The Impact of Behavioural Biases on Investment Decision Making

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ABSTRACT

The main objective of the study is to investigate the behavioral biases that affect the Egyptian individual investors' investment decisions. Five behavioral biases have been selected to be tested in the study: Representativeness, Overconfidence, Anchoring, Loss Aversion and Regret Aversion. Primary data was Collected in this research by surveying 205 Egyptian investors. Smart PLS software was used to test the hypothesis and to conduct the analysis. The results concluded showed that Overconfidence, Loss Aversion and Regret Aversion have significant impact on Egyptian investors' decision. Financial intermediaries will be able to advise their clients with the help of the results of this study.

INTRODUCTION

Behavioral Finance assumes that investors are normal human beings that are not completely rational and can be biased over behavioral elements. The Discussed five biases: Overconfidence assumes that investors see their judgement is more reliable than others. Representativeness assumes that a certain pattern will be repeated and continue to happen in the future. Anchoring assumes that investors take irrelevant and pre-existing information and take a decision based on that information. Loss Aversion assumes that investors prefer to avoid losses than to acquire gain. And finally Regret Aversion assumes that investors fear taking decisions to avoid regret and not to admit their mistakes. Decision Making is built on the principle of a trade-off between risks and returns which means placing of funds today to generate revenues in the future form of an income flow or capital gains.

OBJECTIVES

1) To examine the impact of behavioural biases on investor's investment decisions in Egypt
2) To determine the key behavioural biases that affect the investment decisions

HYPOTHESES

H1: Representativeness has a significant impact on investment decisions

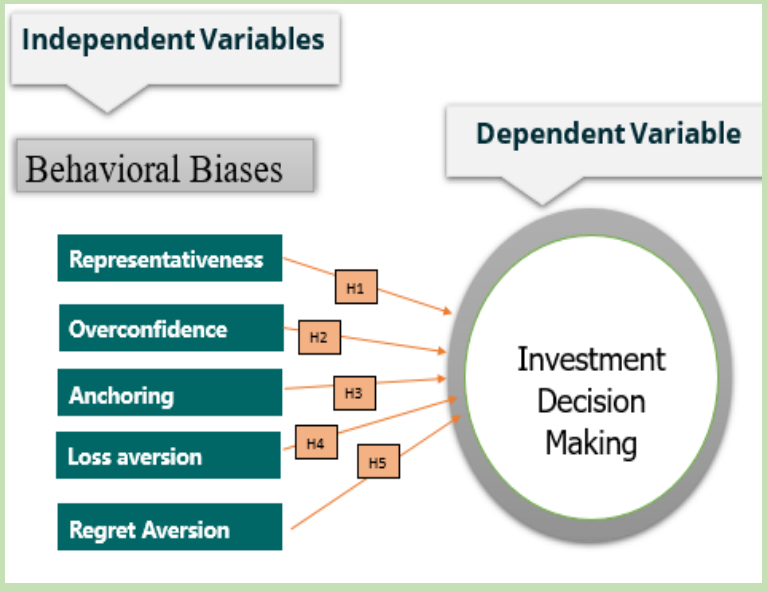
H2: Overconfidence has a significant impact on investment decisions.

H3: Anchoring has a significant impact on investment decisions.

H4: Loss Aversion has a significant impact on investment decisions.

H5: Regret aversion has a significant impact on investment decisions.

METHODOLOGY



RESULTS

	T statistics	P value	significance
Repres..... > inv dec	0.407	0.0684	insignificant
Over conf .....> inv dec	4.535	0.000	significant
Anch .....> inv dec	0.766	0.444	insignificant
Loss aver .....> inv dec	3.438	0.001	significant
Regret aver ....>	2.007	0.0445	significant

CONCULUSION & RECOMMENDATIONS

- Cronbach's Alpha reflects the good reliability of the questions used in the questionnaire as it is ranged from 0.560 to 0.773.

- According to the path analysis, the researchers found that there is a significant impact between overconfidence, loss aversion & regret aversion and investors' decision making, and found that representativeness & Anchoring have insignificant impact on investor's decision making.

- The financial intermediaries have to understand the effect of the irrational behavior of investors and help them to overcome these biases in their investment decisions.

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