TAQADUS BASHIR
BAHRIA UNIVERSITY, ISLAMABAD CAMPUS, Pakistan

MUHAMMAD ILYAS
ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD, Pakistan

PERFORMANCE EVALUATION OF INDIVIDUAL INVESTMENT DECISION MAKING: UNDERPINNING OF PSYCHOLOGICAL BIASES

Abstract:

An individual is actually a micro-level organization whereby playing alone the role of leader, planner, organizer, controller and decisions maker about all four types of resources i.e. physical, financial, human & information resources with the aim of maximum benefit & future survival. In short an individual occupies the managerial position in management of own in particular & and other's life in general, subsequently financial & investment decisions fall in this purview. The current study aimed to examine the intrusion of few cognitive and emotional biases in investment decision making of this micro-level organization. Most available studies on investment decisions in the field of Behavioral finance have been conducted in the developed cities of Pakistan such as Islamabad, Rawalpindi, Karachi, Lahore etc. but the KPK region was neglected in this context and no sample was previously taken from KPK. Data of 200 respondents from KPK region is collected to study the performance of their investment decisions and the contribution of over-confidence, regret aversion & self-control to the decisions. Data was collected through snow-ball sampling technique, in which each investor was requested to recommend another colleague investor having capital tied up in real estate, gold, currency, bonds (insurances) and shares or partnerships. Contribution of overconfidence and self-control on investment decision was found to be positively significant whereas regret aversion contributes negatively. With reference to cultural dynamics of KPK, data and results indicated presence of mental and emotional biases in decision making. Two most prevalent investment types were found to be real estate and personal business among investors of KPK because as they consider these safest as compared to other types.

Keywords:

Behavioral Finance, investment decisions, overconfidence bias, self-control, regret aversion, cognitive biases, emotional errors

JEL Classification: G02, G11, M20