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A Study on Behavioral Biases among Selective Indian Investors

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Abstract

One of the major pillars of the traditional theory of finance is efficient market (EM) theory. However, the theory of EM does consider all human beings as rational creatures. According to EM, all investors have the capabilities to take their financial decisions rationally, and without having any biases. In a sense, this means if an investor follows a strategy, he would earn a return very similar to the market return. He should always behave in a manner that is suitable for being a rational person (Baker and Nofsinger, 2002).

In recent years, however this proposition is challenged by many quarters, particularly by the practitioners of behavioral finance. The subject of study for behavioral finance is about the actual behavior of investor at the time of taking financial decisions. One of the major themes related to behavioral finance is heuristic driven bias (Shefrin, 2000).

In this paper, we have examined the existence of select behavioral biases among Indian investors. The basic objective of this study is to understand the existence and extent of behavioral biases among Indian investors.

Keywords

Efficient Market (EM) Theory, Behavioural Biases, Indian Investors.

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