

Factors Influencing Herding Behavior Among Indian Stock Investors

Business Research Project 2017

Ankitha Nair (MBA15014)

Mentor: Dr. Balasubramanian

INTRODUCTION

- The concept of behavioral or cognitive biases explains the reason why most investment decisions taken by stock investors are not rational as proposed by the theory of traditional finance.
- The investors' judgment on the market and various stocks, and their decision to buy, sell or hold a stock is subconsciously influenced by certain cognitive biases like herding, overconfidence, conservatism, anchoring, etc.
- Studies state that the demographic profile of a stock investor influences these behavioral biases to a certain extent.
- A stock investor obtains information on various aspects of stock market and investment through various sources such as stock websites, forums, stock broking firms, newspaper, word of mouth, etc.

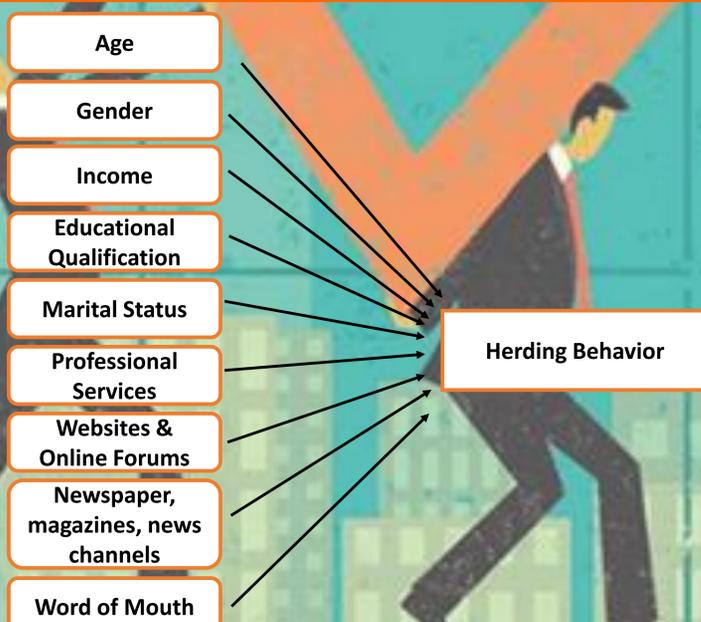
OBJECTIVE

- To analyze the impact of Indian stock investors' demographics and various sources of financial information on their herding bias in the stock market.

LITERATURE REVIEW

- Cognition refers to the way an investor feels or thinks which results in taking biased rather than rational investment decisions in financial markets. It integrates the concepts of finance and psychology to explain the cognitive biases in investors' investment decisions.
- Humans have the tendency to incline towards the feeling of failing in a conventional manner than succeeding in an unconventional manner.
- Investors with similar demographic profile tend to react and analyse investment information in similar ways.
- The source and medium of investment information influences herding bias among stock investors, as it translates to a certain extent of credibility for the investor.

CONCEPTUAL MODEL



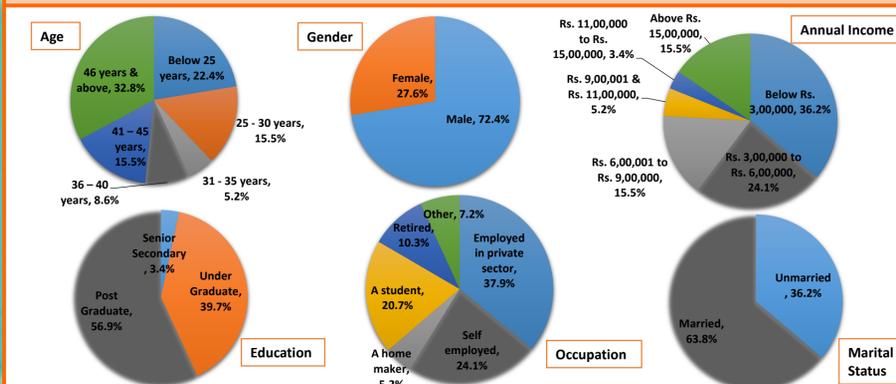
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HYPOTHESIS DEVELOPMENT

- H1: Female stock investors are more likely to show herding bias when compared to male stock investors.
- H2: The higher the age of the stock investor, the lesser is the tendency to show herding bias.
- H3: The higher the income levels of the stock investor, the higher the tendency to show herding bias
- H4: Higher the level of educational qualification, the lesser is the tendency to show herding bias.
- H5: Married stock investors are less likely to show herding bias when compared to unmarried stock investors.
- H6: Higher the frequency with which stock investor is accessing information through professional services, lower is the tendency to show herding behavior.
- H7: Higher the frequency with which stock investor is accessing information through websites and online forums, higher is the tendency to show herding behavior.
- H8: Higher the frequency with which stock investor is accessing information through newspapers, magazines, and news channels, lower is the tendency to show herding behavior.
- H9: Higher the frequencies with which stock investor is accessing information through word of mouth, higher is the tendency to show herding behavior.

SAMPLE DESCRIPTION



EMPERICAL MODEL

$$HB = \beta_1 + \beta_2GEN + \beta_3AGE + \beta_4INC + \beta_5EDU + \beta_6MAR + \beta_7PS + \beta_8WOF + \beta_9NM + \beta_{10}WOM + U$$

- HB = Herding Behavior of the stock investor
 GEN = Gender
 AGE = Age Group
 INC = Annual Income Levels
 EDU = Educational Qualification
 MAR = Marital Status
 PS = Professional Services
 WOF = Websites & Online Forums
 NM = Newspapers, magazines and news channels
 WOM = Word of Mouth
 U = Error Term

RESULTS

Independent Variables	Odds Ratio	Coefficient	P-Value
Gender	0.1098553	-3.02	0.003
Age Group	2.114644	2.64	0.008
Annual income levels	1.083886	0.44	0.659
Educational Qualification	0.6945963	-0.67	0.502
Marital Status	0.0281246	-2.92	0.003
Professional Services	0.8332513	-0.85	0.393
Websites & Online Forums	1.000862	0.00	0.998
Newspapers, magazines & news channels	1.070582	0.20	0.845
Word of Mouth	2.659698	3.25	0.001

KEY FINDINGS

- It has been found that at 5% level of significance, gender, age, marital status and word of mouth have a significant impact on the herding behaviour among stock investors in India.
- Word of mouth shows the highest probability of influencing stock investors to portray herding bias. It shows that the more frequently the stock investor accesses investment information through word of mouth, higher is the probability to portray herding behaviour.
- Male stock investors have a lesser probability to portray herding behaviour when compared to female stock investors.
- There is a high probability for the stock investors to portray herding behaviour as the level of age group increases.
- There is a high probability for stock investors to portray herding behaviour as the annual income level increases.
- Married stock investors show a lower degree of variation in terms of portraying herding behaviour when compared to unmarried stock investors.

CONCLUSION

- Traditional finance fails to integrate in its propositions the crucial component of the investors being human beings who are subjected to the human element of making errors, of emotions, of the struggle for survival, of the need for security, and of the inbuilt mechanism to stay away from anything risky.
- Herding behaviour is the most common behavioural bias that impact financial markets. Understanding the influence of the various factors explored in the study on cognitive behaviour will enable stock investors to be more conscious and vigilant about their investment decisions and not succumb to herd behaviour.