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Research Article

General Assessment of Behavioral Preferences of Investors: A Qualitative Study

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Abstract: The purpose of this study is to ascertain behavioral biases and preference of investors in their investment. In this study, open ended interviews from the investors were conducted at Pakistan Stock Exchange-Lahore to describe their preferences and behavioral aspect in investment. The findings from 10 open-ended interviews shows that the investors hold different preferences and beliefs regarding investment decisions. Collectively, three themes emerged as common beliefs of investors from this study. Knowledge with risk appears more sensible than high risk high return. Secondly, investor does not hold any consistent behavioral pattern, but their behavior is influenced by circumstances. The concept of luck can be justified as irrational behavior only and only if the timing match with your investment. This study contributes in terms of qualitative assessment of individual behaviors and preferences using interviews.

Keywords: Interviews, behavioral preferences, investment, Pakistan Stock Exchange Lahore
JEL Classification Codes: D91, D80

1 Introduction

Human psychology in finance literature has gained much attention of academia and practitioners in the last two decades. Sathiyamurthi et al. (2021) stated that taking good in-

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vestment decision is one of the important objectives for investment world. Contemporaneously, the psychology and seminal work in finance provide a plausible platform about behavioral involvement in investment decision making. Economic sciences start to describe this phenomenon with the help of expected utility maximization. However, many times expected utility theory has mis-predicted the human behavior raised question mark for its theoretical base and empirical implementation. Allais (1953) documented this behavior of expected utility theory in an experimental research and tries to find the reason of its failure. In Kahneman & Tversky (1992) proposed a prospect theory an alternative to expected utility theory that was supposed to capture the shortcoming(s) of expected utility theory. Although empirical foundations of prospect theory were much better, but it ranked second to expected utility theory because still expected utility theory provide parsimonious explanation than prospect theory.

Prospect theory opened the doors for academia and practice. Consequently, behavioral finance (psychological finance) emerged to study the human behavior in financial setting. Empirically in most of the cases, it was observed a leading problem of holding less diversified portfolios despite of well formulated diversification theories and mechanism. In an answer, previous studies like Yurttadur & Ozcelik (2019) showed the significant impact of behavior on investment decisions. Shiller (1999) highlighted that investor behavior is not consistent and may change when investors have had an opportunity to rectify it. Therefore, it is quite sensible to study human behavior in different setting to get better understanding of the occurrence of behavior on several occasions. Specially, during the recent COVID-19 pandemic also affected the behavior of investors. Therefore, the objective of this study is to understand behavioral preferences of investors in marketplace using qualitative research methods. This study provides an insights to assess the behavioral tendencies of investors in Pakistan Stock Exchange.

1.1 Problem Statement

Traditional finance theories describe investors as rational and estimate their expected utility. However, it fails to explain the speculative behavior of the investor. Thus, prospect theory enters race to better describe the investors behaviors in their investment. Most of the cases, it is observed that investors hold less diversified portfolios despite of well formulated diversification benefits. In this regard, studies on human psychology and behavioral preferences showed the significant impact of behavior on investment decisions. Work by Shiller (1999) highlighted that investor behavior is not a consistent and may disappear when investors have had an opportunity to rectify it. Therefore, it is quite sensible to study human behavior in investment setting to get better understanding of the occurrence of behavior on several occasions of investment. Therefore, academia, policy and practice must know more to understand behavioral preferences investors in their investment decisions.

1.2 Objectives of the Study

Following are the objectives:

1. To identify the behavioral preferences of investors in Pakistan Stock Exchange Lahore.
2. To assess the behavioral phenomenon through interviews.

3. To provide empirical insights to investors and researcher in the field of behavioral finance and decision making.

1.3 Research Questions of the Study

Following are the research questions of the study:

1. What are the behavioral preferences of investors in Pakistan Stock Exchange, Lahore?
2. What findings emerge to study the behavioral phenomenon with perspective to qualitative research using interviews?
3. What are the empirical insights for investors and researcher in the field of behavioral finance and decision making?

1.4 Literature Review

Garg (2021) stated investors preference towards different investment alternatives varies according to their policy statement, risk profile, and in terms of need. Mihas (2019) stated human behavior has been studied to identify and relationship of behavioral preferences to investment decision. These human preferences provide revolutionary impact on investor's decision and gained much importance in the literature. Dhankar & Maheshwari (2016) stated behavioral phenomenon explained by incorporating human psychology to better get the picture of investors' preferences in different setting. It has remained the focus of researchers to incorporate behavioral biases since its emergence. Pompian (2011)stated that better understanding of psychological phenomenon requires research in the field of financial decision making. Barberis & Thaler (2005) stated in his missionary study that whether the preferences are important in determining the investment decision and concluded the importance of heuristics. Power (2010) showed that qualitative research on financial markets adds rigor to the existing theories and concepts that are being used in investment decision making. Godoi et al. (2005) explained the rationality and how behavioral phenomenon is influenced in the different situations. Sahi et al. (2013) concluded that biases are not always bad or beneficial. Speidell (2009)showed that using different methods of data collectioncan help infer better understanding of human psychology and the related biases. From the study of pioneer in the field of behavioral finance, (Kahneman & Tversky, 1992) they concluded that investor ability to take better decision from alternatives depends on his behavioral biases. The investor uses his / her biases in decision making in addition to quantification that comes from the optimal allocation of assets as well as risk return trade off. However, Shiller (1999) mentioned in his study that there is a debate among different psychologists and other behavioral scientists that the optimality is not optimal as the behavior of investors are unobservable and dynamic in nature. Meier (2018) found that overconfidence and mental accounting bias impacted in most of the investment decisions rather than another behavioral phenomenon. Pompian (2011) also stated that using mixed method research can provide better understanding of finding of investor decision under uncertainty. Therefore, this study is an attempt to provide insights from conducting qualitative research using interviews that might be useful in the understanding of the phenomenon at hand.

1.5 Rationale of the study

Earlier studies on behavioral finance and preferences showed the significant impact of behavior on investment decisions. It was also found that human behavior is dynamic and unstable on different occasion. It is important to study investor behavior in different setting to get better understanding of the occurrence of behavior on several occasions and study setting.

1.6 Significance of the study

Since the emergence and significant impact of behavioral finance on investment decision making, this study contributes to different dimensions. First, this study uses qualitative data to understand the human behavior in investment decision making. Further, this study provides new insights to researchers in the field with evidence of human behavior from Pakistan. Similarly, this study contributes to highlight those themes from qualitative research which cannot be visualized by using quantitative data techniques.

2 Method and Data Collection

This study uses the interview protocol containing open-ended interviews from investors of Pakistan Stock Exchange. In qualitative research it is a tradition to focus on few samples to consider the assessment of their views. The purpose of qualitative research is not to generalize the findings emerged from themes but to understand in depth their behavior in the setting (Creswell & Clark, 2017). In response to technological reform, it was observed that the infrequent visits of investors in the stock exchanges as they are facilitated by online account trading and guidance. Considering these elements, this study has focused to study 10 investors. The demographic characteristics of participant are given in table 1.

Table 1: Demographic Characteristics of Participants

Identification	Age	Occupation	Experience	Investment Type
Participant 1	66	Retired	>20 Years	Part Time
Participant 2	54	In Service	>10 Years	Part Time
Participant 3	45	Private Business	>05 Years	Part Time
Participant 4	48	Investor	>10 Years	Full Time
Participant 5	44	Investor	>05 Years	Full Time
Participant 6	68	Retired	>10 Years	Part Time
Participant 7	57	In Service	>05 Years	Part Time
Participant 8	45	In Service	<05 Years	Part Time
Participant 9	56	Retired Banker	>15 Years	Full Time
Participant 10	47	In Service	>10 Years	Part Time

Creswell & Clark (2017) presented views that qualitative research adds value if data collection is from diverse type of sources However, this study used open-ended interviews following by probes to investigate the underlying subject. In a qualitative study, it is difficult to collect diverse type of data. For this purpose, this study followed the steps for interview proposed by Creswell & Poth (2016) in which he advised to think whether interviews are appropriate for my study? Interviews are not useful when participants show unwillingness to speak and disclose their thesis (argument). This study voted one-on-interviews as most appropriate method to comprehend the thought processes of investors. They were invited by informal invitation through a professional linkage and that link was used to invite their known investors and according to decided time we visited stock exchange and conducted interviews at their suggested time after 1600 hours. This method was used because the circumstances shaped it in such a way, and it look likes snowball sampling. Interview protocol of 14 questions was designed with the consultation of experts from academia and practice. Each interview was ranged between 30 minutes to 35 minutes of duration and all interviews were conducted at stock exchange except one that was held at the participant's home on his availability. In this research, open coding was done followed as conventional coding scheme is used for coding as the most qualitative researchers use this nature of coding. From where, themes were emerged, and these themes were the main findings of this study. The research ethics of qualitative research are much different than quantitative research design. Therefore, the method in qualitative research is less quantifiable as method in quantitative research.

3 Results and Discussion

A general explanation of investors biases that were emerged in form of themes from interviews are the main findings of the study (Creswell & Poth, 2016). These are discussed below:

Sensitive and learner from each information

When they were asked to explain the process of "how information affect their investment decisions and discuss the distinctive characteristics of information", it was observed that most participants were sensitive to the quality, source, and life (time period) of information as many participants showed mixed reaction due to rumors and the long-term impact of information. Some participant was observed more cautious as they showed themselves as learner even though having wide stock market experience.

Circumstances based valuation

Most of the investors follows fundamental analysis to value and analyze securities but many of them use their own style of investing using technical analysis whereas few of them were reluctant to wait until the situation becomes clear with market timing, some investors mentioned the situation of COVID-19 outbreak and other political, financial and global events. Apart from the valuation style preference, they were found inconsistent on their own beliefs and they change valuation tool as per circumstances.

Efficient process and sensible long-term prediction on Fundamentals

Many of the participants were found to be efficient in processing information based on fundamentals and they were more confident while considering COVID-19 outbreak in forecasting long term pattern than short-term dynamics. Few investors gave sensible quantification for confirming evidence swiftly. Few investors were so confident that they can forecast future price change, but they were equally bothered for unforeseen variety. This type of behavior shows mixed; however, tendency is their fundamental based and investors interest and spending time. Their views were mainly affected by the playing field by punters and large groups in the market. It was seen that they can provide forecast based on trend of specific industry.

Dividend and Consistency of Earning

In this study, it was found that investors are more concerned with dividends and the consistency of benefit(s) that they have in their investment objective. They are more focused on dividend as well as how the company keeps investors' confidence high. Despite the fact of its importance, dividend income is not the sole reason for investor confidence, some were also concerned that good company is not the requirement to invest, it is also observed that how net gain you will take benefit from investment. Few investors stated that a company is normally treated as good if it meets to your criteria and the objective of investment.

Own Equity, Leveraged Portfolio and Personal Life

It was noted from the interviews that investor's behavior showed prominence as to how their personal life can be affected by the investment decisions. This tendency may lead them to hold concentrated portfolio as they are more inclined to focus what benefits they are getting for their families. They also highlighted that personal life can be unaffected if you invest your own equity funds. Leveraged investment attracts the investor, but it was found that no investor was really agree with the notation that leveraged portfolio provide satisfactory results. Moreover, it is important that how much expenses are going to be deducted from their investment and how sensitive is it to Government policies and reliefs. It was seen from the interviews that surplus funds should be invested.

Investment Attention and Knowledge

The interesting empirical theme we have found is the intention of investor's attention to invest, whether they are investing just for profit to meet their objectives or intend to invest for long time benefit. More investors showed that without knowledge it is not appropriate whatsoever your intention is; stock market is a place of no-free-lunch. If the investors are aware about the multiple aspects, then it may become sensible in which whether how circumstances accommodate your knowledge.

Investment Opportunities and Islamic Point of View

When investors were asked to explain why they have chosen stock market investment, few of them were concerned that investment opportunities at that time (starting time of their investment, in past) were fair enough. When using probes, they answered they are not willing to exit despite of major change in earning opportunities. Most investors have chosen stock market due to Islamic perspective. Some investors were observed not to recommend stock market as compared to commodity market due to less volatility concerns.

Regret, Knowledge and Nature of Investment

All investors were inclined to feel regret whereas many of them were so trained how to absorb regret to step forward. The behavior of investors was observed that they will take exit position as soon as possible if their regret is sponsored. All investors were observed that regret is not due to poor decision, it is therefore how market force you to keep yourself on track with required expertise and knowledge. When they were asked to provide further explanation of the process, interestingly all investors categorically talked that market is a place where the chances of making wrong / irrational decision are high, no matter how wise you are.

Luck, Irrational Behavior and Relation

We have talked in depth on this topic and asked in interview from investors to explain when and how luck matters? Two participants expressed their sensible views that it does not require the irrational behavior of other investors to be your luck. Instead, on few occasions it was noticed investors gain little in terms of irrational behavior of other investor, but it may have been a wise decision under uncertainty. This was in accordance with the reversal random affect due to information asymmetry.

All Emotions are not Bad

During interviews, investors expressed the interesting views that all behavioral emotions (biases) are not bad, they can be used in such a way to design careful manipulation to get profitable opportunity. However, few discussed that it is difficult to deliberately add qualifiers for emotions. It was also observed to note from the interviews that emotions might be sorted based on individual's own assessment and deliberately use of those which appears less detrimental. When using probes, few investors explained that first try to list down those emotions which looks if manipulated there will be no major impact. After that make categories of their sensitivities and ask yourself in which category you fall. By doing this practice, make an overview assessment of your level of acceptance for those emotions. Then make quantitative judgement of your emotional manipulation. This will give you out of the box understanding for not only your biases but also to judge what biases investors are currently involved in the market. At the end they were observed, controlled emotions are much better than deliberation of emotions that looks less appealing and experimental in nature.

Spending Less Time, Need-Based, Lack of Knowledge, Market Deception, Greed

In response to a question why people win or lose on their investments, some distinctive themes were observed regardless experience of investment. Most investors agreed on the notion that the main factors contributing to win or lose include 1) spending time in investment stake, 2) need based investment, 3) lack of appropriate knowledge, 4) market deception, and 5) greed. These elements seem to be consistent with the question asked.

High Risk with Knowledge leads to High Return

In an explanatory question, they were asked to explain their views on the academic belief "high risk high return". All investors strongly agreed on the notion that this theory is not valid and there should be a room to modify. They explained that it is mistakenly written in finance books and the meaning was left to the interpretation of the reader. They told in all pricing models this theory was repetitively used. According to the investors, they suggest addition to existing theory that "high risk with knowledge means high return." However, they stated that it should have had that been the goal of existing belief.

4 Conclusion

The purpose of this study was to provide general explanation of what behavioral biases investors hold. From the main themes, two dimensions were identified. A summary of the themes that were emerged are given below: 1) Investor have rejected the statement "high risk high return" and suggested "High Risk with Knowledge leads to High Return". 2) There are circumstances that led to use technical or fundamental analysis or any stylized analysis 3) The concept of luck is present due to irrational behavior of other investors in the market only and only if the correlation and timing match with your style. 4) All emotions are not bad; these can be manipulated deliberately to take benefit. 5) Islamic point of view is observed regardless of whether the stock market suits the personality of investor or not. 6) Greed leads to regret. 7) Prefer own equity and sensitive to react on information due to previous decisive experience. The findings of the study might be helpful to study the investor's behaviors in different setting. These findings were emerged from interviews that can add value to better understand the investor's behavior in the market. In this study, the role of researcher was somewhat silent, however, the circumstances-based findings might be the part of researcher's reflexivity. The interview process that was adopted provides the primary base of understanding and explanation of behavioral preferences. The findings of this study might not reflect in other setting. The validity of this study can be enhanced using wide range of interviews and triangulation to support the emergent theories in this study. The limitations of this study are lack of triangulation and not enough validation. This study suggest that academia, policy and practice should not focus only on quantitative research. There is a room for qualitative research that can provide equally better understanding of the stock market and investors behavior. By doing this, investors can optimize their portfolio.

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