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An Empirical Study of Investor Behavior and Global Finance Data

Raj Shree Jaiswal
Student, Galgotias University Greater Noida, UP(INDIA)
Email- rajshreejaiswal1406@gmail.com
Phone No:- 9125095596

Abstract:

Policymakers, financial analysts, and market participants all need to know how investors behave. Using a comprehensive dataset covering global financial markets, this empirical study investigates the intricate dynamics of investor behavior. This study aims to find patterns, trends, and anomalies that influence investment decisions and market outcomes by employing a combination of behavioral finance frameworks and quantitative analysis. The study employs a mixed-methods approach that combines qualitative behavioral finance theory insights with quantitative analysis.
To find patterns in investor behavior, quantitative methods like regression & correlation analysis, time-series, and algorithms of machine learning algorithms are used. To place the empirical findings in the context of human decision-making, qualitative insights draw on psychological theories like prospect theory, herd behavior, and cognitive biases. The study makes use of a various range of datasets, this include demographic data, indicators of investor behavior, regulatory filings, & historical data on the financial market.
Reputable financial databases, central banks, regulatory authorities, and exclusive financial institution datasets are all sources. A nuanced examination of investor behavior across various market segments and economic cycles is made possible by the dataset's comprehensive nature. In order to capture various aspects of investor behavior, the study investigates a variety of variables, such as risk appetite, trading activity, portfolio allocation, and response to market events. Volatility measures, trading volume, sentiment indices, fund flows, and investor sentiment surveys are all important metrics.
The goal of the research is to find recurring patterns and deviations from rational decision-making by analyzing these variables over time and under various market conditions. The study reveals insights into market dynamics such as the impact of information asymmetry on trading behavior, the role of investor sentiment in driving asset prices, and the formation of speculative bubbles through empirical analysis.
The study provides a nuanced understanding of how psychological factors influence market outcomes and contribute to market inefficiencies by dissecting investor behavior at both the aggregate and individual levels.

INTRODUCTION

OVERVIEW OF TRADITIONAL FINANCE & BEHAVIORAL FINANCE

Behavioural finance deals with that that investors are influenced by their emotions, biases, & cognitive limitations, wherever traditional finance assumes that investors always make rational decisions which is based on complete information available to them. The debatable point between behavioural finance theory and modern finance theory is that where non-financial factors has any impact on the stock prices or not.

As behavioural finance theory assumes that psychology and emotional factor has an impact on the stock prices where modern finance theory assume that the stock market is efficient & stock prices considered the all the information available. The scientific community has conducted extensive research into the way that factors related to behavioral finance influence investment decisions

Biases, herding effect, social factor, risk tolerance, and personality traits are various factors that can affect the investment decisions that have been identified by researchers. Numerous studies have looked at how these

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factors affect decisions about investments and found that they can cause poor decisions. When it comes to investing, investors have a risk-averse attitude and prefer a level of risk tendency, risk perception, and risk propensity that is smoother and more stable.

Behavioral variables affect the method of investors' decision-making.

Human's psychology are affected by many factor such as environment, various bubbles circulated around the world to trap the investor. Therefore it is necessary for investor to analysis all other factor and after careful analyzing the fundamental and technical analysis one should invest their hard earn money in the market.

Heuristic theory

According to experts, reducing the noise around you is best & simple way to protect our self and our investment. Even though your portfolio may be doing well, the article we read can create an illogical and baseless decision which create unnecessary anxiety. Investing too closely can make investments appear riskier which attempts to short term profit instead of long term. You can improve as an investor by being able to see past the market's noise. . Consider working with a financial advisor who can assist you in filtering information and utilizing automation in your trading.

Prospect theory

The two prominent theories in decision-making: the Expected Utility Theory (EUT) and Prospect Theory. Prospect theory explain how the different factor of biasness, uncertainty and risk aversion affect the decision making of individual.

Market factors

Investors' reliance on market information, their tendency to focus on popular or attention-grabbing stocks, and their susceptibility to herd behavior are all discussed as factors influencing investment decisions. Additionally, the passage explores how investors' preferences, such as momentum investing or tax considerations, can shape their stock selection strategies.

Herding effect

The phenomenon of herding in financial markets, where investors tend to mimic the actions of others rather than relying solely on their own private information. This behavior can lead to deviations in securities' prices from their fundamental values, impacting investment opportunities and affecting risk and return models and asset pricing theories.

The COVID-19 Pandemic

When the lockdown has been occurred market downfall very sharply a lot of days lower circuit has been hit not only in the Indian market but this scene is seen all over the world and every global market swipe out billions of investment in few days. Every global market has witnessed with such a crisis where people liquidate their investment & preferred to hold their cash in hand or invest in fixed securities markets. The phase of downward trend was continued for so many days people do not have courage to invest in the market.

These levels of drop-off had not been seen in our nation since the housing crisis, also known as the market crash from 2006 to 2009. Stock prices plummeted as a result of the pandemic's high market volatility, launching bull markets for the NASDAQ and S&P 500. Computerized algorithms with automatic massive buy and sell programs accelerated the market's rapid decline, making it the fastest drop in history.

On four separate occasions, price fluctuations exceeding 5% in one day prompted freezing occurred to temporarily shut down the market. Investors were shocked when these circuit breakers prevented prices from falling further for a period of fifteen minutes. Fortunately, the breaker for a price drop of 20% in a single day was never activated. The Federal Reserve was forced to cut interest rates in an emergency twice as a result of this unexpected market crash.

The rate cut are done by the government in order to boost the market of the country and provides various type of incentive to provide liquidity in the market government are making huge consumption expenditure and encourage people to make consumption expenditure in order to generate the demand of the product. Market are also recovered rapidly and touches their all-time high with that bullish trend.

REVIEW LITERATURE

By observing other investors' actions (decisions) regarding particular investments, imitation

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occurs, and then this action is collected for study in align with the financial market. In order to identifying investor behavior with respect to various factor which affect their investment strategy it is imperative to understand & analyze the prior investing pattern of the investor, his thought process it's nature and view regarding the market. This article was divided into two main sections
i) Study regarding investor behavior in various financial market.
ii) Interconnection between two market and

Observation related to Global financial Market:

Contracted Lecturer with the University - University Order No. 2759 dated 3/15/2020. Numerous academic studies were conducted to examine the behavior of investors in various global financial markets According to a study (Hwang & Salmon, 2004:585), financial markets in developed nations like the United States and the United Kingdom are less likely to follow this pattern than those in emerging economies like South Korea and Turkey.

Also, a latest research found that when the government advertises macroeconomic information in the United States, this behavior only occurs. Australia does not appear to have any evidence of herd behavior, according to a study, Investor of developing countries like India and China exhibit herding behavior for two reasons: the first is because of the economic conditions there, and another one is because there isn't enough information about the companies there.

As a result, investors make decisions based on this behavior. Herding behavior is generally found in Indian market and lot of people following the herd for the purpose of investment this will result in overbought of stock and share prices is overvalued.

Surveyor discovered that investors represent this behavior at the times where trading volume is low in China's capital markets, whereas investors exhibit herd behavior during times of increased trading volume in India's financial markets. Because of this, previous research has led us to the conclusion that it practically impossible to conclude that investor behavior with respected to investment is same across the nation.

OBJECTIVE OF THE RESEARCH

The below are point indicating the main objective of this research:

1. **Earned capital Gain:** Investor are often affected by the surrounding bubbles and sell the investment without earning much profit these study help them to understand the suitable time to dispose of the investment.
2. **Protect capital:** Generally investor lose their money because they often do the trading based on the tips came to various social platform they easily rely on them & invested their hard earned money based on these information resulting in huge loses to investor.
3. **Managing the risk of uncertainty:** These study also helps the investor to manage the risk of uncertainty by changing their perception through financial planning.
4. **Financial forecasting:** After going through the research paper it will help the Investor to know the importance of doing our own fundamental and technical research with the respect to their investment decision making.
5. **Reduce fraud cases:** Investor often rely on market expert as they are the part of reputed organization. As a result, fraudsters send forged emails posing as respected organizations like banks and brokerage firms and claiming to be highly knowledgeable and competent. This report help the individual investor not to get on such kind of trap.
6. **Importance of behavioral finance:** This research provide comprehensive overview of behavioral finance and explain in detail how human psychology can affect the decision making process. Thus, while making the investment decision investor have to tactfully deal with various attribute of behavioral finance.

RESEARCH MEDTHOLOGY

The significance of investor behavior in the global market has been the subject of numerous studies. However, after a prolonged period of

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focus on the effects of investor behavior in global markets, researchers' perspectives gradually emerged. In order to learn what wealth management client's value most in terms of engagement options, and value-aligned advice, the various organization and Savana conducted a comprehensive survey of more than 2,600 clients in 27 countries.

According to 2023 survey done by organization where it is found that 60% of the new investor are failed to perform with their expectation of earning due to volatility of the market. Indian market are also volatile due to some investor & trader particularly failed to predict exact direction of the market resulting in loss of money.
When the market is volatile newly investor preferred to actively manage their portfolio and it is essential to book the profit timely basis if not done timely it could be result in loss of wealth & profit making.
Investor are very eager to learn and want expert advice due to the ongoing volatility of the market. Their desire to switch and expand their portfolio is being exacerbated by the ongoing stress in the market. Expert after analyzing investor risk appetite, his risk tolerance limit and various other factor formulated a sound full strategy for the investor which is going to be very fruitful on long term.

Economists view:
"The findings of the study are clear – investors are diversifying more so tx`han ever, and it will come as no surprise that given recent global events, immediate access to funds poses both an opportunity and a risk. Investment has become more complex and wealth managers will need to manage the associated operational challenges – including the rise of digital assets and ESG funds, and how investors are being influenced by market trends and economic uncertainty."

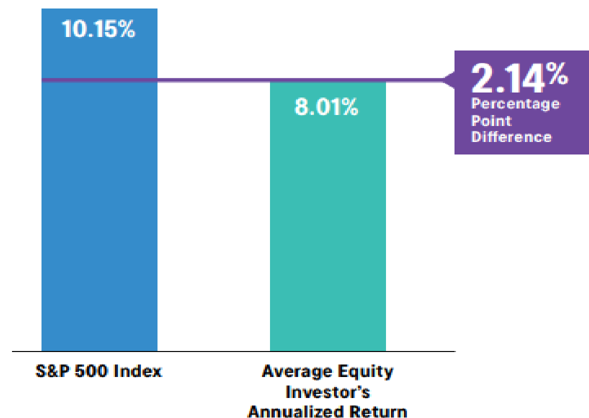
Adjustment of strategy
According to the survey, holder are eager for expert interpretation of economic, market, and political shocks from their advisor. The Millennial generation (66%) and those who feel the least financially prepared (67%) have the strongest appetites for additional investment service advice, and certain regions are outperforming the global average of 48 percent.

DATA INTERPRETATION
Factors affecting investment decision

Biasness
Our thinking is mostly affected by what is relevant, traumatic or recent happened around the world.
The impact of a financial crises of market
The events of the 2008 financial crisis were more traumatic than anything else for many investors. 37% of the S&P 500 Index fell. However, the market recovered in 2009 with an excellent return of 26.5 %. A survey has done by reporter in which people asked about how was the market performed.

Market return are much higher than Investor return

Investment decisions that are based on perceptions of the market rather than facts run the risk of resulting in poor decision-making.
Investor Return vs. S&P 500 Return (Period 30-Year)
Effect of Herding
We always follow the herd because we don't have confidence to make investment.



Problem of following the crowd
The result shown by the S&P 500 Index is depicted by green line in the charts below, and equity fund flows are depicted by the blue shading. During the internet boom, when the market performed well, investors invested their money into equity funds (buying high). Whereas, investors sold low on stocks when the market retreated following the housing crash.

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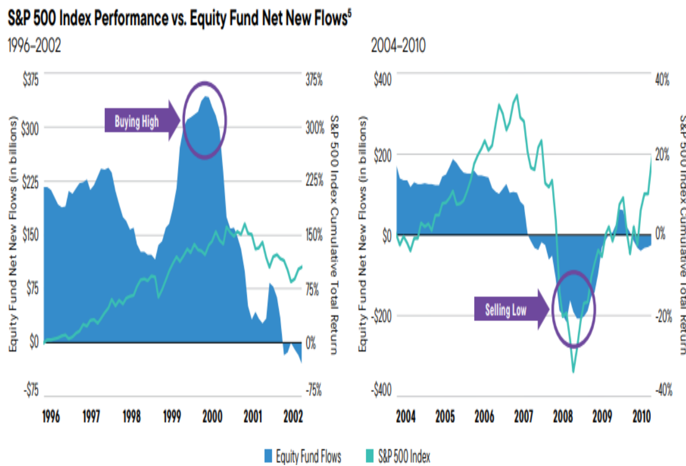
Investor following the crowd generally brought at high and sold at low



Loss aversion

The Investor have not so much courage to invest in the market when the market is going upward they think that the market is overvalued and correction in market comes anytime but this belief results in loss of earning opportunity.

Conversion of investment into cash

The main objective of investors is to keep their investments from losing value. Investors converted their investment into cash & cash equivalent when the market goes down.

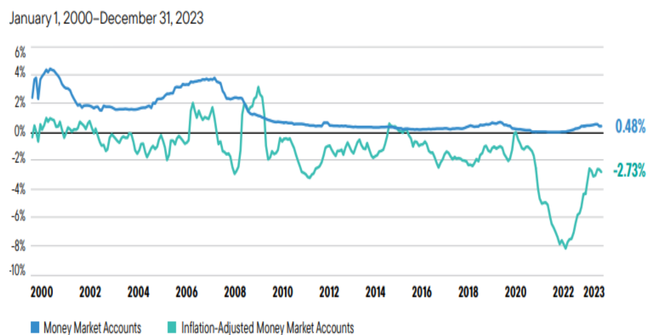
Investment safety comes at a cost

The inflation-adjusted yield and the average yield on money market accounts since 2000 are depicted in the chart below. While waiting out stock market volatility, Many Investor believed that money market is good placed to invest as they are less risky than secondary market but this believe may not be correct as they there is chances of potential erosion.

Comparison of Average Yield of Money Market Before and After Inflation

Present bias

Investor prefer short term earning with higher



risk rather to focus their long term goals.

Retirement savings are meager

People who are getting close to retirement are significantly affected by a lack of long-term planning and saving. As can be seen in the table below, 37% of people between the ages of sixty and sixty nine have between $1 and $100,000 kept for retirement, while an alarming thirty five percent have not saved anything at all.

Anchoring

When it comes to decision making investor are generally put heavy weight on one area of decision.

Anchors influence performance expectations

Investors were asked about their regarding their expectations for portfolio returns over a period five years, the median shown was Ten Percent annually. However, median return expectations increased to 20% when presented with a market return that had increased by twenty percent. Investors came to anticipate higher returns that were in line with the market as a result of the fictitious market anchor's strong performance.

Own country bias

Generally people support their home country this biasness also comes when it comes investment point of view.

RESULTS AND DISCUSSION

Al Root and other industry analysts can't seem to figure out what's going on, but they describe it as "something that is spooking investors."In August, approximately seventy percent of the S&P 500 companies were surpassing earnings estimates by more than three percent. while others were having a rough quarter. Half of the big tech companies said their numbers were down, while the other half said they were up. Who is responsible for these disparities? Root attributes the uncertainty to investors' uncertainty regarding the speed with which businesses will recover (Root, 2020). In relation to this, investors may exhibit a variety of biases, such as the country bias to buy the stock.

The below images showed the number of active investor invested in various class of asset class like investment in crypto, Gold, Index and Stock.

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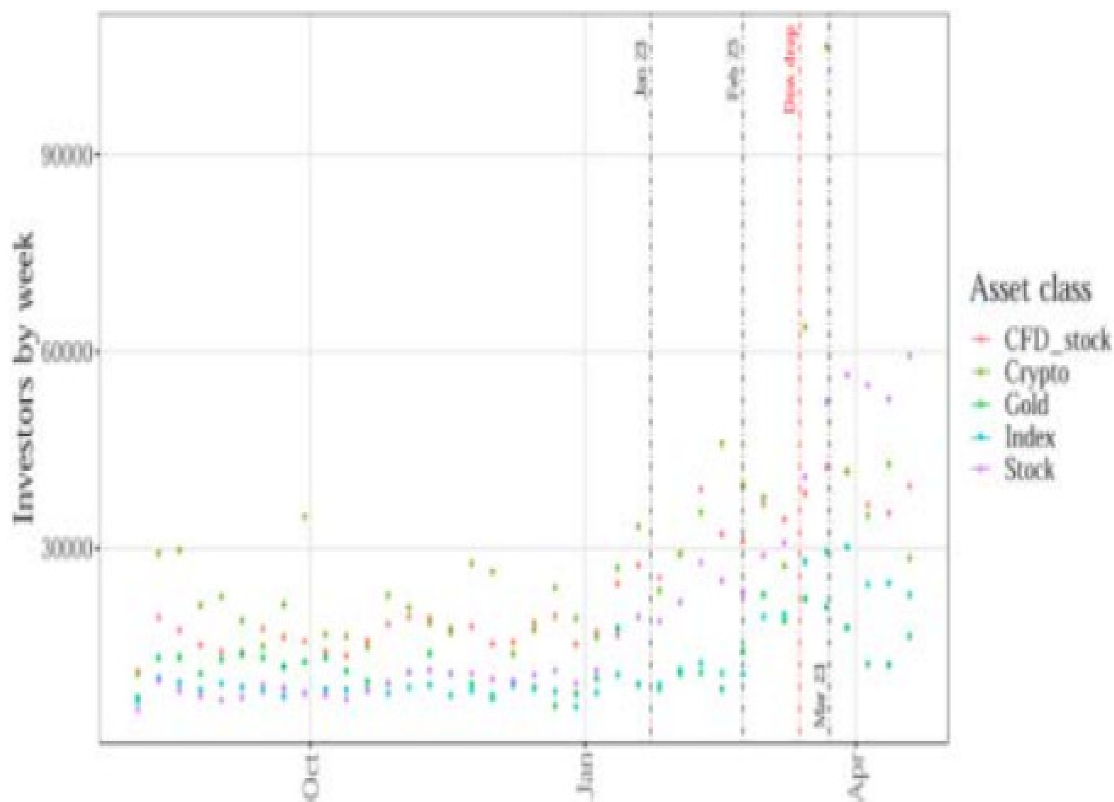

Number of Active Investors in the Market Over Time. By Ortmann et al, 2020.

Way to Protect Your Investment

We should look at the others side of coin, why investors are behaving so strange, the way they are behaving during the Pandemic outbreak. In a time of high market volatility, what can investors do to avoid falling victim to these biases? The most important piece of advice, according to many analysts, Currently giving is diversification. Because different assets are influenced by different factors, including investments from various sectors, asset classes, companies, and industries can lessen the fragility of your portfolio.

Prices could diverge from one another, causing you to lose money in one area and gain money in another. Your investment portfolio's growth path may also be facilitated by diversification. It's hard not to get trap up with market rumors and various news articles that is to be everywhere because social media are highly integrated into our everyday lives. New and creative methods have been developed by news organizations to bring headlines to our attention and get them in front of our eyes.

According to experts, reducing the noise around you is betst& simple way to protect ourself and our investment. Even though your portfolio may be doing well, the article we read can create an illogical and baseless decision which create unnecessary anxiety. Investing too closely can make investments appear riskier which attempts to short term profit instead of long term. You can improve as an investor by being able to see past the market's noise. . Consider working with a financial advisor who can assist you in filtering information and utilizing automation in your trading.

Monetary counsels is expertise in his area & provide extremely knowledgeable about helping clients to arrive at their monetary objectives. Understanding yourself and your risk tolerances is perhaps the most essential piece of investment advice. It can be much simpler to determine whether or not presented opportunities are worth it for you when we

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know our strategy to manage our portfolio.
For instance, if you want a portfolio with a lot of liquidity to help you pay for expenses, a plan with short-period investment that lasts 2 to 5 years might be your best option. When making investments, longevity must be taken into consideration.

CONCLUSION

In conclusion, investors can benefit from understanding the psychological factors driving investor behavior and their connection to market volatility and disruptions to avoid biases in asset management. The COVID-19 pandemic presents a unique opportunity for psychologists and researchers to delve into these influencing factors.

Amidst the pandemic, investors should pause and consider their portfolio objectives. It's evident that behavioral finance biases such as overtrading and overconfidence are prevalent. Recognizing these biases in asset management can give investors an edge over their peers and potentially lead to higher returns.

The study concludes that satisfaction, risk perception, and profitability, alongside general and financial risk tolerance, significantly influence these variables. Interestingly, COVID-19 has a somewhat calming effect on this relationship.

In addition, it has been stated that the financial market's perception of risk is highly uncertain due to the volatility it brings to the decision-making process. Covid-19 has an effect on the damaged economic indicators that make it hard for financial markets to work because of elements that are uncertain. In addition, it is determined that a number of microeconomic and macroeconomic indicators are linked.

SUGGESTION

- In light of the present pandemic issue, the study might be useful in updating their financial policies.
- All of the most recent data and tactics for effective financial market operations management are included in the report. Consequently, the research aids in the development of financial market stability strategies in the United Kingdom.
- The research helps financial market regulators and economists create regulations that will lessen ambiguity surrounding COVID-19. The market and financial planning can both benefit from accurate financial forecasts and planning
- Investor may find this research beneficial because it outlines effective market conditions and investor management strategies for COVID-19 crises.
- Financial planning actions can alter people's perceptions of rising uncertainty and how it can be managed.

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