

The impact of indian investor's attitude on regret aversion

Parts of the World, Asia



ABSTRACT

The regret aversion is one of investor's psychological subject to study. Investors have a tendency to avoid regret that will have a powerful effect on investor's choice to make financial decisions. Similarly regret is the generally found and observed in individuals specifically when they take investment decisions. However, this tendency is harmful for their portfolio they have invested in. In the present study researchers have tried to find out impact of Investor Attitude on Regret Aversion by using General Linear Model. The results are useful in Indian context. The objective of this study is to scrutinize theatrically the regret aversion, its effect on investors' behavior and how to deal with such psychological biases.

Keywords: Regret aversion, risk, investor psychology

INTRODUCTION

Regret Aversion in simple words is the trend to avoid making decision due to the fear of experiencing the hurt of regrets. investor avoid taking vital actions due to regret aversion because they fear that, in perception, whatever course they select will prove less than perfect. Essentially, this bias seeks to forecast the pain of regret associated with poor decision making. There is a role of regret aversion in decision making. Specifically, it examines how regret aversion influences decision process, choice, and post-decisional behaviors and feelings most investors are familiar with the painful cramps of regret resulting from adverse Consequences of a decision, such as losing money after making a senseless investment, or feeling upset after taking the wrong decision about investment. Regret is considered an important

negative emotion. This research focuses on influence of investor psychology on regret aversion. This study examined investors' decisions to realize gains and losses in the any kind of financial decision they make. Specifically, the attention is focused on the experienced and inexperienced male and female investors.

LITERATURE REVIEW

Bell in (1983) put regret aversion as people may be failing to pay premium to avoid consequences that produce the decision regret because under condition of indecision, people have fear of taking wrong decision. Simonson (1989); Slavic (1975) studied the effects of decision making and explained as the result of decision makers, tendency to make easily justifiable reason-based choices. All violate certain normative principles of choice. However, as a pretest showed, the justifications underlying the effects are not all are considered equally unreasonable. Simonson (1992) found those investors who have influence of expected regret are not willing to assume high risk that reduces the potential for poor outcomes. Zeelenberg, beattie and de vries(1996) state that regret theory is an action based theory. The utility of a choice option depends on the felling created by the result of rejected options. Zeelenberg (1999b) and Roese (2005) found regret can tell us that we could have done better by choosing a different option. The regret experienced after trusting an untrustworthy leader, losing money in a phony investment, cheating on one's spouse, or not blowing the whistle about corporate wrong -doing is likely to increase the probability of better choices in the future. By making better choices, in turn, decision makers should experience less regret. Thus, being willing to experience regret in the short -

run might lead to better choices and less future regret. Thaler (2005) contends that investors might sell winners and hold losers because they expect their losers to outperform their winning stock in future. Investors who buys a stock because of favorable information might sell that stock when it goes up because they believe that their information's are how reflected in their price. On the other hand if the stock goes down she may continue to hold it, believing that the market has not yet come to appreciate their information. Reb and Connolly (2005) justified of the decision process may be of even stronger importance for the experience of regret. In the series of development - based studies, tested the effect of decision process quality on anticipated regret. Based on the above extensive review of literature the objectives of the study were formulated to carry out a study on Investor Psychology and Regret Aversion in Indian context. The review was used as base for questionnaire preparation too. R

RESEARCH METHODOLOGY

For the purpose of data collection, primary data was collected and a uniform questionnaire was formed and standardized in context of Indian investors. Responses were asked on Likert-type scale 1 to 5, where 1 stands for minimum agreement and 5 stands for maximum agreement would be used. The questionnaire which was distributed both offline and online to reach out to wider population in different region of India. The sample of 92 individual investors was drawn including 72 male and 20 female to categorize the sample data. After analysis of the sample, the following groups were found to be optimal based on two judgment criteria: age of the respondent and years of investment experience in the stock market.

(i) Experienced: Investors aged above 30, with at least 3 years of investment experience.

(ii) Inexperienced: Investors aged 30 or below, with less than 3 years of investment experience. For analyzing the data and hypothesis testing weighted scoring method was performed to test the robustness and Chi square was used to test the probability of association or independence of facts. FINDINGS Regret Aversion occurs from the investor's desire to avoid the pain of regret arising from a poor investment decision. As a result of this, investors could end up holding on to poorly performing shares because avoiding the sale avoids the recognition of associated loss and in turn, of a bad investment. When asked (1) whether they have made the wrong decision 86% of the investors replied that they sometimes did it and when asked (2) whether they have put off an investment decision because of wanting more positive news about a stock, 74% of the investors admitted that they had done it sometimes.

1. Have you holding your investment for too long, because you know the price will reverse soon.

2. Have you put off an investment decision expecting new and favorable (positive) information release regarding the stock? Answers to both questions were combined to perform a composite analysis of the bias. It can be seen in below Table 1 that close to 20. 7% of the investors seem to be confirmed subjects to the bias, while 66. 3% of them could be thought of as possible subjects.