

Investment Behaviour of Retail Investors Based on Individual Heterogeneity and Psychological Biases

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The study examines how individual heterogeneity in respect of awareness and perceived risk attitude impacts the psychological biases like heuristics, prospects, markets and herding and thereby investment behaviour of retail investors. The study uses a structured questionnaire to collect direct responses from a sample of 450 retail investors from the state of West Bengal, India. It introduces Cronbach alpha for reliability test of the scale used, factor analysis including Kaiser-Meyer-Olkin (KMO) test to assess the relative importance of the factors considered under the variables, correlation coefficient and probit regression model to establish the relationship between the variables. The study finds awareness and perceived risk attitude to regulate one or the other psychological biases and thereby shape retail investor's behaviour. The study provides important corollaries in the sense that it helps the stakeholders of the personal finance industry to critically understand the psychological interactions attached to the investment decisions of individual investors.

I Introduction

The behavioural finance proclaims that investors are subject to sentiments, which simply means that at the time of investment, investor's emotional inclinations, ingrained thought patterns, psychological biases and other factors may affect their investment behaviour. DeLong, Shleifer, Summers and Waldmann (1990) also highlighted the presence of both rational arbitrageurs or sentiment-free investors and irrational traders in the security market. More specifically, the investor's sentiment is driven by the complex interaction among a handful of psychological traits (Zaidi and Tauni 2012) during an investment decision. Most of the time, though investors think themselves to be rational and logical, at the time of

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