

Behavioral & Traditional Biases in Investment Decisions of Muslim Community

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ABSTRACT

Behavioral finance is a paradigm shift that combines psychological and traditional aspects of human behavior with traditional finance concepts, to understand investment decision making process of investors. In the course of such analysis, it brings to light some departures from rational choice making through investors which are termed as biases. In complex situations, individuals use biases to take the most optimum, but not the most rational decisions. The purpose of creating models of investors is to customize investment advice based on traditional biases revealed by the individual investor.Hence, this is a very practical tool to assist financial service providers to understand the investment decision making process and develop more effective financial products that would help investors in achieving their investment goals.

The research was primarily descriptive in nature and quantitative in approach. Survey technique through the use of a questionnaire was used to collect numerical data, which was empirically investigated via statistical computation techniques.

The research came up with models and patterns of investors based on heuristics and biases they exhibited.The paper provided a very practical tool not only to investors to understand their own biases, but also to investment manager , portfolio managers and advisors about how investors differ behaviorally. This will give investors a better chance to achieve desired outcomes in the stock market. This will not only result in improving the quality of their advice, but also help them in structuring better asset allocations customized to suit the investor.

Key words: Behavioral Finance, Biases in Investing, Investment Management, Financial Products.

Introduction

Behavioral finance is a paradigm shift that combines psychological and traditional aspects of human behavior with traditional finance concepts, to understand investment decision making process of investors. Religion has a major impact on people's daily life including being closely connected with their economic condition. The purpose of this research paper is to recognize the connection between religion and economic factors and to show how religion affects investment

and financing decisions of Investors. There are modern theories like Modern Portfolio Theory (MPT) and Efficient Market Hypothesis (EMH). MPT suggests strategies and techniques for selecting an efficient portfolio for investment for maximizing profit and minimizing risk. On the other hand, EMH assumes that financial markets are efficient and investors act rationally in making their financial decisions and act based on full or relevant information about market prices to maximize their profit and other objectives.

Islamic finance refers to the means by which corporations in the Muslim world, including banks and other lending institutions, raise capital in accordance with Shari'ah, or Islamic law. It also refers to the types of investments that are permissible under this form of law. It is a unique form of socially responsible investment. Islam makes no division between the spiritual and the secular, hence its reach into the domain of financial matters. Because this sub-branch of finance is a burgeoning field, in this article we will offer an overview to serve as the basis of knowledge or for further study.

However, Behavioral finance still remains an emerging field of study. It investigates the role of psychology and other social factors in investors' decision-making process. It has become an important finance theory especially with regard to interpreting investors' behavior in financial decision-making processes. It has received great attention from academicians, professionals and practitioners alike. The main aim of the paper is to critically review Islamic community investment pattern and to analyze their main Factors affecting of Investment decision.

Objective of Study

The major objective of present study is to understand the Behavioral & Traditional Biases in Investment Decisions among Muslim Community. To be specific, the study has attempt to achieve the following objectives.

- To understand the awareness of individuals towards Shariya investment principles
- To study the choices of investments alternatives by Muslim Individuals
- To study risk and returns perceptions of Muslim Individuals regarding investment
- To analyses various factors affecting regarding investment principles as per Sharyia

Literature Review

Yang Li*, Pan Zhu (April 2016) in his research paper author finds and observed that culture, religion can influence people's attitude about worth and wealth, thus their economical behavior and financial decisions. This paper analyzes the relationship between religion and people's choice of financial assets. Result shows that those who believe in religion are more willing to hold risk assets than those who do not believe in religion, including the stocks and funds, bonds, etc.

Walid Mansour & Mouna Jlassi (March 2014) as per author Religion has a major impact on people's daily life including being closely connected with their economic condition. Author's research shows the connection between religion and economic factors and to show how religion affects investment and financing decisions. Research also analyses the effect of religious beliefs on investors' preferences, risk perception, ethical values, and psychological behavior. Author also mentioned that this aspect also missing in academic finance including the behavioral paradigm. Furthermore, it also confers how religious beliefs can conflict with financial theory involving making financial and investing decisions.

Dr. Nurasyikin Jamaludin (January 2013) this research explored the role of religion in individuals' investment choice decisions. Author has conducted survey among Muslim and non-Muslim respondents. In research it was found that equal proportion of Muslims maintaining their savings in the default fund as well as investing part of their savings in a unit trust fund. In contrast, a majority of non-Muslims preferred to invest part of their savings in the unit trusts. Author has multidimensional approach & accordingly two sets of basis ie. Religious Commitment and Muslim Religiosity. Finally results suggest that religiosity does not significantly influence individuals' investment choice decisions, particularly when it comes to investing part of their retirement savings in a unit trust.

Tahir, I., & Brimble, M. (2011) since last decade there has been strong growth in Islamic finance and banking across the globe. This research paper has investigating the investment behaviours of a group of Muslims. Using Islamic law as guidance we argue that investment in shares is permissible in Islam pursuant to five conditions. Using Islamic law as guidance author claimed that investment in shares is permissible in Islam pursuant to five conditions. Furthermore, we find that the Islam does influence investment behaviour, however the degree to which it does this is influenced by the degree of religiosity of the individual. Research paper finds that modern style of wealth maximization attitude among Muslim investors as well as a desire to consider sustainable investment principles in asset allocations.

Research Design & Methodology

The research was primarily descriptive in nature and quantitative in approach. Survey technique through the use of a questionnaire was used to collect numerical data, which was empirically investigated via statistical computation techniques. For this research considering 8 to 10 biases was assessed for validity, was subjected to pilot test and subjected to modification. The final data were collected from 100 respondents using a questionnaire that captured the biases. The standards were created using principal component analysis ie. Factor Analysis.

Data Analysis and Interpretation

Demographic Profile of Respondents

Table No. 1: Table: Demographic Profile of Respondents

	Various Categories	% of Respondents
Age	21 to 30 Years	44
	31 - 40 Years	39
	41 - 50 Years	9
	More Than 50 Years	8
	Total	100
Marital Status	Married	62
	Single	38
	Total	100
Education	Doctoral Degree	31
	Professional Degree	21
	Postgraduate	37
	Graduate	8
	Below Graduate	3
	Total	100
Occupation /Employment	Government Sector	14
	Private Sector	58
	Business	28
	Total	100
Monthly Income	Below 25000	48
	Between .25,001 to 50,000	19
	Between .50,001 to 75,000	18
	Above 75000	15
	Total	100

Table No. 2 Investment Objectives of Individuals and periodization of individuals

Regular Income & Tax Benefit	38.1%
Personal Goal & Capital appreciation	29.3%
Retirement planning & Fulfilling Family Obligations	22.4%
Social Commitment	10.2%
Total	100%

Before asking the individuals regarding their preference for different investment avenue, it was essential to know their awareness level regarding the existing investment alternatives. The individuals of the sample study were found more aware regarding the traditional avenues of investment. The bank fixed deposits, provident funds, life insurance policies, post office saving schemes were more among the investment avenues which were more frequently recalled by the individuals. Individuals do not rely more on advertisement to make their investment decision. They discuss with their family members or analyze themselves to find out a suitable investment avenue for them. The opinion of family members and financial consultants also considered to identify the most suitable investment avenue. Table 2 below, has mentioned the the results regarding this.

The next important question is to know which factors are considered by the individuals while taking an investment decision.

Table No. 3 Investment Pattern According to Community Principal

Table 3(a) invest based on Shariah industry norms - Securities with unlawful core business activities are excluded from the list of permissible securities;

Yes	25.52%
No	17.22%
Not Aware	57.26%
Total	100%

Table 3(b) Tolerable threshold of fixed income from permissible activities were adopted to limit the exposure to such elements;

Yes	20.7%
No	24.1%
Not Aware	55.2%
Total	

Table 3(C) Ratio of liquid assets (cash, short term invest etc.) that can generate interest income over total assets/ market capitalization is also used eg. Must not exceed 33% and Sum of total debt of a company must not represent 33% of the total assets /market capitalization

Yes	20.7%
No	13.8%
Not Aware	65.5%
Total	100%

Table 4 adopt or follow Shariah principles for investment

Yes	51.8%
No	18.8%
Not Aware	29.4%
Total	100%

Table 5 Respondent consideration social and ethical value or socially responsible investing principles while investing in various investment avenues.

Yes	68%
No	32%
Total	100%

Table 5 (a) Respondents importance towards social and ethical values while taking investment decisions

Very Important	58.6%
Impotence	20.7%
Less Importance	10.4%
Not Impotence	10.3%

Table 6 Awareness of investors on shariah principles

Aware	48.8%
Not Aware	51.2%

Table 6(a) Source of Awareness on shariah principles for Investment

Advertisement	17%
Website / Internet	13%
SEBI/ Government Authorities	2%
Friends and relatives	41%
Investment Advisor or Broker	3%
Association	24%
Total	100%

Conclusion

The study under consideration is very basic and descriptive in nature. As a stage-I analysis of data to understand the Shariah law awareness level and preferences of individuals regarding risk and return perception regarding existing investment alternatives has been focused in the above sections. An important finding of the current research is to know that individuals are concerned for making investment of their money rather than keeping it as idle. On the other hand individuals are fully aware of laws and therefore, they faced difficulty in investment planning and management. So there is a need to spread awareness among individuals regarding Shariah law and financial instruments investment management.

Limitations of Study

The study under consideration was conducted on a smaller set of data due to time and budget constraints. A comparatively larger sample can result in more accurate results. Further, application of more statistical tools to make in-depth analysis on the basis of demographic profile can also result in better insight on the related topic.

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