Behavioral Biases & Investment Decisions: Single-Asset VS Portfolio Investors

By

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DEDICATION

This thesis is dedicated to my father, who always pushed me when I was feeling down, who saw potential in me to reach this far and also taught me that the best kind of knowledge to have is that through which others can also suffice. It is also dedicated to mine and all the mothers around the world who sacrificed their lives so that we can fulfill our dreams. Last but not the least, it is dedicated to Dr. Taqadus Bashir, without her dedicated support and supervision it would not have been possible.

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Abstract

Behavioral biases affecting investment decisions are no longer a delusion as there are many studies confirming the existence of behavioral factors. This research also has a purpose of pointing out and testing the presence of selected behavioral biases in investors. This study includes the investors who invest their money in a single asset in comparison to those investors who make investment in multiple assets creating a portfolio to diversify their risk and reducing the chances of total loss in case of bearish trend in the market. Biases selected for this research consists mainly of cognitive and emotional biases which are further divided into seven categories including three cognitive biases (self-attribution, illusion of control, mental accounting bias) and four emotional biases (loss aversion, regret aversion, optimism and status quo bias).This is a descriptive research so a well-structured questionnaire is used to collect the primary data. Questionnaires were distributed among 400 respondents, 251 of which consist of multiple assets while 149 were those who have investment in a single asset. The reliability of the items used in the questionnaire is tested using Cronbach's alpha and correlation of items with their corresponding variable is also tested, further the statistical tools which are used to test the influence of behavioral biases on investors decisions includes regression analysis. The strength of the relationship between variables is tested through correlation. T-test is used to measure the individual significance of variables. Results of the research indicate that investors are affected by behavioral biases while making investment decisions. Research also indicate the presence of self-attribution, illusion of control, loss-aversion and regret aversion bias in multiple-asset investors while the single-asset investors are affected by loss-aversion and status quo bias. Loss-aversion is the only common bias found in both single-asset and multiple-asset investors. Results of correlation indicate moderate positive relationship between behavioral biases and investment decision making.

Keywords*:* Behavioral biases, investment decisions, single-asset investors, multiple-asset/portfolio investors.