



## Identifying and Prioritizing Factors Affecting Investor Decision Making: A Model Based on Investor Attitude and Behavior<sup>1</sup>

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### INTRODUCTION

Over the past few decades, a large body of literature on financial behavior has developed. These researches have examined the influence of investors' attitudes, behavior, and tendencies on investors' decisions (Glaser & Weber, 2008). But, the emergence of some unusual phenomena and exceptions, including the influence of investors' tendencies on the change of market prices and stock returns in financial markets, caused many criticisms to be made to financial theories (Baharmoghaddam, Pourhidari, & Jokar, 2019).

The main objection to behavioral finance theory is that behavioral finance has destroyed the foundations of traditional financial theories and only identified the perception and behavioral errors of investors (Hoang, Lean & Wong, 2015). Therefore, in this research, it has tried to identify the complex behavioral and psychological factors affecting the attitude and decisions of investors by using sciences such as psychology in the field of financial sciences, because behavioral finance is becoming an inseparable part of the decision-making process and it has a wide range of effects such as stock price fluctuations in the market (macro level) to influence the decision making of individual investors (micro level) and the intensity of investor performance (Baghdadabad, Habibi & Halid, 2018).

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In this regard, the problem related to this research is to identify the mechanisms and connections between the decision-making components of active investors in the Tehran Stock Exchange and develop a comprehensive model that explains behavioral biases and investment decisions. Also, it is tried to provide solutions to minimize psychological biases in the investment decision-making process. So, this research has tried to design a model for the decision-making behavior of investors in the Tehran Stock Exchange, and answer the following questions. What is the conceptual framework of investors' decision-making in the Tehran Stock Exchange? What are the factors of the conceptual framework of investors' decision-making in the Tehran Stock Exchange? What are the components of the decision-making framework of active investors in the stock market?

## **MATERIALS AND METHODS**

The current research is descriptive in terms of data collection method and practical in terms of purpose. In this research, a questionnaire was used to collect data, and structural equations and Lisrel software were used to test the hypotheses. The questionnaire questions were designed and prepared based on the literature, research background, and a semi-structured interview. The period of the research is one year and ends in September 2018.

The statistical population includes individual investors in the Tehran Stock Exchange, among whom the questionnaire was distributed.

Due to the uncertainty of the statistical population, Cochran's formula was used to determine the minimum sample size. According to Cochran's formula, the minimum statistical sample size is 219 people. In this regard, the number of questionnaires for distribution was considered to be 350. Questionnaires were distributed among the shareholders who referred to the offices of the brokerage companies and also through e-mail and telegram groups until finally, 225 valid questionnaires were approved. All the questions in the questionnaire were measured based on the five-point Likert scale.

## **RESULTS AND DISCUSSION**

In this section, according to the results of the confirmatory factor analysis and the evaluation of the level of influence of each of the measures on the determined variables, the path analysis of the relationships between the variables has been investigated. The results of the research hypotheses are shown in Table 1.

The purpose of testing the first hypothesis of the research is to investigate the effect of self-perception of performance on behavioral attitude. The results of Table 1 show that the standardized path coefficient between self-perception of performance and behavioral attitude is -0.38 and is significant. The negative and significant path coefficient indicates that the self-perception of performance inversely explains 38% of the changes in the behavioral attitude variable. Therefore, the first hypothesis of the research is confirmed. The standardized coefficient of the path between the self-

perception of performance and financial ability (0.84) indicates that the self-perception of performance directly explains 84% of the changes in the variable of financial ability. Therefore, the second hypothesis of the research is confirmed. The results of the research hypothesis test showed that the standardized coefficient of the path between the behavioral attitude and the optimal decision of investors is -0.29 and is significant at the significance level of 0.05. Therefore, the third hypothesis of the research is confirmed. The purpose of testing the fourth hypothesis is to investigate the effect of financial ability on the optimal decision of investors. The standardized coefficient of the path between financial ability and optimal decision of investors is 0.27 and is significant. Therefore, the fourth research hypothesis is confirmed.

**Table 1.** Hypothesis test results

Path	Path coefficient	t Statistic
Self-Perception Of Performance →→ Behavioral Attitude	-0.38	-3.63
Self-Perception Of Performance →→ Financial Ability	0.84	5.15
Behavioral Attitude →→ Optimal Decision of Investors	-0.29	-6.61
Financial Ability →→ Optimal Decision of Investors	0.27	3.36

## CONCLUSION

Nowadays, psychological models are widely used in all behavioral sciences. Research on people's decision-making process may improve the quality of investment decisions and allocate economic resources in a better way, and as a result, investors can get the best combination for their investment portfolio. Therefore, the present study tries to identify the factors influencing the behavior of real investors in the Tehran Stock Exchange.

The results related to investment behavior showed that investors, regardless of their specialization in investment, examine and compare different investment situations and choose the best available alternatives, in two general forms, have the most focus on self-perception of performance, financial ability, and behavioral attitude. Also, the results show that in explaining the investors' behavior, most of the values of factor loadings are related to the descriptive variables of behavioral attitudes. Based on these results, it can be concluded that obtaining information in the market is not difficult. But what is important is a person's attitude towards himself and his capabilities. Therefore, individual behavior has the most important in the formation of investors' behavior model, and as it could be guessed, most investors prefer to rank the existing investment situations with their performance reviews in the form of financial literacy, understanding of political risks, understanding of economic risks, understanding of information, motivation to gain experience, understanding of the role of the stock market in livelihood, until they make a decision based on the market atmosphere and the pressure of others (environmental factors). Therefore, individual behavior is the

priority, and behaviors derived from the environment have the lowest level of importance in the decision-making process of investors. The results of the present research led to a better understanding and more accurate prediction of the behavior of investors in the Iranian capital market and it can partially justify the psychological aspects of investors' behavior. According to the results of the research, it is recommended to investors, as long as there is sentimental and emotional news in the market, their reactions should be more careful in the direction of buying or selling stocks.

**Keywords:** Investors' Attitude, Investor Behavior, Investors' Decision Making.

**JEL Classification:** E31, G32, L25.

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