International Journal of Psychosocial Rehabilitation, Vol. 24, Issue 08, 2020
ISSN: 1475-7192

IMPACT OF MYOPIC LOSS AVERSION ON INDIAN MIDDLE AGED INVESTORS TRADING BEHAVIOUR

[1]Dr. P.A.Mary Auxilia, [2]Dr.G.Y.Vishwanath, [3]Dr.P.K.Jayan

ABSTRACT*--This paper studies the influence of frequent information on stocks and its influence on the myopic behavior of investors. Generally investors are risk averse and loss in short term brings a great impact on the minds of investors which makes them myopic to the long term benefits. Investors continuously receiving information on stock performance exhibit myopic loss aversion (MLA) compared to those who do not receive information on their investments frequently. In this research Indian investors myopic behavior is studied to examine whether myopic loss aversion is present in middle aged group and how continuous information on stocks makes them to evince MLA. We observe that middle aged investors are moderate risk takers and they react to the stock information adversely loosing future benefits. Men invest more than women but percentage of women exhibiting MLA is less compared to men as women don't check stock information frequently like men.*

Keywords*--Myopic risk aversion, Stocks, fear of loss.*

I. INTRODUCTION

Psychological behavior of a person plays a vital role in investing in stock markets which is considered as risky investment. This research focuses on proving that middle aged risk taking investors themselves exhibit myopic loss aversion behavior when information is disclosed to them frequently. Myopic Loss Aversion (MLA), individuals are more willing to take risks when they evaluate the results of their investments less frequently Iturbe-Ormaetxe, I., Ponti, G., & Tomás, J. (2019). Iturbe-Ormaetxe I, Ponti G, Tomás J (2016) in their study proved that the frequency with which information is disclosed mostly affects male betting behavior and they take more risk even after an event of loss. Li, D., Qiu, L., Liu, J., & Xiao, C. (2018) proposed a compensation payment algorithm based on the loss aversion in the crowdsensing by using the influence of the loss aversion psychology on decision-making. Investors who display myopic loss aversion will be more willing to accept risks if they evaluate their investments less often was stated by Richard H. Thaler, Amos Tversky, Daniel Kahneman, Alan Schwartz(1997) proved in their research that the investors who got the most frequent information took the least risk and earned the least money. Langer, T., & Weber, M. (2005) in their study showed that Investors have a positively biased perception of partial and capped loss deduction that promotes their willingness to take risks. Bouchouicha, R., Deer, L., Eid, A.G. et al (2019) showed that there is no effect between gender and myopic loss aversion, i.e., women being more loss averse than men, or women being less loss averse than men. This research also focuses on

[1] *Assistant Professor, Department of Management studiesSathyabama Institute of Science and Technology, Chennai.*

[2] *Associate Professor, Department of Management studiesBapuji Institute of Engineering and Technology, Devangere.*

[3] *Associate Professor, Department of Management studiesGSSS Institute of Engineering and Technology for women, Mysore.*

Received: 21 Dec 2019 | Revised: 18 Jan 2020 | Accepted: 05 Feb 2020

the relation between gender and Myopic loss aversion investors achieving less profits or loss due to panic caused by frequent checking on the stock information.

II. RESEARCH METHODOLOGY

Descriptive research design has been adopted with a population comprising of middle aged investors both male and female trading National stock exchange India. A sample of 250 was chosen using stratified random sampling. Data was collected using a structured questionnaire and analyzed.

III. DATA ANALYSIS

Table 1: Descriptive analysis:

Particulars	Percentage
Gender	
Male	50
Female	50
Education	
Diploma	17
Graduation	79
Others	4
Age	
40-45	25
46-50	53
51-55	17
56-60	5
Years of trading Experience	
0-5	26
6-10	32
11-15	24
16-20	18
Investment in shares long term or short term	
Long term	63
Short term	37
Frequency of checking portfolio balance	
Very frequently	33
Frequently	44
Rarely	11
Never	12
Higher the risk higher is the profit	
Strongly agree	18

Agree	36
Disagree	30
Strongly disagree	16
Reaction to stock market messages received through email, messages and whatsapp from brokers?	
Strongly react	37
Moderately React	14
Slightly react	31
Never react	18
Do you panic when you receive messages on stock prices decline?	
Very much	48
Somewhat	29
Not much	14
Not at all	09
Sell the share holding when prices decline	
Yes	66
No	34
Negative information on stocks makes a person to sell the existing portfolio or close the position.	
Strongly agree	36
Agree	33
Disagree	18
Strongly disagree	13
Psychological factors leading to irrational decision	
Fear of missing the profits	31 (2)
Negative experience	15 (4)
Panic driven decision	34 (1)
Fear of losing everything	20 (3)

Source: Primary data

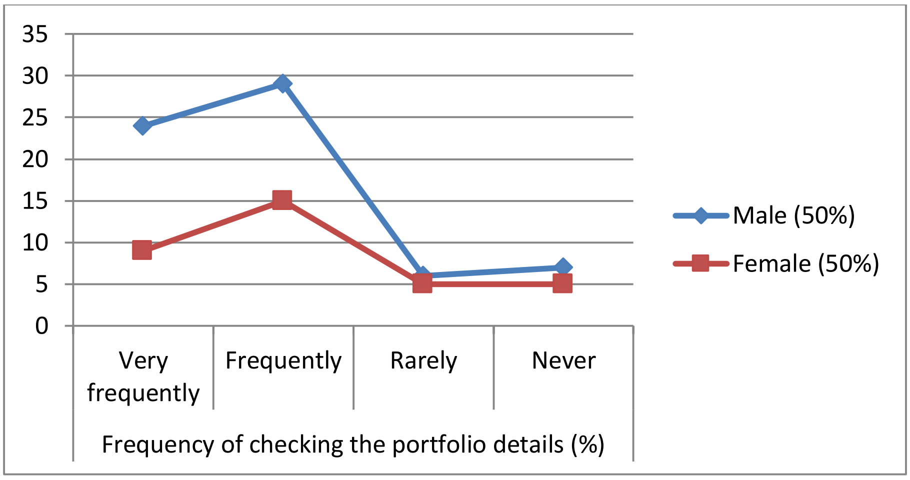
Inference: 79% of the respondents were graduates, 53% were in the risk taking age group of 46-50 years, 63% of investors were considering stock investments as long term, only 12% did not check the portfolio balance frequently, 54 % of the investors agreed that higher returns can be achieved only through taking high risk, 37% strongly react to stock information received and majority of the investors have responded that when stock prices decline the panic and anxiety is more leading to sell the existing share holdings without thinking about long term returns. Majority of investors have ranked panic driven decision as the major factor behind irrational decision making followed by fear of missing the profits and the least rank has been given to the negative experience already faced by the investor in the market.

Table 2: Relationship between gender and panic to information on decline in stock prices.

Gender	Panic to information on decline in stock prices (%)			
	Very much	Somewhat	Not much	Not at all
Male (50%)	33	18	8	7
Female (50%)	15	11	6	2
Total %	48	29	14	9

Source: Primary data

Fig: Relationship between gender and panic to information on decline in stock prices



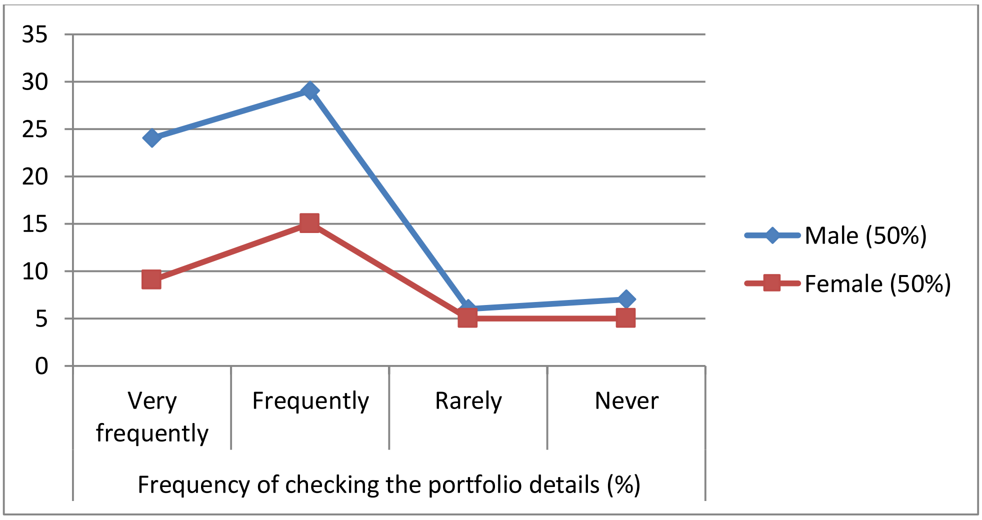
Inference: The results show that 33% of male investors exhibit more panicking behavior to information on decline to stock prices and only 15% of female react very much to the information.

Table 3: Relationship between gender and frequency of checking the portfolio details.

Gender	Frequency of checking the portfolio details (%)			
	Very frequently	Frequently	Rarely	Never
Male (50%)	24	29	6	7
Female (50%)	9	15	5	5
Total %	33	44	11	12

Source: Primary data

Fig: Relationship between gender and panic to information on decline in stock prices



Inference: The results show that 24% and 29% of male investors check portfolio details very frequently and frequently respectively compared to women investors.

Table 4: Anova – Relationship between Age and risk

Ho – There is no significant relation between age and risk

H1 – There is a significant relation between age and risk

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	17.093	3	5.698	42.090	.000
Within Groups	16.379	246	0.135		
Total	33.472	249			

Source: Primary data

Inference: Since the significance value is less than 0.05 alternate hypothesis is accepted proving that there is a relation between age and risk.

Table 5: Relationship between reaction to stock market information and stock selling when prices decline.

Ho – There is no significant relation between reaction to stock market information and stock selling when prices decline.

H1 – There is a significant relation between reaction to stock market information and stock selling when prices decline.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	115.731[a]	16	.000
Likelihood Ratio	155.609	16	.000
Linear-by-Linear Association	1.788	1	.181

Source: Primary Data

Inference: Since the significance value is less than 0.05 alternate hypothesis is accepted proving that there is relation between reaction to stock market information and stock selling when prices decline.

IV. DISCUSSION AND CONCLUSION

The research among middle aged investors in National stock exchange clearly proves that although they are risk takers, due to panic and anxiety they exhibit myopic loss aversion behavior. Panic drives the investors to take irrational decisions when holding stocks. Even slight negative information of stock markets and stocks forces them to react strongly by losing the benefits of future returns. Women investors do not frequently check on the media or stock related messages so they stay calm and poised during times of market correction, short term market crash or short term decline in stock prices. The research also proves that even when investors invest in stocks with an intention of holding the portfolio for a long period of time to maximize the returns yet they sell the holdings or close the position due to panic and fear of losing the profits or losing everything. Psychological behavior of a person in investments makes it very challenging for the markets to be predicted. So, it is advised that the investors do not continuously check on to market information to avoid myopic loss aversion and hold the stocks for a longer period of time for better benefits.

REFERENCE

1. Blavatskyy, P. R. (2011). Loss aversion. Economic theory, 46(1), 127-148.
2. Bouchouicha, R., Deer, L., Eid, A.G. et al. (2019). Gender effects for loss aversion: Yes, no, maybe? J, Risk Uncertain 59, 171–184
3. Iturbe-Ormaetxe, I., Ponti, G., & Tomás, J. (2019). Is it myopia or loss aversion? A study on investment game experiments. Economics Letters, 180, 36-40.
4. Iturbe-Ormaetxe I, Ponti G, Tomás J (2016) Myopic Loss Aversion under Ambiguity and Gender Effects. PLoS ONE 11(12).
5. Langer, T., & Weber, M. (2005). Myopic prospect theory vs. myopic loss aversion: how general is the phenomenon?. Journal of Economic Behavior & Organization, 56(1), 25-38.
6. Mohanavel, V., S.Suresh Kumar, K.Mariyappan, P.Ganeshan, T.Adithiyaa, Mechanical behavior of Al-matrix nanocomposites produced by stir casting technique, Materials Today Proceedings, 5 (2018) 26873-26877.
7. Mohanavel,V K.Rajan, S.Arul, P.V.Senthil, Production, Microstructure and Mechanical behavior of AA6351/TiB_2 composite synthesized by direct melt reaction method, Materials Today Proceedings, 4 (2017) 3315-3324.
8. Li, D., Qiu, L., Liu, J., & Xiao, C. (2018). Analysis of behavioral economics in crowdsensing: A loss aversion cooperation model. Scientific Programming, Special issue
9. Richard H. Thaler, Amos Tversky, Daniel Kahneman, Alan Schwartz, The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test, *The Quarterly Journal of Economics*, Volume 112, Issue 2, May 1997, Pages 647–661