A STUDY ON IMPACT OF INVESTMENT BIASES OF RETAIL INVESTORS OF INDIAN CAPITAL MARKET WITH REFERENCE TO GEN Y AND GEN Z

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ABSTRACT

The research study delves to understand the investment biases exhibited by retail investors in the dynamic Indian capital market, with a specific focus on two influential generational cohorts, Generation Y (Millennials) and Generation Z. The primary objective of this study is to investigate and analyse the various investment biases that affect the decision-making processes of Gen Y (Millennials) and Gen Z retail investors. By employing combine descriptive research design, like collecting data from 120 respondents through structural questionnaires to identify factors contributing to these biases, and analysed their effects on investment decisions. The findings of this research are expected to contribute to the enhancement of investor education programs and develop tailored strategies to enhance financial literacy, promote rational decision-making, and mitigate potential risks associated with biased investment behaviours. Overall, this study highlights the shed light on the implications of investment biases on the financial well-being of Gen Y and Gen Z investors, offering valuable recommendations for financial institutions, regulators, and educators to empower these cohorts in navigating the complex Indian capital market landscape.

KEYWORDS: *Investment Biases, Gen Y (Millennials) and Gen Z, Indian Capital Market*

INTRODUCTION

Indian Capital market has seen a significant influx of retail investors, particularly from the younger generations, known as Gen Y (Millennials) and Gen Z. The rapid advancement of technology, access to financial information, and ease of online trading platforms have empowered “gen Y and gen Z” investors to participate actively in the financial markets. The study's aims to investigate the impact of investment biases exhibited by Gen Y and Gen Z retail investors. Investment biases consider the cognitive and emotional biases that influence individuals' investment decisions, leading them to deviate from rational and optimal choices. By understanding these biases and their consequences, market participants, policymakers, and financial institutions can devise plans and strategies interventions to mitigate their negative effects and promote informed investment decisions among retail investors.

NEED FOR THE STUDY

The investment landscape in India is evolving rapidly, driven by the emergence of Gen Y and Gen Z investors. These generations have distinct characteristics, preferences, and attitudes towards investing compared to older generations. Studying their investment biases will shed light on their decision-making processes and provide insights about their uniqueness investment behaviour. Understanding their investment biases is essential to identify any irrational behaviours or misunderstandings that could have an impact on investment outcomes and overall market stability.

OBJECTIVES OF THE STUDY

- To study the investment pattern amongst Gen Y and Gen Z
- To identify the investment biases prevalent among Gen Y and Gen Z and analyze its impact on their portfolio.

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- To propose strategies for financial education and awareness programs that can reduce investment biases and improve investment outcomes among retail investors.

LIMITATIONS OF THE STUDY

- The study consider only capital market investors
- The study primarily relies on self-reported data, which may be subject to biases and inaccuracies.
- The research is limited to examining investment biases and does not look into other factors such as market conditions or socio-economic backgrounds that may influence investment behavior.

REVIEW OF LITERATURE

Karl Nilolai (2023) Study seeks to determine the purchasing behavior and factors influencing investment intention among gen y and gen z investors. Data collected from the retail investors using questionnaire method. The study concluded that only financial literacy has a significant relationship with the investment purchasing behavior of both gen y and gen z investors.

Kinjal Nilesh (2023) the study concluded to find out influence of behavioral finance biases on the investment decision making. Structured questionnaires were used, and data collected from 200 respondents from Mumbai region. Study concludes that certain behavioral biases variable has significant impact on the investment behaviour.

Abhinandan kulal (2022) the study tries to know the impact of two specific behavioural biases that is overconfidence and self- attribution in investment decision. Data collected from 290 retail investors in Mangalore city using questionnaire methods. According to this study's findings, overconfidence is more prevalent among high earners than low earners, and there are no gender- or investment-related differences in overconfidence or self-attribution bias.

Akash Yadav (2022) this research aims to identify the financial literacy level among millennial and generation Z. For the research's data was gathered for 109 respondents using a structural questionnaire. The findings indicate that the internet and television are the most effective source is creating financial literacy among millennial and generation Z.

Hodiya Altaf (2022) the study was conducted that millennial investing behaviour is driven by generational biases investment related biases that millennial share. Data is collected from online survey from 526 millennial investor. The study concluded that Investment managers must launch intervention campaigns that seek do increase the financial competence of millennial.

RESEARCH GAP

The study aims to investigate the investment biases exhibited by retail investors belonging to Generation Y and Generation Z on the Indian stock exchange. Understanding the investment biases of Generation Y and Generation Z is crucial, as these generations have grown up in the digital age and have access to a plethora of information and technology-driven investment platforms. Therefore, their investment decisions and biases may differ significantly from previous generations. Moreover, considering the growing retail investor activity in the Indian stock market, it is essential to explore how the investment biases of Generation Y and Generation Z may impact market dynamics, asset prices, and overall market efficiency.

TYPE OF RESEARCH

The study is descriptive in nature has been analysed the impact of investment biases of retail investors of Indian capital market. This would combine quantitative methods, like collecting data through the structured questionnaires to quantify biases and investment patterns, with qualitative techniques such as interviews to gain deeper insights into the reasons behind these biases.

SOURCES OF DATA COLLECTION

Primary Data was collected through a structured questionnaire distributed to a diverse sample of retail investors from both. Secondary Data has been gathered from a variety of sources including financial reports, academic papers, market research reports, and online platforms.

SCOPE OF THE STUDY

Purpose of this research is to look at the investment biases prevalent among retail investors in the Indian capital market, specifically focusing on Generation Y (born between 1981 and 1996) and Generation Z (born between 1997 and 2012). Responses from period June to August gathered from Gen Y and Gen Z were sought for this investigation.

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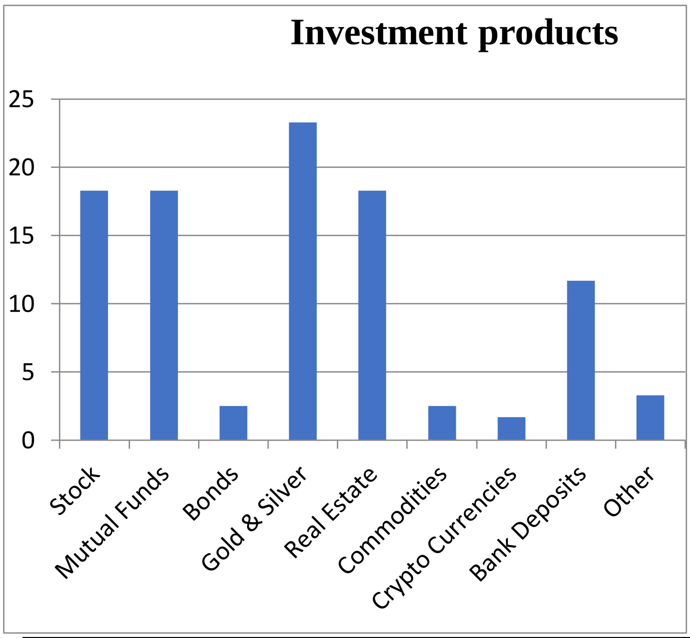
STATISTICAL TOOLS USED

For the purpose of presentation of data tables graphs like bar graphs and pie graphs are been used. Statistical techniques such as chi-square tests, Co-relation and ANOVA are used for validating the hypothesis.

DATA ANALYSIS AND INFERENCE

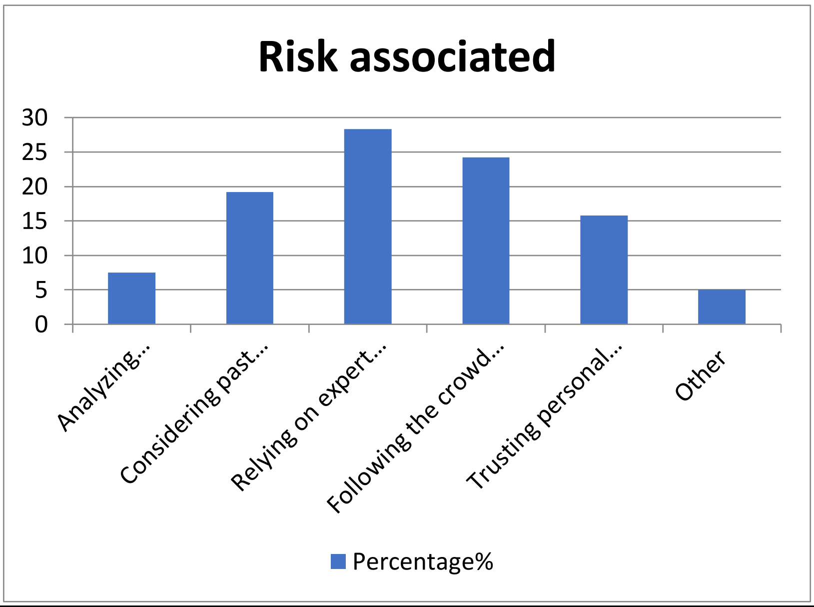
1. Table & graph showing the channels of investments made by respondents



Investment Channels	Number of respondent	Percentage%
Stock	22	18.3
Mutual Funds	22	18.3
Bonds	3	2.5
Gold & Silver	28	23.3
Real Estate	22	18.3
Commodities	3	2.5
Crypto Currencies	2	1.7
Bank Deposits	14	11.7
Other	4	3.3
Total	120	100

Inference: Majority of respondents have diverse investment preferences around 23% invested in Gold & Silver, with a significant interest in Gold as well as stocks, mutual funds, and real estate. This suggests a strong interest in possessing assets with conservatism and long term various growth.

2. Table & graph showing a ways of managing risk associated with an investment



Way of managing risk	Number of respondents	Percentage %
Analyzing fundamental factors	9	7.5
Considering past performance and historical data	23	19.2
Relying on expert opinions and ratings	34	28.3
Following the crowd or market sentiment	29	24.2
Trusting personal intuition or gut feeling	19	15.8
Other	6	5
Total	120	100

Inference: From the above 28.3% respondents trust expert opinions and ratings when analysing investment risks, 24.2% respondents' investing choices are based on market sentiment or following the crowd. Majority of them trust expert opinions and ratings to analyse the risks associated with their investments. This approach involves seeking guidance from financial professionals, analysts, and credible sources that provide investment advice and ratings.

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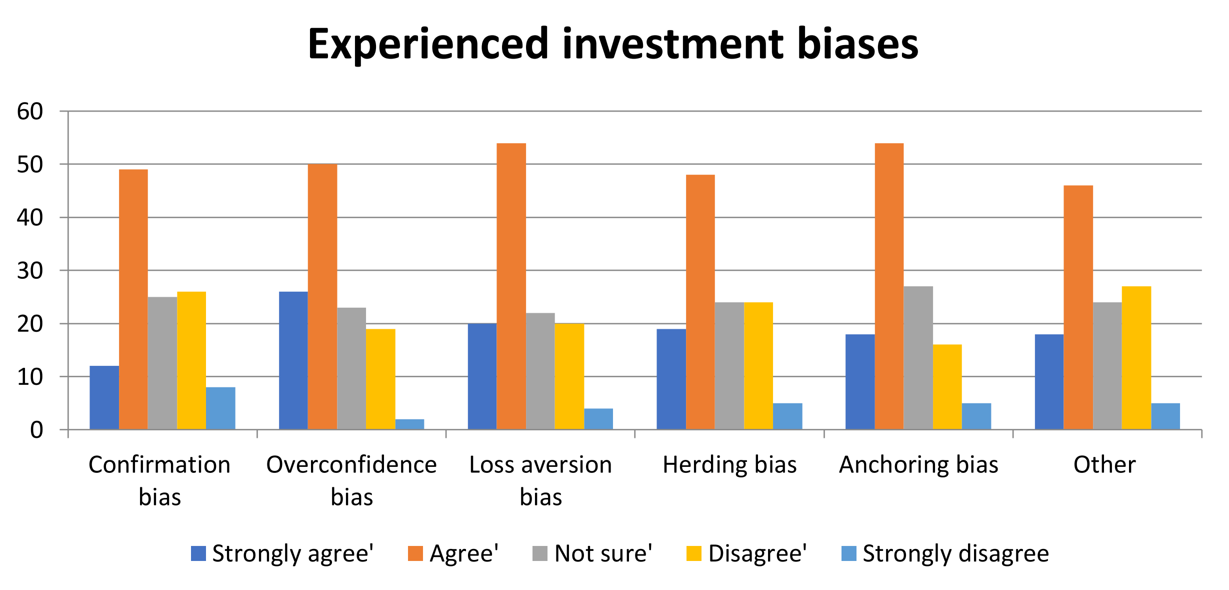
3. Table & graph showing various behavioural biases among respondents

Behavioural biases	'Strongly agree'	'Agree'	'Not sure'	'Disagree'	'Strongly disagree'	WA	Weights	Ranks
Confirmation bias (seeking information that confirms pre-existing beliefs)	12	49	25	26	8	391	0.156	**VI**
Overconfidence bias (overestimating investment knowledge and abilities)	26	50	23	19	2	439	17.5	**I**
Loss aversion bias (being more sensitive to losses than gains)	20	54	22	20	4	426	17.0	**II**
Herding bias (following the crowd)	19	48	24	24	5	412	16.4	**IV**
Anchoring bias (relying heavily on initial information)	18	54	27	16	5	424	16.9	**III**
Other	18	46	24	27	5	405	16.2	**V**

Analysis: According to the above table, Overconfidence bias ranks the highest amongst most prevalent biases which states that they overestimate their investment knowledge and abilities. Loss Aversion bias is the second ranks the highest amongst most prevalent biases, which states that they are more sensitive to losses than gains.



Interpretation: In above chart suggests that loss aversion and over confidence bias signifies tendency to feel the pain of losses more intensely than the pleasure of gains, leading to risk-averse behaviour in financial decisions. This bias can lead to missed opportunities and conservative investment choices.

Hypotheses for the study

1. **Chi-Square test to check the association between investment channels adopted by Gen Y and Gen Z**

Hypotheses 1:-

- H_0: There is no significant difference between investment channels adopted by Gen Y and Gen Z
- H_1: There is a significant difference between investment channels adopted by Gen Y and Gen Z

Chi-Square Test

	Value	df	Asymptotic Significance(2-sided)
Pearson Chi-Square	7.000	8	.537
Likelihood Ratio	8.978	8	.344
Linea by Linear Association	.075	1	.784
N of Valid Cases	120		

The chi-square calculated value of 0.537 is greater than 0.05 (level of significance), hence the null hypothesis is rejected and it can be concluded that there is a significant relationship between investment channels adopted by Gen Y and Gen Z.

2. **ANOVA to check the significant difference between Age and their Primary Investment Objective**

Hypotheses 2:-

- H_0: There is no significant difference between Age and their Primary Investment Objective
- H_1: There is a significant difference between Age and their Primary Investment Objective

ANOVA Test

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.952	4	.488	2.003	.099
Within Groups	28.015	115	.244		
Total	29.967	119			

ANOVA test inferred that, F value is 2.003 and level of significance is 0.05 .Therefore, F value is greater than level of significance that is 2.003 which is lesser then 5.05. Hence null hypothesis is accepted and the alternative hypothesis is rejected and it can be concluded that there is s no significant difference between age and their primary investment objectives.

FINDINGS

- Majority of respondents in the study have a good educational background with Bachelor's degree followed by those with a Master's degree.
- Gen Y and Gen Z investor's invest either monthly or weekly, with a smaller portion investing daily or occasionally, and a very small percentage investing rarely.
- Significant portion of respondents engage in regular and occasional monitoring and adjustment of their investment portfolios.
- Investors often neglect in-depth research, relying on social media tips.
- Majority of respondents admitted to prematurely selling profitable investments due to anxiety or impatience
- Gen Y investors showed a higher inclination toward short-term gains, while Gen Z investors displayed a mix of short-term and long-term investment preferences.
- Investors usually prefer investing in company stocks, gold and silver, and real estate, while significant portions also lean towards investing in mutual funds.

SUGGESTIONS

- Traders must analyze historical trading data to identify prevalent investment biases among Gen Y and Gen Z retail investors in the Indian capital market.
- Financial institutions should create awareness through investment awareness programs about stock market performance and frauds

- To mitigate behavioural biases, fostering awareness through education about cognitive biases and their potential impact on decision-making could empower participants to make more objective and rational choices.
- Providing personalized guidance based on individual risk tolerance and financial objectives can significantly enhance the likelihood of participants attaining their desired returns

CONCLUSION

The study identified several investment biases commonly exhibited by both Gen Y and Gen Z investors. These biases included confirmation bias, herding behaviour, overconfidence, loss aversion, and familiarity bias. These biases were found to influence the investment choices of retail investors and often led to suboptimal decision-making. The research demonstrated that these biases had a significant impact on the investment decisions of both generations. The research emphasized the need for improved investment education and awareness targeting about Indian capital market to both generations. Gen Z investors, despite their technological proficiency, lacked financial literacy, leading to impulsive investment decisions. By promoting financial literacy, leveraging technology, and offering personalized guidance, financial institutions and regulators can help these generations make more rational, informed, and profitable investment decisions, ultimately contributing to the long-term stability and growth of the Indian capital market.

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