investors have capitalized on behavioral finance approaches and its try to explain the recent meltdown in financial markets, including the collapse or near collapse of major financial institutions and through this study the investor can understood or they can able to control their risk by diversifying portfolios.

Decision Making Process of the Investors:

Investor's Decision Behavior is affected by so many factors like age, income requirements, wealth, and time situations.

Asian Journal of Information Science and Technology (AJIST)
Vol1.No.2 2013 pp 22-25.
available at: www.goniv.com
Paper Received :15-09-2013
Paper Published:28-12-2013
Paper Reviewed by: 1. John Arhter 2. Hendry Goyal
Editor : Prof. P.Muthukumar

The investors have to design the appropriate level of risk and that risk is matching with portfolio. In extensive behavioral research includes two types of investors one is high estimator and another one is low estimator. In the given situations the high estimator will take more risk for earning good amount of returns and low estimators are expecting only a low returns and another name for low estimators as timid investors.

The decision-behavior of the investors completely based on the availability of the information's like magazines, journals, media and other sources. Without homework they can't able to maximize their returns and that is the new applied science of decision-making process.

Their preferences regarding investments are based on the following factors like

a. Return
b. Risk
c. Safety
d. Availability of the sufficient Information

Bubbles:

In a stock market few of them are creating the bubbles for their personal benefits against the share prices and FIIs also involved in the same activity because of they are transferring their funds from resident country to another country for the purpose of getting more returns without ethical principles. This can be identified by the investors by using the good information systems or communication system. So by doing this activity FIIs will get more benefits.

Financial Crisis:

Efficient market theory cannot explain this unexpected severe collapse in security prices despite little new information about the real economy. Behavioral finance – insisting psychology and the contagion of behavior, and recognizing that investors are poor at drawing inferences from information, provides critical insights. So this can be recognized by the investor's using good evaluation systems.

Risk perception of the Investor's

In a stock market investor's are investing their money into the securities at that time they must be update with Investment's information.

In this situation they are searching more information after that diagnosing them for good decision-making process. By doing good perception have to reduce their risk and evaluating these information's properly by the investor's for expecting good returns. Generally the decision behavior system is having both positive and negative outcomes.

The positive outcomes are drive the investor's to make them for rational decisions and negative outcomes are make them for the irrational decisions and that will be clearly understand by the following diagram.

Risk Management:

The possible return from any investment is generally based on the amount of risk and the investor is willing to take or assume. Investors will not take on greater risks without the possibility of higher earnings. This is known as a risk premium. Generally two types of risks are involved risk management one is market risk and another one is inflation risk and both can be controlled by using good strategy.

The risk of the investor's is reduced by using the diversified portfolio strategy and this is very helpful to the investor's to earn maximum returns from various portfolios. The investor has to control their risk by using different portfolios. If any one of the security will give loss to investor's and that loss is compensated by another by another security.

Asian Journal of Information Science and Technology (AJIST)
Vol1.No.2 2013 pp 22-25.
available at: www.goniv.com
Paper Received :15-09-2013
Paper Published:28-12-2013
Paper Reviewed by: 1. John Arhter 2. Hendry Goyal
Editor : Prof. P.Muthukumar

So this is a good system for reducing and managing their risk by selecting good Investment alternatives.

Summary and Conclusion:

Behavioral finance is, comparatively speaking, in its childhood. It is not a separate discipline, but instead will increasingly be part of typical finance. Behavioral financing decisions are entirely based on the EMH and analysis.

This study explained the investor's decision making process in the field of behavioral finance and how they should control or manage their risk in the uncertain period. In a stock market investor's decision making process are affected by so many factors and by using good strategies they have to take good decisions in the in the different situation like bubbles, economic melt down period also. The risk of the investors are controlled and managed by using the diversified portfolios. So the good decision making process of the investor's is shaped by evaluating the availability of the information's very effectively and efficiently.

References:

1. Richard J Thaler, (1999), 'Mental Accounting Matters', Journal of Behavioural Decision making, 12, pp 183-206.
2. Thaler,R. and Shefrin,H. (1981), ' An economic theory of self control', Journal of Political Economy, 89 (2), pp 392-410.
3.Siegel, Jeremy J., 1998. *Stocks for the Long Run, Second Edition* McGraw-Hill, New York.
4.Barber, Brad, and Terry Odean, 2001. "Boys will be boys: Gender, overconfidence, common stock investment." *Quarterly Journal of Economics* 116, 261-292.
5.Barberis, Nicholas, and Richard Thaler, 2003. "A survey of behavioral finance." in G.Constantinides, M. Harris, and R. Stulz (editors) *Handbook of the Economics of Finance* North-Holland, Amsterdam.
6. Shefrin, H, (2000),'Beyond Greed and Fear: understanding behavioural finance and the psychology of investing', Harvard Business School Press, Boston, USA.
7. Lintner, G. (1998). 'Behavioral finance: Why investors make bad decisions',T*he Planner*, 13(1):7-8.
8. Tony Brabazon , (2000). ' Behavioural Finance: A new sunrise or a false dawn?', coil summer School 2000, Univesity of Limerick, pp 1-7
9. Debont, Werner, 1998, ' A portrait of the individual investor' European Economic Review 42; pp831-834
10. Ulrich Schmidta, and Horst Zankb, 2002, 'What is Loss Aversion?' available at http://loss-aversion. behaviouralfinance. net/ ScZa02. pdf

I.