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# The practicality of being an Independent Investment Counsellor for the unsophisticated casual investor

**Chandan Dutta**
Don Bosco Institute of Management,
Kharghuli, Guwahati, Assam - 781004
Email: chandan.dutta@dbim.ac.in

## Introduction

An individual with a post-graduate degree in Finance usually chooses one of two career options. He can either pursue a Ph.D. In Finance or a related subject and start a career in academics or an individual can join an organization in the financial services sector. However, with increasing competition in the job market, both these career options cited above can pose a lot of challenges to the graduates. A more assured career prospect can be that of an investment counsellor to the unsophisticated investor who may not have access to expensive trading houses or brokerage companies.

To become an independent investment counsellor, a student has to have a good grasp of behavioural finance. Every person is genetically unique, however, when it comes to behavioural development or evolution, it is easy to observe that individuals get influenced by numerous factors and considerations. Over time, such influences result in the creation of behavioural biases. The same can be observed in the field of financial management and investment decision-making. Baker & Ricciardi (2014), concluded that investors often do not behave with logic and reason. Rather, investors display many behaviour biases that impact their decision-making processes. Investment decisions need to be unbiased and based on available data and logical techniques.

Any individual, however biased, will agree that an investor is always interested in buying assets at a low price and selling these at a higher price. Only then can he or she remain profitable. Thus, it is natural for an investor to be concerned about the prices and price movements of the assets he or she is interested in. One approach to studying price movements and arriving at investment decisions is known as “Technical Analysis”. In the domain of “Technical Analysis”, there is a term called “odd lotters”. “Odd lotters” are small investors who are believed to do the wrong things, like selling when they should not sell, at critical turns in the market as they are assumed to lack the necessary understanding and sophistication.

A study on the behavioural biases of small investors may provide valuable insights for fund managers and marketing professionals involved in the design and marketing of investment products for people at large and increase participation of the common man in the seemingly complex world of financial investments.

**The Importance of Behavioural Finance**

Globalization, digitalization, and accessibility to global markets have seen an increase in individual participation in stock markets and financial investments. Not every individual who participates in the financial markets can be expected to be an informed investor or someone who uses financial tools and behaves rationally. Thus, in the recent past, a lot of research is being carried out to study the impact of behavioural biases and financial literacy on investment decisions. Such research work is also gaining a lot of popularity.

There are well-researched and documented behavioural biases that impact investment decisions. Baker & Ricciardi (2014) had identified eight common behavioural biases that impact all kinds of investors. These are as follows

1. Representativeness
2. Regret or loss aversions
3. Disposition related effects
4. Familiarity biases
5. Worry
6. Anchoring
7. Self-attribution biases
8. Trend-chasing biases

Charles & Kasilingam (2016) studied an extensive list of behavioural biases. They also studied how the identified biases impacted the investment decisions of equity investors. In the study, the authors had categorized the biases under heads like emotional factors (optimism, hope, etc.), heuristic factors (representativeness, anchoring, etc.), frame dependence factors (loss aversion, regret, etc.), and the like. Anum & Ameer (2017) carried out their study to find out the impact of behavioural factors on investors' decision-making and investment performance of individuals in the Pakistan Stock Exchange. Their study showed that individual investors in the Pakistani stock market mostly commit behavioural errors like loss aversion, regret aversion, and mental accounting biases while making their investment decisions.

Similarly, there have also been several studies focussing on the impact of financial literacy on investment decisions. Bhopte et al. (2018), Hamza & Arif (2019), and several other authors have concluded that financial literacy has a significant and positive impact on investment-related decisions.

An investigation of the impact that behavioural biases and financial literacy have on investment decisions naturally begs the question of how an interplay of financial literacy and behavioural biases can influence decision making. A literature review in this regard shows that investment decisions are ultimately driven by biases. Financial knowledge or investment know-how does not necessarily result in rational behaviour. West (2012) concluded that financial literacy itself has little effect on actual financial behaviour. Chauhan & Indapurkar (2020) found a poor positive correlation while studying if financial behaviour is intrinsically motivated by financial knowledge.

Given this preliminary literature review, it is easy to understand the significance of investment portfolios designed to minimize the impact of behavioural biases. Hence, a study that can consolidate the facts published thus far and narrow down the behavioural biases to a few comprehensible ones for the common investor should be of immense value if one intends to make a career as an independent investment counsellor. Such investment counsellors can empower the common man to make wiser investment decisions.

**Challenges in becoming an independent investment counsellor**

The author attempted an initial investigation into a career as an independent investment counsellor. The primary research method adopted was the review of the literature. An attempt was made at ranking behavioural biases which impact investment decisions by interviewing small investors. Once the selected behavioural biases were ranked; there would have been an attempt at identifying financial products and investment approaches that will minimize the impact of behavioural biases. Unfortunately, the interview responses were inconsistent and failed reliability tests.

Had the above attempt been successful, there was the real possibility to create a framework to empower the unsophisticated investors to identify their biases and select investment opportunities accordingly so that they can maximize their profit quotient.

**Discussions and the Conclusion**

Behavioural biases and financial literacy play an important role in investment decisions taken by individual investors. Research has also shown that biases hold sway over intellect when it comes to financial investments or financial decision-making. However, there is a gap in research establishing the extent to which small investors use scientific tools in identifying better investment options and being aware of behavioural biases and the impact of these biases on their decision-making.

There can be future research that will try to identify investment avenues to minimize the impact of behavioural biases for the small unsophisticated investor. That way the gap identified above can be plugged to a certain extent. Such a study can also benefit brokers and fund managers in designing financial products to minimize the impact of behavioural biases. These financial products can then be recommended to the unsophisticated investor in the same way that doctors hand out prescriptions to patients.

However, the main issue is the trust factor. Hence, the practicality of being a successful independent investment counsellor is practically nil. The best an individual can do is get along with a few like-minded individuals and put their assets at risk via investments. The knowledge of behavioural finance and technical and fundamental analysis of investment opportunities will prove handy in making wise investment decisions. So, this group of individuals can gradually think about creating a sustainable business. This business can expect to garner the trust of unsophisticated investors.

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