

IMPACT OF HERD BEHAVIOR ON INVESTMENT DECISION

A. Arun Kumar

Assistant Professor in Management, Karpagam Academy of Higher Education, Coimbatore – 21

Dr.M.S. Sibi

Assistant Professor in Management, Karpagam Academy of Higher Education, Coimbatore - 21

ABSTRACT

Behavioral finance recognizes how investor emotions impact their decision. The study intends to find herd behavior, which influence investor's decision. The primary objective was to explore the influence of herd behavior on investment decision. Study also proposes to analyse the influence of demographic profile of the investors on herd behavior. The study found the influence of herd behavior on investment decision but the relationship between Demographic profile of the investors and herd behavior was found to be insignificant.

Keywords: Herd behavior, Investment decision

INTRODUCTION

(Thomas, 1995) opine when people doubt their own knowledge and values others. Thus, they tend to behave as 'second-hand' member's copy others, and act after observing the behavior of the leaders, thus it leads to herding. According to Welch (2000), and Hirshleifer and Teoh (2003), it is a mutual reaction leading to convergence in action space. It is also said to be the patterns of behavior, that are clustered or connected across individuals by interaction, where the incentive to adopt a behavior increases with the number of previous adopters (Kim and Pantzalis, 2003; Welch, 2000). Further, human beings are social beings and hence they have inherently a strong belief in group behavior. When in an unpredictable environment, he or she considers that his or her personal security would be better off and even enhanced through cooperative behavior. Skyrms (2004) and Richerson and Boyd (2005), opines inherent behavior of humans makes them to be inclined towards group behavior and a number of studies have proved that herding mentality is not just limited to novice investors. It is also exhibited by professional investors (Dennis and Strickland, 2002; Sias, 2004;). Despite numerous previous experiences, herd behavior occurs in the stock markets over and over again. A classic example of herd behavior is the dot-com burst and the internet bubble.

REVIEW OF LITERATURE

Menike et al. (2015) examined the investors of Colombo stock exchange and found that they were influenced by herding, heuristics, prospect, market and contextual. The study discovered that only herding, heuristics, prospects and market influenced investment decision. Lingesiya Kengatharan and Navaneethakrishnan Kengatharan (2014) explored behavioral biases at the Colombo stock exchange. Behavioral factors such as herding, prospect, heuristics and market have impact on investment decisions but these factors did not have impact on investment performance. Haroon Khan et al (2011) studied the investors inclination towards herd behavior in four European countries Germany, France, Italy and UK. Results of the study indicated the presence of herding in the financial markets of four countries not only during anomalies but also during the normal period of the stock markets. Simon Jurkatis et al. (2012) explored the herd behavior in German stock market. Results suggested that identical reaction of investors are not because of herd behavior, it is due to common reaction of new information. Franco Caparrelli (2004) explored the herd behavior in Italian stock markets, the study found herd behavior exists in extreme market conditions of Italian stock markets but the presence of herd behavior was not found during normal market conditions.

OBJECTIVES OF THE STUDY

- To explore the influence herd behavior among Indian equity investors.
- To analyse the influence of demographic factors on herd behavior

Hypotheses of the study

- ❖ H01: Demographic profile of the investor does not have significant difference on herd behavior
- ❖ H02: Herd behavior do not have impact on investment decision

RESEARCH METHODOLOGY

The study adopted a structured questionnaire, for collecting primary data, for the purpose of measuring investment decision and herd behavior. Questionnaire adopted the 5-point Likert scale with situational questions, to measure the investors, decision making and biases. 150 questionnaires were distributed to the investors but only 116 questionnaires were properly filled remaining were not taken into consideration for the study. Data were

computed, using SPSS package and statistical tools, used for the study, were ANOVA, t-statistics and Regression analysis.

ANALYSIS AND INTERPRETATION

Table 1
Results of T- statistics for Differences among the Gender of the Respondents and Behavioral Biases

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
HB	Equal variances assumed	0.095	0.759	1.021	114	0.31	0.14655	0.14359	-0.1379	0.431
	Equal variances not assumed			1.066	51.916	0.291	0.14655	0.1375	-0.1294	0.42247

Source: Primary Data

Table-1 presents Levene’s Test outcomes for Homogeneity of Variance and the results of Independent Sample ‘T’. ‘T test’ presumes homogeneity of variances throughout observations. While noticing the results of Levene’s Statistics, it was found that the ‘p’ value was not significant five percent level (0.05), with Levene’s statistic value of herd behavior being 095. This implied that these two groups did not have equal variances and hence the researcher applied the independent sample ‘t’ test. According to the Table-1 ‘P’ value, for the herd behavior at .310 was greater than the 0.05 and implied that it was statistically insignificant. From the statistical value it can be inferred there was no significant difference among gender of the respondents towards herd behavior. Hence accept the **H01: “Gender of the investors does not have significant difference on Herd behavior”**.

Table 2
Income and Herd Behavior - ANOVA

		Sum of Squares	Mean Square	F	Sig.
HB	Between Groups	3.391	1.13	2.626	0.054
	Within Groups	48.199	0.43		
	Total	51.59			

Source: Primary Data

Table-2 explains the outcomes of (ANOVA), for finding the variance between income of the respondents and herd behavior. For herd behavior the sum of squares values between group was 3.391 and within groups, it was 48.199. The F -value for herd behavior was found to be 2.626, which was insignificant at the five percent level (.054>.05 Sig value) and this indicated that income of the respondents have no significant difference on Herd behavior. Hence accept the **H01: “Income groups of investors do not have significant difference on herd behavior”**.

Regression analysis

Table3
Results of Regression Model Fitness for Herd Behavior and Investment Decision Making

Model Summary				
Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	.597 ^a	.356	.351	.50642

b. Predictors: (Constant), DE, HB

Source: primary data and computed by using SPSS

(HB-Herd Behavior)

Table-3 displays the results of model summary which highlight the model fitness, considering investment decision as dependent and herd behavior as independent variables. The ‘R’ exhibits the degree of association among two variables. ‘R’ value of the herd behavior was 59.7% and this signified herd behavior relationship with investment decision. R square value indicates the extent to which investment decision explains herd behavior. In the model, 35.6% of variation in investors, decision could be explained by herd behavior. Though the percentage explained was small, herd behavior on investment decision could not be ignored.

Table 4
Herd Behavior and Investment Decision Making

Coefficients ^a						
Model		Unstandardized Coefficients	Standardized Coefficients		t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.942	.269		3.505	.001
	HB	.198	.093	.211	2.144	.034

a. Dependent Variable: ID

Source: Primary Data

Table-4 shows the findings of co-efficient analysis, which explains the degree of impact of herd behavior on investment decision. In this model, investment decision was chosen as a dependent variable and herd behavior considered as independent variable. The ‘p’ value was significant at 5% level, which indicated that there was substantial impact of herd behavior on investors. Hence reject **H02: “There is no impact of herd behavior on investment decision making”**.

CONCLUSION

Results of the statistical analysis shows that gender of the investor does not exercised significant difference on herd behavior. In other words, male and female investors decision are not influenced by herd behavior. Based on the results of ANOVA, it was also apparent that income groups of the investor did not have differences on herd behavior. Results of the linear regression indicated the herd behavior have impact on investment decision. The study concluded by approving the influence of herd behavior on investment decision. This study offers further scope for exploring in the area of behavioral biases and investment decision, Experimental studies can be directed to explore the relationship among behavioral biases and contributing factors to it.

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