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# Dynamics of investment: the Psychological perspective[1]

[1]Divya Soni
[1] *Ph.D. Scholar, Department of Commerce, OPJS University, Churu, Rajasthan*

***Abstract***: *Behaviors and mindset generally have a bigger effect on individuals investment planning. Financial planners also confirm this when they say investing is just not about creating wealth in the long term, it is also about accomplishing those mid-term goals in the way. How these mid-term goals achieved, which kind of investment one makes, duration involved in investment and the type of investment all depends upon many of the psychological mindset of the individual. To understand the dynamic of investment behaviour, it is necessary to have the knowledge of individual's cognition, attributes, personality variables, emotions and negativity and optimism.*

***Key words***: *Cognition, Personality, Emotions, Investment, Attributes*

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Human behaviour is determined by person's knowledge, past experience, attitudes, and emotions. The investing behaviour is also not spared from it. Each person is unique that count for individual differences in emotional preferences and strategic investing needs. In the business of investments, there are some who within no time reach the heights starting with the minimum amount in hand and on the other side there are people who have lost quite a bit due to their own greed, overconfidence and false hopes. These individual differences are due to nothing but the attributes one enjoys i.e. personality types, fears, greed, overconfidence and self-esteem being few among them.

There are numerous studies from different school of thoughts that have examined the psychological factors affecting the investment decision making of individual investors. Such factors affect the decisions related to investments and sometimes investors perform in illogical, unwise and unexpected manner. (Elfahmi & Solikin, 2020; Ozer & Mutlu, 2019; Lai, 2019; Kumari et al., 2019; Akhtar & Das, 2019; Mindra & Moya, 2017; Montford & Goldsmith, 2016; Conlin, 2015 ; Zhang et al., 2014; Chitra & Ramya, 2011 and Forbes & Kara, 2010, Mayfield et al. 2008 Brown& Taylor, 2014).

Though no agreement has been reached by the researchers but everyone seem to agree that cognitions, attitudinal evaluations, perceived social pressure from other people and the amount of control that individuals perceived had a significant role in impacting the investment behaviour (Elliot,2012). Chang (2008) investigated the consumer's behavioural intention for a mutual fund and found that subjective norm and attitude impact the behavioural intentions. A smart investor is one that harnesses his or her emotions.

The great investor Benjamin Graham, for example, defined intelligent investing in his timeless book "The Intelligent Investor" as a type of applied intelligence that is "a trait more of the character than the brain."

The best investors are typically calm and patient, able to set strategic goals and adjust them as needed. They do not panic. They probably also have a good measure of self-esteem and learn from their errors.

Researchers also report that emotion and investing go hand in hand. Emotions play a motivating force to save because it explains love for the families, a need for security, and hopes for the future the powerful drivers when it comes to investing.

Investment behaviour also depends upon the patience the individual shows in investing time span. It is seen some are hard-charging and impatient. Their personality profile is difficult to fit into a long-term strategy that features buying stocks and holding them for long periods of times. There are some who invest and then forget about it and looks into the funds after a gap of few years and they mostly get benefits across the years whereas there are others who would like to get the results immediately and probably they may keep on dwindling between different plans of investment. Such persons are called as aggressive investors. They are also called as risky investors unless they have a very long time span and can limit impulse buying and selling. This kind of personality is more suited to trading than to investing. Apart from these investors there are pragmatic, open-minded and adaptive, and flexible investors, who are

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good at balancing risk and rewards.

Researchers have studied the investor's behaviour and have stated no one falls in one category strictly. The behaviour of individual can range from defensive investor to nervous investor due to bad experience in the past related to money returns. Sometimes these two traits may give rise to another personality called the trader personality. Though the trader is usually quick-witted and may be very intelligent there are chances that this type of individual sometimes may fall prey to overconfidence. It was also found that compared with institutional investors, individual investors are less sophisticated because of limited attention, memory, time, profession, and processing infrastructure. Therefore, individual investors tend to use simple heuristics or rules of thumb in making decisions, which become maladaptive in the real dynamic stock markets (Lo, A.W.2005;2012).

Lodi et al. (2007) have assessed the correlation among personality-traits and individual investment. They found that big five personality traits are highly interrelated to conscientiousness, agreeableness, low psychoticism and emotional stability. Mayfield (2008) also examined the personality-traits and show that people who are pros to extroverts and experiences are considered more risk takers. Related to behaviour-biases, Mooreland (2016) indicates that behaviour-biases like myopia and over-confidence are positive signals for risk- profiles. Durand, Newby & Sanghani (2008) validated that personality of the investors is correlated with their investment choices and consequences. Those individuals who are open to experiences enjoy the art and are too much sensitive to elegance and attractiveness. They are highly innovative and imaginative, and even more conscious about their feelings and rely on their minds while participating in the stock market investments.

The relation of personality attributes with the investment full of risk is quantitatively substantial.

Reyniers, Irenbusch & De Meza (2008), argued that financial self-efficacy is a set of psychological traits which includes mental budgeting and accounting information overload, regrets, and risk aversion. Goldsmith & Montford (2016), conducted a research in US people with the mind to analyze psychology of investment of both female and male and also to know the reason behind this that why women invest very conservatively. They also worked on the behaviour of humans in investments by analyzing the relation among the investment risks and gender beside the part of financial self-efficacy. Their studies concluded that the women are less likely to invest in the risky investments and financial self-efficacy is directly associated with the risk level in investment portfolio.

Greene & Chen (1998), Bandura (1982) conducted a research on entrepreneurial self-efficacy and concluded that individuals having high entrepreneurial self-efficacy tend to show more financial control. The personality of an investor is of great interest for the researchers of behavioural finance for understanding his behaviour in investment. Various researches have been conducted in this regard to find out the association between the investors' behaviours and personality types. Contemplating the planned behaviour theory, authors added many predictor variables to theory of reasoned actions at the information, social and individual level. These predictor variables are also called the "background factors". Further it was argued that these variables are not the direct predictors of behaviour rather their impact on behaviour can be studied via specific psychological mechanisms.

For example, Self-efficacy is considered to be the cognitive mechanism that can indirectly impact the decisions of the individuals. Studies also revealed that extrovert or a highly social individual tend to obtain information from financial matters. Those who are high conscientious and possess more analytical abilities are on a high stage of financial self-efficacy. While on the other side of picture, those who are agreeable people too much rely on others' suggestions and neurotics individuals are high risk averters because they tend to be more threatened form the external environment and so they are expected to have low financial self-efficacy.

Cherney, Khan &Rothwell (2015), investigated the associated saving outcomes, financial self-efficacy and financial knowledge and have observed that financial self-efficacy plays a mediating role in the linkage among investment and financial knowledge. This correlation of retirement savings and financial knowledge passes mediated by financial self- efficacy.

**Conclusion**: Investing behaviour is influenced by the individual's cognition, attributes, personality variables, emotions and negativity and optimism. Any research if taken in the field of business, stock marketing, and investing money in saving accounts or mutual schemes should not ignore the psychological profile of the individuals. Understanding the psychological make of the individual is must.

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