

Investigating the Impact of Covid-19 on Investor's Bias : An Empirical Study¹

SHASHANK KATHPAL*
MOHD. IMRAN SIDDIQUEI**

Abstract

Covid-19 has changed the investment pattern worldwide, exerting a considerable influence on investors' investment behavior and making them prone to many behavioral biases. The present study aims to determine the different investment biases that persist among individual investors during the outburst of Covid-19 in India. To obtain the data, the authors have approached 300 investors who have invested their money in the Bombay Stock Exchange (BSE) through a self-administered questionnaire out of which 269 respondents response is used for analysis. The relation between the constructs was analyzed using Confirmatory Factor Analysis (CFA) and Simple Regression analysis. It is found that investors exhibit irrational behavior and has shown multiple psychological biases during the current pandemic. The study has the potential to guide investors in understanding the errors they are making while investing during the pandemic and the ways to deal with them. This study can provide insights to the investment advisory in understanding their clients behaviour.

I. Introduction

PEOPLE WORLDWIDE HAVE witnessed unparalleled repercussions on the professional, personal, and economic aspects since the spread of the novel coronavirus (COVID-19). The pandemic outbreak has made the organizations, government, investors, and the general public realize that natural calamity can inflict financial harm on formerly unknown phenomena (Goodell, 2020). Researchers have tried to investigate the possible relationship between COVID-19 and the investment pattern (Baker, Scott, Farrokhnia, Meyer, Pagel and Yannelis 2020a; Ramelli and Wagner, 2020; Zhang, Hu and Ji 2020) and shift in the expenditure pattern of the families. (Baker, Scott, Bloom, Davis, Kost, Sammon and Viratyosin 2020b) have indicated towards

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* Assistant Professor, GLA University Mathura, 17 km Stone, NH-2, Mathura-Delhi Road Mathura, Chaumuhan, Uttar Pradesh 281406, INDIA

** Senior Faculty, Teerthanker Mahaveer University - INurture, NH 24, Bagadpur, Moradabad, Uttar Pradesh 244001, INDIA

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Annexure Questionnaire

As we know that novel coronavirus has influenced the financial markets around the world. We are conducting a survey to understand about the Psychological biases that could have influenced your investment decisions in the stock market during the ongoing pandemic. Please fill the form with the utmost honesty. It should take approximately 10 minutes only. We assured you that the information given by you will remain confidential.

Section-A (Demographic Profile)

Name: _____

Email: _____

Gender: a. Male b. Female

Monthly Income (In ₹):
 a. <30,000 b. 30,000 to 70,000
 c. 70,000 to 90,000 d. >90,000

Qualification:
 a. Professional b. Non-Professional

Experience of Investment
 a. < 2 years b. 2 to 5 years
 c. 5 to 10 years d. > 10 years

Section-B (Investors Perception)

Kindly rate all of the following statement from 1 to 5, where:
 1: "Strongly disagree"; 2: "Disagree"; 3: "Neither agree nor disagree"; 4: "Agree"; 5: "Strongly agree".

Overconfidence

1. I have excellent knowledge of how the stock market behaves in crisis.
2. I know how to invest in the stocks better than others during a crisis.
3. I can predict the stocks prices better than many financial analysts during a crisis.
4. I consider my skill and understanding of stockmarket facilitate me gain profit even when the market is volatile.

Disposition Effect

1. I sell the advantageous stocks early in order to avoid any risk of future loss, during the time of crisis
2. I tend to hold losing stock in the hope of gaining better returns in the future, when the crisis will over
3. I have sold the stocks when they were making some profit to avoid any loss during the crisis
4. I got afraid of the volatility of the stock market at the time of crisis, so I sell my stocks quickly

Herding

1. The decision of other investor impacts my decision making, especially when the market is volatile
2. I tend to follow the investment strategy, which the other investors are adopting during a crisis
3. I believe other people can advise me better at the time when the market is volatile
4. I follow social forums or news before investing in crisis.

Risk Aversion

1. I always invest in safe options like Large Caps.
2. I generally don't sell any stock till the time it is making a loss.
3. I refrain from investing when there is volatility in the market.
4. Even if the returns are higher, I do not invest in the stocks of small and new ventures.

Covid-19

1. I believe the current pandemic has caused a crisis in the market.
2. I believe the current pandemic has reduced the frequency of trading in the market.
3. I believe that most of the share prices which have fallen are due to the current pandemic.
4. I believe the current pandemic has made the investment in share market riskier.