

## The Influence of Behavioural Factors on Investors Investment Decisions: A conceptual model

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### Abstract

*Although finance has been studied for thousands years, behavioral finance which considers the human behaviors in finance is a quite new area. Behavioral finance theories, which are based on the psychology, attempt to understand how the psychological variables( heuristic, prospect, and herding) and perceived risk behavior (Risk Perception, Risk attitude and Risk Propensity) influence individual investors' behaviors and how these variables influence the investment performance and investment satisfaction. The relations between the heuristic, prospect, and herding and risk perception, risk attitude and risk propensity with their respective items effecting the investment behavior is analysed. The stock market in which all these decisions are made by investors have its influence on the investment behaviour of investors, therefore the stock market with its respective items is also incorporated in the study. The outcome of these decisions will give us results in the form of investment performance and investment satisfaction.*

*The main objective of the present study is to develop a conceptual research model exploring the full set of all the behavioral factors influencing individual investors' investment decisions in the Stock market., As there are limited studies about behavioral finance with the above said variables therefore, this study is expected to contribute significantly to the development of this field and help both the practioners and the academicans in the development of the field significantly.*

**Key words:** Behavioral finance, Psychological variables, heuristic, prospect, and herding, perceived risk behavior, risk perception, risk attitude, risk propensity, Market variables, investment decision, and investment performance and satisfaction.

### INTRODUCTION

Investors of the stock market are rational and they efficiently respond to new information regarding the Stock market products. In other words, investors' decisions in the market

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fully reflect the effects of any Information revealed. There are no chances of abnormal returns in the market in the long run, even if the assets prices are not properly valued, they will come to reasonable price level through arbitrage (Fama, 1970). Various empirical investigations conducted during 1980 revealed that market is not efficient as explained by efficient market hypothesis (EMH) of traditional finance theories, because of certain anomalies of the market like small firm effect, January effect etc. Thus traditional finance theories of neo-classical finance ignore the importance of investors' behavior in the decision making. Due to this ignorance, the investors' behavior is not covered within the frame work of traditional finance. Sometimes, the investors make irrational decisions and do not behave rationally because of their limitations of capacity to process the information (Simon, 1986). Study of Kahn man and Tversky (1982) explains that representativeness and anchoring heuristics are sometimes present in the decision making of investors in an uncertain situation where the investors use their judgment in order to facilitate the process of dealing with vague and complicated information. The heuristics mentioned here may lead to some cognitive biases due to employing wrong judgment. They also proposed that prospect theory which is well known in the behavioral studies due to discussion of psychological attitude of investors should be used to understand the psyche based investors behaviors. The prospect theory replaced the traditionally used theory of utility maximization. The prospect theory holds that attitude of investors is not consistent when dealing with prospects of gain or loss, but will be opposite in these prospects. This inconsistency in the behavior of investors is against the hypothesis of neo-classical finance which states that Investors attitude is consistent in profit or loss prospects. This prospect theory ultimately became the cause of rendering Nobel Prize to them in 2002. To study the financial markets, the researchers have adopted the use of behavior approach in order to overcome the lacking of traditional neo-classical finance approach. The basic difference between prospect theory and traditional finance theory is that investors who prospect profits or gains tend to become risk averse in order to stabilize their gains but become risk takers in the prospects of loss, whereas according to traditional theory of finance investors are all the time risk averse. There are many investment products which are available for investment to investors in the stock market ranging from bonds to options. These products vary with regard to risk factor involved and the return. Investors choose the investment products which have matching to their risk tolerance. According to Nofsinger john (2005), behavioural finance demonstrates how actual behaviour of individuals in financial settings differs from rational behaviour. Typical behavioural biases related to decision making include anchoring, herding, framing, hindsight, loss aversion, regret, overreaction, overconfidence and mental accounting.

### **PROBLEM STATEMENT**

Due to the strong positive correlation between stock market and economic evelopment, the rise of stock market will positively affect the development of the economy and vice versa. Thus, the decisions of investors on stock market play an important role in defining the market behavior trend, which then influences the economy on whole. To understand and give some suitable explanation for the investors' decisions, it is important to identify and

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explore all those behavioral factors which influencing the decisions of individual investors at the Stock Exchange and how these factors impact their investment performance and investor investment satisfaction. It will be useful for investors to understand common behaviors, from which they can justify their reactions for better returns in the future. Security organizations may also use this information for better understanding about investors to forecast more accurately and give better recommendations to the investors. Thus, if we are able to understand all those variables which have influence on stock price we will be able to reflect the true value of securities in the market and stock market will becomes the yardstick of the economy's wealth and development. This will also helps enterprises to raise capital for production and expansion of their business activities activities with the true prices and helps them to safeguard their interest in the long run.

### **CONCEPTUAL FRAMEWORK OF THE STUDY**

There is a vast body of literature by eminent scholars and financial experts on different aspects of the behavioural finance. Over the last three decades, investor behaviour has been put under the microscope for analysing the investment decisions and the various factors that influence the investment behaviour. Although the investor behaviour was originally assumed to be rational, in the process it has been identified that investor's investment decisions are affected by the series of psychological biases. The literature available on investment market mainly deals with various aspects such as stock market efficiency, stock pricing, stock valuation, security price behaviour, and investment market operations. The evolution of behavioural finance led researchers to examine the psychological traits of investors and how they influence their investment decision making. This conceptual research model presents an overview of some of the relevant studies on investor behavior with the expert research based opinion on the influence of these factors on the investor's investment decisions.

### **BEHAVIORAL FACTORS IMPACT THE INVESTORS' DECISION-MAKING**

According to Ritter (2003, p.429), behavioral finance is based on psychology which suggests that human decision processes are subject to several cognitive illusions. These illusions are divided into two groups as illusions caused by heuristic decision process and illusions rooted from the adoption of mental frames grouped in the prospect theory (Waweru et al., 2008, p.27). However Thaler (1992) and Banerji (1992) had studied the influence of herding variables on the investment behavior, all these variables are studied in the present study under the domain name of psychological variables. Besides Tomy Garling, Erich kirchler, Alax Lewis and Fred Vaaj in the journal of Psychological Science in public interest dated march 29, 2010 has studied the influence of risk perception, risk attitude and risk propensity under the domain name of perceived risk behavior and have identified that these variables have its influence on investment risk behavior of investors in stock market. Further according to DeBondt and Thaler (1995, p.396 ) the investors make their investment decisions in the market and market is always available with new challenges and opportunities therefore the market influences the investment behavior of investors and market is also effected by the investors decisions in the long run. Waweru et al. (2008, p.36)

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identifies the factors of market that have impact on investors' decision making. This research model also derives the criteria through which we can evaluate the investor's decisions regarding the investment performance and satisfaction. In more details, the return rate of stock investment is evaluated by asking investors to compare their currently real return rates to both their own expected return rates and the average return rate of the security market. Besides, the satisfaction level of investment decisions is proposed in this research as a criterion to measure the investment performance. These two categories as the psychological and perceived risk behavior along with market variables are the main three dimensions which are studied in this conceptual model to determine investor's investment performance and satisfaction.

**1 Heuristic theory:** Heuristics are defined as the rules of thumb, which makes decision making easier, especially in complex and uncertain environments (Ritter, 2003, p.431) by reducing the complexity of assessing probabilities and predicting values to simpler judgments (Kahneman & Tversky, 1974, p.1124). Kahneman and Tversky seem to be ones of the first writers studying the factors belonging to heuristics when introducing three factors namely representativeness, availability bias, and anchoring (Kahneman & Tversky, 1974, p.1124-1131). Representativeness refers to the degree of similarity that an event has with its parent population (DeBondt & Thaler, 1995, p.390) or the degree to which an event resembles its population (Kahneman & Tversky, 1974, p.1124). Representativeness may result in some biases such as people put too much weight on recent experience and ignore the average long-term rate (Ritter, 2003, p.432). Availability bias happens when people make use of easily available information excessively. In stock trading area, this bias manifest itself through the preference of investing in local companies which investors are familiar with or easily obtain information, despite the fundamental principles so-called diversification of portfolio management for optimization (Waweru et al., 2003, p.28). Anchoring is a phenomena used in the situation when people use some initial values to make estimation, which are biased toward the initial ones as different starting points yield different estimates (Kahneman & Tversky, 1974, p.1128). In financial market, anchoring arises when a value scale is fixed by recent observations. Anchoring has some connection with representativeness as it also reflects that people often focus on recent experience and tend to be more optimistic when the market rises and more pessimistic when the market falls (Waweru et al., 2008, p.28). When people overestimate the reliability of their knowledge and skills, it is the manifestation of overconfidence (DeBondt & Thaler, 1995, p.389, Hvide, 2002, p.15). Overconfidence is believed to improve persistence and determination, mental facility, and risk tolerance. In other words, overconfidence can help to promote professional performance. It is also noted that overconfidence can enhance other's perception of one's abilities, which may help to achieve faster promotion and greater investment duration (Oberlechner & Osler, 2004, p.3). The belief that a small sample can resemble the parent population from which it is drawn is known as the "law of small numbers" (Rabin, 2002, p.775; Statman, 1999, p.20) which may lead to a Gamblers' fallacy (Barberis & Thaler, 2003, p.1065). More specifically, in stock market, Gamblers' fallacy arises when people predict inaccurately the reverse points which are considered as the end of good (or poor) market returns (Waweru et al., 2008, p.27). In this research, five components of heuristics: Representativeness, Availability bias, Anchoring, Overconfidence

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and Gambler's fallacy as Heuristic variables are used to measure their impact on (Tversky and Kahnmen 1974) on the investment decision making as well as the investment performance and satisfaction of individual investors at the Stock market.

**2 Prospect theory:** Prospect theory is considered as an appropriate approach to decision-making from different perspectives. Prospect theory describes the different states of mind affecting an individual's decision-making processes including regret aversion, loss aversion and mental accounting (Waweru et al., 2003, p.28). Regret is an emotion occurs after people make mistakes. Investors avoid regret by refusing to sell decreasing shares and willing to sell increasing ones. Moreover, investors tend to be more regretful about holding losing stocks too long than selling winning ones too soon (Forgel & Berry, 2006, p.107; Lehenkari & Perttunen, 2004, p.116). Loss aversion refers to the difference level of mental penalty people have from a similar size loss or gain (Barberis & Huang, 2001, p.1248). There is evidence showing that people are more distressed at the prospect of losses than they are pleased by equivalent gains (Barberis & Thaler, 2003, p.1077). Moreover, a loss coming after prior gain is proved less painful than usual while a loss arriving after a loss seems to be more painful than usual (Barberis & Huang, 2001, p.1248). Mental accounting is a term referring to "the process by which people think about and evaluate their financial transactions" (Barberis & Huang, 2001, p.1248). Mental accounting allows investors to organize their portfolio into separate accounts (Barberis & Thaler, 2003, p.1108; Ritter, 2003, p.431). In this research, three elements of prospect dimension: Loss aversion, Regret aversion, and mental accounting are used to measure their impact levels on the investment decision making as well as the investment performance of individual investors.

**3. Herding effect:** Herding effect in financial market is identified as tendency of investors' behaviors to follow the others' actions. Practitioners usually consider carefully the existence of herding, due to the fact that investors rely on collective information more than private information and result the price deviation of the securities from fundamental value; therefore, many good chances for investment at the present can be impacted. Academic researchers also pay their attention to herding, because its impacts on stock price changes can influence the attributes of risk and return models and this has impacts on the viewpoints of asset pricing theories (Tan, Chiang, Mason & Nelling, 2008, p.61). In the security market, herding investors base their investment decisions on the masses' decisions of buying or selling stocks. In contrast, informed and rational investors usually ignore following the flow of masses, and this makes the market efficient. In general, herding investors act the same ways as prehistoric men who had a little knowledge and information of the surrounding environment and live together in groups to support each other and get safety (Caparrelli et al., 2004, p.223). When the investors put a large amount of capital into their investment, they tend to follow the others' actions to reduce the risks, at least in the way they feel. Besides, the preference of herding also depends on types of investors, for example, individual investors have tendency to follow the crowds in making investment decision more than institutional investors (Goodfellow, Bohl & Gebka, 2009, p.213). Waweru et al. (2008, p.37) identify stock investment decisions that an investor can be impacted by the others: buying, selling, choice of stock, length of time to hold stock, and volume of stock to trade. Waweru et al. conclude that buying and selling decisions of an investor are significantly impacted by others' decisions, and herding behavior helps

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investors to have a sense of regret aversion for their decisions. Herding variables are generally applicable to individual investors as they are not well informed the stock market, so they feel a sense of safety while following the masses and make investment decisions as the other investors do. But some investors are confident enough and well informed about the investment markets so they do not find any good to follow the herd behavior upto a limited extent, these type of investors act as corrections to the security prices movements in the long run.

**4. Perceived risk behavior:** People take economic risks with personal loans, credits, and mortgages, trade risky equities in the stock market, purchase inefficient or risky products, and accept insecure jobs. Consumer decisions are similarly related to risk since the outcomes are often highly uncertain and may have serious and life-long consequences. People who choose risky financial products are more likely to be affected by financial crises and recessions. It is important to note that risk taking is domain-specific. At an individual level risk taking in one domain (e.g. the financial domain) has little or no relationship with risk taking in another domain (e.g. the social domain) (Weber, Blais, & Betz, 2002). (Economic) risk taking is mediated by risk perception, risk attitude and risk propensity, that is the extent to which one is aware of a risk, whether it is judged to be positive (an opportunity to gain) or negative (a threat of losing), and the extent to which one intends to take the risk.

**5. Risk Perception:** In psychology, risk is conceptualized as a subjective construct influenced by how the event is interpreted (Rottenstreich & Tversky, 1997; Tversky & Koehler, 1994; Weber, 2004). Risk is therefore perceived differently by different people in different contexts (Diacon & Ennew, 2001). An analysis of how people make investment decisions confirms that objective assessments of probability have only a weak impact on the decision making process (Capon, Fitzsimons, & Prince, 1996). Risk perception is an indispensable component of financial decision making and other risk-taking behaviors. It has furthermore been noted (e.g., Shleifer, 2000) that risk perception is an important but under-researched topic that is essential for understanding investment decision making in stock markets. Risk perception encompasses an assessment of the degree of situational uncertainty, controllability of that uncertainty, and the confidence in these estimates (Sitkin & Weingart, 1995). It is thus the outcome of a combination of genuine uncertainty, lack of knowledge, and the seriousness of the possible consequences (Fischhoff, Slovic, Lichtenstein, Read, & Combs, 1978). Risk perception is basically a cognitive assessment, but influenced by affects such as fear, regret, and optimism (Loewenstein, Weber, Hsee, & Welch, 2001). As a cognitive assessment, it is susceptible to many biases (Slovic, 1985, 2001).

**6. Risk Propensity:** Risk propensity is defined as a general behavioral tendency to take or avoid risk in a specific domain. It is closely related to and frequently equated with actual risk taking. Weber et al. (2002) developed a domain-specific risk propensity scale, including the financial domain, distinguishing in that domain between investing and gambling. They found that the perception of benefits and risk, and not risk attitude, are related to gender and domain differences in risk taking. Recently, Meertens and Lion (2008) developed a risk propensity scale to discern risk avoiders from risk takers, but they did not distinguish different domains of risk taking. Risk-avoiding decision makers are more likely to attend to

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and weigh negative outcomes and thus overestimate the probability of losses relative to the probability of gains. They consequently require a higher probability of gain to tolerate the exposure to failure (Schneider & Lopes, 1986). Risk propensity may also be explained by habitual or routine ways of handling risky situations. These routine patterns tend to persist over time. Decision makers who have been risk averse in the past are likely to continue to make cautious decisions, whereas decision makers who have been risk seeking in the past are likely to continue to make risky and adventurous decisions (Kogan & Wallach, 1964; Rowe, 1977; Slovic, 1972). Yet, a pattern of routine risk taking will not persist when it is proven unsuccessful. Knowledge of outcomes, positive and negative reinforcements, will then affect adaptations to changing circumstances (Osborn & Jackson, 1988). In contrast to the stability of successful decision makers, unsuccessful decision makers will change their strategies. Thus, negative outcomes lead to changes. However, changes are also influenced by whether success and failure are attributed to the actions of the decision makers themselves or to situational factors beyond their control (Einhorn & Hogarth, 1978). People tend to attribute successful outcomes to themselves and failures to others or to circumstances. This leads to an incomplete and biased learning of events and increasing overconfidence. People high in risk propensity are likely to buy risky financial products. They will benefit from the upside risky effects of these products in periods of economic upswing and growth, whereas in periods of economic recession they are likely to run into problems when confronted with the downside risky effects of their financial products.

**7. Perceived Risk Attitudes:** Investing is clearly risky and people routinely have to make decisions under uncertainty due to incomplete information. Depending on the amount of information an investor has regarding various stocks on the stock market determines one's risk perception. The perceived degree of uncertainty by individuals affects their decisions regarding consumption, saving and investing (Cary & Javier et al, 2008). Perceptions encompass psychological and emotional aspects, which subsequently guide judgment and decision making. And this makes perceived risk attitudes of investors to be more subjective rather than objective to risky situations. Therefore, the attitudes we form and express are likely to be influenced both by emotions and a more "logical" cognitive assessment (Breckler & Wiggins, 1989; Esses, Haddock & Zanna, 1993; Millar & Tesser, 1989; Zanna & Rempel, 1988). Affect often refers to one's emotions/ feelings. Research has shown that emotion can better be defined by examples of emotional states. Elster (1960) defines emotion as a physiological state of arousal triggered by beliefs about something. On the other hand, emotion can be seen as "the felt tendency towards anything intuitively appraised as good (beneficial), or away from anything intuitively appraised as bad (harmful)" (Arnold 1960). The 'affect heuristic' is a concept that looks at how people assess risks (Alhakami and Slovic, 1994; Peters and Slovic, 1996; Finucane et al., 2000; Slovic, 2000; Slovic et al., 2002). Research has shown that there is consistency in the public's deviations from objective risk assessments and that affective/emotional reactions appear to drive both perceived benefit and perceived risk (Alhakami and Slovic, 1994; Finucane et al., 2000). They found that if an activity for example a particular stock was 'liked', people tended to judge its risks as low and its benefits as high and where the activity was 'disliked', the risk judgments were high and low benefit which leads to a negative relationship between risk and return (Finucane et al., 2000). On the stock market, investors tend to have

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a local bias where investments in local stocks are more preferred than foreign stocks hence a low perceived risk for such stocks and higher likelihood for investing in them. Finucane et al. (2000), further attempted to manipulate affect in such a way as to lead people to differentially perceive risks and were expected; if subjects were given information that risk is high, they were expected to infer low benefit; if they were given information that risk is low, they were expected to infer high benefit. And this makes perceived risk negatively correlated to self-esteem, rigidity and risk taking but positively correlated to anxiety (Schaninger, 1976). According to Lucy et al (2003), cognition refers to an individual's belief towards an object. The beliefs we form can either be positive or negative depending on aspects like, knowledge, moral, intelligence, inspiration, dishonesty, and being weak among others (Lavine et al 1998).

### **MARKET FACTORS**

DeBondt and Thaler (1995, p.396) state that financial markets can be affected by investors' behaviors in the way of behavioral finance. If the perspectives of behavioral finance are correct, it is believed that the investors may have over- or under-reaction to price changes or news; extrapolation of past trends into the future; a lack of attention to fundamentals underlying a stock; the focus on popular stocks and seasonal price cycles. These market factors, in turns, influence the decision making of investors in the stock market. Waweru et al. (2008, p.36) identifies the factors of market that have impact on investors' decision making: Price changes, market information, past trends of stocks, customer preference, over-reaction to price changes, and fundamentals of underlying stocks. Normally, changes in market information, fundamentals of the underlying stock and stock price can cause over/under-reaction to the price change. These changes are empirically proved to have the high influence on decision-making behavior of investors. Researchers convince that over-reaction (DeBondt & Thaler, 1985, p.804) or under-reaction (Lai, 2001, p.215) to news may result in different trading strategies by investors and hence influence their investment decisions. Waweru et al. (2008, p.36) conclude that market information has very high impact on making decision of investors and this makes the investors, in some way, tend to focus on popular stocks and other attention-grabbing events that are relied on the stock market information. Moreover, Barber and Odean (2000, p.800) emphasize that investors are impacted by events in the stock market which grab their attention, even when they do not know if these events can result good future investment performance. Odean (1998a, p.1887) explores that many investors trade too much due to their overconfidence. These investors totally rely on the information quality of the market or stocks that they have when making decisions of investment. Waweru et al. (2008, p.37) indicate that price change of stocks has impact on their investment behavior at some level. Odean (1999, p.1292) states that investors prefer buying to selling stocks that experience higher price changes during the past two years. Change in stock price in this context can be considered as an attention-grabbing occurrence in the market by investors. Additionally, Caparrelli et al. (2004, p.223) propose that investors are impacted by herding effect and tend to move in the same flow with the others when price changes happen. Besides, investors may revise incorrectly estimates of stock returns to deal with the price changes so that this affects their investment decision-making (Waweru et al., 2008, p.37). In contrast, behavioral investors prefer selling

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their past winners to postpone the regret related to a loss that they can meet for their stock trading decisions (Waweru et al., 2008, p.30). Besides, past trends of stocks are also explored to impact the decision making behavior of the investors at a certain level by Waweru et al. (2008, p.37). In this concept, investors usually analyze the past trends of stocks by technical analysis methods before deciding an investment.

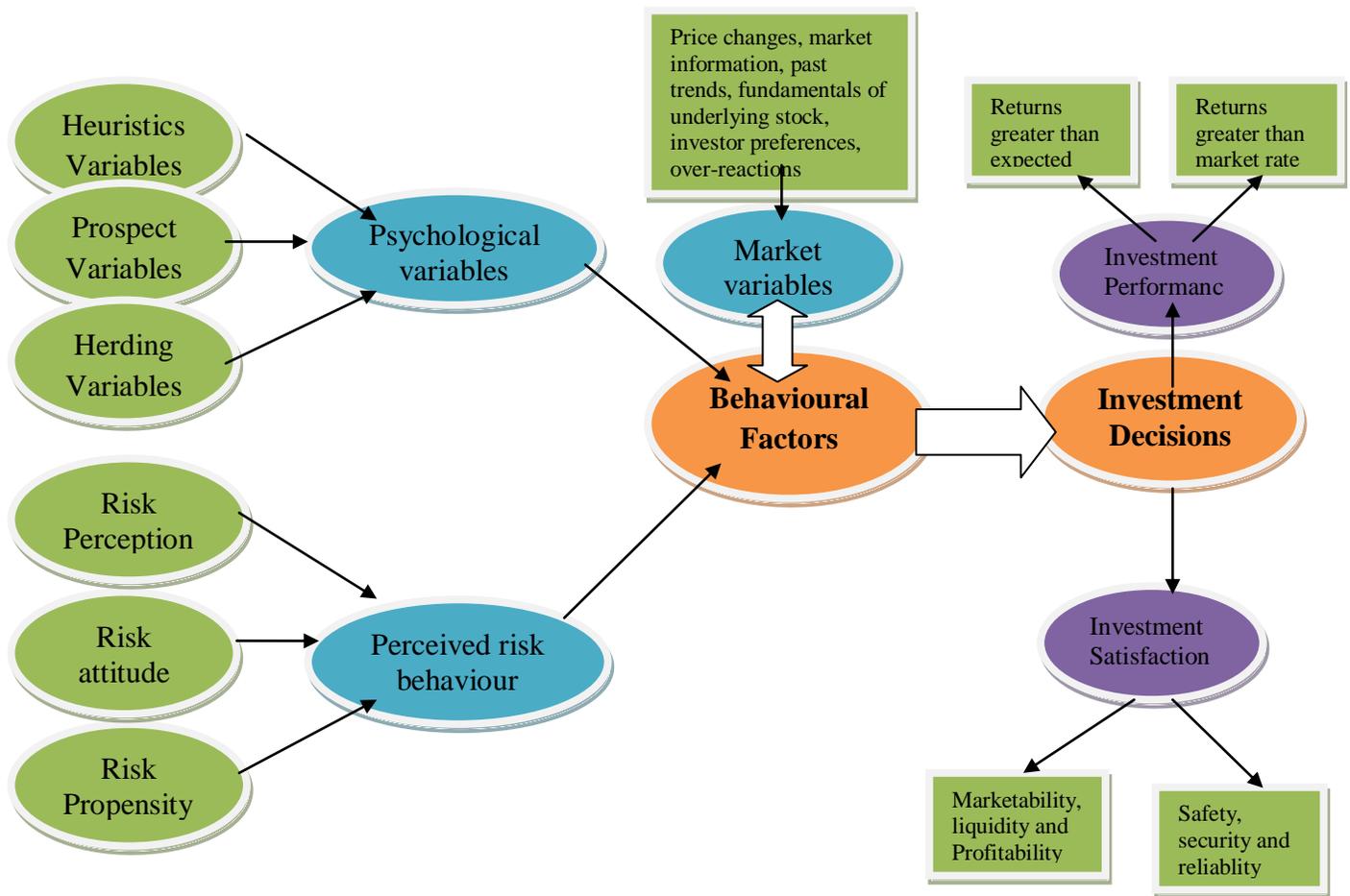
In general, market factors are not included in behavioral factors because they are external factors influencing investors' behaviors. However, the market factors influence the behavioral investors (as mentioned above) and rational investors in different ways, so that it is not adequate if market factors are not listed when considering the behavioral factors impacting the investment decisions. Together with the research of Waweru et al. (2008), this research treats the market factors fairly as behavioral factors influencing the decisions of investors in the stock market. These groups reflect a total picture of almost behavioral factors can impact the investors' decisions at the stock exchanges. Therefore, they can be used in order to recognize the behaviors of individual or even institutional investors in security trading, regardless of the stock market types: frontier, emerging or developed. (Source: Waweru et al., 2008)

### **INVESTMENT PERFORMANCE AND SATISFACTION**

Some opponents of behavioral finance criticize that the bad performance of irrational investors can remove them from the security market. In contrast, some others believe that overconfident investors who have the extreme trading behavior could benefit with elevated results (Anderson, Henker and Owen, 2005, p.72). Kyle and Wang (1997, p.2) define overconfidence as someone's behavior that over-evaluate the preciseness of his own information and consider an overconfident investor as one whose "subjective probability distributions are too tight." In the balanced condition, the overconfident investors trade much higher than their rational opponent, and expect a higher investment profit over the long term. Wang (2001, p.138) recognizes that under-confidence and high overconfidence are not likely to exist in the long term, but moderate overconfidence can endure and dominate the rational behavior. Lin and Swanson (2003, p.208) measure investment performance using three criteria of returns (raw returns, risk-adjusted returns, and momentum-adjusted returns) through five-time horizons (daily, weekly, monthly, quarterly, annually). They recognize that investors achieve excellent performance, which exists in the short run and is partially driven by short-term price momentum rather than by risk-taking. Excellent performance vanishes or is deteriorated for mid-term and long-term periods. This means that superior performance is reached from short-term effects of excessive demand for past winning stocks and/or excessive supply of past losing stocks rather than from any advantage of familiar information. Investors may take benefits from a better comprehension and implementation of momentum strategies (buying past winners and selling past losers). These behaviors can cause past winning stocks to rise and past losing stocks to fall in the short term but not in the long term. The short-run superior performance, controlled mainly by winners momentum more than losers momentum, implies that investors' buying behavior creates new information to the market so that investors have a good chance to get profitably over a daily horizon but not over a weekly or longer horizon. In summary, there are quite many methods to measure the stock

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investment performance. The prior authors mainly use the secondary data of investors' results in the security markets to measure the stock investment performance (Lin and Swanson (2003), Kim and Nofsinger (2003) and so on). However, this research asks the investors to evaluate their own investment performance, so that the measurements of investment performance follow the research of Oberlechner and Osler (2004) for the investment return rate. In more details, the return rate of stock investment is evaluated by objective and subjective viewpoints of individual investors. The subjective assessment of investors is made by asking them to compare their currently real return rates to their expected return rates while the objective evaluation is done by the comparison between the real return rates and the average return rate of the security market. Besides, the satisfaction level of investment decisions is proposed in this research as a criterion to measure the investment performance. In reality, there are investors feeling satisfied with their own investment performance even if their investment profits are not high; in contrast, other investors do not feel satisfied with their investments even when their profits are relative high. Therefore, the satisfaction level of investment decisions together with investment return rate are proposed as measurements for the investment performance in this research



**The proposed conceptual model of the antecedents of Behavioural finance and investment performance and investment satisfaction**

## CONCLUSIONS

Basically there are three behavioral factors that impact the investment decisions of individual investors at the Stock market those are Psychological, Perceived risk behaviour and Market factors Behavioral finance theories, which are based on the psychology, attempt to understand how the psychological variables( heuristic, prospect, and herding) and perceived risk behavior (Risk Perception, Risk attitude and Risk Propensity) influence individual investors' behaviors and in return these variables influence the investment performance and investment satisfaction. The relations between the heuristic, prospect, and herding and risk perception, risk attitude and risk propensity with their respective items effecting the investment behavior is analysed. The stock market in which all these decisions are made by investors have its influence on the investment behaviour of investors, therefore the stock market with its respective items is also incorporated in the study. The outcome of these decisions will give us results in the form of investment performance and investment satisfaction. The investment performance is measured by returns greater than expected and returns greater than market rate. While the investment satisfaction is measured by safety, security, reliability and profitability, marketability and Liquidity.

The study draws an overall picture of the various behavioral factors which influences the investment decisions and performance of investors at the Stock market. The study is based on the approaches of behavioral finance, which is different from prior studies mainly which are based on traditional and classical financial approaches. This research is one of very few studies of factors impacting the stock investment decisions using behavioral finance. The study tries to use a full set of behavioral factors to assess their impacts on individual investors while prior studies only consider the impacts of some limited dimensions of behavioral factors. Beside the individual investors who may benefit directly from the findings of this study, the govt can use these findings as reference for their analysis and prediction of the trends of the security market for economic development and security analysis. Further the companies can use the findings to modify their investment products in accordance to the behavioural feasibility to attract the investors to buy their stock.

## FUTURE RESEARCH

This study is one of the volunteers using the various behavioral factors to identify their influence on stock market with reference to investment satisfaction and investor performance. It is necessary to have further researches to confirm the above designed model of this research with the larger sample size and the more diversity of respondents. It is also suggested to conduct the further researches to improve the measurements of behavioral finance as well as adjust them to fit the case of different security markets and products. The further researches are also suggested to apply behavioral finance to explore the behaviors influencing the decisions of institutional investors at the Stock Exchanges. These researches can help to test the suitability of applying behavioral finance for all kinds of security markets with all components of investors.

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