

Impact of Psychological Biases of Investors in Financial Satisfaction

Muhammad Nauman Sadiq¹

¹ Government colleges Azad kashmir

Received: 8 December 2017 Accepted: 1 January 2018 Published: 15 January 2018

Abstract

The purpose of this study is to investigate the impact of investors behavioural biases in their satisfaction with current financial position. Design/Methodology/Approach: Based on 207 individual investors, present study individually regressed each investors behaviour bias with financial satisfaction. Findings: The results of the study shown behavioural biases like overconfidence and categorization tendency has significant positive impact on investors financial satisfaction levels. Others behavioural biases like Reliance on experts, Self-control bias, Budgeting tendency, Adaptive tendency has no significant impact on investors levels of financial satisfaction. Practical Implications: Financial institutions which provides the financial products and services to clients needs to understand the behaviour of investors regarding different financial planning and investment choices. The findings of present study have implications for financial service providers. Originality/Value: The relationship of psychological biases of individual investors with their financial satisfaction is widely researched in the literature. But in Pakistan no study is observed in this context. Present study fills the gap in literature with the perspective of individual Pakistani investors.

Index terms— financial satisfaction, behavioural biases, individual investors, pakistan

1 I. Introduction

mong other features of life satisfaction, individual satisfaction with their financial matters or financial satisfaction is an imperative factor for life satisfaction or subjective well-beings. "financial satisfaction is a subjective assessment of the adequacy of one's financial resources or financial situation" (Hira & Mugenda, 1998). Definition and measurement of the financial satisfaction always endure under the discussion, but no ultimate definition or measurement method has been conferred upon which consensus of researchers developed (Joo & Grable, 2004).

Financial satisfaction of individual investors is based on their financial decisions. Now a day individual investor has numerous investment opportunities to employ their funds. However due to the bounded rationality investors faced the influenced of various situation and personal factors. In-depth understanding of these factors in essential to understand how these factors caused the financial satisfaction or financial dissatisfaction (Simon, 1993).

In Pakistan, stable economic condition is creating the positive impact on the behaviour of people toward investment. Along this "private media revolution, effective marketing of financial institutions for different products create a sense of investment" (world bank 2015-2016). Sahi (2017) conducted the similar study in India and consider the similar situation and raise question when household income is increasing, their saving is also increasing. "but are the savings being invested wisely? Are people able to meet their financial planning goals? Is the financial consumer in India, satisfied with the management of his/her finances"? Present study is also designed to answer the following questions and to investigate the financial levels of consumers, and to investigate the impact of psychological biases of investors in financial satisfaction with the perspective of Pakistan. No study has been led to check the investors psychological factors and their socio-economic factors in relation with their

financial satisfaction. Present study is conducted to fill the gap in literature with the perspective of Pakistan. Present study used the investors psychological biases (overconfidence bias categorization tendency, Reliance on experts, Self-control bias, Budgeting tendency, Adaptive tendency) as independent variable and investors financial satisfaction as dependent variable. The findings of present study have implications for financial service providers.

2 II. Literature Review a) Overconfidence

Overconfidence bias was first described by Oskamp (1965), as a factor inducing the decisionmaking process of people in different areas of life. Overconfidence Bias is a propensity to overestimates the own capabilities about some situation. In behavioural finance literature, overconfidence bias is the most debating behavioural / psychological bias (Michailova, 2010).

It can be defined as the measurement of the difference between knowledge that people think they have and the actual knowledge that they have (Dobelli, 2014). In overconfidence bias people misapprehend their knowledge, abilities, availability of information and skills (Tapia & Yermo, 2007). Study A 13 finds "Overconfidence bias, self-control bias, and budgeting tendency have a positive and significant association with financial satisfaction" (Sahi, 2017). Overconfident individuals hold high views about their ability and personal belief, which lead to "positive expectations and optimism about their endeavors, and help them to achieve certain financial goals that would enhance their financial satisfaction" Barber & Odean, 1999; Szyszka, 2013).

Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (1): Overconfidence bias is significantly associated with financial satisfaction.

3 b) Reliance on Experts

The second variable which is tested as a factor influencing the investors financial satisfaction is their reliance on experts. Reliance on expert can be define as "the tendency to take on the opinion of someone who's seen as an authority on a subject" (Evatt, 2008). Reliance on expert tendency revealed investors things, financial experts have more financial knowledge and expertise in financial matters, beside this most of time people select their area of investment or stock or a mutual funds because of their boss or friend, about which they think he was a good boy (Dutt, 1999). Low level of financial knowledge caused mental stress and financial dis-satisfaction which caused inability of management of funds (Grable & Joo, 1999). Meanwhile people find satisfaction by relying on experts (Srinivas, 2000). Another study finds that "Reliance on expert bias has a positive and significant association with financial satisfaction for those investors with more than 5 years of investment experience and a negative but significant relationship for those investors with 2-5 years of investment experience, thereby indicating that time plays a crucial role in the ability of investors to build trust with their financial advisors".

Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (2): Reliance on expert bias is significantly associated with financial satisfaction.

4 c) Categorization Tendency

Categorization tendency means to categories the source and use of funds, and categories the money into groups. This categorization tendency is called mental accounting (Shefrin & Thaler, 1988). People categories their wealth into current assets, current income, and future income. This categorisation positively associated with investors financial satisfaction (Thaler, 1999). Categorization effect caused to higher satisfaction (Mogilner et al., 2008). Study shown categorization tendency is advantageous to people because it helps to categories the funds based on purpose. Another study shown "For professionally educated individuals, categorization tendency has a positive and significant association with financial satisfaction". Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (3): Categorization tendency is significantly associated with financial satisfaction.

5 d) Self-Control Bias

Self-control bias is a behavioral tendency which instigated someone to postponed consumption today for future saving (Sahi, 2017). Self-control comprises an "internal conflict" between the "rational and emotional aspects of the individual's personality" (Shefrin & Thaler, 1988). Saving behaviour has positive relationship with financial satisfaction (Parrotta & Johnson, 1998: Cummins & Nistico, 2002). Study shown self-control caused current investment to increase saving in future and increase financial satisfaction (Xiao et al. 2006). Another study finds "Overconfidence bias, self-control bias, and budgeting tendency have a positive and significant association with financial satisfaction" (Sahi, 2017). Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (4): Self-control bias is significantly associated with financial satisfaction.

6 e) Budgeting Tendency

Budgeting tendency is the tendency of plan for saving and investment. Budgeting tendency of investors can be used as a behavioural bias to find the investors financial satisfaction (Sahi, 2017). Study shown Budgeting tendency is influenced the financial satisfaction ??Titus et al.1989). Another study finds "Overconfidence bias, self-control bias, and budgeting tendency have a positive and significant association with financial satisfaction"

(Sahi, 2017). However, another study find that investors budgeting tendency has no significant relationship with financial satisfaction (Xiao et al. 2006). Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (??): Budgeting tendency is significantly associated with financial satisfaction.

7 f) Adaptive Tendency

Adaptive tendency is the tendency to adopt the changing financial necessities with the passage of time (Sahi, 2017). People change their investments goals and investments patterns based on market situation. Individual tendency to adopt the changing market conditions caused them to meet their sets goals and caused financial satisfaction (Cummins & Nistico, 2002). Another study also supports these results and concluded people should follow the changing market conditions (Soros, 2003). However, study conducted in India shown that Adaptive tendency has no effect on investors level of financial satisfaction (Sahi, 2017).

Therefore, on the bases of above arguments the following hypothesis has been formulated: Hypothesis (??): Adaptive tendency is significantly associated with financial satisfaction.

8 III. Theoretical Framework IV. Methodology

Present study is designed to determine the impact of investors psychological biases in their financial satisfaction. Quantitative techniques were applied to determined psychological biases of each investor and their levels of financial satisfaction. Similar study conducted in India shown that "Only the "investing classes" or people having the financial savings and the capacity to invest in the various instruments were of significance to this study" (Gupta, 1991). To make it more specific present study interact the people having investment experience in different financial instruments.

Nonprobability sampling technique was used for this study. In Nonprobability sampling technique, Convenience sampling method was used to select the respondents. To collect the data from respondent's study used the questionnaire. Questionnaire were distributed among the people who were willing and convenience to fill the questionnaire. Condition pertains with the selecting of each respondent was that they should have investment experience in any financial instrument. Study interact 250 investors and distribute questionnaire, among which 220 questionnaires were received, 13 questionnaires were find incomplete, so study used 207 sample size.

Present study used the investors psychological biases (e.g. Overconfidence bias, Reliance on expert bias, Categorization tendency, Budgeting tendency, Self-control bias, Adaptive tendency) as independent variable, and financial satisfaction as dependent variable. To measure the investors psychological biases present study used the scale developed by Sahi (2017). Where IFDFW Scale was used for measuring the financial satisfaction or financial well-being.

9 V. Results and Discussion

The first step in the data analysis was the reliability checking of the instruments. Studies shown that questionnaire must produce the reliability coefficient ranging from .5 to .80 to shown the consistency (Pedhazur, 1982). Table 1 shown the Cronbach's coefficient alpha above from 50 for each item which shown the reliability of the instruments. 2 shown the results of simple regression of individual investor biases on financial satisfaction. The hypothesis that investors behavioural biases have significant influence on financial satisfaction is only accepted for overconfidence bias and categorization tendency. However this influence is very limited as R2 value shown. Overconfidence bias shown significant positive impact on investors financial satisfaction. This infers that the tendency of overestimating the investment decision making capability is significantly and positively related with to financial satisfaction.

While investors categorization tendency also has significant positive impact on financial satisfaction. This implies that the tendency of categorizing the money into groups or based on its use is significantly and positively associated with financial satisfaction. Besides these two Psychological factors all other behavioural biases shown no significant impact on investors financial satisfaction with their financial status.

10 VI. Conclusion

Present study intend is to find the impact of investors behavioural biases on financial satisfaction. Study finds among six behavioural biases only overconfidence bias and categorization tendency bias shown significant and positive impact on investors levels of financial satisfaction. This implies investors having tendency of overestimating the investment decision making capability, and categories their funds into different groups are more satisfied with their financial status. Others behavioural biases like Reliance on experts, Self-control bias, Budgeting tendency, Adaptive tendency has no significant impact on investors levels of financial satisfaction.

11 VII. Limitations of the Study

Besides contributing to the literature, present study has several limitations. First this study has the small sample size. Secondly this study used the convenience sampling method to collect the data from respondents to disclosed their financial preferences and beliefs. Thirdly, present study used only six psychological biases of investors to check their influence on financial satisfaction, more psychological biases can be used to check their influence

155 on investors level of financial satisfaction. However, besides these limitations present study has implication for financial service providers. ¹

1

Figure 1: Table 1 :

2

Model	Unstandardized Coefficients		Std. B Error	Standardized Coefficients	Adjusted R-square	F-Statistic	t
Overconfidence Bias	.264	.131		.139	.015	4.057	2.014 .04
Categorization Tendency	.263	.100		.181	.028	6.934	2.641 .00
Reliance on Expert Bias	-.134	.155		-.060	-.001	.751	-.867 .38
Self-Control Bias	.135	.072		.130	.012	3.514	1.874 .06
Budgeting Tendency	-.073	.106		-.048	-.003	.471	-.686 .49
Adaptive Tendency	.031	.114		.019	-.006	.076	.276

Table

Figure 2: Table 2 :

156

¹© 2018 Global Journals

Construct	Number of Items	Reliability
Overconfidence Bias	4	.601
Reliance on Expert Bias	4	.569
Categorization Tendency	2	.543
Self-Control Bias	3	.680
Budgeting Tendency	2	.597
Adaptive Tendency	3	.706
Financial Satisfaction	8	.704

Year 2018
 Volume XVIII Issue V Version I
 ()
 Global Journal of Management and Business Research
 © 2018 Global Journals 1

[Note: C]

Figure 3:

-
- [Joo and Grable ()] 'An exploratory framework of the determinants of financial satisfaction'. S Joo , J E Grable . 10.1023/B:JEEI.0000016722.37994.9f. *Journal of Family and Economic Issues* 2004. 25 (1) p. .
- [Szyszka ()] *Behavioral finance and capital markets: How psychology influences investors and corporations*, A Szyszka . 2013. New York: Palgrave Macmillan.
- [Simon ()] 'Decision making: Rational, non-rational, and irrational'. H A Simon . *Educational Administration Quarterly* 1993. 29 (3) p. .
- [Xiao et al. ()] 'Financial behaviours of consumers in credit counseling'. J J Xiao , B Sorhaindo , E T Garman . *International Journal of Consumer Studies* 2006. 30 p. .
- [Grable and Joo ()] *Financial help-seeking behaviour: Theory and implications. Financial Counseling and Planning*, J E Grable , S Joo . 1999. 10 p. .
- [Hira and Mugenda ()] T K Hira , O M Mugenda . *Predictors of financial satisfaction: Differences between retirees and non-retirees. Financial Counseling and Planning*, 1998. 9 p. .
- [Tapia and Yermo ()] *Implications of behavioral economics for mandatory individual account pension systems*, W Tapia , J Yermo . 10.1787/103002825851. 2007. OECD Publishing.
- [Gupta ()] *Indian shareowners: A survey. Society of Capital Market Research & Development*, L C Gupta . 1991. New Delhi.
- [Srinivas (2000)] *Individual investors and financial advice: A model of advice seeking behaviour in the financial planning context*, V K Srinivas . 2000. February 16. 2010. United States -New Jersey. Rutgers the State University of New Jersey -Newark (Ph.D. dissertation. from ABI/INFORM Global. (Publication No. AAT 9967099)
- [Cummins and Nistico ()] 'Maintaining life satisfaction. The role of positive cognitive bias'. R A Cummins , H Nistico . *Journal of Happiness Studies* 2002. 3 p. .
- [Thaler ()] 'Mental accounting matters'. R H Thaler . *Journal of Behavioral Decision Making* 1999. 12 p. .
- [Pedhazur ()] 'Multiple regression in behavioral research: Explanation and prediction'. E J Pedhazur . *Pedhazur2Multiple Regression in Behavioral Research: Explanation and Prediction*, (Fort Worth, TX: Holt, Rinehart and Winston) 1982. 1982.
- [Titus et al. ()] 'Net worth and financial satisfaction as a function of household money managers' competence'. P M Titus , A M Fanslow , T K Hira . *Home Economics Research Journal* 1989b. 17 (4) p. .
- [Michailova ()] *Overconfidence and bubbles in experimental asset markets*, J Michailova . https://mpra.ub.uni-muenchen.de/30579/1/MPRA_paper_30579.pdf 2010.
- [Oskamp ()] 'Overconfidence judgments'. S Oskamp . *Journal of consulting psychology* 1965. 29 (3) p. 261.
- [Sahi ()] 'Psychological biases of individual investors and financial satisfaction'. S K Sahi . *J Consumer Behav* 2017. 2017. p. .
- [Soros ()] *The alchemy of finance*, G Soros . 2003. New Jersey, NY: Wiley.
- [Dobelli ()] *The Art of Thinking Clearly*, R Dobelli . 2014. USA: Harper Paperbacks.
- [Evatt (2008)] *The authority bias*, C Evatt . <http://www.brainbiases.com/2008/11/authority-bias.html> 2008. January 2009.
- [Shefrin and Thaler ()] 'The behavioural life-cycle hypothesis'. H M Shefrin , R H Thaler . *Economic Inquiry* 1988. 26 (4) p. .
- [Barber and Odean ()] 'The courage of misguided convictions'. B Barber , T Odean . *Financial Analysts Journal* 1999. 55 p. .
- [Parrotta and Johnson ()] 'The impact of financial attitudes and knowledge on financial management and satisfaction of recently married individuals'. J L Parrotta , P J Johnson . *Financial Counseling and Planning* 1998. 9 p. .
- [Mogilner et al. ()] 'The mere categorization effect: How the presence of categories increases choosers' perceptions of assortment variety and outcome satisfaction'. C Mogilner , T Rudnick , S S Iyengar . *Journal of Consumer Research* 2008. 35 p. .
- [Dutt ()] *The penguin guide to personal finance*, A Dutt . 1999. New Delhi: Penguin Books India (P) Ltd.