

BEHAVIORAL FINANCE AND INVESTMENT DECISION-MAKING IN TELANGANA: A STUDY

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1.1 Abstract

This paper aims to show how behavioural finance can impact the decision-making of Telangana's population during their investment journeys. Unlike other financial theories, behavioural finance explains that investors and markets are subject to errors caused by emotion and mental biases. The study examines overconfidence, loss aversion, herd behaviour and mental accounting to see how these biases affect investment decisions by people in Telangana. To include a wide variety of people, two hundred respondents from different urban and semi-urban regions in the state completed a standard questionnaire. Statistical methods such as descriptive statistics, Pearson's correlation and multiple linear regression were used to look for patterns and connections between the variables. Experts found that overconfidence tended to be greater among investors who were younger and better educated, but loss aversion was seen more often among people who were older. We found that herd behaviour was widespread in semi-urban environments, and mental accounting changed how people budgeted and judged risks. The research found that mental factors often lead people to make less-than-ideal financial decisions. Such behaviours generally come without awareness and need particular interventions. According to the research, financial literacy is not enough; from what we see, special behavioural and awareness programmes are needed, depending on the group being marketed to. Having a better grasp of psychological influences can guide better and calmer investing, ensuring safety and more stable finances for individuals. Through this research, there are new contributions to behavioural finance in emerging markets and practical learnings for those in charge of making investment policies.

Keywords: Behavioural Finance, Investment Decisions, Telangana, Biases, Financial Psychology, Data Analysis

1.1 Introduction

Classical economic principles traditionally guide investment actions, believing that people always try to choose the course that brings them the most benefit and return possible. These models assume that the EMH and MPT suggest that markets are balanced and investors choose based on objective studies. Even so, what happens in the real world reveals that investors' actions are usually not logical, but shaped by their emotions and biases. The difference between those theories led to the creation of behavioural finance, which combines psychology and economic choices. Over the past few years, behavioural finance has become extremely popular, mainly in emerging markets such as India. Because it is dynamic and growing so rapidly, Telangana in southern India makes an excellent subject for studying these changes. As more people in Telangana gain easy access to money and the chance to invest, they are getting involved in the financial markets. At the same time, this growth creates hurdles, mainly related to investors making mistakes because their emotions get involved instead of their knowledge.

We investigate how overconfidence, joining herds, aversion to loss, and mental budgeting affect how individuals in Telangana manage their investments. Ways people experience biases are by thinking they can precisely label future trends, following popular advice against their better judgment, chasing after safety rather than opportunities or creating false

“buckets” that prevent them from managing their finances rightly. By looking at how biases are affected by age, income, education and background in investments, this research hopes to build better frameworks for making decisions in finance. The objective is to support financial institutions, those who teach and policymakers in creating strategies that deal with what investors need to know and their emotional concerns.

1.3 Objectives of the Study

1. To find out what common behavioural biases investors in Telangana have.
2. To explore how different demographics play a role in people's investment decisions.
3. To look into how someone's behaviour affects their investment choices.
4. To come up with tips that can help investors act more rationally.

1.4 Research Methodology

Behavioural finance was studied in Telangana investment using data that was specifically collected using quantitative methods. So, we can directly observe investors and their minds in real-world situations. In all, 200 respondents were hand-picked to ensure that the survey captures urban and semi-urban areas of Telangana. To make sure the sample doesn't favour any region, we chose to sample randomly and explain how people act in different economic and social groups. People were picked from each portion of the population, with no particular reason, to guarantee the data was not biased. Survey participants answered questions with a Likert scale to discover more about having too much faith in their abilities, wanting to join large groups, being afraid of losing money and spending differently from others. There were sections on the tool designed to capture age, gender, education, earnings and how long people have invested for behavioural analysis in multiple ways.

To analyse the collected data, several statistical tools were employed:

1. Descriptive statistics (mean, median, standard deviation) were used to understand the central tendencies and variability within the dataset.
2. Pearson's correlation analysis helped in identifying relationships between behavioural biases and demographic variables.
3. Multiple linear regression was used to assess the predictive power of behavioural variables on investment decision quality.
4. Chi-square tests were applied to examine associations between categorical variables like education level and the presence of specific biases.

1.5 . Data Analysis and Interpretation

1.5 .1 Descriptive Statistics

Variable	Mean	SD	Min	Max
Age	34.5	8.9	21	58
Monthly Income (₹)	42,000	16,000	10k	1L
Investment Experience	4.2	3.1	1	15
Overconfidence Score	3.8	0.9	1	5
Herding Score	3.5	1.2	1	5

Variable	Mean	SD	Min	Max
Loss Aversion Score	4.1	0.8	2	5

1.5 .2 Correlation Matrix

Variables	Overconfidence	Herd Behavior	Loss Aversion
Age	-0.15	0.08	0.24*
Income	0.22*	-0.10	-0.18
Investment Experience	0.19*	-0.12	0.21*

$R^2 = 0.38$, $F = 5.42$, $p < 0.001$

Coefficients:

- Overconfidence ($\beta = -0.26$, $p = 0.003$)
- Herd Behavior ($\beta = -0.18$, $p = 0.04$)
- Loss Aversion ($\beta = -0.31$, $p = 0.001$)
- Income ($\beta = 0.15$, $p = 0.06$)

Interpretation:

People who are overconfident and lose money on informative trades often have poor investment results. Income has a very slight favourable effect.

Data Analysis and Interpretation

We analyse the information we gathered by surveying 200 people in Telangana's cities and towns. My aim was to see if behavioural biases influence investment decisions and if they differ by demographic traits. I performed the task using a sequential statistical process. I began by using descriptive statistics to summarise the information present in all the data. Ages, incomes, experience with investments and scores for behavioural bias were then represented by their mean, standard deviation, minimum and maximum values. After that, I was able to recognise the typical health signs and notice the unusual ones.

Next, a Pearson correlation analysis was performed to determine the strength and direction of relationships found between behavioural characteristics (for example, overconfidence and herd behaviour) and demographic aspects (for example, income, education and age). The data also cheque for the connexion between behavioural biases and demographics and their impact on investment decisions. The regression model revealed important factors that shape investors' decisions and their behaviours. Besides, scientists used Chi-square tests to establish if there were associations between factors, including education and biases such as herd mentality. Apart from doing the math, adding the non-parametric test humanised our findings. As a result, the work can include strong statistics, is considered important for scholars and is useful in practise, because it takes multiple approaches.

1.6 Key Findings

An analysis of information collected from 200 people from Telangana shows how people's biases affect their financial choices. According to the study, money and education have no effect on who might experience psychological financial tendencies. The results are summarised here with a detailed explanation:

1. Prevalence of Overconfidence Bias

When it came to behaviour, 63% of the investors tried to take bigger risks than probably needed. Between 25 and 35 years old and with 3 to 7 years of investment experience, the bias was most frequently recognised. Plenty of people felt that they knew better than the market, thanks to what they had accomplished before. Since their market knowledge wasn't deep, they tended to believe in their own thoughts more than the opinions of experts.

2. Significance of Loss Aversion

Loss aversion means that a lot of Telangana people find it challenging to put their money into investments. A majority of respondents (more than 72%) felt the lack of their money more strongly than the happiness of experiencing a win. As a result, investors chose to stay clear of risk instead of aiming for bigger returns. If you're retired or plan to retire soon, you often pick investments that aren't as risky, despite the fact they often pay less.

3. Herd Behaviour in Semi-Urban Regions

In addition, people in semi-urban areas of Telangana often displayed herding, mainly among those who know little about personal finance. Many Asians and Middle Eastern investors said they usually chose what to invest in by listening to the market or advice and not by doing their own research. FOMO which is fearing we'll regret not doing something popular, played a major role. Many individuals fell under the pressure and bought pricey properties quickly.

4. Mental Accounting and Budget Misallocation

People would divide their money using different fun names. The majority of the participants used varied values and instructions for each kind of money and worked with them separately. Even if people were satisfied with saving and careful choices, they still tended to spend rush bonuses or windfalls on high-risk or limited investments. Consequently, finances were distributed unbalanced and financial plans were not stable.

5. Impact of Education and Financial Literacy

The results of the research showed that education could help lower the impact of behavioural biases. Individuals who had finished an advanced education in finance had better insight into their biases and usually made more careful choices about investing. Despite their education, investors still followed behavioural trends which concludes that gaining knowledge may not always help investors avoid irrational acts. This means it's important to study both behaviour and financial lessons when becoming financially fit.

6. Influence of Income and Investment Experience

The relationship between having greater financial knowledge and having better performing investments was moderate. Sometimes, because they seemed to know so much, it seemed that experience doesn't always make for the best decisions. Experience sometimes makes investors believe that success they saw before will be repeated, but markets are not always reliable in that way.

1.7. Recommendations

Because behaviour plays a big role in investment decisions in Telangana, different approaches should be adopted at different levels. Such laws must take into account how investors feel, help people get more information and support better financial judgments. These main suggestions are set out here:

1. Investor Awareness Programs

Programmes designed to raise awareness about different biases in investors' minds are useful for those who invest. The workshops are best organised in semi-urban and poverty-stricken areas by government, financial companies and non-governmental organisations. Learning from secure learning sessions and workshops by experts allows investors to recognise common biases and act wisely when investing.

2. Behavioural Tools in Advisory Services

Advisors and organisations should practise behavioural techniques as part of their advice. At this point, the process looks at risk profiles, performs psychological reviews and examines various types of investors. After learning about an investor's risk preferences and mentality, advisors can help the investor choose goals that endure. Thanks to such tools, advisors are better able to give personal tips and advise clients not to act impulsively in response to market emotions.

3. Incorporate Behavioural Finance in Education

Adding behavioural finance to many subjects, particularly those in commerce, economics and finance, is necessary for both undergraduate and postgraduate students. With information on investing, illustrations of strange actions by investors and lessons from cognitive psychology, we can ensure future generations handle finances logically.

4. Encourage Use of Robo-Advisory Platforms

One method of avoiding emotion-based mistakes is to use robo-advisors for investors. These tips would form an objective investment culture in Telangana and would also minimise the state's risk from biased human actions.

1.8 Conclusion

According to research, how people in Telangana decide their investments depends largely on behavioural errors. A lot of the time, emotions like lack of confidence, anxiety about losing and wanting to blend in change their investment choices and make the outcomes worse. These biases make some investors choose riskier strategies or cease to earn profits from fear or fear of judgement from others. People with higher education and young age were overconfident, in contrast to older people who tended to prioritise safe and low-profit investments. Many living in semi-urban communities chose what to buy based on what friends and the community were doing, instead of analysing the situation. For this reason, we must confront these problems now that Telangana's growth is bringing investment opportunities to a wider group of people. As a result, people might still make impulsive financial choices that negatively affect them, although financial services are now more accessible to them. It is advised, then, that good financial education, behavioural finance programmes and robo-advisors be introduced. If residents of Telangana are taught to be conscious of their biases and smarter when spending money, the region's long-term investment system will grow. Therefore, improvements in both people's finances and the region's economy are possible.

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