A Review Study on Financial Investment Decision of Individual Investor Based on Their Behavioral Biases and Other Aspects

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Abstract
Investment in a wide range of securities and financial instruments has resulted from the growth of the financial markets. Thus, behavioural finance has illuminated how the characteristics and thought processes of investors impact their intents and decisions while making investments. We did a thorough analysis of the most recent studies on the major variables influencing people's behaviour and investing decisions. By using bibliometric analysis, this study seeks to provide a thorough method for assessing qualitative elements that affect investors' intentions and behaviours when making financial investments. By examining the causes and methods of individual investors' decision-making, especially in emerging markets, the study advances the discipline of behavioural finance.

Keywords: Investors' Intention, Behavioural Finance, Investment Decisions, Qualitative Factors.

1.0 Introduction

Investors allocate their capital between debt and equity assets in accordance with convention in order to optimise their prospective returns. Given the latest market developments, investors might want to think about making portfolio adjustments. Investors must make decisions in an unpredictable and uncertain environment, frequently using conventional heuristics or trial-and-error methods. Emotional and cognitive aspects are considered while evaluating investing possibilities, which may undermine rational behaviour in decision-making. The expansion of the financial industry has made it possible for people to invest in a wide range of financial instruments.

Behavioural finance has made major contributions to our understanding of individual investors' behaviours by clarifying the psychological processes and personal traits that influence investors' intentions and subsequent actions. The complexity of the financial services sector has increased, leaving prospective investors unsure on how to proceed with their investment decisions. The variables influencing the investing choices of individual investors have been the subject of research in the finance domain. According to the primary data analysis, the main considerations for individual investors when making investment decisions are return, risk, and prior performance of the firm's financial statements.

2.0 Methodology

The whole secondary nature of the study is intended to shed light on the variables influencing individual investors' investment choices. By examining the motives and decision-making processes of individual investors, particularly in emerging markets, the study advances the discipline of behavioural finance.

2.1 The study's objectives are to:

1. Examine the research, look at the variables that effect, and consider the challenges people have while trying to find worthy investments.
2. To ascertain the elements influencing each investor's investing choices and the perception of their behavioural biases.

Among the criteria utilised to select the current research on the topic were highly referenced research works on investment decisions, specifically the elements effecting the investment decisions. Because it provides the most recent research studies that are now accessible on Google, EBSCO was selected for the review. Future academics can utilise the results to learn more about the elements that individual investors currently deem most important when making stock investment selections.

3.0 Literature Review

(Sinha & Shunmugasundaram, 2023) explains through a thorough review how different behavioural biases affect the decisions investors make about their investments. Three main types of biases are the topic of many works: overconfidence, herding, and the personality effect. There has been a lot of research done on the behavioural biases that affect investors' decisions to invest in the capital, stock, or equity markets. Twenty-one distinct types of biases impacting investors' investment decisions were identified by this systematic review.

(Hassan, Abdul-Rahman, Amin, & Hamid, 2023) describe how the study came up with these seven themes/factors: information-related, product-related, socio-demographic, microeconomic or firm-specific, personal, societal, macroeconomic, or financial development. The identification of 153 correlations, which taken together painted a complete picture of every facet examined during the preceding six years in behavioural intention–decision making examinations, set the groundwork for more study. Among the most reliable indicators include a company's reputation, accounting disclosure, product attributes, attitude, subjective norms, perceived behavioural control, personality traits, heuristics, emotions, and financial literacy.

(Lin, 2023) characterises investing in financial products as a dynamic activity. Companies usually have a number of objectives in mind when they invest their money. Investment proposals should be carefully and impartially examined in light of the existing situation. It is advised to use the NPV and IRR approaches together. NPV is the main method, and IRR is a powerful supplement. The evaluation and decision-making processes for financial investment projects are complex. Before making any decisions, those involved in investment projects should prudently manage their funds, assess the project's potential risks, and use a little initial investment to yield huge profits.

(Feng, 2022), The study uses heterogeneous data from multiple sources to investigate how investors' past results influence their decisions. It makes predictions about financial risk by looking at investor behaviour. In order to investigate the characteristics of investor behavioural psychology, the research combines behavioural finance with data from multiple heterogeneous sources. It looks at the characteristics of behavioural financiers and their approach to investing. The study provides empirical analysis and insights about investors' decision-making behaviour and financial risk prediction based on changes in assets, closing assets, and opening assets.

(Anita Kumari, 2022) examines the theories and concepts of behavioural finance and attempts to rationalise the irrationality of the behaviour of individual investors. Investment is one of the main drivers of the country's economic growth. Throughout the past few decades, investing habits have been more and more impacted by illogical factors. The concepts of behavioural finance, such as prospect theory, heuristic, herding, theory of planned action, etc., are thus based on the observation that psychological variables and behavioural biases affect the irrational behaviour of individual investors when they make financial decisions. An analysis of the many theories and concepts in behavioural finance provides insights into the factors influencing investment decision-making. The study's findings might be helpful to future researchers who wish to improve the capital market's efficiency for economic growth.

(Romina Mathew, 2022) returns, risk, and past stock performance are the three key factors that individual investors evaluate when making investing decisions, according to the primary data analysis results. The new study broadens our understanding of the psychology and motivations of individual investors in the micro-discipline of behavioural finance, especially with regard to emerging markets. The findings of this study may potentially be used in future research to gain understanding of private investors' present preferences with relation to the factors influencing their stock investment choices.

(Ruetschi, 2022) reveals that the goal of his research is to provide a financial decision framework that is essential for both the development of value methodology and a thorough business transformation. It does this by exploring the basic principles of strategic decision-making. As the first stage of financial decision-making, it defines the three main elements of classical financial analysis: financial statements, ratios, and leverage. It also offers several approaches to valuation that help move from an accounting-focused strategy to an economic viewpoint, which makes the frameworks change from static to dynamic. The study highlights the importance of financial modelling and provides an example of how it helps shift the focus from evaluating individual enterprises to pricing tradable assets in the setting of capital market equilibrium. Additionally, it presents a framework for assessing financial crises and market disruptions, improving decision-making processes by coordinating them with economic reality and promoting a broader perspective for making decisions.

(Alqam, Ali, & Hamshari, 2021) demonstrates how financial analysis using ratios has become increasingly important as a tool for evaluating the quality of the establishments' product and how they operate. In addition, decision-makers estimate the status of the economy and identify the benefits and drawbacks of the data from financial analyses by using ratios. Investors take into account a number of financial ratios when choosing which investments to make, but they pay more attention to the ratio of profitability than to the ratio of debt. Nonetheless, investors and credit officers differ in their assessment of the significance of various financial statistics; the latter are more drawn to the debt ratio than the former.

(Siska Atmaningrum, 2021) confirms that a variety of elements, including financial knowledge, income, self-control, financial behaviour, and financial attitude, are taken into consideration when making investment decisions. The author of the hypothesis concludes that investment decisions, financial behaviour, and financial attitudes are influenced by financial knowledge, income, and self-control. Thus, the author makes it clear that while self-control has an impact on financial behaviour and attitudes, it does not influence investment decisions. On the other hand, income has an impact on financial attitudes, and it has been noted that financial knowledge has an impact on investment decisions.

(Jain & Kesari, 2020) explains that Customers make significant selections based on their investment risk tolerance and are aware of the societal prejudices they may encounter due to their unique personalities. A relationship exists between the way investors behave and their mental and psychological traits that have shaped how much risk they can tolerate. This study has employed the 5-factor personality framework to determine its behavioral aspects. This study did not investigate the relationship between behavioral prejudices and the perception of financial hazards, nor the relationship between cognitive prejudice and the awareness of personal danger.

(Istiana & Nur, 2020), Financial conduct can be used as a lens to understand the decision-making behaviour of investors. Weighing the advantages and disadvantages of various possibilities while taking complex conditions into account is necessary to make an informed investment decision. The research examined the ways in which anchoring bias, loss aversion, and overconfidence aided active students at the UPN "Veteran" East Java Faculty of Economics and Business in making more informed investment choices. The results showed that anchoring bias, loss aversion, and overconfidence all contribute to better investing decision-making. The model was able to describe the phenomenon of loss aversion, overconfidence, and anchoring bias having an impact on investing decisions, with a variance of 46.5%. The remaining 53.5% of the variance was explained by other factors that were outside the purview of this investigation.

(Greenberg & Hershfield, 2018) notes that there are several conferences, research institutes, and journals devoted to the well-established field of consumer research known as consumer financial decision making. The literature on consumer financial decision-making—which covers subjects linked to personal finance—is arranged according to the principle of financial well-being. The three main areas of focus for the field's current corpus of research are the impact of situational conditions on financial well-being, the psychosocial elements that influence financial well-being, and financial behaviours that improve financial well-being. The area of consumer financial decision making is multidisciplinary, encompassing ideas from marketing, psychology, finance, and economics. The overview of prior research in this study emphasises more recent work over the last ten years in order to highlight the current trend of the field.

(Joo & Durri, 2015) clarifies that In order to comprehend and explain how people make financial decisions, the area of behavioural finance integrates foundational concepts from traditional economics and finance with psychological concepts. It looks at the ways in which people's investment is influenced by emotions, cognitive biases, and other psychological aspects. This field, which seeks to improve decision-making models and challenge the tenets of conventional finance theory, places a strong emphasis on the role that psychological biases play in decision-making. As for behavioural finance, there is currently no single cohesive theory, but instead the emphasis is on detecting abnormalities in portfolios that can be attributed to a variety of psychological characteristics in people or communities. Profiting from these behavioural biases can result in extremely profitable portfolios, which is the aim. From this vantage point, it is clear that maximising profits and acting rationally are not enough, since they do not take into consideration the unique behavioural characteristics and prejudices that exist in analysts, investors, or portfolio managers.

(Virlics, 2013) shows that an investor's decision to make an investment is a personal one. His decision is based on the expected costs, his knowledge of the improved techniques, and his completely subjective risk assessment. Before making an investment, an investor should precisely and completely understand all of the available opportunities; they shouldn't be made quickly. Unwise financial decisions have the potential to bankrupt people. It is important to look at investment hazards from both an objective and a behavioural economics standpoint. Further study is needed on the risks connected to investing decisions as well as the perception of risk during the decision-making process because it is the perception of risk that will eventually influence the decision.

4.0 Conclusions

In accordance with the aforementioned, individuals can enhance their investment acuity by considering specific exceptions as they strive to attain their capital investment objectives.

Through a comprehensive examination of various research studies, it has been determined that investors take into consideration numerous factors when making investment decisions. These factors encompass behavioural biases, psychological aspects, investors' attitude, historical trends, industry economies, capital budgeting, risk and return assumptions, irrational influences, financial statements, ratios, and leverage.

Although decision-making in the financial world is influenced by a range of factors, it is behavioural biases that exert the most significant impact on investment decisions, surpassing other factors. By highlighting the impact of self-deception, social influence, emotion, and heuristic simplification decision-making biases, this challenges the prevailing belief that investors rely solely on utilitarian rationality and cognitive errors.

One should understand that by entering into investing activities you're investing against computers, institutional investors, and others around the world with better data and more experience than you. The odds are overwhelmingly in their favor. Taking advantage of dividends, mirroring indexes, and extending your time horizon will probably help you accumulate money over time. Fight the impulse to think that your knowledge and instincts are superior to those of other people in the market. When making investments, investors should steer clear of behavioural biases like overconfidence, remorse, paying too little attention, and shifting trends. The review acknowledges the significance of including psychological factors in the understanding of investor behaviour and suggests that a well-informed approach to financial decision-making necessitates the utilization of both traditional and behavioural finance theories.

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