BEHAVIORAL FACTORS THAT INFLUENCE INVESTMENT DECISIONS AMONG ONLINE TRADING INVESTORS IN TRADING PLATFORMS

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Abstract

Online trading refers to the process by which traders and investors buy and sell financial securities using online trading platforms. This study was conducted to determine the behavioral factors influencing investment decisions among online trading investors in trading platforms. The study's respondents were one hundred fifty online traders with experience in trading. The researchers used various data collection methods for online traders to participate, and a descriptive method was utilized in this study. The gathered data were tallied and statistically evaluated using Mean and Spearman’s rho to answer the statement of the problem. The study revealed that on the level of behavioral factors, the market has the highest mean among all the indicators. This implied that online traders believed that market information was important in making investment decisions. It was also revealed in the results that there was a significant association between behavioral factors and investment decisions. Furthermore, the researchers recommend that online trading investors should improve their investment decisions by being cautious and considering risks as possible threats to investments. Hence, the results indicate high behavioral factors influencing investment decisions in online trading investors in trading platforms.

Keywords: Behavioral factors, investment decisions, investment performance, online trading investors, online trading platforms

Introduction

In today's financial environment, most individuals find the idea of investing in online trading platforms to be fascinating. The most significant decision a person may make throughout their life is choosing to make wise financial decisions (Brooks, 2018). Traders and investors use trading and investing methods to allocate capital and generate profits in the financial markets. Individual investors were also attracted to the trading market by its work on rules and low transaction costs. A consumer's intent to invest is thus added to by Bashir, Anwar, Awan, Qureshi, & and Memon (2018), which is impacted by the extent to which they engage in the online platform. It was noted by Folger (2019) that financial assets are traded for profit on the stock market by traders, investors, and regular people. Anyone accessing this platform must establish a plan to achieve positive returns, depending on their thinking or individual technique.

Financial markets in the trading platform typically reflect the state of the global economy. Individuals who invest in international institutions are traders (CySEC, 2021). Also, (Sandra, 2021) states that the advantages of online trading include increased data openness, lower operating expenses, and faster trade speeds. Securities like stocks, money markets, commodities markets, and derivatives are all traded. Trading merely refers to buying, selling, and negotiating assets. Shares are traded on the stock exchange, while goods and stocks are bought and sold.

Also, with expertise and knowledge, institutional investors appeared to have sound and rational investment judgments. Zaleskiewicz and Traczyk (2020) state that people who engage in online trading make decisions about their investments according to their perceptions of moods, thoughts, and opinions, all of which impact those decisions. Due to industry competitors in the market, trading can be profitable, and it is not a scheme to make quick money. Rates will vary in value, giving both the chance for success and the threat of failure. To remain effective, investors and traders must concentrate on techniques that can be implemented immediately.

This study discusses numerous concepts, facts, and ideas in relevant work and resources. It examines relevant literature and the research of many writers, which might give readers the background knowledge they need to finish the study. Heuristics, such as Prospect, Market, and Herding, are three behavioral characteristics that affect investors' decision-making. Investors' actions about a good, service, or company and their choices regarding what individuals invest and sell in the market are influenced by their social behaviors (Waweru, Munyoki, and Uliana, 2019).

Harry Markowitz's theory is broadly acknowledged. By the theory, investors can establish a portfolio of investments and decide which portfolios appeal to them the most based on risk and projected return (Rabin, Eyster, and Vayanos 2019). Heuristics play two roles in problem-solving and decision-making regarding behavioral aspects, as was emphasized through their research. Some investors demand a speedy resolution when trying to resolve a difficulty or come to a resolution. Moreover, mistakes and distorted judgments will likely occur when heuristics are utilized to accelerate the issue and decision-making process.

Making decisions is simpler by heuristics, particularly in complicated and unpredictable contexts. Additionally, it was simplified in evaluating probabilities and predicting values. Whenever time is tight, these heuristics might be constructive. However, because they typically employ mental heuristics and shortcuts while making financial decisions, they might also result in errors (Waweru et al., 2019).

Prospect's research on behavioral characteristics strongly affects investment choices, like the research in Sri Lanka. In prospect theory, the term prospecting explains how individuals assess their losses and benefits. Most owners may discover they regret their choices, which could lead to a loss because prospecting is like the lifeblood of a company's financial advisory (Naqvi, 2020).

In behavioral finance, the prospect is used to characterize situations in which individuals make failures but never recover entirely from them. Traders regret their decisions when they are quick to sell a high-priced stock but hesitant to sell a low-priced stock. Additionally, investors have become delighted to see successful companies rather than losing ones.

Therefore, Waweru et al. (2019) assume that market information significantly impacts investor decision-making. It might also result in a profitable investment's return in the long run. When price changes are more significant, investors prefer to purchase rather than trade companies, and in certain respects, investors select stocks based on their interests. Individuals' personal choices influence the stocks they choose since they prioritize performance.

Furthermore, traders and researchers cautiously rely on the prevalence of herding regarding stock price movements. Individuals felt that developing subjective periodic assessments on a percentage basis could help with professional performance reviews in addition to potentially causing emotional biases, cognitive conflict, and compliance.

Andrikopoulos, Gebka, and Kallinterakis (2021) noted that they depend more on their data, and investors can be more confident in investment decisions. Additionally, Waweru et al. (2019) proved that the action of others highly influences an investor's decisions.

This study evaluates the association between online investors' behavioral variables and their trading platform investment choices. Specifically, it aimed to answer the following topics: firstly, the level of behavioral factors that influence online trading investors regarding heuristics, prospect, market, and herding—secondly, the level of investment decision in a trading platform regarding investment performance. Lastly, a significant association between behavioral factors among online trading investors and investment decisions exists.

This study focused on the behavioral variables affecting traders' choices when investing on trading platforms. Hence, this will be beneficial to different sectors and organizations. In Security Organizations, this research will help them predict future stock market developments and provide investors with accurate information. Policy Makers, this research will help them create regulations that will promote future market investors and lessen the negative consequences of the identified factors. Lastly, Future Researchers will use this study as a guide for approaching their specific research in the near future.

This study is anchored on Harry Markowitz's (1952) famous theory of how market traders select portfolio diversification components to reduce risk and maximize return. This idea holds that rational investors should consider the critical aspects while making investment decisions to increase expected returns and reduce risks (Sharpe, 1985).

The author's research of the psychologists Tversky and Kahneman (1974) behavioral finance Theory impacted the fundamental theories of the subject in the middle of the 1980s, which were primarily recognized as the start of this area of research. In the beginning, two well-known authors, Barberis and Thaler (2003), thoroughly investigated several behavioral biases that affect decision-making and financial markets. The Modern Portfolio Theory (MPT), developed by economist Shefrin (2000) to understand the market, provides an additional explanation of the study's concept. This study aims to identify the vital role behavioral elements play in online trading investors' decision-making.

The study's general hypothesis is that there is no significant association between the behavioral factors of trading and investors' investment decisions in trading platforms.

Materials and Methods

The study's researchers specifically examined online trader investors to determine how behavioral factors and the online trading platform affected their choice of investments. As a result, these traders are experienced investors with legitimate accounts and traded on several internet platforms. The study's participants included 150 online trading investors as participants. The sample size was derived from Cohen's (1992) recommended reliable sample size for investigations with a large population. It implies that a sample size of 150 is enough for both correlational and regression analysis.

The necessary data was extracted based on the theories of Waweru et al. (2019) regarding behavioral finance, how it influences investors' decision-making, and how it impacts the results of investments.

The study four indicators: Heuristics, Prospect, Market, and Herding. The indicators were extracted from a study by Luong and Thu Ha (2011); it was modified and evaluated using a five-point Likert scale to assess the level of the respondents' behavior. Strongly disagree, disagree, neutral, agree, and strongly agree are the five choices on the scale, which ranges from 1 to 5. These inquiries were contextualized and subjected to several competent evaluations.

The descriptive-correlational study's non-parametric test summarized the existing situation and showed how the variables were related. In a descriptive-quantitative research design, the nature or qualities of the phenomenon are examined through observations, surveys, and case analysis (McCombs, 2020). It sought to determine a phenomenon's frequency, degree of recurrence, trends, and characteristics, particularly within and among factors (Kabir, 2016). Moreover, this research used Spearman's rho to determine the strength and direction of association between two ranked variables that a variable of interest can be ordinal or should have a monotonic relationship.

The researcher used several data-gathering techniques to gather the crucial information required for this investigation. This was done to acquire essential and pertinent information. To ensure a high-quality evaluation before being certified for administration, instruments were then proofread, copy-edited, and re-validated after the validation.

The following statistical tools were used in this study: The mean was used to assess, examine, and provide a comprehensive, clear overview of the impact of behavioral aspects on investors' choice of investments in trading platforms; Spearman’s rho was used to determine the strength and direction of association between two ranked variables that a variable of interest can be ordinal or should have a monotonic relationship.

Results and Discussions

Table 1 shows the behavioral factors influencing investors to engage in online trading platforms while making investment decisions. The overall mean was a 3.81 standard deviation of 0.45 with a very high description. In terms of prospect, it gained a mean of 3.62 and a standard deviation of 0.58. In terms of herding, it gained a mean of 3.69

and a standard deviation of 0.67. In terms of Heuristics, it gained a mean of 3.79 and a standard deviation of 0.56. In terms of market, it gained the highest mean of 4.13 and standard deviation of 0.60 with an overall very high description.

Table 1. **Level of Behavioral Factors that Influence Online Trading Investors**

Indicator	Mean	S.D.	Description
Heuristics	3.79	0.56	Very high
Prospect	3.62	0.58	Very high
Market	4.13	0.60	Very high
Herding	3.69	0.67	Very high
Overall	**3.81**	**0.45**	**Very high**

Therefore, there is a very high level of behavioral factors of online trading investors in the trading platforms. The result obtained from the study of Waweru et al. (2019) reveals that investors believed that skills and knowledge of the stock market could help to outperform the market. Also, previous literature found that investors analyzed the companies' customer preferences before they invested in their stocks.

The investment decisions of online trading investors were determined by investment performance. Table 2 shows the level of investment decisions by online trading investors. A mean of 3.75 is shown, which is descriptively interpreted as very high. Further, the results indicated that trading investors' rates of return are comparable to or greater than the market's average return rate. The more they rely on their private information, the more confidence investors can possess toward investment decisions. (Andrikopoulos et al., 2021).

Table 2. Level of Investment Decisions

Indicator	Mean	S.D.	Description
Investment Performance	3.75	0.57	Very high

Spearman rho was used to measure the significant association level between behavioral factors and investment decisions. There is a significant association between investment performance and heuristics (rho = 0.491, $p<0.05$) and behavioral factor (rho = 0.749, $p<0.05$). A significant association existed between prospect and investment performance (rho = 0.410, $p<0.05$). A significant association existed between herding and investment performance (rho = 0.444, $p<0.05$) and behavioral factors (rho = 0.772, $p<0.05$). A significant association existed between investment performance and behavioral factors (rho = 0.557, $p<0.05$). The results agreed with the findings from previous studies by Andrikopoulos et al. (2021), stating that an increase in an investor's confidence can result in better investment decisions.

Table 3. Significant Association between Behavioral Factors and Investment Decisions

Indicator	Investment Performance	Behavioral Factors
Heuristics		
Pearson Correlation	0.491	0.749
Sig. (2-tailed)	0	0
N	150	150
Decision on Ho	reject	reject
Prospect		
Pearson Correlation	0.410	0.821
Sig. (2-tailed)	0	0
N	150	150
Decision on Ho	reject	reject

Market		
Pearson Correlation	0.330	0.664
Sig. (2-tailed)	0	0
N	150	150
Decision on Ho	reject	reject
Herding		
Pearson Correlation	0.444	0.772
Sig. (2-tailed)	0	0
N	150	150
Decision on Ho	reject	reject
Investment Performance		
Pearson Correlation		0.557
Sig. (2-tailed)		0
N	reject	150
Decision on Ho		reject

Conclusion

Among the four behavioral factors influencing online trading investors, the market has the highest level, indicating that understanding underlying stocks' market fundamentals before making investment decisions is essential. It is revealed that the level of investment decisions in the investment performance of online trading investors is actively monitored. It implies that the rate of return on stock investment meets the expectation of online trading investors. There is a significant association between online trading investors' behavioral factors and investment performance decisions. It means that the investment decisions of online trading investors were associated with their behavioral factors. The result showed that the decision of the null hypothesis was rejected. The results conformed to the Behavioral Finance Theory by Tversky and Kahneman (1974) and Modern Portfolio Theory (MPT) by Shefrin (2000), which connoted that behavioral factors influence an investment decision. Further, it was implied that the more online trading investors are knowledgeable about the investment market, the more they are willing to invest.

Acknowledgement

The researchers would like to express their gratitude and deep appreciation for the remarkable assistance of the following persons who unselfishly have shared their knowledge, time, and effort to realize this research. To the dean, Dr. Vicente Salvador E. Montaño, who was instrumental in this research for providing statistical results of the study. To the Research Coordinator of the college, Dr. Christian Paul S. Moyon, for helping the researchers to have this paper presented and published. To the research respondents for allowing us to conduct the research survey and giving their time to answer the questionnaire needed for this study. Lastly, to the management of the University of Mindanao for providing financial assistance and support to the researchers.

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