International Journal of Financial
Management (IJFM)
ISSN 2319-491X
Vol. 2, Issue 4, Sep 2013, 21-24

International Academy of Science, Engineering and Technology
Connecting Researchers; Nurturing Innovations

FINANCIAL DECISION & INFLUENCING FACTORS

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ABSTRACT

Better progress of a business is dependent on the quality of decision-making specially in respect of investments and their effective and timely execution in the market, good investment decisions are based on various factors, the prime in this includes; knowledge of the basics and fundamentals of making investments, and related biases effecting the return on investments. The investing decision makers have multiple attitudes that are generally different from each other at certain point in time, and their attitude towards the investing decision do also exert an influence over the investments they choose. This study discusses few of such factors, which apply an influence over the investment decisions. Particular emphasis of this study is to understand the role of gender in taking investment decisions. In other words, this article is to study the change in decision-making resulted through the change in the gender of decision maker.

KEYWORDS: Gender, Investor, Investment, Investment Decisions, Fundamentals, Biases

INTRODUCTION

Investment decision is a dilemma for the investors as it contains various dichotomies within it, and there are glaring trade off's if we tend to avoid those. An accurate investment decision is one, which results in better yield, for these judgments' fundamentals of decision-making play an important role (Peltonen, T. A., Sousa, R. M., & Vansteenkiste, I. S. 2009). Apart from these fundamentals, the role of cognitive biasness cannot be ignored; these are heuristics (i.e. Representative ness, Anchoring an Adjustment, Leniency) as describe by (Pompian, M. M. 2006).

'Investors use both Fundamentals and heuristics in investment decision (Amir, E., & Ganzach, Y. 1998). Investment decisions are also dependent on the investor's type (Kuzmina, J. 2010). To make a good investment decision we have to consider fundamentals, biasness, and emotions (Butt, M. A., & Sardar, R., & Shafi, H., & Rehman, K., & Rehman, R. R., & Shoaib, H. M. 2011). Daniela, B., & Lukas, M. (2008). says gender differences in investment decision are evident from the dissimilarity in risk perception, risk aversion, and confidence level. Therefore, in order to find the relation we have made a conceptual paper under the light of persisting literature.

In this paper, we through light on the financial decision-making of an investor and the natural attribute (Gender difference) influencing these decisions. The gender biases of an investor are affecting different types of investors (herd, emotional, and noise) in selecting financial decision.

Under the light of literature, this conceptual paper shows the gender differences affecting the decision-making in investors. Past researches have shown the relation of gender risk forecasting behavior, their risk tolerance behavior, and the stereotypes related to these gender differences. The aim of this study will be to highlight the overall reaction of gender on investor types and their selection between fundamentals and/or biases.

THEORETICAL FRAMEWORK

Different factors like fundamentals, biases, and the gender effects decision maker's choice to invest. These choices have a direct or indirect impact on the selection of investment, the decision taken on fundamentals or biases may go wrong due to the gender limitation of the investors.

During the period of traditional finance, the investors' believes that fundamentals play a key role in financial decision-making. The investment decision is highly dependent on the fundaments of investment and following them have a strong positive impact on financial markets (Peltonen et al., 2009). Investor takes investment decision based on the fundamentals, i.e. techniques and analytical capabilities required for making financial decision (Shefrin, N. H. 2002). However, the markets despite of fundamental decisions seem to have trembled and failed to give expected returns. Hence, despite of adopting the fundamentals financial decision can go wrong (Abarbanell, J. S., & Bernard, V.L., 1992).

Investment markets do under react, when a difference between future earning and previous forecast arises, overreaction takes place when differences occur between future earnings prediction and past announced earning, these differences among forecasts arose from three heuristics: (a) leniency, (b) representativeness, (c) anchoring and adjustment. (E.Amir Y. Ganzach 1998). In leniency the investor reacts over optimistically this is because of his inclination with the primary source of data (DeBondt and Thaler, 1998) this leniency is used as heuristics for their decision-making (E.Amir Y. Ganzach 1998).

In representative bias the investor, choose extreme value of the available information and his predicted assessment and use it for decision-making (Kahneman and Tversky 1973). In this manner, these decision leads to overreaction in the market (E.Amir Y. Ganzach 1998). In anchoring and adjustment, the investor anchors a value of a particular outcome and adjusts it to predictive information, having large impact on the decision but a moderating impact on the investment market (Kahneman and Tversky 1973).

Not only fundamentals and biases influence financial decision-making but the investor's type also play a key role in selecting them. There are three types of investor's namely rational, emotional, and noise as describe by (kuzmina, J. 2010). The rational investor makes investment decision in the light of investment models and fundamentals related with these investments and sometime they do use intuition in making their decision (Tversky and Kahneman, 1979; Shefrin, 2002). The emotional investor uses his emotion over the fundamentals of investments and his intervention in the market influence the investment models negatively (Smith, 1759; Peter and Solvic, 2000), such investors when making decision for investments keeps imaginary value of opportunity cost of alternative investment which influence his decision (Solvic, Melissa, Ellen, Donald. 2002; Peters (2006). Noise investor has very little knowledge about the market conditions (Kuzmina, 2010) and they are willing to go with the market speculation (Shiller, 2000) however, they sometimes may think otherwise in order to maximize their profits, but in any case they fails (Zeelenberg & Beattie, 1997).

Barke et al. (1997) showed that men and women with considerable technical knowledge of risk assessment have different risk perception and (Solvic et al. 1997) report the similar results, different researchers are also agree that women's decision our risk and insurance decision are specific to their perspective which is different from men (Badunenko etal, 2009; Hobert et al, 2008). A single woman is more risk averse in financial decision-making than a single man (Nancy ammon, 1998).

Women are more affected by environment they take more time and look for more information than man (Gill, Stockard, 1987), Women as manager, entrepreneurs have lower risk inclination than man (Powel and Ansic, 1997; Croson and Gneezy, 2009), risk perception differences are also found in men and women in both qualitative and quantitative terms (Gustafson, 1998), in high risk business preferences we found women more affected than men (Melissa, 2000), studies indicate that women are more risk averse than man (Sunden & Surette, 1998), Women are less confident in financial decision-making (Estes & Hosseini, 1998), when riskier stock of men and women are studied it was revealed that men are more risk takers than women (Barber & Odean, 2001).

PROPOSED MODEL

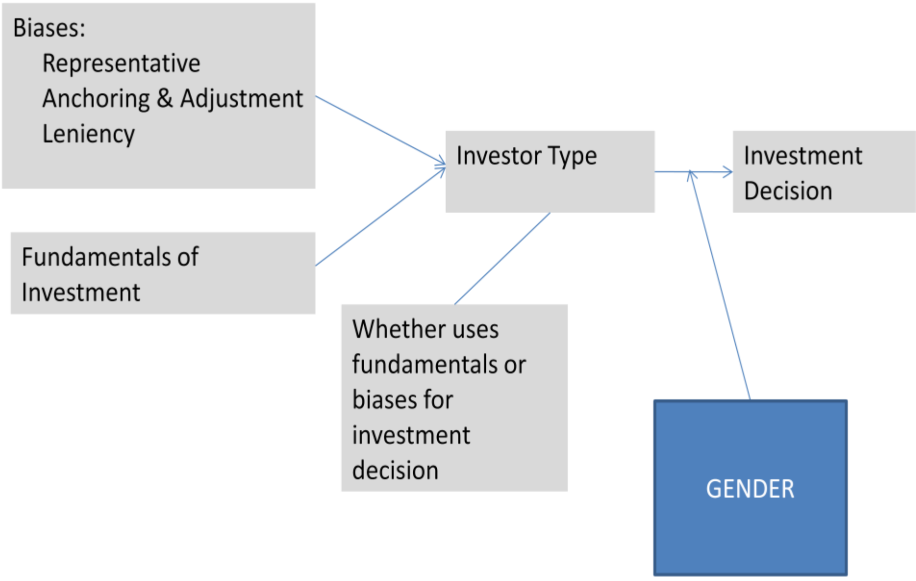

Figure 1

DISCUSSIONS AND PRACTICAL IMPLICATION

Gender has an influence on the decision-making of investors, this is clear from the model male and female took different decision in the same situation. Type of Investors, like rational, emotional, and noise takes decision based on fundamentals or/and biases, and their gender differences do effect them negatively or positively.

Men are more competent and involve while making decision and they took more risk than women (Prince, 1998) did, in other words, women have less confidence while choosing investment decision (Ester & Hassaini, 1988). Barbara and orden (2001), when examined the common stock portfolio of the men and women they concluded that women invest in less precarious portfolios than man does. If we look the investment decision taken by the investors in the availability of less or no information of investment opportunity than we will conclude that women will invest less in such environment than men which concludes that women are risk averse than men (Oleksand, 2006). This paper highlights the barriers to effective financial decision-making. When an investor (rational, emotional, or noise) uses fundamentals and/or biasness as heuristics for his / her decision-making, he must kept in his mind the type of investor he / she is, and the gender limitations attached with his / her decisions so that he can take efficient and effective decisions.

CONCLUSIONS

Every investor likes to take such decisions, which can maximize their profit. However, in the real world this is not possible every time. Some investors take decision keeping in mind the fundamentals of decision-making, others take into account the related biases of the investments. However, both fail at times. There is no assurance that a decision taken upon one of the factors will be right in the scenario.

People of different attitude do also take decisions taking into account the fundamentals and biases at a times, however the gender difference play a key role in the effecting their decisions. The decision made keeping in view all of the factors and the effect of gender may have a high tendency to be good from a results perspective.

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