Interpreting Investor Behavioral Biases: A Qualitative Study

Muhammad Zahid Iqbal*, Tahir Mahmood**, Rana Muhammad Ayyub***

Abstract

The aim of this study was to understand and interpret the phenomenon of behavioral biases of individual investors in investment decisions making. These behavioral biases cause irrationality in investment decision making which results in huge losses. Interpretative phenomenological analysis (IPA) was used to analyze the data to explore and understand investors' immediate experience of this phenomenon. Four individual investors were selected as participants for semi-structured in-depth interviews by using the snowball sampling technique. The transcription of interviews from participants was done by using the verbatim approach. Then analysis was conducted by following four steps of IPA. Three categories of themes emerged such as (a) Feelings and emotions (b) Information availability and analysis, and (c) Psychological motives. It emerged from this study that few of the biases come from the emotional perspective and others from a logical perspective. The study suggests that a strong relationship exists between behavioral biases and investor's sense of satisfaction with regard to financial investment planning which was found as the investor's tendency of heuristics. This study contributes to the existing literature by considering investor behavioral biases as a phenomenon.

Keywords: Behavioral finance, Psychological biases, IPA, Investor decision making, Irrationality

Introduction

The investment decision in traditional finance is based on the assumption that investor is rational in making any capital investment decision. This means investors would be able to earn returns only when they behave rationally. Hence, to be succeeded in stock market investors need to possess a rational behavior pattern. A rational investor would prefer a higher return for a given level of risk and lower risk for a given level of return. So, if investors would act rationally, resultantly the security prices in the market would be equal to their intrinsic value that would make the allocation of resources efficient, which leads to market efficiency.

*PhD Scholar, School of Business & Economics, University of Management and Technology, Lahore, (f2018051013@umt.edu.pk)
**Associate Professor, Department of Economics and Business Management, University of Veterinary and Animal Sciences, Lahore
** Professor, Department of Economics and Business Management, University of Veterinary and Animal Sciences, Lahore

The idea of market efficiency was developed by Fama (1970) who presented the Efficient Market Hypothesis (EMH) that state security prices reflect all the information available to investors in the market, therefore no abnormal returns can be generated in efficient markets on the basis of already existing information. However in the 80s, the evidence opposite to random walk theory started to emerge as abnormal returns can be generated on the basis of past information about firm fundamentals and market (Lo & MacKinlay, 1988). EMH does not consider the psychological aspect of the investor while making an investment decision.

Though earliest work done in behavioral finance was conducted by Kahneman & Tversky (1979), however, in the 90s, the researchers started to question the underlying assumption of investor rationality in the traditional finance and started to investigate irrationalities present in investor behavior while making investments (Thaler, 1999).

Investor psychological factors play a vital role in investment decision making in comparison with technical and fundamental analysis. For example one of the studies suggests that firm fundamentals are not the important factors in investment decision making, in comparison with psychological factors (Ady, Sudarma, Salim, & Aisyah, 2013). Behavioral finance is based on the psychology of investors and therefore these psychological factors can better explain the inefficiencies of the market. Behavioral biases lead to wrong investment decisions (Mitroi & Oproiu, 2014) and uncertainty. Investor behavioral biases abolish the returns of individual investor's portfolio. Rationally there is a positive relationship between risk and return which does not hold in the presence of behavioral biases of the investor. Practically, EMH does not hold, investors do not act rationally in their investment decision, sometimes less risky investments require to produce higher returns and highly risky investments are accepted for the expectation of lower returns. Therefore stock market anomalies are strongly related to investor behavioral biases.

Emotions related to economic behavior have been studied in depth by Loewenstein (2000) and he presented the emotions of investors, broadly, in two categories named as expected emotions and immediate emotions. Expected emotions can be defined as emotions likely to be experienced once actual loss or gain would be realized in the result of that investment decision. These emotions develop merely on the bases of expectations therefore these are not experienced directly. Immediate emotions can be defined as true emotions that are experienced first-hand while making any investment decision. These emotions may come out due to any good or bad news, causing panic and taking away rationality and logic. Both expected and immediate emotions make investors unable to do any analysis of information held, think unstably, and act excessively due to the influence of emotions. This increases the likelihood of biased investor behavior that leads to irrationality in making investment decisions. Eventually, Irrational investment decision results in getting un-optimum returns or losses (Ady et al., 2013).

This irrationality in investment decision making may be found on part of the individual investor, a group of investors, or portfolio managers. In uncertain situations, the investor tries to reduce the complexity of decision making by using the heuristic approach and following the rule of thumb (Lovric, Kaymak, and Spronk 2008). Further, the increase in a variety of financial products makes investment decision making more complicated and cumbersome process (Lovric, Kaymak, & Spronk, 2008). Presence of irrationality while making decisions increases the researcher's curiosity to explore the essence of these cognitive and psychological biases in investor behavior while making investment decisions.

Given the above discussion, it has been established that exploring and understanding the factors behind the behavioral biases are important and inevitable. Therefore, the objective of this study is to understand and interpret the phenomenon of behavioral biases of individual investors in investment decisions making.

Literature Review

Two main theories exist in the discipline of finance, one is a neoclassical theory which is generally referred to as traditional finance theory and the other is behavioral finance theory. These theories relate to the investment decision making process under the umbrella of uncertainty. The natural incompatibility of these two revolutionaries' theories can be perceived due to different eras of their emergence and the different people involved in it. Nevertheless, practicing investors emphasis on both approaches to apply their insight into investment decision making as both complement each other in this process (Shiller, 2006).

Since the early 1950s, many theories have to evolve under neoclassical finance (Ardalan, 2003). The prominent examples include efficient market theory, modern portfolio theory, agency theory, arbitrage pricing theory, capital structure theory, capital budgeting policy, dividend policy, and so on. Market efficiency is the notion on which all these theories are based (Kumar & Goyal, 2015). It is assumed that investors are rational enough to process all information available to them for making any investment decision, resultantly all available information is reflected in security prices that make investment markets efficient (Kishore, 2004).

It is inevitable to discuss two economic theories that established the basis for neoclassical finance theory. Classical decision theory is an economic theory, assumes that people use rationality in decision making and optimize the results even in limited circumstances. Under uncertain conditions, financial decision making becomes complex and complicated. This theory assumes that even in complex situations, the rational investor always has a consistent preference. However, the question arises, in the presence of uncertainty how the investor selects the best course of action. The answer is provided in Economic Utility Theory (EUT) which describes the making of choices in risky conditions, based on rational preferences that occur from more to less.

Most of the theories in neoclassical finance are based on the rationality of investors. For example, presenting EMH, according to Malkiel and Fama (1970) in efficient markets all available information in the market at a certain time is fully reflected in security prices and makes the market price of the security equal to its intrinsic values. So in the efficient markets, the possibility to earn superior returns to market vanishes and therefore the active investment is not considered to be an optimal investment policy. In this case, the investor should avoid outperforming the market by investing in an active portfolio rather invest in the market portfolio (Ricciardi & Simon, 2001). The investor rationality in choosing alternative stocks is based on the neoclassical finance theory. So the theories in neoclassical finance such as capital asset pricing model, option pricing and arbitrage pricing said to be based on rational expectations of the world that makes investor concerned about expected risk and return from an investment while considering any investment alternatives. Theories in traditional finance stressed that the linear relationship exists between the expected return of security and its systematic risk component. However, over time, evidence emerged against the market efficiency and risk-return relationship, questions the underlying assumption of rationality. Hence, the presence of the anomalies in traditional finance theories provide opportunities to look to investigate human behavior and perception in investment decision making (Hirshleifer, 2001).

Along with theoretical development in traditional finance, Behavioral finance started to get the attention of researchers in the early 70s with the work of Kahneman and Tversky (1973) and Slovic (1972) and established as a behavioral theory of investors in 1980s (Kumar & Goyal, 2015). At earlier days the advocates of behavioral finance theory were perceived as a critic of traditional finance theory which hinders the acceptance of the likelihood that the bias could exist in economic decisions (Kim & Nofsinger, 2008). The assumption in Behavioral finance is that many investors tend to make an investment decision on the basis of the pattern of destructive behavior (Barber & Odean, 1999). Thus the focus of behavioral finance is on how the investment decision is made by the investor and what behavioral factors contribute to such decision making (Kumar and Goyal, 2015).

Since the emergence of behavioral finance, many theories of psychology have been borrowed to explain, understand, and explore investor decision-making behavior. Some of the theories have been reviewed in detail in the context of the investment decision-making process, these include disposition effect, overconfidence, herding biases, and familiarity biases (Kumar & Goyal, 2015). Overconfidence which is a very common phenomenon results in miscalculation in judgment that draw severe consequences (Glaser & Weber, 2010), the accuracy of information is misinterpreted and skills are overestimated when analyzing investment decision making. Investors are also prone to self-attribution behavior in which they relate every success in the market to their skills and force them to ignore any kind of uncertainties related to their potential investment. Another prominent behavioral bias is the disposition effect that develops from fear of regret and results in holding losing stock for too long and selling winning stocks early (Shefrin & Statman, 1985). One particular quote was famous in terms of disposition effect in the stock market trading guide in 2008 when market crashes, which is “cut your losses and let your profits run” (Kaustia, 2010). Herding behavior comes from the situation when rational investors start mimicking the behavior of a group of irrational investors in making their financial decisions. Another behavioral bias is familiarity bias in which investor prefer to invest in the only securities which are well-known to them and ignore the other less known securities that may facilitate in the diversification of portfolio risk (Kumar & Goyal, 2015).

Dowling and Lucey (2011) presented other behavioral biases such as self-deception, inertia and affect. Their discussion suggests that excessive optimism and self-attribution can be categorized as self-deception; accordingly status quo, endowment effect, and conservatism were made part of inertia whereas heuristic and regret aversion could be counted as the effect. Likewise, many other biases were discussed in literature such as representativeness, cognitive dissonance, mental accounting, loss aversion, home money bias and availability bias (Forbes, 2013; Kahneman & Riepe, 1998; Ricciardi & Simon, 2001).

The previous literature suggests mental mistakes and errors in investment decision making can be avoided by understanding and explore the investor behavioral biases that occur in financial decision making. Behavioral finance extends the scope of finance beyond traditional finance theories rather than replacing neoclassical finance theories.

Qualitative Studies in Investment Decisions

Most of the previous researches on investor behavior in investment decision making and the influence of psychological biases on the investment decision-making process were conducted by using quantitative research methodologies. (Kumar & Goyal, 2015) reviewed the literature on behavioral finance studies for the past 33 years and found that most studies covered different behavioral biases such as overconfidence, herding bias, familiarity bias, and disposition effect and all were measured quantitatively by collecting data through questionnaires. The most techniques used in those studies were quantitative in nature for data analysis such as regression analysis, correlation analysis, ANOVA, simulation, t-statistics, p-value, R-squares, and many others. To their surprised none of the studies reviewed by them used interviews or any other qualitative technique.

Glanville bin Mohamad & Perry, (2015) claimed by conducting a qualitative study that investors take investment decisions considering their comfort and conventions rather than thick quantitative analysis of potential investments. Investing is a continuous learning process. Their study confirms the presence of behavioral biases in investors. Aktan, Masood, & Chaudhary (2009) employed qualitative methods to conduct the study and they interviewed 81 investment bank managers and found that investment managers gave weights more to their experience and personal judgment than analysis of quantitative models regarding expected risk and returns on investment.

Šević, Theriou, & Maditinos, (2007) conducted a study by applying mix method approach with the use of interviews and questionnaires as an instrument and explores the behavior of Greek investors. They focused on the investing techniques used by investors and found that professional investors make use of fundamental and technical analysis whereas individual investors heavily rely on news from different sources and market noises when making investment decisions. Further, the selection of techniques used for making investment decisions depends on the investment horizon.

Power, Tijjani, & Fifield, (2009) made the use of interviews to explore the methods used by Nigerian stockbrokers and retail investors while making investment decisions. They found that the fundamental analysis was mainly used by the retail investors and stockbrokers for the valuation of securities and investment purposes. Investors used to compare market prices with intrinsic value and make investment decisions considering under or over-valued securities. Further, investors also analysis the dividend and cash flow information related to the company stocks. Technical analysis was also used to support the decision made on the basis of fundamental analysis.

Sahi, Arora, & Dhameja, (2013) conducted an exploratory study to explore the investor's preference and belief in the investment decision-making process. They conducted the semi-structured in-depth interview from 30 investors and used the content analysis. They suggested that individual investors prone to have several biases that affect their investment decision. Marcon, Kleinübing Godoi, & Barbosa daSilva (2005) conducted a qualitative study by using deep interviews from five analysts and performed thematic content analysis. They explore the loss aversion behavior of investors.

It is apparent from the above discussion that the use of the qualitative research method has not been so frequent to investigate the investor behavioral biases in investment decision making. To the best of the researcher's knowledge, none of the studies on behavioral biases used the Interpretative Phenomenological Analysis in the Pakistani context.

Methodology

Considering the qualitative nature of the study the paradigm adopted for this reach is interpretive. The focus of the interpretive paradigm is on one's interpretation of the symbol and constructing the meanings. Therefore, epistemology on which this study based is constructionism. This study explores and then interprets noetic (how was it experienced) aspects of the phenomenon of behavioral biases.

Interpretative phenomenological analysis (IPA) is used to analyze the phenomenological data to explore and understand their immediate experience of a phenomenon. IPA is double hermeneutic covering two stages in interpretation by first participants interpret their actual lived experience and then researcher while analyzing data attempt to interpret the participants' interpretation. Following the fundamentals of phenomenological research, participants were needed to dig deep in every possible manner to extract information. The IPA also requires the researcher to actively get involved in the process, therefore reflexivity of the researcher plays a vital role in constructing the meanings. In this study, the researcher's reflexivity is apparent both in the interview through embodiment and prompt, and in the analysis section by making an interpretation. The adaptive, responsive, and interactive nature of the researcher can benefit significantly the research process.

This study requires the participant who was nested in their context. The participants selected for this study were individual investors who have been actively involved in trading of shares in the Pakistan Stock Exchange. The participant would have to be involved in trading stocks for a minimum of five years. Only investors were selected as participants who themselves involve in transacting shares and experience the trade on their own, not by their brokers. Further participants were required not to be involved in insider trading therefore an employee of any listed company in PSX was not considered for this study. Four individuals took part in this study as participants. Participants were selected using snowball sampling (non-probability) technique. All four participants were males having age between 30-47 years and belong to Lahore. To qualify as an active investor one must have to be involved in at least two transactions in the last six months.

Since the objective is to understand and interpret the phenomenon of behavioral biases of individual investors in making investment decisions, the in-depth interview is an appropriate technique to follow. Hence Semi-structured in-depth interviews were conducted on location agreed by participants. A semi-structured interview is the recommended method of the interview in IPA (Willig & Rogers, 2017). Given the nature of the study, in these interviews, the participants were considered to be "informants" or "conversational Partner" but not respondents. The interviews were started with some set questions and follow up questions came from the discussion as a logical extension of answers. So during the interviews, there was the frequent use of conversational prompts. Questions used in this interview were not restrictive in any sense. All questions were open-ended other than demographic information. This made the researcher enable for detailed investigation of the phenomena. There were six guided topics in all interviews around which the other question were formed and interviews were preceded.

1- All particulars about the participant, including a brief biography, education, experience, early life, and future prospects as an active investor and other details.
2- Investors' priorities and factors affecting those priorities when choosing companies for investment and purposes
3- Kinds of advice investors look for before making any investment decision.
4- What factors cause wrong/biased/irrational investment decisions?
5- The challenges the investor face while making any investment decision
6- Detailed information about the investors' investment making process.

The data were collected from participants in an interactive way by spending 40-60 minutes with each depending on the ease of participant, the willingness of participant, level of interaction between participant & researcher, situation and conditions during the interview. The researcher attempted to continue the interview until the participant saturated on issues investigated depending on the subjectivity of the researcher. Saturation was defined as a point where no additional or new information is available.

In this qualitative research, the objective was not to draw conclusions to generalize rather explore, understand, and interpret the immediate and personal experience of each participant that is unique to them.

Analysis Technique

The analysis technique applied in this research is interpretative phenomenological analysis (IPA). In IPA, a two-stage interpretation was conducted which is generally mentioned as double hermeneutics (Smith & Osborn, 2015). First, interpretations were done by the participants of their lived experience, and then on the next stage interpretations were done by the researcher of the interpretations of the lived experience of the participant. Though IPA was established in the field of Psychology however it can be used in other fields as well where an understanding of personal phenomena is required. The transcriptions of interviews from participants were done by using the verbatim approach.

Results

The refined themes emerged in the Master table, presented here separately with few selective quotes of participants supporting the relevant theme.

Regret aversion

It has emerged that some investors likely to avoid investment in certain assets for fear of having regrets. Some of the investor when they invest in certain security and had losses, which develops the fear of having loss if invested in same security again, hence this creates a fear of regret for a particular investment. On the other hand, some investor sees other investors generating gains from a particular investment in which they did not invest, they feel regrets. Next time they make the investment in a particular security for fear of having regrets if not invested as they find it as an opportunity to have gains. Therefore to escape this feeling of regrets in the future they invest in security which might not be rational investment, hence this fear of having regrets makes their investment decision biased. This exists due to the approach of investors who reluctant to admit their mistakes.

"I do invest in securities which experience huge gains in recent past"

"I seriously consider past financial results of others around me when I am investing."

"If someone invested and generate gains in security which I didn't, I feel emptied"

"I am feeling now that the stock market is getting more unpredictable, thinking of not investing it again"

"Once I invested in a particular company stock on advice of one of my colleagues, which resulted in huge losses, I feel shattered of losing money on the ill-advised investment."

Loss aversion

It emerges from the discussion with investors that investors hate losses more than they love gains. They expressed that the first aspect they consider while making an investment decision is the probability of loss and others are considered later. They do not want to lose their principal investment whether they generate any gains or not. Some times when they already have made the investment in particular security and if the price of the security decreases they do not realize the loss and hold the invested security in hope that in future prices would recover and they may be able to avoid loss. The tendency of loss aversion creates a bias in the decisions of investors for buying and selling of stocks. Sometimes they hold the loser stock for many months or year just in hope of avoiding loss. This loss aversion tendency brings huge opportunity costs for the investor.

"I never suffer loss because I do not sell the stock until unless its selling price is higher than its buying price, one particular case I hold my stock for two long years. However, I was successful to avoid a loss"

"I always make investment in a combination of securities, I do not realize losses on portfolio level however I sell particular loser stock only when accompanying winning stock gave me sufficient gain to compensate this loss"

"Realizing losses take away significant investment and chances of recovering"

Predilections (ethical, religious and social)

Some investors have the tendency to invest in certain stocks on the basis of their priorities related to ethics, religion, and society. Some people do not invest in companies involved in the business of producing tobacco or alcohol-related products. Some investors only prefer sharia-compliant financial instruments. Stocks of businesses involved in any corporate social responsibility also get the attention of investors for potential investment. Some people closely consider the corporate practices of business before investing in it. The perception of transparency and fairness about a company also plays a significant role in investor decision making.

"I prefer to invest in the companies which are more in kind of stakeholder-oriented, It means they bother about all the stakeholders and address their issues"

"The concept of CSR activities in Pakistan is not much famous so far, investor are started to getting concerned with it"

"I never invested any penny in business which involved in activities which are prohibited in Islam"

"Since my childhood, I know that Interest is prohibited in Islam, therefore, I do not invest in conventional banks or other companies' stocks which involved in interest-based business activities. I only invest in sharia-compliant stocks"

Certainty effect

It is found very common phenomena that investor gives more weight to the certainty of outcomes than uncertainty. So there is an obvious tendency to give more preference to stocks with known risk than stocks with unknown risk. Known risk referred to as risk to which investors are well aware of and already have an experience of some sort, for example, if whether a particular stock would pay a dividend or not. Investors thought that known risk can be tackled with diversification whereas relatively new stock with unknown risk could be disastrous. This is another bias on part of the investor while in investment decision making. The investor tends to invest less risky stocks than high risky stock. Sometimes this preference of certainty takes them away from the stock market to the fix-income security market.

"Investing in the stock market is like betting, you do not know what would happen tomorrow, you cannot invest in stocks which are not well known to you and market"

"I invest in securities whose returns were not highly volatiles in past"

"I do not prefer surprises, stability is very important for peace of mind."

Availability heuristic

The easy availability of information plays such a vital role in investor decision making. The investors are prone to invest in stocks to which they are able to get information conveniently. And it depends on how easily they can recall this information. Easily available information makes the investor feel that they are making informed decisions. Recently available information also plays a vital role in making an investment decision. Sometimes, some incidents that happened in financial markets also become part of investor memory, which are considered while making any investment decision.

> *"Last month I heard that the oil sector will perform well in near future given the rising oil prices in international markets, I invested in selective stocks based on this information."*
>
> *"My lot of investment is based on information that readily available and comes to me easily, not I specifically search it, because searching for information sometimes gets complicated and needs an analyst to analyze it."*
>
> *"There are a lot of people in my social circle who invest in stocks regularly that social circle helps me a lot to get informed about the markets and stocks for potential investments."*
>
> *"I regularly follow the market and invest in stocks which performed well recently"*
>
> *"I stop investing in the stock market as it crashes recently"*

Consumption over saving and vice versa

Sometimes the investment in a particular type of financial asset is made which only facilitates savings. People have a pattern of spending today which does not allow them to save for their tomorrow. In order to reduce their spending tendencies, they have to make investment choices that would require a certain amount on a regular basis. Therefore for some investors set their investment criteria based on saving opportunities.

> *"My investment in securities is based on the money left over from my spending in other businesses"*
>
> *"I invest in bonds to save money for difficult times when I need it"*
>
> *"Life is not so predictable you should always be prepared for uncertainties and surprises"*
>
> *"Since my childhood, I have tendencies to spend, most of the time needlessly. I recently bought an insurance policy to force myself to save money and ultimately my future"*

Different Investing based on income sources

One astonishing finding of this study is that people with hard-earned money have a tendency to invest in relatively safer investment options like bonds, gold, currency, or fix-income investment. On the other hand, money invested in risky options normally comes from easy money. People consider the money more precious which is earned by their hard work and sweat than money not earned by hard effort. What differentiates the investor in terms of their risk preferences. Hard-earned money is invested in less risky ventures. The investor with hard-earned money restrains their selves to consider risky options.

> *"Earlier in my career when I was doing a job and getting a salary, I never thought of investing in stocks considering the greater chances of losing the*

invested amount. I either bought term finance certificates or deposited amount in the bank for profit."

"I have seen difficult times when I was in my teens but I am comfortable having different sources of income. I frequently in the equity and financial derivative markets"

"I have one basic investing principle, invest only interest in risky assets"

"If I would win a lottery I would invest in derivatives"

Chasing trends

Most of the investors consider past information to see trends of stock before making investment decisions. The investors have got a strong perception that trends based on past information could be helpful to predict the future. They have a belief if in past managers were successful in producing good results, they would be able to do in the future, this also creates an anomaly in the stock market. Investors emphasize on charts and graphs for making investment decisions.

"Past could help to predict future"

"In Pakistan, the stock market is largely perceived to be week-form efficient, however, I believe this market does not have any kind of efficiency even weak-form efficiency, so in my opinion, in Pakistan, abnormal returns can be generated based on past information"

"There are few investors who control Pakistani stock market the pattern of their investment can lead the prediction"

Anchoring effect

One finding emerged from this study is that investors set a value that serves as a guiding point against which they measure their investment action. This makes them perceived the value as the actual value and let them decide every aspect of investment according to that value. This is a psychological situation in which investors unnecessarily focus on a value that might not be rational. The reference point serves as the benchmark. In interviews conducted for this study, the different reference points were frequently quoted by participants such as "market expected return" "policy discount rate" "rate of return" "best performance" etc.

"I term the performance of the stock in which I invested satisfactory when it earn returns greater than policy discount rate plus risk spreader"

"I sell the stock if it fails to achieve KSE-100 average returns in a year."

"I have a policy not to sell the stock until it reaches half of the price I bought"

Safe playing

Some investors have a tendency to play safely while making any investment decisions. They invest in securities which relatively safer or they have previous experience with the securities. They are normally more prone to invest in a traditional investment vehicle such as bonds, fixed deposits, and shares of less risky mutual funds. They do not want to lose their principal and get satisfied whatever returns they have without losing principal investment.

"I have learned to be careful"

"I invested a major portion of my investment in bonds and less risky mutual funds"

"If I doubt the future of any security I would not invest in it"

Familiarity effect

Some investor develops inclination to invest in specific securities because these are more familiar to them. They find a sense of comfort, convenience, and association when making any investment decisions about these securities. They feel to have greater knowledge about these familiar securities. Their sense of familiarity allows them to enjoy a sense of comfort and surety. That familiarity generates the bias in their investment decision because due to strong familiarity they have the tendency to ignore many risk factors associated with these.

"I work in the banking sector and most of my investment is in banking sector stocks"

"My father used to invest in national savings, now after my father, I continued some of my amounts in national saving as his memory"

"Most of the time when I make new investment first thing I do is to scroll the list of the names of the companies."

"I started my career with the cement industry; my first investment in the stock market was also in that sector"

Consulting friends and family

Most of the investor has a tendency to get advice either from friends, family, relatives, or colleagues while making an investment decision. Most of the time investors took the decision based on this consultation. People have the tendency to trust their close family such as father, mother, spouse, brother, sister, etc. Sometimes investor consults their immediate family to get their consent and unbiased opinion about the investment. This makes the investment decision irrational and biased.

"Most of the time I discuss my potential investment decisions with my elder brother"

"One of my cousins who introduced me to the stock market, I always take advice from him before investing."

"I always discuss with my spouse whenever I plan for any investment, because she needs to be prepared for any future uncertainties"

"If anybody to whom I trust convince me that the investment I made is somewhere would not generate positive returns, I would withdraw it."

Getting an expert's advice

Some people consult the investment advisor and financial experts and seek their advice to make any investment. Sometimes they have a tendency to believe them blindly and consider them best judge about their investments. This blind belief can lead to a wrong investment decision. On the other hand, some investor does not bother to consult financial experts that could also lead to an erroneous investment decision.

"My broker plays the role of my investment advisor, most of the time I follow his advice in buying and selling of securities"

"I do not trust analyst as nowadays they have their own agenda and they are paid by specific companies to promote their stocks"

"On many occasions, I made profits on the advice of financial analyst"

Overconfidence effect

Some investors have a strong sense of confidence in their own abilities than others to make any investment decision. Given their experience and exposure to the capital market, they consider their selves knowledgeable and have financial analysis expertise. That makes them believe whatever decision they take it would generate positive returns. This sense of over-optimism and belief leads them to irrational investment decision. If they get success, they attribute success to their ability that makes their tendency to overconfidence worst.

"I am working in this stock market for so long, now I can analyze securities better than financial analyst"

"My investment is based on my own analysis"

"I know for sure where I invested will be profitable in future"

"I made the investment by my own which outperformed the market"

Conclusion

The purpose of this study was to interpret the investors' behavioral biases while making an investment decision that guided them to make irrational investment decisions. Participants involved in this study were experienced, knowledgeable and active investors; they expressed their emotions, reactions, preferences, and beliefs that bias their investment decisions. The analysis of interviews leads the researcher to discuss 14 emerging themes from the interview. These themes reveal the making of the human mind when one needs to make a financial investment decision. The themes then categorized into three categories. Following IPA a Master Table was constructed according to themes categories.

Master Table (Integration of themes across Participants) representing categories of Individual Investor Biases

Feelings and Emotions	Information Availability and Analysis	Psychological Motives
• Regret aversion • Loss aversion • Predilection (ethical, religious and social) • Certainty effect (Preference for Certainty) • Overconfidence effect	• Availability heuristic • Consumption over saving and vice versa • Different Investing based on income sources • Chasing trends • Anchoring effect	• Safe playing • Familiarity effect • Consulting friends and family • Getting an expert's advice

The findings relevant to categories are discussed below.

Feeling and Emotions

Feelings and emotions generated from the mental origin either could be painful or have an element of pleasure. These potentially contribute to affect the level of motivation of investors to invest or not to invest somewhere and ultimately affect investment decision making. Emotions are strongly associated with the positive or negative utility. When an emotion arises for any reason, the emotional impact on decision becomes stronger, and overwhelmed emotions defeat the rationalism, eventually, decisions are made with a certain emotional perspective. These generate the biases in a way that feeling of hope and fear affects the attention of decision-makers badly and force him/her to make the decision on emotional grounds rather than a rational approach.

Information Availability and Analysis

Investors make use of heuristics and take a biased approach in processing of information on which they base their investment. They weight more the information easily available to them and ignore the material information which is not readily available. In the presence of these biases, the use of information is objective and optimal. Investors go for shortcuts in making investment decisions without processing complete information available. Further, people archive information in their minds into categories which makes them easy in accessing the information but this reduces the information effectivity. In addition to that, the volume of information available makes it hard for any investor process it without spending time and energy and that increase the reliance of investor on heuristics to make any investment decision.

Psychological Motives

Psychological motives play a significant role in creating behavioral biases while making investment decisions. There could be the number of psychological motives for example investment could be made to get a sense of safety, it could be for conformity, under the influence of greed, to get a sense of achievement, or any other individual motive suites the investor psychology. These psychological motives become fundamentals in defining our social nature and impact our investment decisions.

The above discussion makes it convenient to understand that few biases come from the emotional perspective and others from a logical perspective. The understanding of investor biases reveals the working of the human mind. There is a very strong relationship exist between behavioral biases and investor’s sense of satisfaction concerning financial investment planning. It has been further established that investor behavioral biases are normal phenomena. It is important to understand that investment decisions are always about the future therefore some uncertainties must exist in investment regardless of its degree, hence investor’s decision-making behavior prone to be biased. If an investor is getting desired results the bias is not necessarily bad. IPA does not require producing the essence of the phenomena; however, to the best of the researcher’s understanding, the essence of behavioral biases in investment decision making is investor’s tendency of heuristics.

Practical Implications

This study suggests that irrationalities exist in investment decision making which mostly differ among various investors. Unable to cover all aspects of a variety of behaviors, a single theory does not address behavioral biases; however, behavioral finance offers multiple ways that could be opted to address individual investor behavioral issues. This study is particularly helpful for investors in the Pakistan stock market to understand irrationality surrounding investment decisions that result in abnormal returns and market inefficiency.

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