THE IMPACT OF INDIAN INVESTOR'S ATTITUDE ON REGRET AVERSION

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ABSTRACT

The regret aversion is one of the investor’s psychological subject to study. Investors have a tendency to avoid regret that will have a powerful effect on an investor’s decision to mark financial decisions. Similarly regret is the generally found and observed in individuals specifically when they take investment decisions. However, this tendency is harmful to their portfolio they have invested in. In the present examination, scientists have attempted to discover the effect of Investor Attitude on Regret Aversion by utilizing General Linear Model. The results are useful in the Indian context. The target of this investigation is to examine affectedly the regret aversion, its impact on investors’ behavior and how to manage such psychological biases.

KEYWORDS: Regret Aversion, Risk, Investor Psychology

INTRODUCTION

Regret Aversion in basic words is the pattern to abstain from settling on choice because of the dread of suffering the hurt of regrets. investor abstain from taking indispensable activities due to regret aversion since they fear that, in observation, whatever course they select will demonstrate not as much as great. Basically, this bias looks to figure the discomfort of regret associated with poor investment choice making. There is a part of regret aversion to investment choice making. specifically, it assesses how regret aversion impacts choice making process, choice, and post-decisional practices and emotions most investors about the painful contractions of regret subsequent to adverse Consequences of a decision, for example losing money in the wake of making a pointless investment, or feeling upset in the wake of taking the wrong choice about investment. Regret is seen as an imperious negative feeling. This study centers around the impact of investor psychology on regret aversion. This study analyzed investors’ decisions to acknowledge gains and losses in any kind of financial decision they make. Specifically, the attention is focused on the experienced and inexperienced male and female investors.

LITERATURE REVIEW

Bell in (1983) put regret aversion as people may be failing to pay the premium to avoid consequences that produce the decision regret because under the condition of indecision, people have fear of taking the wrong decision.
Simonson (1989); Slavic (1975) investigated the properties of choice making and explained as the result of decision makers, tendency to make easily justifiable reason-based choices. All violate certain normative principles of choice. However, as a pretest showed, the justifications underlying the effects are not all are considered equally unreasonable.

Simonson (1992) establish those investors who have effect of probable regret are not willing to assume the high risk that reduces the possibility for poor outcomes.

Zeelenberg, M., Beattie, J., Pfigt, J van der & Vries, K de (1996) express that regret hypothesis is an activity-based hypothesis. The utility of a choice option depends on the felling created by the result of rejected options.

Zeelenberg (1999b) and Roese (2005) found regret can tell us that we could have done better by choosing a different option. The regret experienced after trusting an untrustworthy leader, losing money in a phony investment, cheating on one’s spouse, or not blowing the whistle about corporate wrongdoing is likely to increase the probability of better choices in the future. By making better choices, in turn, decision makers should experience less regret. Thus, being willing to experience regret in the short-run might lead to better choices and less future regret.

Thaler (2005) resists that investors might sell gaining and hold losing stock because they anticipate their losing stock to beat their winning stock in future. Investors who buy a stock because of favorable information might sell that stock when it goes up because they believe that their information’s are how reflected in their price. Further, if the stock goes down the investor may carry on to it, believing that the market has not yet come to respect their decision.

Reb and Connolly (2005) justified of the decision process may be of even stronger importance for the experience of regret.

In the series of improvement-based examination tested the impact of choice process quality on anticipated regret. In view of the above broad review of literature, the objectives of the study were formulated to carry out a study on Investor Psychology and Regret Aversion in the Indian context. The review was utilized as a base for questionnaire preparation.

**RESEARCH METHODOLOGY**

For the purpose of data collection, primary data was collected and a uniform questionnaire was formed and standardized in the context of Indian investors. Responses were asked on Likert-type scale 1 to 5, where 1 stands for minimum agreement and 5 stands for the maximum agreement would be used. The questionnaire which was distributed both offline and online to reach out to the wider population in the different region of India. The sample of 92 individual investors was drawn including 72 male and 20 female to categorize the sample data.

After analysis of the sample, the following groups were found to be optimal based on two criteria: the age of the respondent and years of investment experience in the stock market.

- **Experienced:** Investors aged above 30, with at least 3 years of investment experience.
- **Inexperienced:** Investors aged 30 or below, with less than 3 years of investment experience.

For analyzing the data and hypothesis testing weighted scoring method was performed to test the robustness and Chi-square was used to test the probability of association or independence of facts.
FINDINGS

Regret Aversion occurs from the investor’s desire to avoid the pain of regret arising from a poor investment decision. As a result of this, investors could end up holding on to poorly performing shares because avoiding the sale avoids the recognition of associated loss and in turn, of a bad investment. When asked (1) whether they have made the wrong decision 86% of the investors replied that they sometimes did it and when asked (2) whether they have put off an investment decision because of wanting more positive news about a stock, 74% of the investors admitted that they had done it sometimes.

- Have you holding your investment for too long, because you know the price will reverse soon.
- Have you put off an investment decision expecting new and favorable (positive) information release regarding the stock?

Answers to both questions were combined to perform a composite analysis of the bias. It can be seen in below Table 1 that close to 20.7% of the investors seem to be confirmed subjects to the bias, while 66.3% of them could be thought of as possible subjects.

<table>
<thead>
<tr>
<th>Investors Type</th>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inexperienced</td>
<td>13</td>
<td>29</td>
<td>4</td>
<td>46</td>
</tr>
<tr>
<td>Experience Investors</td>
<td>6</td>
<td>32</td>
<td>8</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>61</td>
<td>12</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: Primary Data

Weighted Scoring

Results seen in below Table 2 suggested that inexperienced investors, with a mean score higher than the reference score, were more susceptible to exhibiting the regret aversion bias, and that experienced investors could not be thought of as exhibiting the bias, in a statistically significant way.

<table>
<thead>
<tr>
<th>Investor Type</th>
<th>Weighted Score</th>
<th>Mean</th>
<th>Reference Score</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inexperienced</td>
<td>101</td>
<td>16.83</td>
<td>15.3</td>
<td>Fear of Regret</td>
</tr>
<tr>
<td>Experienced</td>
<td>90</td>
<td>15</td>
<td>15.3</td>
<td>No Bias</td>
</tr>
<tr>
<td>Total</td>
<td>191</td>
<td>15.92</td>
<td>15.3</td>
<td>Fear of Regret</td>
</tr>
</tbody>
</table>

Source: Primary Data

Chi-Squared Tests

The tests were performed to see if the different mean scores for the investor types presented any statistically significant information. The following hypotheses were tested:

- **H0**: Both investor types are equally likely to exhibit Regret Aversion Bias
- **H1**: Inexperienced investors are more likely to exhibit the Regret Aversion bias
The p-values from the Chi-Square test at 0.70, seen in Table 3 suggested that the null hypothesis is accepted at a 5% level of confidence. Thus, it was confirmed that both investor types are equally likely to exhibit Regret Aversion Bias.

CONCLUSIONS

The formal study was based on a survey of 72 males and 20 female’s investors belonging in the different region in India. The variables of this study were the Investor Psychology, Regret Aversion. The objective of the study was to identify the Causes affecting Investor Psychology and Regret Aversion& further to find a relationship between Investor Psychology and Regret Aversion. The result discloses that there is no substantial difference between investor psychology for age group category (I) above 30 and (II) 30 or below. However, both the investor types demonstrate regret aversion bias.

The investigation establishes that, two kinds of investors experienced regret aversion biases in an important way. Weighted Scoring Analysis revealed that Regret Aversion bias was seen to be influencing the inexperienced investors only. The chi-squared test had shown that all the investors were affected by the regret aversion bias while taking investment decisions however it could not be set up that one investor group had endured more losses under the impact of this bias.

REFERENCES