

An Analytical Study of the Strategies in Overcoming Behavioral Finance

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Abstract

A savings in countless corporations has turned out to be complex as individuals capitalized hefty amounts of cash even as soon as there is a little variation of corporation being lucrative. Most of the stockholders have cogent hopes and taken full advantage of their efficacy. Nevertheless, social economist disagreements are built on their lively studies that, marketplace is not resourceful particularly in the short-run and individuals do not make cogent conclusions to exploit earnings. Individuals are vulnerable to frequent behavioral irregularities which turn out to be counterproductive to the capital growth ideologies prancing to illogical behavior. Depositors have to advance optimistic apparition, prudence, persistence and initiative. Every single stockholder varies on or after others in all facets due to countless influences like demographic factors which comprises socio-economic, contextual, informative fulfilment level, age, race and gender. The utmost vital encounter confronted by the depositors is in the expanse of savings choices. An ideal savings choice dramatized a vigorous part and it is a substantial contemplation. In scheming the savings portfolio, depositor sought to ponder on their monetary goalmouths, danger broad-mindedness neck and neck, and other restrictions. Investors should also consider mutual fund, stock investment and fixed deposit in choosing investment portfolios. Investors should also manage emotions, pay attention to detail analysis than to stories, manage emotions, seek contrary opinions, be a "renter" not an owner, don't chase yesterday's winners, Beware of crowded trades. These strategies help in overcoming behavioral finance by individuals. This paper scrutinizes the connotation and strategies for overcoming behavioral finance.

Keywords: Analytical Study, Strategies, Overcoming, Behavioral Finance.

Type of paper: research paper

Introduction

Behavioral finance is a comparatively new-fangled area that pursues to syndicate behavioral and reasoning emotional philosophy, with predictable financial and economics conduct to make available clarifications for why individuals make illogical financial verdicts (Ricciardi & Simon, 2000). It is prevalent in stock market transversely in the world for investment choices.

Olsen (1998) claimed that "Behavioral finance pursues to know and envisage regular fiscal market inferences of emotional choice procedure."

Belsky and Gilovich (2010) have discussed behavioral finance as a social financial side and additionally well-defined as coalescing the undistinguishable discipline of mindset and economics to elucidate why and how individuals make ostensibly ridiculous choices, why they make savings deposit, finance and spend money.

Shefrin (2002) articulates that behavioral finance is the learning in what way psychology distresses fiscal choice creation and monetary marketplaces.

Pompian (2011) tried to comprehend how individuals fail to recall basics and make savings built on sentiments. Swell (2005) proclaimed that, behavioral finance is the learning of the impact of mindset on the actions of monetary experts and the ensuing consequence on marketplaces. Additionally, in 2007 he has detailed that behavioral finance tests the model of market efficiency by creating acumens hooked on reasons marketplace can be unproductive owed to absurdity in human conduct.

Conferring to Shiller (1995), stockholders do not reason to comport themselves realistically. In a divergent view motivated by greediness and distress, stockholders take risks in stocks flanked by unlikely depressions. In other arguments, depositors are hoodwinked by dissipations of sentiment,

distinctive discerning and the quirks of the mass, steadily formulate illogical hope for the upcoming concert of corporations and the general financial prudence such that stock amounts blow directly above and lower essential standards and track a rather foreseeable, wave-like pathway. Stockholders conduct is a fragment of academic discipline identified as “behavioral finance” which clarify how sentiments and perceptive mistakes impact depositors and the choice-making procedure. Conduct of the individual depositors has extensively been the concentration of scholars and portfolio directors but not the stockholders themselves since the crowd temperament occasionally concluded the whys and wherefores. Human driving conduct marks from unwary rational action in persons retorting to indicators on or after the conduct of others (Prechter, 1999).

This requires better thoughtful, and adopting of humanoid nature in the prevailing worldwide viewpoint, positive growth of satisfactory services and capability to contract the best out of savings. In addition, stakeholders have to advance constructive idea, prudence, grit and drive (Paepke, 1987). Every single depositor differs as of others in all facets owed to countless influences like demographic issues, which consist of socio-economic upbringing, informative fulfilment level, oldness, race and gender (Joo & Grable, 2004). The utmost critical encounter confronted by the depositors is in the expanse of savings choices. An ideal savings choice dramatizes a vigorous part and is a noteworthy thought (Langevoort, 2009). In scheming the savings set, the depositors ought to ponder on their financial goalmouths, risk and other constrictions (Heimann, 2013). Heimann (2013) asserts that, depositors have to forecast the yield mean- variance optimization. Heimann also claims that, this procedure is well matched for established stockholders. It frequently miscarries for persons who are vulnerable to interactive prejudices. This study therefore is aimed at investigating the strategies involved to mitigate irrational investment decisions by individuals in the financial market, using data from secondary sources.

Literature review/discussion

In current centuries, interactive finance is flattering an indispensable fragment of choice-making procedure as it largely stimulates the depositor’s concert(Chaudhary, 2013a). Thoughtful ‘behavioral finance drive aids the depositor to hand-picked a better savings portfolio and hence circumvent reiterating the exclusive mistake in the upcoming years (Pompian, 2011). Depositors can also advance their concert by knowing their predispositions and mistakes of verdict to which we are all disposed to(Trimmer et al., 2011). The foremost aim of learning ‘behavioral finance’ is how to curtail or eradicate the psychological predispositions when making savings conclusions by depositors(Hirsh, Mar, & Peterson, 2012).

Theories of behavioral finance

Theories of behavioral finance are discussed below;

Prospect theory

This theory was developed by Kahneman and Tversky in 1979. The second sets of misapprehensions which may influence the decision process are clustered in prospect theory. He explained the several states of mind which may influence depositor’s decision-making process. The key concepts which they discussed are as follows:

Loss aversion

Nicolau (2011), claims that Loss aversion came up as an important psychological concept which receives cumulative attention in economic analysis. The investor is claimed to be a risk-seeker when faced with the prospect of losses, but is risk-averse when faced with the prospects of enjoying gains (Chaudhary, 2013b). This phenomenon is term as loss aversion. Karle, Kirchsteiger, and Peitz (2015), discussed the loss aversion theory with risk aversion and accepted the ‘Kahneman and Tversky views’.

Regret aversion

This arises due to investors’ craving to circumvent agony of regret rising from a poor investment decision (Singh, 2012). This aversion inspires investors to keep poorly performing shares as circumventing their sale also avoids the recognition of the related loss and bad investment decision

(Singh, 2012). Regret aversion forms a tax inefficient investment strategy because investors can lessen their taxable income by realizing capital losses (Barber & Odean, 2013).

Mental accounting

Mental accounting refers to cognitive processes used by investors to establish, assess and possess track of investment activities (Nofsinger, 2016). Nofsinger (2016), claim that three components of mental accounting receive the most attention. He explained that this first captures how the outcomes are perceived and experienced, and how decisions are taken and subsequently interpreted. A second component of mental accounting encompasses the task of events to exact accounts. Both foundations and uses of funds are being labelled in real as well as in mental accounting systems. The third component of mental accounting deals with rate at which accounts are assessed and 'choice bracketing'. Accounts are balanced daily, weekly, yearly etc., and can be delineated barely or broadly. Each of the components of mental accounting disrupts the economic principle of fungibility. As a result, mental accounting impacts choice. (Nofsinger, 2016).

Self-control

Razek (2011), claims that it requires all investors to circumvent the losses and protect the investments. As noted by Razek (2011), investors are focus to temptation and they look for tools to improve self-control. By mentally unravelling their financial resources into capital and 'available for expenditure' pools, investors can regulate their urge to over consume (Nofsinger, 2016). Nicolau (2011), discussed loss aversion theory with risk aversion and he accepted the 'Kahneman and Tversky views'.

Disposition effect (Loss aversion)

Conferring to the disposition effect, investors face great trouble coming to rapports with losses. Consequently, they are predisposed to keeping losers too long and selling front-runners too early (Hens & Vlcek, 2011). This is due to the fact that depositors are often considered to always circumvent losses and seek to appreciate gains at any given period (Ritter, 2003). This position according to Weber and Camerer (1998), is the predisposition to sell those stocks that have gained in value while clinging onto those that have shed value. Weber and Camerer (1998), established that investors will tend to sell front-runners too earlier whereas keeping onto losers for so long. This is due to the fear that the winners may drop in worth, while the losers may gain value within the shortest term though this have proved not to hold in practice (Fisher & Statman, 2003). It is further noted by Fisher and Statman (2003), that people will always try to circumvent the feeling of being failures as much as they acted on the advice of others and as such, they will go further miles to make sure that they win in their actions. Hence the feeling that by achieving a particular goal in the marketplace, they feel proud of their actions thus, advancing the disposition effect (Brabazon, 2000). According to Singh (2012), the investors show regret aversion due to disposition effect where investors sell good performing stocks early and keep ailing performing stocks for too long. Thus this phenomenon has an effect of altering the pricing of stocks on the NSE as it affects the rational forces of demand and supply which play a major role on price setting on the NSE (Kisaka, 2015). This position was emphasized by Barber and Odean (2013), who speculates that disposition effect is prevalent in nature and that lately, when stocks gain or loss value the stronger the propensity for investors to sell champions and hold on losers. As such investors have been seen to keep losers longer in their portfolio than winners.

Fear of regret (Regret aversion)

According to Belsky and Gilovich (2010), Human beings in nature have the propensity to feel the agony or the fear of regret for errors being made. As such, to circumvent the agony of regret, people tend to adjust their behavior, which may end up being irrational at times. Fear of regret is 'cognitive dissonance', which is the mental suffering that people suffer once they are offered with the indication that their opinions are wrong (Shiller, 1995). Regret aversion according to Subash (2012), is a psychological error that results in extreme focus on feelings of remorse at a decision which turned out to be poor, mainly because the results of the substitute are evidently better for the investor to see. This

is made profound by the datum that investors do admit their slip-ups and embrace the consequences of their decisions which in itself is quite hard to phantom (Hume, 2016). This scenario forces most investors to avoid taking decisive actions for the very fear of their decisions leading to an unfavorable outcome. This could also lead to investors keeping onto losing stocks for longer period because of unwillingness to rectify mistakes in a timely manner (Trinugroho & Sembel, 2011). This could also prevent investors from making an entry into the marketplace when there is downtrend, showing signs of ending, and gives signal when is upright time to buy. According to Peterson (2011), the 'fear of regret' happens often when individual investors are indecisive in making investment decisions. Various psychology experimental studies suggest that regret influences decision-making under uncertainty (Heilman, Cricsan, Houser, Miclea, & Miu, 2010). As such regret avoiding investors have a propensity of circumventing distress arising out of errors of commission which are due to misguided action, and errors of omission- which occur due to missing an opportunity which existed (Trinugroho & Sembel, 2011).

Random walk theory (random walk framing)

Random Walk talks on the notion that changes in stock prices are random and unpredictable (Guerrien & Gun, 2011). It is thus of no use, to attempt to envisage upcoming stock prices. Previous patterns of stock price schedules ought not be conceived as a basis to induce upcoming price trends. According to Sornette and Cauwels (2014), investors often and consistently push stock prices to unsustainable levels, both upwards and downwards.

According to Novy-Marx (2013), in advocating for value investing, quotes Benjamin Graham who says, "Price is what you pay, value is what you get". He further states that value investors buy stocks when the marketplace is bearish, when expectations of investors are low; during bullish times, the worth investors look for is good neglected stocks which are out of favor with investors. He displays that progress stock investing is based on dreams, misapprehensions or popular opinion. A research by Anyumba (2010), resolved that NSE tracks a random walk under the weak form of market efficiency.

Other components of 'behavioral finance' theory relevant to this discussion include the following aspects:

Aversion to ambiguity

People often prefer the familiar to the unfamiliar. The emotional aspect of aversion to ambiguity is distress of the unknown (Trimmer et al., 2011). Tversky and Kahneman (1974), studied how individuals respond to the prospect of loss. They establish that a loss, has about two and a half times the consequence of a gain of the same degree and this phenomenon is termed loss aversion. In this circumstance therefore, people will always attempt to avoid situations that could stance a loss as compared to individuals that present a gain by keeping onto losing positions with expectation that the prices will eventually recover in the near future (Do, 2011). According to Li and Yang (2013), investors when allowed to view stocks individually, there is the possibility of risk averse there by making them to sell quickly stocks with high prices hence depressing the same prices. On the contrary investors are also likely to hold too long on the stocks with falling prices causing the stocks prices to be negative (Kim, Li, & Zhang, 2011). According to Kim, Li and Zhang (2011), this therefore allows choice making in stocks investment sensitive to the investors actions hence further altering the normal finance theory.

Emotional time line

Kahneman et al. (2011), claim that it is an imperative fact to discuss emotion while analyzing financial decisions because emotions determine tolerance for risk. According to psychologist Lopes (1987), hope and fear affect the way investors evaluate alternatives. Lopes claims that these two emotions exist within investors, as conflicting poles, and one of her contributions is to establish how the collaboration of these conflicting emotions regulates the tolerance towards risk. Lopes states that emotions determine tolerance for risk and this plays a key role in portfolio selection. Lopes again mention that; it must be known that investment usually takes time along a time line. Investors feel emotional as they contemplate their alternatives, make choices about how much risk to take, ride the

financial roller coaster while watching over their investment choices and assess whether to keep to the initial strategy or alter it (Lopes, 1987).

It is also known that emotions timeline battings from left to right where investment verdicts lie at the left while goal line lie at the right (Kahneman et al., 2011). As such investors come across various emotions along the timeline with investment choices at the left, wait in the central and learn their fate at the right. Thus, the actions of investors along this time line will be directed by their degree of risk tolerance with total disdain to fundamental analysis (Ranjan Dash & Mahakud 2012). Risk tolerance determines where the investor stands on the timeline. Ranjan Dash and Mahakud (2012), claims that depositors who are risk tolerant and have enough time to take investment decisions have an appetite for stocks.

Overconfidence

Trinugroho and Sembel (2011), established that people are poorly calibrated in estimating probabilities and usually overemphasize their superiority of the knowledge and capability to do well. People are also overconfidence about good things happening in future than bad (Trinugroho & Sembel, 2011). In addition, they also claim that people overemphasize their confidence to the previous encouraging results and usually recall only their successes than their failures. When individuals are overconfident, they set excessively narrow confidence bands. They establish their high presumption too low and their low presumption too high. Trinugroho and Sembel (2011), mentioned that there are twofold foremost implications of investor overconfidence. The first is that investors take bad stakes because they fail to comprehend that they are at an unceremonious disadvantage. The second is that they trade further often than is judicious and this leads to disproportionate trading volume.

De Bondt and Thaler (1995), claims that individuals tend to make their guesses by innocently projecting trends that they perceive in the charts with the propensity to be overconfident in their capacity to estimate them accurately. However, on many occasions these confidence intervals are usually slanted, meaning that their best presumptions do not lie midway between their low and high guesses. Overconfidence can therefore be learned through past success in the logic that the more success the investor has experienced previously, the more the attribution of the same towards their ability even in instances where luck and mere fate played a role (Barber & Odean, 2013).

According to Barber and Odean (2001), overconfidence clears itself through lack of diversification. Individuals tend to finance in local companies which they are conversant with, as divergent to distant companies which might even be performing better. They also found that depositors who are more self-assured trade more often. They also came out that male investors and investors with greater portfolios or are further educated are further likely to distinguish themselves as more competent than female investors and investors with smaller portfolios or less education.

Affect

Affect is manifested through sentiments, likes and dislikes of people about something including investments (Hemmings, 2005). Hemmings also claim that, even the very name of a company brings or repel prospective investors onboard without respect to the fundamental value of the company's stock or products. It is established that moods and emotions impact people in decision making, including investment decisions (Lerner, Han, & Keltner, 2007). Statman (2010), claim that depositors often welcome a stock or product or disapprove of it when they hear its name even before the thoughts about the growth of its company's sales and that, "affect" is exhibited in stocks, houses, cars, watches, and many others. He further describes "Affect" as the exact value of "goodness" or "badness", and cite Slovic, Finucane, Peters, and MacGregor (2002), who defined affect as a sensation that occurs rapidly and robotically and often without consciousness. Statman (2010), quote Zajonc (1980), "We do not just see house: We see a beautiful house, an ugly house, or a pretentious house". The weakness and attraction to something is what mostly drives investment decisions. Thus, it is not eccentric to find stock market depositors liking or hating a particular stock based on any essential analysis but purely due to Affect

Representativeness and overreaction

The principle of representativeness and overreaction refers to decisions based on pigeonholes. A financial example to illustrate representativeness is the winner-loser effect recognized by De Bondt and Thaler (1995). Investors who depend on the representativeness experiential become overly pessimistic about previous losers and excessively optimistic about previous winners (De Bondt & Thaler, 1995). They also claim that investors overreact to both bad and good news. This therefore means that, overreaction leads previous losers to become undersold and previous winners to become high-priced.

Empirical studies on behavioral finance

(Lehavy & Sloan 2008), emphasized that anomalous empirical evidence has indeed stimulated wide-ranging research efforts to make clear the theoretical and empirical limitations of the basic finance model with its frictionless markets, comprehensive information and rational enhancing economic behavior but although much has been done, this study line is far from closure. Schachter, Ouellette, Whittle, and Gerin (1987), demonstrated investors' tendencies to emphasize current price trends and brief price reversals. Chopra, Lakonishok, and Ritter (1992), provided captivating evidence in sustenance of the impression that investors make irrational forecasts of future cash-flows. They also claim that if extreme optimism or pessimism is driving these illogical forecasts, then earnings announcement dates should provide the stimulus for correction.

The behavioral models propounded by various scholars, Fama and French (1996), have been utmost successful in explaining stock price irregularities related to overreaction, under-reaction, impetus strategies, steering behavior, firm size effect and BV/MV ratio effects. Barberis et al., (1998) articulated a model of security price over and under-reaction to information when investor judgment is biased by obscurantism and the representativeness heuristic. Daniel, Hirshleifer and Subrahmanyam (1998), elucidated event-related security price anomalies conferring to the cognitive biases of investor overconfidence and self-attribution. Schwert (2003), suggested that descriptions of overreaction and under reaction are not probable to be good psychological foundations upon which to organize a general theory of economic behavior. Schwert claims that Cognitive biases inadequately identify the behavioral motivations causing price anomalies.

Barber and Odean (2013), highlighted two common slip-ups depositors make:

Risky trading and the propensity to excessively grip on to trailing investments while marketing winners. They claim that these methodical biases have their roots to be from human psychology. The propensity for human beings to be overconfident impacts the first bias in depositors and the human desire to circumvent regret prompts the second.

(Jegadeesh & Titman, 1993), explained the superior returns of a momentum investing strategy over the previous 35 years due to investors' overconfidence bias. Further study by (Dreman & Lufkin, 2000), presented evidence that investor under and overreaction exists and is slice of the same psychological process. Chan, Lakonishok, and Sougiannis (2001), found that a large stock price change, unsupported by news, on average was tailed by a statistically anomalous price movement reversal over the subsequent month. They further illustrated that the price movement reversals frequently occur when a mainstream of market representatives follow the same investing plan (buying or selling), unsupported by new information. A research by Barberis & Thaler (2001), confirmed that data does indeed show anomalous corrective activity following earnings announcements from listed companies.

Kisaka (2015), studied the influence of behavioral finance on Kenyan financial markets by use of an investment simulator and identified various psychosomatic factors such as endowment effect, disposition effect, distress of regret and framing effects as affecting the investors' rationality in stock marketplace investment decisions. Further studies by Tetlock, (2007) recognized that behavioral finance gives an alternate clarification on why stock prices diverge from their essentially analyzed values due to depositors' propensity to overreact and/ or under react to certain stock market conditions hence opposing from rational decision making.

Dimitrios (2007), investigated depositors' behavior and came out that individual investors depend on more on newspapers/media and noise in the marketplace when making their investment choices, while professional depositors depend more on ultimate and technical analysis and less on portfolio analysis. This constant flow of information socially exchanged views and recommendations proves a

tough task to the investors in relations to processing and interpretation resulting into them making investment decisions built on less cultured information.

A study on behavioral asset pricing model by Kisaka (2015), established that misleading feelings such as affect, has misinformed investors into admiring stocks with a positive affect while shunning those with perceived negative affect without concrete essential and technical analysis. Nyaribo (2010), centered on overconfidence, frame dependency, loss aversion, anchoring, mental accounting and representativeness in his research on investor psychology.

A study by Anyumba (2010), claimed that NSE tails a random walk under the weak form of market efficiency. Conferring to a research by Edmans (2011), cognitive errors such as underestimation of tangible capital gains were mirrored in investment asset pricing models, hence influencing the kind of portfolios that depositors choose.

Do (2011), in his research analyzed the propensity of depositors to make gains too early and the unwillingness to liquidate trailing positions. The analysis was built on the comprehensive transaction data of the Estonian stock market. The study uncovered the consequence of loss aversion on the market as having a philosophical influence on the investment choice making by stock market depositors thus strengthening the position that behavioral finance plays a substantial role on the stock market.

Another study by Allen and Morris (2014), confirmed the argument that stock market investors relied on heuristics or rule of the thumb in making their investment choices by concentrating on a simple heuristic whereby impetus traders are attracted to buying stocks that have recently doubled in price in expectation of further gains. It was recognized that investors that avoid trusting on this simple heuristic were probable to perform as expected, on average similar to the overall market.

Thaler (1999), also studied the influence of mental framing in the choice-making process by stock market investors. The research was designed into two parts whereby study 1 focused on the consequence of mental frames on the investor's portfolio and the interaction between mental frames and investor expectations. Study 2 examined individual and environmental factors that impacted the kind of mental investment frame individuals hold. It came out that mental framing about depositors' anticipation of the marketplace had an effect on the decisions made about the stocks to finance or divest in. Strumeyer (2017), in his study about understanding investor psychology for accountable financial behavior came out that behavioral finance was apparent in the choice-making process of stock market investors and is probable to interrupt the financial system and cause huge social and economic damages to depositors.

Sahi, Arora, and Dhameja (2013), study was done to ascertain the views and attitudes of the individual investors with regard to financial investment decision making, with specific respect to the investor biases, 30 exploratory semi-structured interviews were conducted to investigate and define the fundamental judgements and feelings that affect the individual investment decision-making behavior. The study established that stock market depositors have numerous opinions and preferences that bias their financial investment decisions.

Additionally, a research by Hirshleifer (2001), came out that securities markets do usually overact to earning signals there by influencing the stock market depositors' decision making, due to the impulsiveness of the stock prices hence compelling them into applying their individual bias in choice making. This indication from the study is dependable with the spirit of the behavioral models.

Chen, Kim, Nofsinger, and Rui (2007), conducted a research to investigate investors purchasing, trading or maintaining stock decisions, investors in two different markets were studied. One group traded first in a market with prices growing steadily and after in a market with high instability and the other group traded first in the market with high volatility. This confirmed investors' brain mapping when making decisions on which stocks to purchase, trade or hold. These results evidently show that investors use diverse reasoning approaches or tactics to make financial choices dependent on their trading experiences. A study by Aroni, Namusonge, and Sakwa (2014), sought to identify behaviors finance factors from individual investors as they set out to make investment decisions. The study concluded that there were varied behaviors of financial factors that informed the performance of individual depositors in trading shares of companies listed at the Nairobi Stock Exchange, Kenya. Some investors unveiled rational behavior in making their investment decisions. On the contrary, there were other individual investors who posted negative results due to illogicality and herding behavior.

Wamae (2013), conducted a research to ascertain the behavioral factors inducing individual investors' decisions at the Nairobi Stock Exchange which was coxed by the following specific objectives, that is, to examine the consequence of risk aversion on investment choices in Kenyan stock market, to examine whether prospecting impacts choice making in stock market investments, to identify the effect of anchoring on investment choice in Kenyan stock market and to examine the effect of steering on investment choices in Kenyan stock market. From the study, it came out that herding effect, risk aversion, prospecting and anchoring influences the investment choice making in stock market by NSE investors in Kenya.

Waruingi (2011), in her study to identify behavioral biases which affect individual depositors at the Nairobi Securities Exchange, established that investors were affected by Availability bias, Representativeness bias, Confirmation bias and Disposition effect (loss aversion) while making their investment choices on which shares to trade in on the NSE.

Influence of behavioral finance

Several emotional and behavioral factors influence investors in choice making. The choice process by which investors discover information for themselves, usually by trial and error, lead to the advance of rules of thumb. In other words, it refers to rules of thumb which humans use to make choices in complex, undefined environments (Brabazon, 2000). The reality is that, the investors choice making processes are not firmly cogent one. Though the investors have gathered the appropriate information and empirically evaluated in which the mental and emotional factors are involved, it is very hard to separate (Tversky & Kahneman, 1974). They also claim that, sometimes it may be good, but many times it may end in poorer decision outcomes. These influences of behavioral finance include:

Representativeness

The investors' current success incline to continue into the future. The idea or propensity of decisions of the depositors to make based on past experiences is identified as stereotype. De Bondt and Thaler (1995) concluded that, analyses are biased in the path of current success or failure in their earnings, predicting the characteristic of stereotype decisions.

Overconfidence

Several dimensions are being mentioned in confidence. Trinugroho and Sembel (2011) mention that, confidence can give more courage and is frequently understood as a key to success. Although confidence is often stimulated and celebrated, it is not the only factor to success. They also claim that depositors who are vigilant and logical can attain success and others have to pull out. Yet, confidence, particularly self-confidence, is often seen as a positive trait. Trinugroho and Sembel (2011), also mentioned that, sometimes the investors overestimate their predictive skills or assuming more knowledge than they have. Many times, it primes to disproportionate trading.

Anchoring

It describes the shared human propensity to depend too heavily, or 'anchor' on one trait or piece of information when making decisions (Kannadhasan, 2006). He also claims that when presented with new information, the depositors tend to be slow to alteration or the value scale is fixed or anchored by current observations. He further claims that, they usually expect the trend of earning to remain with historical trend, which may prime to possible beneath reactions to trend changes.

Gamblers fallacy

This comes when the investors inaptly predict that trend will reverse (Shefrin, 2002). Shefrin also claim that, it might also result in keenness of good or poor end.

Availability BIAS

The depositors place undue weight for making choices on the most accessible information. This happens quite frequently (Slovic, 1972). It leads to less return and sometimes poor results also.

Strategies to mitigate behavioral finance

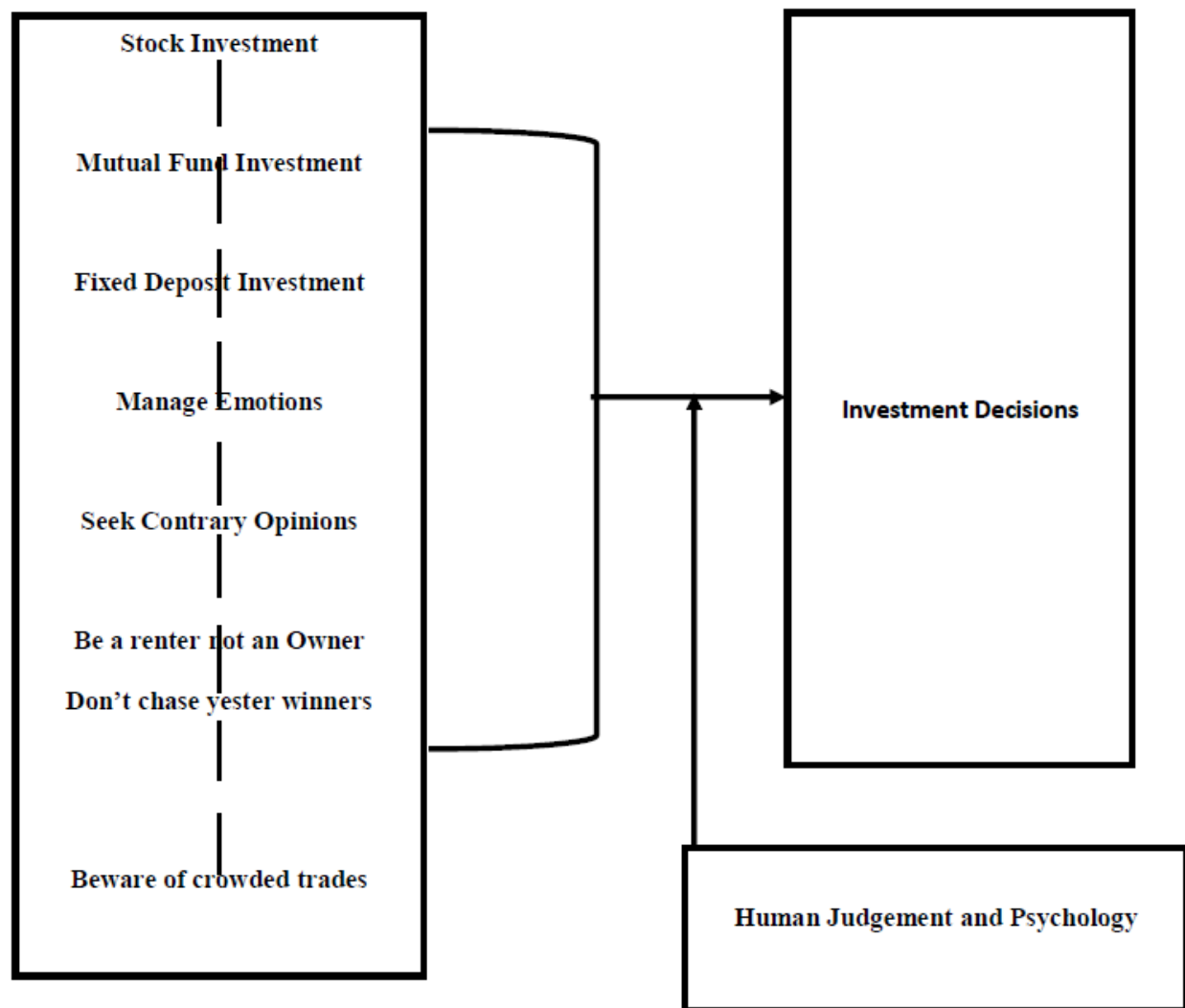
After an indebt learning of the fiction on social finance, it is alleged that its seamless tender possibly will brand an effective stockholder making less slip-ups (Belsky & Gilovich, 2010). In numerable precautions are required to regulate rational mistake and emotional obstructions while financing in stocks and mutual funds(Chaudhary, 2013b). According to Chaudhary, a controlled transaction plan is essential to rheostat these mental obstructions to all types of stockholders.

Investigative frame work

The researcher adopted the below figure as investigative from work to tackle the strategies involved in mitigating irrational behavioral finance by investors

INDEPENDENT VARIABLES

DEPENDENT VARIABLES



(Researcher's model 2018)

Figure 1. Investigative frame work

The conceptual framework for this study was developed from the literature review by highlighting strategies that will assist in overcoming depositor behavior and psychological biases resulting in subjective investment choice making process on investments. This is represented in figure 1 where the variables / elements form the foundation of the study as reducing the process of investment decisions making are summarized. Moving from left where we have investors to the right where decisions are made, the study highlighted the ten measures to overcome the investors' irrational decisions in between. These independent variables interface with the human judgement and psychology thus mitigating

investment decisions which are reliant on these factors. These investment strategies investors can consider to mitigate irrational investment decision are discussed below.

Stock investment

According to Chaudhary (2013a), it requires emphasis on a 'precise savings strategy' which could conclude the extended time to rheostat "rational slip-ups" by the depositors. It's a most important concern for investors to retain comprehensive archives of the exact stock which was procured for their portfolio. Depositor sought to also choose exact standards for making a quick choice to purchase, auction or hold stock(De Bondt & Thaler, 1995).

De Bondt and Thaler (1995) opined that, depositors sought to riposte the ensuing inquiries before making any choice.

- (i) Why depositors purchase the stock?
- (ii) What is the period bound for the venture?
- (iii) What is the expected percentage of return?
- (iv) After a period of one year will the stock under-performed or over-performed?
- (v) Do you proposed on procuring, trading or holding your situation?
- (vi) How perilous is this stock within your overall set
- (vii) Decision to purchase, trade and hold new shares

Mutual Fund Investment:

Chaudhary (2013a)suggested that depositors hand-picked mutual funds with a modest four step procedure which consist of the followings:

- (i) Finance in only no-load mutual fund with low operative expenditure;
- (ii) Aimed at reserves with a robust historic pathway record over 5-10 years;
- (iii) Capitalize with tenured Portfolio Executive with a robust savings thinking;
- (iv) Recognize the precise menace connected with each mutual fund.

The key to operative financing is identifying the kind of depositor you are lengthways with in effecting a solid savings plan (Ricciardi & Simon, 2000). Belsky and Gilovich (2010) claimed that Behavioral factors can help depositors to avoid mistakes. They also claim that; circumventing slip-ups is called self-protective behavioral finance tenders in savings choice making.

Manage emotions

Fogel and Berry (2006) also claimed that, investors feel greater pain from investment losses than satisfaction from investment gains. Depositors who were wounded by the overflowing of the technology bubble in 2000 and the global financial crisis in 2008 have an admissibly heightened fear of investment losses(Reinhart & Rogoff, 2009). Emotions leads to agony selling at several crucial moments in 2016particularly in January in connection with apprehensions about China, as well as in the early hours following the Brexit poll in June and the vote of President Donald Trump in November(Miller, 2017). Investors who calmly assessed the investment implications were more possible to benefit from the opportunities provided by each event (Fogel & Berry, 2006).

Seek contrary opinions

Confirmation bias is the propensity to seek sentiments authenticating an individual's opinion. The 2016 U.S. presidential election campaign was outstanding for the extent to which confirmation bias was dominant to the election description(Miller, 2017). Miller (2017) claimed that, many voters established their news from sources thought to favor one political party over another, with Trump voters tending to get news from Fox (and Breitbart) and Hillary Clinton voters from CNN and the New York Times. Investors are exposed to confirmation bias, as far too many depositors seek authentication from sources that buck their investment proposition, while evading conflicting opinions (Thompson, 2003). Thompson mention that the best investors seek contrarian opinions, then evaluate the strong point of the competing arguments.

Be a "Renter" Not an owner

According to Graham and Zweig (2003), investors often develop an unhealthy attachment to a stock. Graham and Zweig (2003) argued that, sometimes the attachment is linked to a personal connection to the company. In other cases, investors fail to understand that a "great" company might not constantly be a "great" stock. They again mentioned that, many well-managed and profitable companies become too expensive relative to earnings prospects, in other cases well-managed and profitable companies are left behind by disruptive economic forces. Facebook (ticker: FB) and Netflix (NFLX) are well-thought-out by many to be great companies but at recent incomes multiples, it is tougher to consider them great stocks(Graham & Zweig, 2003). Graham and Zweig (2003) argued that, Best Buy Co. (BBY) was well-thought-out to be a great company for many years, but variations in retailing triggered by the "Amazon" upshot made Best Buy stock a straggler for much of this decade. Many fruitful depositors think of their stocks as "rentals," which forms the emotional distance required to remain un biased about choices whether to sell or keep current holdings(Graham & Zweig, 2003).

Don't chase yesterday's winners

Depositors typically ignore legal disclosures that, previous performance is not an assurance of upcoming performance(Love & Klapper, 2002). Love and Klapper (2002) claimed that, "Performance chasing" is a common phenomenon with money flowing into recent winners and away from recent losers. According to Odean (1998), Depositors erroneously suppose current victory to endure into the future nevertheless, performance often regresses to longstanding means so hurtling last-year's victors often primes to sheathing performance and a spiteful sequence of high turnover.

Beware of crowded trades

Success breeds imitation in the savings industry and a herd of imitators can end a successful investment strategy(McGrath, 1997). Quantitative investment tactics increased acceptance in the early part of the 2000s, but many "quants" ended up as part of masses that invested in the same stocks(Schoenfeld, 2011). Schoenfeld (2011) argued that, the quant boom ended badly with the "quant quake" of 2007 as the herd headed for the exits at the same time. Popular trades have a way of becoming too popular as investors burned by the technology bubble, the BRIC craze, and currency "carry" trades that have been discovered (Schoenfeld, 2011). Schoenfeld (2011) argued that, reversals of fortune can be particularly painful for depositors who are among the last into a crowded trade. He further argues that, following the masses can be a bad idea, and investors should do their homework before joining a crowded trade.

Pay more attention to detailed analysis than to stories

Lounsbury and Glynn (2001) argued that, humans like stories and often create a narrative that supports their investment decisions. Midstream energy MLPs such as oil and gas pipelines became common reserves few years ago, offering striking historical returns, foreseeable cash flows, and a gradation of inflation protection(Massey, 2016). Massey (2016) claimed that when energy prices started to decline, the popular narrative was that, midstream energy companies would not be vulnerable to declining prices given long-term volume-based contracts. Massey (2016) further claimed that, the "story" and reality diverged however, as declining oil prices led to declining volumes, which in turn led to excess capacity and financial pressure all over the oil and gas industry. Midstream energy companies felt the pain of lessening energy prices and midstream MLPs that archaeologically were uncorrelated to energy prices, abruptly had a high correlation to energy prices (Massey, 2016). It is dangerous to become captive to a thematic "story" and important to complete the research necessary to determine any flaws in the narrative(Knight, 2001).

Warren Buffett provides some valuable advice that applies to behavioral biases: be greedy when others are fearful, fearful when others are greedy (Buffet, 2008). Buffet (2008) claimed that, the most successful investors are aware of behavioral traps, and take steps to avoid them.

The table below summarizes the results of this study.

Table 1. Summary results

| Determinant/ variable (investment strategies) | Results |
|---|--|
| 1. Stock investment | Due diligence by investors in Stock investment is significant in choosing investment avenue. |
| 2. Mutual fund investment | Following the right step is Significant in making investment decision on mutual fund. |
| 3. Investment in fixed deposit. | Fixed deposit (treasury bill) less risky and significant to investment decision. |
| 4. Manage emotions | Very significant to investment decision |
| 5. Seek contrary opinions | Significance in investment decision |
| 6. Be a renter not an owner | Significant in investment decision making |
| 7. Don't chase yester winners | Significant in investment decision making |
| 8. Beware of crowded trades | Significant in investment decision making |
| 9. Pay more attention to detailed analysis than to stories. | Significant in investment decision making |

Source: From the literature

Discussion of results

Wamae (2013), conducted a research to ascertain the behavioral factors inducing individual investors' decisions at the Nairobi Stock Exchange which was coxed by the following specific objectives, that is, to examine the consequence of risk aversion on investment choices in Kenyan stock market, to examine whether prospecting impacts choice making in stock market investments, to identify the effect of anchoring on investment choice in Kenyan stock market and to examine the effect of steering on investment choices in Kenyan stock market. From the study, it came out that herding effect, risk aversion, prospecting and anchoring influences the investment choice making in stock market by NSE investors in Kenya. Waruingi (2011), in her study to identify behavioral biases which affect individual depositors at the Nairobi Securities Exchange, established that investors were affected by Availability bias, Representativeness bias, Confirmation bias and Disposition effect (loss aversion) while making their investment choices on which shares to trade in on the NSE. However, According to Chaudhary (2013a), it requires emphasis on a 'precise savings strategy' which could conclude the extended time to rheostat "rational slip-ups" by the depositors. It's a most important concern for investors to retain comprehensive archives of the exact stock which was procured for their portfolio. Depositor sought to also choose exact standards for making a quick choice to purchase, auction or hold stock (De Bondt & Thaler, 1995). It is therefore concluded that, due diligence in choosing stock investment, mutual fund and fixed deposit investment reduces the irrational investment decision.

Fogel and Berry (2006), also claimed that, investors feel greater pain from investment losses than satisfaction from investment gains. Depositors who were wounded by the overflowing of the technology bubble in 2000 and the global financial crisis in 2008 have an admissibly heightened fear of investment losses (Reinhart & Rogoff, 2009). From Fogel and Berry (2006) study, it can be concluded that managing emotions by investors is of significance in mitigating irrational investment decisions by investors.

It is often said that, "confirmation bias is the propensity to seek sentiments authenticating an individual's opinion" (Miller, 2017). The 2016 U.S. presidential election campaign was outstanding for the extent to which confirmation bias was dominant to the election description (Miller, 2017). Miller (2017) claimed that, many voters established their news from sources thought to favor one political party over another, with Trump voters tending to get news from Fox (and Breitbart) and Hillary Clinton voters from CNN and the New York Times. However, Thompson, (2003) mentioned that, the best investors seek contrarian opinions, then evaluate the strong point of the competing arguments. From

Thompson, (2003), argument, it can be concluded that seeking contrary opinions by investors can help mitigate irrational investment decision.

Graham and Zweig, (2003) argued that, many well-managed and profitable companies become too expensive relative to earnings prospects, in other cases well-managed and profitable companies are left behind by disruptive economic forces. An instance is Facebook (ticker: FB) and Netflix (NFLX) which are well-thought-out by many to be great companies but at recent incomes multiples, it is tougher to consider them great stocks (Graham & Zweig, 2003). Graham and Zweig, (2003). Many fruitful depositors think of their stocks as "rentals," which forms the emotional distance required to remain unbiased about choices whether to sell or keep current holdings (Graham & Zweig, 2003). From Graham and Zweig (2003) study therefore, it can be concluded that, being a renter and not an owner about an investment is of great significance.

According to Odean (1998), Depositors erroneously suppose current victory to endure into the future nevertheless, performance often regresses to longstanding means so hurtling last-year's victors often primes to sheathing performance and a spiteful sequence of high turnover. Depositors typically ignore legal disclosures that, previous performance is not an assurance of upcoming performance (Love & Klapper, 2002). From Love and Klapper, (2002), it can also be concluded that, investors who desist from chasing yesterday's winners, have the chance of reducing irrational investment decision making.

Schoenfeld (2011), argued that, reversals of fortune can be particularly painful for depositors who are among the last into a crowded trade. He further argues that, following the masses can be a bad idea, and investors should do their homework before joining a crowded trade. From the argument by Schoenfeld, (2011), concluded that, investors should beware of crowded trades and this will help reduce irrational investment decision making.

Lounsbury and Glynn (2001) argued that, humans like stories and often create a narrative that supports their investment decisions. Warren Buffett provides some valuable advice that applies to behavioral biases: be greedy when others are fearful, fearful when others are greedy (Buffet, 2008). Buffet (2008) claimed that, the most successful investors are aware of behavioral traps, and take steps to avoid them. From Buffet (2008), it can be concluded that paying more analysis to detailed analysis than to stories is significance in mitigating irrational investment decision.

Conclusion

From the study, Behavioral finance tactic explores the interactive patterns of stockholders and cracks to comprehending what way these outlines guide savings decision. Correspondingly, Social factors play a dynamic part in the decision-making course of the depositors. Hence the depositors have to take essential phases to curtail or side step delusions for inducing in their decision-making course, considering investment verdicts in particular. Its concluded from the study that, Investors should consider mutual fund, stock investment and fixed deposit in choosing investment portfolios following due diligence. Investors should also manage emotions, pay attention to detail analysis than to stories, seek contrary opinions, be a "renter" not an owner, don't chase yesterday's winners, and being aware of crowded trades. Also, in scheming the savings portfolio, the depositor sought to reflect their monetary goalmouths, risk broad-mindedness level, and other constrictions. These strategies help overcome behavioral finance by individual investors.

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