

THE EFFECT OF INVESTOR'S PSYCHOLOGY ON INVESTMENT DECISION MAKING: AN INVESTIGATION INTO THE BEHAVIORAL FINANCE PERSPECTIVE

BY

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ABSTRACT

PURPOSE: The purpose of research is to rule out the incurrence of behavioral factors among the investors while making any investment decision. To explore the fact, implication of behavioral finance is being taken into consideration. As aspect of behavioral finance has not yet been explored so far in Pakistan as it is in other countries of the world. Through the study, an understanding as well as awareness about the behavioral biases will be created that could guide the investors for making worthy investment decisions. Moreover, the financial analyst would be well educated to assess the human's psyche relative to an investment scenario and likewise the analytical facts and figures and so accommodate them accordingly.

METHODOLOGY AND DATA: The data is gathered through primary sources (i.e. questionnaires) from the investors residing in the east district of Karachi, particularly Gulshan-e-Iqbal and Bahadurabad. Further, the study is explanatory, quantitative and descriptive in nature. The data is collected, sorted and analyzed to find the effect of investor's psychology on investment decision-making. Moreover, to reach the outcome of research, the statistical software i.e. SPSS is integrated.

FINDINGS: From the analysis, it is found that there is an impact of the investor's psychology on the investment decision-making process. Further, the model is found significant at 0.01 significance level.

PRACTICAL IMPLICATION: The study verified the assumption about the existence as well as implication of behavioral finance in the context of investment relative to the investor. It is evident through the data analysis that the investors unintentionally fell victim to the cognitive errors relative to the investment activity while placing less liability to the available analytical facts and figures. So, it is construed that the investors must avoid to make partial approximations about a certain investment scenario, happen due to their inclination to the shortcuts or the use of heuristics in the decisions that require in depth analysis.

KEYWORDS: Investor's Psychology, Behavioral Finance, Cognitive Error, Investment Decision-making, Heuristics

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