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A Study on Association of Gender of Investors and Herd Behaviour of Investors

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ABSTRACT

Behavioural finance is an evolving field which studies how psychological factors influences decision making under conditions of uncertainty. It attempts to study how emotions and cognitive errors influence individual investors' behaviour. This research papers aims to find out the association of herd behaviour and gender of investors. The association has been examined on by taking views of investors that they follow trading volume during trading in stock market or not. Primary data for analysis was gathered by distributing structured questionnaire among individual investors and conclusion has been derived from the data by applying chi-square test.

KEYWORDS : Behavioural Finance, Behavioral biases, Herd behaviour bias

Introduction:

Behavioural finance is a branch of finance that studies how the behaviour of agents in the financial market are influenced by psychological factors and the resulting influence on decisions made while buying or selling the market, thus affecting the prices. The science aims to explain the reasons why it's reasonable to believe that markets are inefficient. Some of the key definitions of behavioural finance are discussed below. According to Sewell "Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets."The science deals with theories and experiments focused on what happens when investors make decisions based on hunches or emotions.

Belsky and Gilovich prefer to call behavioural finance as 'behavioural economics' and says that behavioural economics combines the twin disciplines of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow money. Behavioural finance relaxes the traditional assumptions of financial economics by incorporating these observable, systematic, and very human departures from rationality into standard models of financial markets. The tendency for human beings to be overconfident causes the first bias in investors, and the human desire to avoid regret prompts the second.(Barber and Odean,1999).It is assumed that individual investors and market outcomes are influenced by information structure, and various characteristics of market participants.

Behavioural Biases:

Investors may be sensitive towards various types of behavioral biases, which lead them to make cognitive errors. People may make predictable, non-optimal choices when faced with difficult and uncertain decisions because of heuristic simplification. Researchers distinguish a long list of specific biases, applying over fifty of these to individual investor behaviour in recent studies. When one considers the derivative and the undiscovered biases awaiting application in personal finance, the list of systematic investor errors seems very long indeed. Research that is more brilliant seeks to categorize the biases according to some kind of meaningful framework. Some authors refer to biases as heuristics (rules of thumb), while others call them beliefs, judgments, or preferences; still other scholars classify biases along cognitive or emotional lines. While this sort of bias taxonomy is helpful— an underlying theory about why people operate under bias has not been produced. Instead of a universal theory of investment behaviour, behavioral finance research relies on a broad collection of evidence pointing to the ineffectiveness of human decision making in various economic decision-making circumstances. (Pompian 2006)

Herding Bias:

Herding in financial markets can be defined as mutual imitation leading to a convergence of action (Hirshleifer and Teoh, 2003). This is the most common mistake where investors tend to follow the investment decisions taken by the majority. That is why, in financial markets, when the best time to buy or sell is at hand, even the person who thinks he should take action experiences a strong psychological pressure refraining him to do so. The main reason for this is pressure from or influence by peers. The Reliance Power IPO, 2008 is an example of an instance where many investors subscribed without having full information on the issue. Investors apply to "herd behaviour" because they are concerned of what others think of their investment decisions (Scharfstein and Stein).

Herd behaviour is basically the tendency of people to mimic the behaviour of larger groups. There are a number of reasons why herding prevails. First is the social pressure of conformity. You probably know from your experience that this could be a powerful force. This is due to the fact that people are sociable and have natural desire to be accepted by a group, rather than be branded as outcast. Therefore following the group is an ideal way of becoming the member. The other reason is the common rationale that such a larger group could not be wrong. So even if you are convinced that a particular idea or course of action is irrational or incorrect, you might still follow the herd, believing they know something that you don't. This is especially true for the situation when individual has a very little experience. The study further aims to study the impact of such behaviourally influenced decisions on investment performance of investors.

Research Methodology:

Research Design:

To check the association of gender and herd behaviour of investors, it is essential to conduct a sample survey among the investors. A questionnaire has been designed to get information. In this research paper it would be analyzed that is there any relation between gender and herd behaviour of investors.

RESEARCH TYPE:

Descriptive Research

SANPLE DESIGN AND SIZE:

The sample size for the survey is 50 investors.

Hypothesis Testing-

Ho: There is no significant association between gender and herd behaviour of investors.

H1: There is significant association between gender and herd behaviour of investors.

For testing this hypothesis I have applied crosstab test (chi-square test of independence).In one question gender is asked and other question is about that they follow trading volume during investment or not which directly refers that they are herd behaviour biased or not.

Crosstabs-

Gender of Investor * Follow Trading Volume Crosstabulation			
	Follow Trading Volume		Total
	yes	no	

Gender of Investor	male	Count	15	16	31
		Expected Count	16.7	14.3	31.0
	female	Count	12	7	19
		Expected Count	10.3	8.7	19.0
Total		Count	27	23	50
		Expected Count	27.0	23.0	50.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.035[a]	1	.309		
Continuity Correction[b]	.525	1	.469		
Likelihood Ratio	1.043	1	.307		
Fisher's Exact Test				.387	.235
Linear-by-Linear Association	1.014	1	.314		
N of Valid Cases	50				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 8.74.

b. Computed only for a 2x2 table

Directional Measures

			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.024	.131	.180	.857
		Gender of Investor Dependent	.000	.000	.[c]	.[c]
		Follow Trading Volume Dependent	.043	.237	.180	.857
	Goodman and Kruskal tau	Gender of Investor Dependent	.021	.040		.314[d]
		Follow Trading Volume Dependent	.021	.040		.314[d]

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Cannot be computed because the asymptotic standard error equals zero.

d. Based on chi-square approximation

Result:

As in Pearson Chi-Square test ,significant level is (.309) that is more than ('.05' level of significance), so null hypothesis accepted and alternate hypothesis rejected means there is no significant association between gender and herd behaviour of investors.

Conclusion:

As it is clear from hypothesis testing that gender and herd behaviour of investors are two independent attributes and not related with each other. In directional test measures Lambda Test value is .024 which is close to also zero referring very weak relation or no relation between two attributes which means that we cannot say that male investor are more sensitive towards herd behaviour than female investors or vice versa.

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