

**A Comparative Study of behavioral biasness regarding factors  
affecting investing decision while investing into Risky investment  
avenues: Stocks, Mutual Funds and Real Estate**

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Investment is the most important habit of human being. Income is divided into two parts- consumption and investment. Investment avenues of many types such as risky, risk free and with moderately risky. Investors choose their investment for different objectives but the most important aspect is the factors that affect their investment decision. As a matter of fact, the investors show behavioral biasness in their investment decisions. The present paper is descriptive in nature where survey method was used to collect the data and to analyze the factors that influence the investment decision of investors into risky investment avenues – stocks, mutual funds and real estate. The data was collected from 375 investors (125 investors from each segment – stocks, mutual funds and real estate. The data analysis has been done with the help of mean and ANOVA.

**Keywords:** Stocks, Mutual Funds and Real Estate, behavioral biasness

## **Introduction:**

Personal biasness is a common phenomenon while investing in the stock market or in any other risky avenue of investment. People use to ask their friends family members and relatives before investing in the stock market, real estate and other avenue. Investors however take decisions based on their personal research taking into consideration a large number of variables into mind. For stock market investments, the opinion of experts, brokers, brokerage house call etc. are very important. Some investors do technical analysis and use modeling also but they are mainly HNIs (High Net worth Investors). Stock market investors also discuss with the fellow investors, sometimes this behavior is terms as herding behavior but it persists in the stock market.

In case of real estate, the opinion of friends and family matter but personal liking matters the most. Real estate investment risk in India has increased a lot due to the insolvency of the builders and tendency of not given possession in time. Hence real estate investments are based on builders' goodwill more and it becomes sometimes based on liking or disliking a particular builder and finally leads to subjective behavior and biasness.

Mutual funds on the other hand are a different level of investment. Investors invest in mutual funds to mainly mitigate the risk. Mutual funds are managed by experts. Here the behavioral biases are mainly with respect to the brand name of the mutual fund service provider or the fund manager. Also, the opinion of friends and family member or opinion leaders create behavioral biasness.

## **Literature Review:**

Levitt (2015) explored about the seven behavioral biases while investing in the stock market. These biases are regency bias, choice paralysis, herding, loss aversion, confirmation bias, optimism and overconfidence, and bias blind spot.

Geurts and Jaffe (1996) found that the legal institutions should take important steps to reduce the risk of the investors. Investors perceive a high risk in the real estate investments and the same is an integral part too. In the opinion of Klimczak (2010), the issues concerning economic and physical properties of the estate that constitute its value, are of great importance for prospective investors on the real estate market. Current and future values of real estate depend upon the local authorities, their rules and regulations. This also creates and kind of risk.

Brady (2016) found that mainly three aspects determine the investment in real estate for investors when (1) they are positively correlated to the broader equity markets, which give them similar volatility; (2) their performance is highly dependent on overall stock market conditions; and (3) when the capital markets are sluggish.

Akinsola (2012) explored that commercial property is a good alternate of investment when compared with the stock market. Both Commercial property investment and stock market investment provides the opportunities to assist the investor to hedge against the risk.

Dadwal (2018) found that there are five important behavioral biases that can actually make you lose lot of money in the stock market. These are fear of missing out, mental accounting, anchored to a certain price, too much dopamine and its' different this time.

Sherman (2017) found that there are eight biases that impact the investment decisions in the stock market. These biases are Anchoring or Confirmation bias, regret aversion bias, disposition effect bias, hindsight bias, self-attribution bias, trend chasing bias, and worry.

## **Objectives and Hypothesis:**

The following are the objectives of this study:

- To measure the various behavioral biases and factors affecting the investment in stock market, mutual funds and real estate
- To find the difference among behavioral biases and factors affecting the investment in stock market, mutual funds and real estate.

**Hypothesis:**

Ho There is no difference among the factors influencing the investment decisions in Stock Market, Mutual Funds and Real Estate.

Ha There is a Significant Difference among the factors influencing the investment decision in Stock Market, Mutual Funds and Real Estate

**Methodology:**

The research is mainly based on primary data and the domain of this study is behavioral finance. The present paper is descriptive in nature where survey method was used to collect the data and to analyze the factors that influence the investment decision of investors into risky investment avenues – stocks, mutual funds and real estate. The data was collected from 375 investors (125 investors from each segment – stocks, mutual funds and real estate. The data analysis has been done with the help of mean and ANOVA.

**Data analysis and Interpretations**

**I Demographic profile of the Investors:**

**Table 1 Gender Profile of the Investors**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
Male	274	73.07
Female	101	26.93
<b>Total</b>	<b>375</b>	<b>100.00</b>

Table 1 presents the **Gender** profile of the respondents. There were 375 respondents in total. Out of them 274 are males (73%) and 113 are females (26.93%).

**Table 2 Age Profile of the Investors**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
Below 30	115	30.67
30-45	175	46.67
Above 45	85	22.67
<b>Total</b>	<b>375</b>	<b>100.00</b>

Table 2 presents the **Age** profile of the respondents. Out of 375 respondents 115 are Below 30 (30.67%), 175 belong to the age category of 30-45 (46.67%) and 85 are above 45 (22.67%).

**Table 3 Marital Status**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
Single	151	40.27
Married	224	59.73
<b>Total</b>	<b>375</b>	<b>100.00</b>

Table 3 presents the **Marital Status** profile of the respondents. Out of 375 respondents, 151 were single (40.27%) and 224 were Married (59.73%).

**Table 4 Occupation of the Respondents**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
Salaried	215	57.33
Self Employed/Business	105	28.00

Professionals	55	14.67
<b>Total</b>	<b>375</b>	<b>100.00</b>

Table 4 presents the Occupation of the Respondent. Out of 375 respondents 215 are Salaried (57.33%) and 105 (28%) are Self Employed/Business and 55 (14.67%) are Professionals.

**Table 5 Income of the Respondents**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
Below Rs. 100,000 Per Month	87	23.20
Rs. 1,00,000 - 2,50,000 Per Month	188	50.13
Above Rs. 250000 Per Month	100	26.67
<b>Total</b>	<b>375</b>	<b>100.00</b>

Table 5 presents the **Income** of the respondents. Out of 375 respondents 87 are Below Rs. 1,00,000 Per Month (23.20%), 188 are in the category of Rs. 1,00,000-2,50,000 Per Month (50.13%) and 100 are Above Rs. 2,50,000 Per Month (26.67%).

## II Behavioral aspects of Investment

**Table 6 In my Opinion Emotions affect Investment decisions in stock market, mutual funds and real estate**

<b>Category</b>	<b>No. of Respondents</b>	<b>% age</b>
To very high extent	55	14.67
To a large extent	88	23.47
To some extent	162	43.20

No Effect	70	18.67
<b>Total</b>	<b>375</b>	<b>100</b>

Table 6 shows the Opinion about how emotions affect Investment decisions in stock market, mutual funds and real estate. 14.67% feel that emotions affect the investment decisions to very high extent. 23.47% consider that emotions affect the investment to a large extent. At the same time 43.2% feel that emotions affect the investment to some extent and lately 18.67% feel that the emotions do no effect the investment decisions.

### **III Factor affecting investing decision while investing into risky investment avenues – Stock Market, Mutual funds and Real Estate:**

Table 7 shows the mean values for the factors affecting investing decisions while investing into Risky investment avenues. The mean values have been calculated on a five point Likert scale by multiplying the scale with the number of respondents and lastly dividing the same by the total number of respondents.

**Table 7 factors affecting investing decision while investing into Risky investment avenues**

<b>SL. No.</b>	<b>Factors affecting</b>	<b>Stock Market</b>	<b>Mutual Funds</b>	<b>Real Estate</b>		
		N=125	N=125	N=125		
1	Advise of broker or Middlemen	3.58	3.45	3.67	3.146	.0442
2	I invested in a particular stock/ scheme/property	3.88	3.20	4.28	76.675	.0000

	because I liked it					
3	Newspapers and magazines	3.13	2.92	3.36	12.456	.000
4	Personal research and information collection	4.25	3.59	4.20	34.728	.000
5	Use of Modeling techniques/ statistics/ tools	2.11	2.04	1.69	273.463	.000
6	Financial/ Investment Websites	3.94	3.86	3.18	44.8529	.000
7	Advise of Experts	4.10	3.99	3.92	2.117	.121
8	Gut Feeling (personal feeling)	4.07	3.46	3.84	24.40	.000
9	Advise of friend, family member or relative	3.51	3.44	4.24	50.485	.000
10	I invested because any of my friend, or family member invested in same stock/MF/Property	2.66	2.58	3.41	53.914	.000
11	Astrology, Numerology etc.	1.52	1.20	2.61	140.533	.000

The mean value of 'Advise of broker or Middlemen is similar for all three kinds of investments. However more difference can be noted between mutual funds and real estate. Middlemen plays most important role in case of real estate as compared with stock market and mutual fund. Similarly, real estate investment is more based on personal liking as compared to mutual funds. In case of newspapers and magazines real estate shows the greatest mean. In case of 'Personal Research and information Collection', mean value of stock market is much higher than mutual funds and similar to real estate. However, not many people prefer using modeling techniques or statistical tools except a few in the stock market and very little in mutual funds. The mean value of real estate in this context is 1.69 upon 5, which is very less.

The financial and investment website are more referred in case of stock market and mutual funds as compared to real estate. Advice of expert is found relevant for all the three investment types. In case of advice from friend, family member or relative real estate has a far more mean value of 4.24. In case of 'I invested because any of my friend, or family member' invested in same stock/MF/Property, it was found that real estate is more influenced by this factor as compared with stock market and mutual funds. Real estate investors were also found influenced with astrology or numerology. Stock market investors are bit influenced and mutual fund investors are influenced a little.

### **Significance of the Difference:**

Table 7 shows the means of three difference investment options for various factors influencing the decision. However, the limitation of this table is that it does not show whether these mean differences are significant or insignificant. To check the significance of the difference, ANOVA was applied, ANOVA is used when there are more than 2 groups / categories for comparison. The comparison and level of significance has been given in the table 8.

**Table 8 Results of ANOVA for Difference among the Factors Influencing investment decision in Stock Market, Mutual Funds and real estate**

<b>SL. No.</b>	<b>Factors affecting</b>	<b>DF</b>	<b>ANOVA</b>	<b>Sig.</b>
1	Advise of broker or Middlemen	374	3.146	.044
2	I invested in a particular stock/ scheme/property because I liked it	374	76.675	.000
3	Newspapers and magazines	374	12.456	.000
4	Personal research and information collection	374	34.728	.000

5	Use of Modeling techniques/ statistics/ tools	374	273.463	.000
6	Financial/ Investment Websites	374	44.8529	.000
7	Advise of Experts	374	2.117	.121
8	Gut Feeling (personal feeling)	374	24.40	.000
9	Advise of friend, family member or relative	374	50.485	.000
10	I invested because any of my friend, or family member invested in same stock/MF/Property	374	53.914	.000
11	Astrology, Numerology etc.	374	140.533	.000

Table 8 Results of ANOVA for Difference among the Factors Influencing investment decision in Stock Market, Mutual Funds and real estate. The results also tests hypothesis of the study:

Ho There is no difference among the factors influencing the investment decisions in Stock Market, Mutual Funds and Real Estate.

Ha There is a Significant Difference among the factors influencing the investment decision in Stock Market, Mutual Funds and Real Estate

### **Interpretation of Results:**

Table 8 shows three different type of values, DF, which is degree of freedom, F value, which is the calculated value of ANOVA (this value represents the variance) and lastly significance value. If significance value is below .05, then the difference is considered to be significant.

As per the table 8, except Advise of broker or Middlemen and Advise of Experts, for all the other statements the difference has been found significant. It shows that in all three investment decisions – stock market, mutual funds

and real estate the advice of broker or middlemen and advice of experts are always taken to the same level.

### **Findings and Conclusion:**

The present study is focused on some critical aspects of investment in the risky avenues. Stock market is considered the most risky followed by mutual funds and real estate. In real estate the capital invested is considered safe, however, in mutual funds the risk is highly diversified and managed by experts. The investment in stock market requires lot of personal and professional efforts. However, the risk in mutual funds is considered as low return than expected or negative returns and in real estate low appreciation or devaluation is considered as risk.

The mean value of 'Advise of broker or Middlemen is similar for all three kinds of investments. However more difference can be noted between mutual funds and real estate. Middlemen plays most important role in case of real estate as compared with stock market and mutual fund. Similarly, real estate investment is more based on personal liking as compared to mutual funds. In case of newspapers and magazines real estate shows the greatest mean. In case of 'Personal Research and information Collection', mean value of stock market is much higher than mutual funds and similar to real estate. However, not many people prefer using modeling techniques or statistical tools except a few in the stock market and very little in mutual funds. The mean value of real estate in this context is 1.69 upon 5, which is very less.

The financial and investment website are more referred in case of stock market and mutual funds as compared to real estate. Advice of expert is found relevant for all the three investment types. In case of advice from friend, family member or relative real estate has a far more mean value of 4.24. In case of 'I invested because any of my friend, or family member' invested in same stock/MF/Property, it was found that real estate is more influenced by this

factor as compared with stock market and mutual funds. Real estate investors were also found influenced with astrology or numerology. Stock market investors are bit influenced and mutual fund investors are influenced a little.

Advice of broker or Middlemen and Advice of Experts has similar influence across all investment avenues. Middlemen plays most important role in case of real estate as compared with stock market and mutual fund. Real estate investment is more based on personal liking and a positive impact of newspapers and magazines has also been observed. 'Personal Research and information Collection' affects the stock market investment the most. The financial and investment website are more referred in case of stock market and mutual funds as compared to real estate. Advice of expert is found relevant for all the three investment types. Real estate investors believe more in advice from friend, family member or relative and they also invest where their friends or relatives have invested. Real estate investors were also somewhat influenced with astrology or numerology.

Since, for all the three avenues of investment are more or less affected by personal choice hence it may be considered that behavioral biasness play a significant role in selection the investment avenues.

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