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Impact of Gamblers Fallacy Bias on Portfolio Investors Decision Making

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Abstract: **According to economic and financial theories, individuals act rationally in the process of decision making by considering all the available information's. Sometimes the investors are guided by emotions like fear etc, while making investment decisions. It is not possible for investors to analyze the information in all circumstances and to take appropriate decisions.behavioural finance brings psychological aspects to investors decision-making process.Behavioural finance, a study of market. That draws on psychology, throws light on why people buy and sell stock and why people do not buy and sell stock at all.Behavioural economist saying that investment decisions requires a better understanding of individual investor's behavioral biases. In this context, it seems relevant to check whether the behavioral factors have an influence on the decision making process of portfolio investors. In this study we are going to analyze impact of gamblers fallacy bias on investor's decision making process.**

Keywords—Behavioralfinance,Behavioralbias,Gamblersfallacybias,Investorsdecisionmaking

I. INTRODUCTION

"One of the funny things about the stock market is that every time one person buys, another Sells, and both think they are astute."-William Feather. Behavioral finance is relatively a new field of study which explains people's economic decisions. it is a combination of behavioral and cognitive psychological theory with conventional economics and finance. Investors may be inclined towards various types of behavioral biases, which lead them to make errors. Investor, as a human being, processes information using shortcuts and emotional filters. These decisions area irrational and it violate traditional finance claim of rationality. This irrational financial decision will affect the efficiency of capital markets, personal wealth, and the performance of corporations. People may make predictable, non-optimal choices when faced with difficult and uncertain decisions because of heuristic simplification. Behavioral biases abstractly are defined in the same way as systematic errors in judgments. Cognitive **biases** are systematic patterns of deviation from rationality in judgment. Some authors refer to biases as beliefs, judgments, preferences, etc. at the same time some researchers classify biases along cognitive and emotional lines. "Behavioral finance research relies on a broad collection of evidence pointing to the ineffectiveness of human decision making in various decision-making situations'. Behavioral biases can be classified in to different categories, which includes Representativeness Biases, Overconfidence Biases, Herding Biases, Cognitive Dissonance Biases, Gamblers Fallacy Biases, etc. here researcher analyses impact of gamblers fallacy bias on investors decision-making.

Gamblers' Fallacy Bias

Kahneman and Tversky (1971) describe the heart of gambler's fallacy as a misconception of the fairness of the laws of chance. Gamblers fallacy is also known as the Monte Carlo fallacy or the fallacy of maturity of chances. Gamblers' Fallacy arises when investors inappropriately predict that trend will reverse. For instance, if a fair coin is tossed ten times and it land on heads each time an investor who feels that the next flip will result in tails can be said to be suffering from gamblers fallacy bias. In other words Gamblers fallacy simply means inaccurate understanding of probability.

II. OBJECTIEVES

1) To check weather individual investors in the stock market are always rational or not

2) To find out the role of gamblers fallacy bias on investors decision making.

3) To find out whether young investors are more affected by behavioral factors than experienced ones.

III. SCOPE OF THE STUDY

The study attempts to know the impact of Gamblers fallacy bias on portfolio investors' decision making. This study has tried to check the rationality in investment behavior based on age and experience of investors.

IV. LIMITATIONS

1) Since the sampling technique used in a selection of Sample is judgment sampling. So the study suffers from all limitations associated with Non probability sampling.

2) This study covers only one behavioral bias which is gamblers fallacy bias. There are another various types of biases affected by investors like overconfidence bias, herding bias, cognitive dissonance bias, etc.

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3) Study covers only 92 customers of KSFE in malappuram district.
4) The period of study was very short. Study covers three months period only.

V. RESEARCH METHODOLOGY

RESEARCH DESIGN: Descriptive research design is used for the study.

SAMPLE DESIGN: Samples were collected from portfolio investors in kerala by applying judgment sampling based on two criteria.

1. Age of respondents.
2. Year of experience in investment.

Investors having age below 35 and less than 5 years experience brought in to one group and investors having age above 35 and morethan 5 years experience brought in to another group for analysis.
Sample Size: Sample size selected for the study is 92 investors in kerala based on their age and experience.
Period of the study: The study was carried out for a period of 3 months.

SOURCES OF DATA COLLECTION:

The study was conducted on the basis of both primary and secondary data.

PRIMARY DATA: The primary data are those which are collected for the first time, which is original in character. They are collected directly and are reliable. The primary data are collected through a well- structured questionnaire.
SECONDARY DATA: The secondary data are those which are already been collected by someone else. Secondary data has been collected from various textbooks, website, journals related with behavioral finance.

TOOLS USED FOR ANALYSIS OF DATA:

1. Percentage analysis
2. ANOVA

VI. TABLES AND DIAGREMS

TABLE 1: CLASSIFICATION ON THE BASIS OF AGE AND EXPERIENCE

Age below 35 and less than 5 years experienced investors are classified into one group. Above 35 old and morethan 5 years experienced investors are classified in to another group.

AGE	BELOW 35	46
EXPERIENCE	LESS THAN 5 YEARS	
AGE	ABOVE 35	46
EXPERIENCE	MORE THAN 5 YEARS	
TOTAL		92

Source: Primary data

INTERPRETATION:
From the above table it is clear that 50 % of respondents are coming under the age below 35 and remaining 50 % of respondents are age above 35.

TABLE 2: GAMBLERS FALLACY BIAS OF THE INVESTORS:
Investors are asked that"you always expect for the reversal of the current trend in the stock market?"
There answer was:

PARTICULARS	FREQUENCY	PERCENTAGE
YES	26	28.3
NO	32	34.8
NO PREFERENCE	34	37
TOTAL	92	100

Source: Primary data

INTERPRETATION:
The above table shows that 28.3% investors expect for a trend reversal in the stock market. 34.8% of investors expect to continue the current trend and 37.0% investors does not have any preference regarding trend reversal.
TABLE3: ONEWAY WAY ANOVA
One way anova is used to test the following hypothesis:
Ho: Young and experienced investors are equally likely subject to gamblers fallacy bias.
H1: Young investors are more likely to exhibit gamblers fallacy bias as compared to experienced ones.

Source of variation	Sum of squares	Degree of freedom	Mean square	F –ratio
Between the sample	SSC 17.34	K-1 =2	MSC 8.67	69.33/8.6
Within the sample	SSE 208	N-K=3	MSE 69.33	7.99

Table value of "F" at degree of freedom K-1, N-K=3-1,6-3=(2,3) is = 9.55. Calculated value of "F" (7.99) is less than the table value (9.55).the null hypothesis is to be accepted. Both investors' types are equally likely subject to gamblers fallacy bias.

VII. FINDINGS

1) Psychological factors play an important role in investment decision of both young and experienced investors.
2) 37% of investors opinion regarding stock market is that reversal of current trend is not predictable.
3) 32% of investors said that there is no trend reversal in the stock market.

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3) Experienced investors are also taking irrational decisions regarding their investments.

4) GAMBLERS FALLACY BIAS: Both young and experienced investors were found be overconfident in their ability to make good investment. One way ANOVA test were conducted to check weather both types of investors were equally likely subject to gamblers fallacy bias while making investment decision.

VIII. RECOMENDATIONS

1) Investor awareness on the field of behavioral finance should be promoted as much as possible. It will leads to rationality in investment decision.
2) Investor should provide adequate education and training in the field of behavioral finance.
3) Young investors should be given more awareness about behavioral finance field
4) Behavioral finance should be given more importance to academic curriculum.

VIII. CONCLUSION

The objective of this study is to check the individual investors participating in Indian stock market is always rational. This study give focus on one identified behavioral bias. Gamblers fallacy bias is the mistaken belief that, if something happens more frequently than normal during given period, it will happens less frequently in the future. Effect of these behavioral biases on portfolio investors in kerala was analyzed in this study.

The study found out that the majority of investors expect that trend reversal in the stock market is not predictable nature, because investors have no preference regarding neither continue the current trend or reversal of existing trend. It reflects investor's lack of perfect awareness regarding stock market movements. Next majority of investors don't believe an immediate change of continuing trends in the stock market. But morethan 25% investors are always subject to this bias. They always expect trend reversal in stock market. Due to these inaccurate predictions they made huge investment losses. Both young and experienced investors are equally likely to exhibit gamblers fallacy bias while making investment decision. One of the interesting things is that all the investors irrespective of their experience are affected by this bias. When asked to reveal financial loss suffered during 2017-18 timeframe, 60 out of 92 admitted to having faced a loss of at least 40% of their investment. In this situation this study argued that behavioral bias have significant role in loss suffered by both young and experienced investors another thing is that investors in the stock market are not rational always.

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