

# Doctoral dissertation summary : The impact of behavioral factors on investment decision making

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# THE IMPACT OF BEHAVIORAL FACTORS ON INVESTMENT DECISION MAKING

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## SUMMARY

### Purpose

Making investment decisions involves examining past and present facts to predict future events, and certainly involves some uncertainty at the time the decision is made. It is a complex process, and the question is often asked as to what is the best strategy to make investment decisions that maximize profits. The financial crisis has revealed many instabilities and regulatory shortcomings in the financial markets, which are also due to inappropriate investment decisions at the micro level, so it is important to understand them. Therefore, it is critical for financial professionals to be aware of their own behavior as well as the behavior of other participants in the financial markets.

In the behavioral finance paradigm, individuals' decision making is assumed to be rational only to a limited extent. Identifying the behavioral biases involved in investment decisions can help investors develop a better investment strategy. Based on the literature reviewed on behavioral finance in the Croatian capital market, a lack of research can be identified at both levels - macro and micro. There is also a lack of research on the behavioral factors of institutional investors. Since institutional investors play an important role in the capital market, their investment decisions have a significant impact on the performance of individual companies and the capital market as a whole. The importance of this research is reflected in the fact that disruptions in financial markets are an aggregate reflection of inappropriate investment decisions at the micro level, so it is important to understand them. Considering that there is an extensive literature on the behavioral factors of individual investors, which is not the case for institutional investors, the objective of this dissertation is to investigate the impact of behavioral factors on the investment decisions of institutional investors in the Croatian capital market.

### Methodology

The literature review defines the theoretical framework of the research area, while the empirical part of the paper includes the analysis of the primary data. The primary data were collected through a survey using an online structured questionnaire. The target population for conducting the questionnaires is institutional investors, i.e., professional investors who trade securities in the regulated market. According to the HANFA Annual Report for 2021, there are a total of 231 financial institutions in Croatia. Since, to the author's knowledge, there is no exact number of institutional investors (i.e. individuals who make investment decisions), but only a list of financial institutions, a list of potential participants was used for the research in this dissertation, which is composed of contacts available through the Financial Markets Association of Croatia reports (2019) and based on e-mail addresses available on the official websites of institutional investors.

The survey was anonymous and was conducted in three phases from April 11 to June 25, 2022. In the first phase (from April 11 to May 7, 2022), a message was sent to 250 e-mail addresses explaining the purpose and objective of the survey. In the second phase (from May 8 to May 31, 2022), a message was sent to an additional 250 e-mail addresses also explaining the purpose and objective of the survey. In the third phase (from June 1 to June 25), a message was sent to the same e-mail addresses (500 e-mail addresses) requesting feedback to all those who had not completed the questionnaires by June 25, 2022. A total of 130 questionnaires were collected by June 25, of which 11 were incomplete and excluded from the analysis. The final sample consisted of 119 valid surveys (response rate 24%).

In order to test the hypotheses, the methods of descriptive statistical analysis and partial least squares path modelling (PLS-SEM) were applied and the collected data were processed using the SmartPLS4 programme.

## Findings

The research results show that heuristic factors do not have a statistically significant impact on investment decisions. More precisely, these heuristics are representativeness and anchoring. The results obtained can be explained by the fact that, compared to retail investors, institutional investors are more familiar with the above biases and therefore avoid the common cognitive biases. Moreover, they are more systematic in their investment decisions and rely on detailed analysis and research on various data. On the other hand, there is a positive and statistically significant relationship between prospect theory factors, market factors and herd behavior in investment decisions of institutional investors in the Croatian capital market. The analysis of the influence of behavioral factors on investment decisions is important for all participants of the capital market. It should be noted that behavioral factors can have both a positive and a negative influence on investment decisions, but they are certainly not the only determining factors. Institutional investors generally have access to more information, but they also have a fiduciary duty to their clients, meaning they must act in their clients' best interests when making investment decisions. Their investment decisions can have a significant impact on financial markets. Therefore, it is important for investors, regulators, and policymakers to understand how behavioral factors can influence their investment decisions.

## Originality of the research

The scientific contribution of this dissertation manifests itself in the study of behavioral finance, i.e., behavioral factors that, compared to traditional financial theories, represent a new area that is receiving increasing attention in the scientific literature. This dissertation contributes to the development of more effective investment strategies, the detection and understanding of behavioral errors, and the improvement of the decision-making process. Since this type of research has not been conducted in the Republic of Croatia before, the results obtained may be useful for future education of institutional investors and development of future regulatory measures.

**Keywords** behavioral finance; behavioral factors; market factors; investment decisions

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