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Behavioral Investment Decision among Working Women –An Exploration of Literature

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Abstract: *Finance as a subject mainly deals with investment decisions among the prospective investors in the economy as a whole. Men and women both take investment decisions. Modern or traditional finance mainly guides this investment decision-making. Behavioral finance considers investors who are not rational and acts based on imperfect information. There is a probability that the marginal investors will reveal a cognitive bias. In the long term, there may be difficulty in beating the market. Behavioral finance researches how people make investment decisions and are affected by internal factors and biases. Linter (1998) found that various internal factors affect investment decisions which were included in the study of behavioral finance. Savings and Investments come from the disposable income of the individuals. Awareness of Investment and saving patterns are influenced by many external factors in line with risk and return. The attitude toward investing differs among men and women according to their risk and return relationship. According to studies it was found that working women are risk averse than men and they usually invest in risk-free or less risky assets. Men look for profitability and as a result, take a risk to attain that level of expected return. Working women search for a risk-free return. Men generally trade more than working women do. The motives behind women continuing in the job market are out of gross economic necessity (50%), raising economic status (23%), utilization of education (11%), independent income (9%), and the rest for other miscellaneous motives. Women generally earn less than men which has an effect on creating lower wealth and which prompts fewer savings and investments. Investment plays a crucial role in the economic growth and development of a nation. As a result of which the investment decision-making process becomes very important and should involve both the advisors and the investors to get a joint decision. Financial advising is a traditional activity whose main objective should be to guide women investors to make suitable decisions that serve their interests better. Premonition sometimes plays a vital role in investment decision-making. To maximize working women investors' overall well-being, objective factors (such as investment horizon, and liquidity needs) as compared to emotional factors (such as aversion to risk, irrational fear of certain asset classes, propensity for regret) should get the greater allowance. The main aim of this paper is to understand how working women across countries takes financial decisions in respect of savings and investments. To do this, several research papers are being studied from different research journals related to how working women take investment decisions out of available investment avenues.*

Keywords: *Behavioral finance, Investment decision, Working Women, Saving, Investment Awareness.*

I. Introduction

Saving and investment are the key elements for the economic development of any country. Individual investment either for men or working women plays a vital role in this aspect. Investment decisions can play a far-reaching effect on economic growth and development. In this paper, the behavior of working women compared to men counterparts has been studied citing some research journals across the nation. This review of literature helps the researcher to have a clear idea about the psychology of investment behavior by working women. Behavioral finance is a relatively new area of study in finance, which introduces behavioral aspects to the decision-making process. Tversky and Kahneman (1974) cited in Shanmugsundaram and Balakrishnan (2011) identified that the decision-making process is not strictly rational, where all relevant information is collected and objectively evaluated, rather, the decision maker makes mental 'short cuts' in the process. In 1985 Werner F.M. De Bondt and Richard Thaler published 'Does the Stock Market overreact?' The Journal of Finance marked the beginning of behavioral finance. Belsky and Gilovich (1999) refer to behavioral finance as behavioral economics and defines Behavioral economics as a combination of the twin discipline of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend and invest, save, and borrow money. Shefrin (2000) defines Behavioral finance as "a rapidly growing area that

deals with the influence of psychology on the behavior of financial practitioners". Kirkpatrick (2007) refers that technical analysts consider behavioral finance as behavioral economics "academic cousin" and theoretical basis for technical analysis. The works of Gabriel Tarde (1902), George Katona (2011), and Laszio Garai were done in the 20th century in which economic psychology evolved. Sharma and Gupta (2011) identified factors affecting investment decisions in India to include risk, return, peer influence, recommendation of financial advisors, and market trends.

II. Significance Of Behavioral Finance Theory On Individual Decision Making

Behavioral finance should start with the study of market anomalies, according to the proponents of positive theory such as Kuhn (1970) i.e., empirical facts for which there is wide agreement that the standard paradigm lacks explanatory power. To reach a better aspect of the individual decision-making process we have to intensify the currently accepted finance theory with a modern finance theory that is yet to be explored on that scale. Behavioral finance takes into consideration behavioral concepts and the respective contributors allude to the individual psychological elements which explain the said concept. The concepts include:

1. Loss aversion and Prospect theory: Markowitz (1952), Kahneman & Tversky (1974,1979)

2. Framing and Mental Accounting: Tversky & Kahneman (1981) and Thaler (1985)

3. Regret Avoidance, Responsibility Shifting and Agent's Prudence: Kahneman & Tversky (1982) and Shefrin & Statman (1993)

4. Cognitive errors and Non-Bayesian Learning and Forecasting: Tversky & Kahneman (1971,1982)

5. Overconfidence and Biased Expectations: Lichtenstein, Fishchhoff, and Phillips(1977)

6. Over/ Under optimism and Naïve Expectations: De Long et al. (1990), Lee et al. (1991), Lakonishok et al. (1994), Bauman & Dowen (1988), and La Porta (1995)

7. Fashions, Fads and Popular Models: Aronson (1991) and Shiller et al. (1990)

III. Literature Review

The judgments of making investments have been studied by several researchers and economists and they came out with varied results. Some of the relevant studies have been cited below.

Kahneman and Tversky (1979), prospect theory contributed a lot to the domain of behavioral finance to attain growth and development. It was found that during uncertain conditions, investors' attitudes deviate from the results proposed by the economic theory.

Hudgens and Fatkins (1985) used a computer-simulated task to investigate gender differences in risk-taking and concluded that men are more inclined to take risks than women.

Levin et al. (1988) in the study shows that women are more cautious in their decisions and less likely to take gambles compared to men.

Bajtelsmit and Van Derhei (1996) finds that in making financial decision psychological difference plays a very important role among genders. Females are more conservative than males and males are keen on making risky investment decisions. The amount of trading done is more for men than for female traders.

Vickie L. Bajtelsmit and Alexandra Bernasek (1996) explain how researchers in many diverse fields have attempted to provide explanations for observed gender differences.

The tendency for women to invest in less risky asset classes than men is attributable to the difference in wealth, measured by net worth and expectation of an inheritance (Embry and Fox, 1997)

In their study, "Gender differences in risk behavior in financial decision making: An experimental analysis" Powell and Ansic (1997) found that men and women are motivated by different needs as they have different investment strategies Women are looking for security, and men are looking for returns.

A meta-analysis conducted by Byrnes, Miller, and Schafer (1999) indicated that men tend to exhibit greater risk tolerance than women over a variety of contexts. In the US women spend 40% more time in research when investing in mutual funds found in a poll conducted in the late 1990s. Women are less confident in their investment decisions compared to men counterparts. Only 56% of women feel confident about their ability to invest compared to 64% of men. Generally, men think about higher returns whereas women want to balance risk and return while planning for investment.

A study was conducted by Warren et al., (1990) and Rajarajan (2000) which helps to determine individual investment selection (e.g. stocks, bonds, real estate) stranded on lifestyle and demographic attributes.

Correspondingly, Fisher and Statman (2000) identified the overconfidence bias of investors who overestimate their capabilities of judgment.

Hira and Mugenda (2000) state that an advisor needs to understand the factors that underlie a client‟s financial behaviors before they can effectively advise them, and numerous studies have shown that men and women think and behave differently when it comes to managing money

Barber and Odean (2001) analyze that men are more competent in financial matters. Men are more overconfident about their ability to make financial decisions than their women counterparts.

Singh (2002) highlighted that at-home decision-making regarding purchases and investments is taken jointly by both husband and wife.

Quantitative research carried out in the US identifies a similar range of factors including income, wealth, age, marital status, gender, and level of education Finke and Huston, 2003.

Julie R. Agnew and Either (2003) suggest proof that women are more risk averse than men and so they invest in less risky assets while taking investment decisions. The difference in investment decisions can be explained by the difference in financial literacy between men and women.

Benzion & Yagil (2003) suggests that women are more conservative than men since they have a lower salary. Whereas, Atkinson et al.(2003) state that "even if a woman is a fund manager, she is still a risk-averse investor."

Merikas, Andreas, George, and Prasad (2004) found that the most important variables were related to classical wealth maximization criteria. Five important factors relating to investment decisions are Accounting Information, Personal financial needs, Subjective/Personal, Advocate Recommendation, and Neutral Information.

Moreover, Kleinübing Godoi et al. (2005) emphasized that cognitive biases derive from flawed reasoning that originates due to limited time, knowledge, and lack of attention.

Desigan et al (2006) conducted a study on the attitude of women investors towards investment and found that basically, they hesitate to invest in mutual funds because of lack of knowledge, market fluctuations, risks associated with the investment, and related problems.

In a study carried out in Australia, women are more conservative in deciding on investment plans for their superannuation schemes than men (Watson & McNaughton, 2007).

Clark and Strauss (2008) observed that women investors are risk averse than men, the young are more risk-seeking than their old counterparts, wealthier individuals manifest a greater willingness to invest in equities, and the poor in risk-averse securities.

Beckmann and Menkhoff (2008) reported that women tend to be more risk averse, less confident, and behave less competitively oriented.

Kaur and Punia (2008), conducted a study about working women in the Hissar District of Haryana, and the result showed that most of the working women apt for the job out of the gross economic necessity (50%), raise economic status (23%), make use of education (11%), to have independent income (9%) and the rest for other miscellaneous motives.

Martenson (2008) found that women face the problem of their financial situation at the time of retirement because of a lack of awareness.

Ajmi Jy.A. (2008), collected responses from 1500 respondents and found that men are less risk averse than women, less educated investors are less likely to take risks, the age factor is also important in risk tolerance, and also investors are more risk tolerant than the less wealthy investors.

In another research paper, Kabra, G., Mishra, P.K, and Dash M.K. (2010) studied the factors affecting investment behavior among different prospective investors and found that age and gender are the main factors that decide the risk-taking capacity of investors.

Tversky and Kahneman, (1974), cited in Shanmugsundaram and Balakrishnan (2011) identified that the decision-making process used in investment selection is not strictly rational, where relevant information is collected and objectively evaluated, rather the decision maker makes mental 'short cuts' in the process.

Sharma and Gupta (2011) identified factors affecting investment decisions in India to include risk, return, peer influence, recommendation of financial advisors, and market trends.

According to Gaur Arti (2011), female investors are less confident in their investment decisions and have lower satisfaction levels and they are more cautious compared to men investors regarding prospective investment in equity shares if the availability of funds is low.

Meenakshi Chaturvedi and Shruti Khare (2012) found that there is a growth in middle-class families due to double income and an increase in the number of working women. So there arises a need to educate and provide necessary information to the growing women investors to invest in different available investment avenues through financial literacy campaigns and advertisements.

To determine the investment attitude of an individual, it is essential to understand that this behavior is determined through their financial knowledge and mathematics expertise. Thus, Khresna Brahmana et al. (2012) recommended a modern finance theory that shows market efficiency is determined not only through the gen-adjusted acceleration but through the existing information in the market. This suggests that asset prices include all information and estimations of the true value over time. Hence, this incorporation establishes the assumption of rational behavior

Dr. Sarita Bahl (2012) concluded that women working in the private sector have more faith in investment. They usually start investing whenever they start earning and become self-independent. They invest their money in insurance plans for less risk and a safe future. This paper also shows how aware women are about the investment benefits and whether they invest their money or not, and if invested how much money is invested by them.

Sellappan et al. (2013) surveyed women, and investors, to study the impact of age and marital status on investment in financial instruments and found that younger women are likely to invest in shares, mutual funds, insurance, and fixed deposits compared to older women. Married women are more interested in investing in the unmarried.

Dr. R. Sellappan, Ms. S. Jamuna & Ms. Tnr. Kavitha (2013) found out married women invest more than unmarried women.

Puneet Bhushan & Yajulu Medury (2013) states that women are more conservative and take less risk. Gender difference occurs in investment preference in the case of health insurance, fixed deposits, and market investments among employees.

V.R.Palanivelu & K. Chandrakumar (2013) found factors that make a significant impact on the investment decisions among investors such as education level, age of investors, awareness of the current financial system, etc.

Sharma & Vasakarla (2013) investigated the possible gender effects on risk aversion and overconfidence in investment decision-making. Gender influence has increased the concern of financial advisors and companies which has created opportunities for these organizations to evaluate their approaches toward individual investors. It was found that females are more risk-averse when compared to males. Females are more traditional than their male counterparts in terms of risk aversion. The study concluded that gender has a major effect on the

investment decision where it supports risk aversion differences due to the gender of the individual and male does not prefer to invest in a risk-free investment.

Hoang Thanh Hue Ton et all (2014) in their study aims to find out whether there is a disparity among the classified group of investors or not, and they showed that males have more willingness to take risks in making investment decisions than females, the elderly or retired persons are also not willing to take risks, the investors with five years or more investment experience take higher risks than the others, the single investors show a tendency to take a higher risk than married investors.

Priya Vasagadekar (2014) concludes that a high level of education is helping women in getting the best jobs with high take-home salaries which inspire them to increase their wealth. Risk bearing capacity of working women is very low in India.

Considerably, parents also influence investment behavior. An optimistic and positive approach to their adults and surroundings will favorably help in gaining worthy financial knowledge (Grohmann et al. 2015).

Hayat (2016) discussed the importance of financial knowledge asserting no difference in gender regarding attitude.

Jamil and Khan (2016), surveyed and understood the heterogeneity of investment decisions when it comes to gender behavior with an emphasis on women. The objective of this research was to find the role of gender behavior in investment decisions and to find out the points of difference between the two genders with admiration to their susceptibility towards various behavioral biases in their pursuit of potential financial gains. Saving is a habit likely and personified by women. In recent times where a female is more educated, more employed, and more informed they have started to take their own financial decisions. The study pointed out that investors are inclined to emotions and react in accord with their behavioral indication, sometimes overdoing it leading to an impaired investment decision.

Nigam et al. (2018); Kumar et al. (2018); Baker et al. (2018); Chavali and Mohan Raj (2016) identified many other factors affecting the investor's financial decision process. According to them, humans fail to make rational decisions every time because they often make biased decisions depending on their attributes, gender, fund utilization, and other financial activities. They argue that individuals while making financial decisions, are heavily affected by recurring market sentiments and their emotions and attitudes. The current literature illustrates social influences, personal influences, behavioral influencing biases, and the level of financial knowledge, investment experiences, optimistic behavior, and ability to resist uncertainty while making decisions to invest in any asset or engage in financial activity while maintaining their entrepreneurial portfolio.

Kappal and Rastogi (2020) also asserted that individual investment behavior is impacted by personality, gender difference, socio-economic environment, attitudes, myths, and other demographic news. The prevailing literature separately identifies female entrepreneurs' behavioral and psychological traits that impact investment philosophies in the context of Pakistan. This will ultimately benefit the financial service industry to offer adequate investment opportunities.

The literature also focuses on financial knowledge or learning that is widely regarded as a life skill leading to economic growth and good fortune. Kappal and Rastogi (2020) highlighted that financial awareness or literacy embraces knowledge, expertise, attitude, and personal traits that are essential to make smooth financial decisions and achieve financial goals. Furthermore, the average financial literacy counts throughout G20 countries are 12.7 out of a maximum of 21 which Pakistan lacks therefore, the point of concern is that financial knowledge should be well equipped in businesses because these skills aid individuals, in choosing those financial products that will secure their future.

IV. CONCLUSION

The literature review on working women's investment decisions suggests that they have difficulty in saving and investment plans in the short run and their retirement plans. They usually lack in their financial literacy and the services provided by their financial advisors. These can be minimized by giving adequate financial literacy to the working women, increasing financial advice from trusted sources, e.g. relatives, friends, husbands, financial advisors, etc., and offering personalized services based on their change in stages of career and family status. This will help them to invest in more profitable proposals taking an optimum risk with less dependency on decisions taken by their family members. The study also confirms that males have more willingness to take risks in making investment decisions than females, the elderly or retired persons are also not

willing to take risks, the investors with five years or more investment experience take higher risks than the others, the single investors show a tendency to take a higher risk than married investors. Humans fail to make rational decisions every time because they often make biased decisions depending on their attributes, gender, fund utilization, and other financial activities. The researchers argue that individuals while making financial decisions, are heavily affected by recurring market sentiments and their emotions and attitudes. The current literature illustrates social influences, personal influences, behavioral influencing biases, and the level of financial knowledge, investment experiences, optimistic behavior, and ability to resist uncertainty while making decisions to invest in any asset or engage in financial activity while maintaining their entrepreneurial portfolio. Investment behavior is also impacted by personality, gender difference, socioeconomic environment, attitudes, myths, and other demographic news. The prevailing literature separately identifies female entrepreneurs' behavioral and psychological traits that impact investment philosophies in the context of Pakistan. Saving is a habit likely and personified by women. In recent times where a female is more educated, more employed, and more informed they have started to take their own financial decisions. The study pointed out that investors are inclined to emotions and react in accord with their behavioral indication, sometimes overdoing it leading to an impaired investment decision. It was found that females are more risk-averse when compared to males. Females are more traditional than their male counterparts in terms of risk aversion. Gender has a major effect on the investment decision where it supports risk aversion differences due to the gender of the individual and male does not prefer to invest in a risk-free investment. It is also evident that the factors affecting investment behavior among different prospective investors are age and gender which decide the risk-taking capacity of investors. Females are more traditional than their male counterparts in terms of risk aversion. Parents also influence investment behavior. An optimistic and positive approach to their adults and surroundings will favorably help in gaining worthy financial knowledge.

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