Psychological Biases and Investor Behaviour: Survey Evidence from Malaysian Stock Market

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*Abstract* **— Many economic and financial theories presume that investors act rationally and always consider all available information****in the investment decision-making process. Economists consider that the market is stable and stock prices follow the economic trend. However, investors are only human. They act according to market sentiments and some even follow their gut feeling when making financial decisions. The main purpose of this research is to determine how psychology affects investors’ decision-making. In this research, specifically, four psychological biases; beliefs, self - confidence, regret and “snake bite” effect and their impact on decision-making are examined. Their impacts on decision-making of investors are found to be significant. Investors are found to rely on beliefs in making decisions. Investors lack confidence with regard to their skills and knowledge in decision-making. They are pessimistic when making decisions. Investors also experience regret when they buy at a high price and sell at a low price. Sometimes, they hold the stocks too long and the price may have reached lower than the buying price. All these would cause them regret and affect their decision-making. Investors who had experienced losses are reluctant to assume risks or buy stocks though it may be appropriate to buy at that particular moment. These findings confirm that psychological biases inhibit the investors from making ‘rational’ decisions. Most of the evidences documented in this study are consistent with the studies done previously. As such, Malaysian investors can gain a better understanding of the differences between traditional finance and behavioral finance and as well as be made aware of these biases when making investment decisions in the stock market.**

Keywords***—*** **Behavioral finance: Psychological Bias: Beliefs: Self-confidence: Regret: “Snakebite” effect**

I. INTRODUCTION

Many economic and financial theories presume that investors act rationally and always consider all available information in the investment decision-making process. Economists consider that the market is stable and stock prices follow the economic trend. But in recent years, the increasing volatility and fluctuations in the market could no longer be explained by the rationality hypothesis. This hypothesis is supported by many financial academic researchers as it is successful in capturing and predicting the stock price movements. However, a growing evidence suggests that the support for this hypothesis seems to have weakened as found in studies by Zoghlami and Matoussi (2009).

In view of the current trend of financial markets, even the smartest investors are affected by psychological biases, but traditional finance has considered this irrelevant. Psychologists have found that any person’s decision could be affected and influenced by unavoidable psychological, cognitive and emotional biases. The opposing point of view of psychologists and early proponents of traditional theories has given birth to a new area of research, called behavioral finance. While many financial institutions are assisting the investor to invest retirement money and to improve trading based on the findings of behavioral finance, there are also financial institutions which are exploiting the weaknesses of investors by offering financial instruments to make more profit at the expense of investors. Consequently, the investor suffers greater losses.

The central theme of this research is to examine how psychological biases affect investors’ decision- making. Specifically, this research investigates how these four psychological factors; beliefs, self-confidence, regret and “snakebite” effect could possibly affect financial decisions. The relationship among these variables could provide an insight on these psychological biases. Understanding these biases is necessary as these biases could be capitalized by investors to increase their own wealth. Bloomfield (2006) suggests that trading strategies based on behavioral finance are profitable, generating higher returns compared to returns based on efficient market theories. In short, this study offers information both for investing wisely and for understanding investors themselves better.

The paper is organized as follows. Previous studies are discussed in Section II. Section III contains data sources and methodology. The findings of the study are in Section IV while the conclusions and implications are in Section V.

II. REVIEW OF PREVIOUS STUDIES

Traditional finance assumes that people are ‘rational’. The investors are assumed to form expectations according to laws of probability. Studies by Neumann and Morgenstern (1944) find that investors make decisions based on Expected Utility theory (EU) if the objective probabilities are known. Similar studies by Savage (1954) provide evidence that Subjected Expected Utility theory (SEU) affects investors if true probabilities are estimated subjectively. In contrast, Behavioral Finance studies how psychology affects financial decisions and the financial markets. Kim and Nofsinger (2008) suggest that the cognitive psychology plays a significant role in behavioral finance. Investors are found to be influenced by any unavoidable cognitive and behavioral bias in making financial decision.

Prospect Theory developed by Kahneman and Tversky (1984) explain among others, disposition effect, one of the behavioral biases. Studies by Kaustia (2010) find that the change of risk perception may cause disposition effect as the investors become more risk-averse when facing gains and willing to assume more risks when facing losses. Bloomfield (2006), also document evidence that shows that investors would sell profitable stock immediately to earn superior returns, but keep holding on to losing investments or even increase the amount of investments in the losing stocks. Further investigation on disposition effect by Costa (2007) reveals that gender may interfere with the detection of disposition effect. Ricciardi (2008) describes that the females are more worried and anxious during the process of decision making.

Emotions have a big influence on decision making. Most people lose money in the stock market due to psychological reasons. People who experience more fear make more pessimistic risk estimates. Hirshleifer and Shumway (2003) find that positive mood such as being exposed to a lot of morning sunshine could possibly lead to higher stock returns. Other studies provide evidences on bias in beliefs and expectations. Fox and Clemen, (2005) find that people tend to bias their beliefs towards an equal chance on every possible partition. Sonnemann, Camerer, Langer and Fox, (2008) suggest that expectations depend on the partition of the outcome space. These biased expectations are also observed in the derivatives markets. Beliefs, one of the biases will be investigated in this paper.

Overconfidence also affects the investor’s risk-taking behavior. Malmendier and Tate (2005) find that many executives are overconfident in their firms’ future performance and as indicated in their studies, overconfident executives are more likely to engage in value-reducing mergers. Theoretical and experimental research has shown that calibration errors can explain for a variety of known anomalies. Bloomfield (2006) describes that investors are likely to be more confident and not under-confident when it comes to predicting the trend of the financial market. Furthermore, Chuang and Lee (2006) suggest that investors who are overconfident and optimistic tend to overestimate their knowledge, understate the risk and sometimes overstate their ability to control the situation. Though, there is an impressive volume of studies conducted, many studies of this genre are more likely than not to be based on the US and the UK markets. Studies in this area are rather limited in Malaysia.

In the neuroscience literature, Camille, Coricelli, Sallet, Pradat-Diehl, Duhamel, Sirigu and Dolan (2004) find that regret is neurologically different from disappointment. The decision -making under uncertainty is distorted due to inability to experience regret. On the other hand, Coricelli, Critchley, Joffily, Doherty, Sirigu, Dolan (2005) measure brain activity during repeated lottery choices and show that the experience of regret leads to regret aversion when making decisions. Sorum, Mullet, Shim, Bonnin-Scaon, Chasseigne and Coqneau (2004) suggest that regret is an important emotion when analyzing real life decision-making. In financial markets, investors would experience regret. Shefrin (2009) notes that regret is an emotion of pain and anger when agents find that they have made a bad decision in the past and realize that they could have taken one with better outcome. One of the objectives of this paper is to analyse and compare the evidences as presented in studies done worldwide.

The impact of past performance on choice of investments is studied by Odean, Strahilevitz, and Barber (2005) .This study find that the securities sold with a gain are bought back twice as often as securities which had incurred losses. Not many researches are done on buying behavior with regard to securities which are sold in the past. Consequently, to be certain that the old adage “once bitten, twice shy” is still relevant in decision-making of investors, this paper investigates the impact of “snakebite effect”, one of the psychological biases on decision-making of investors.

Many financial academic researchers have documented research works about the seasonality effect that are associated with investor behavior in the stock market. Doyle and Chen (2009 suggest that seasonality effect in stock markets refers to various set of findings concerning the calendar “anomalies” in the market. There are many supporting evidences to show that returns are higher on some days of the week or some months of the year. Chen and Chien (2011) have investigated the cognitive biases in investment decisions in Asia. As the Chinese New Year is a propitious festival, investors are more optimistic about the future and thus underestimate the risk and more likely to buy the stock after money have been received. Kim and Nofsinger (2008) also find that under the Chinese tradition, employees are rewarded with bonus before Lunar New Year. This gain contributes to “house money” effect and thus, investors are more likely to assume higher level of risk.

This current paper aims to examine behavioral issues in Malaysia. Specifically, this paper investigates how four behavioral biases; factors; beliefs, self-confidence, regret and “snakebite” effect affect financial decisions in Malaysia. Understanding these biases is imperative and is the first step

in making wise investment decisions.

III. DATA AND METHODOLOGY

A sample size of 250 investors is surveyed. Respondents are selected based on their age, race, occupation and gender.

The questionnaire is specifically designed and online survey is used as well. Likert scale is used to examine how strongly the subjects agree or disagree with statements on a 4-point. This is a forced choice method since the middle option of "Neither agree nor disagree" is not available. The survey consists of three sections. First section is to obtain some information pertaining to the background of the respondents. Respondents are asked questions with regard to their gender, age, race and occupation. The second section has four questions which could give us an insight into their intentions and trading experiences. The last section is on the determinants of psychological effect on investors’ decision-making. Each of the psychological variables consists of four questions. Respondents are required to answer all the questions based on their opinions and perceptions. The data is analysed using descriptive analysis, Pearson’s product-moment correlation test, One-Way ANOVA test and Independent T-Test. Bivariate and partial correlation using Pearson’s product-moment correlation test are used instead of Spearman test as preliminary assumption testing notes no serious violations of assumptions.

Figure 1 shows the research framework developed for this research. It comprises four independent variables which are beliefs, overconfidence, regret and “snake bite effect” while the dependent variable is the investor’s decision-making. These independent variables are used to examine how they affect the investor when making decisions.

Hypotheses of this research are formulated as follows:

**H1: There is a significant relationship between beliefs and the investor’s decision making**

Some people are perseverant in their beliefs. Once they are convinced that a particular stock is going to perform well, they will hardly change their mind. (Lord, Ross and Lapper, 1979) and (Kahneman and Tversky, 1972).

**H2: There is a significant relationship between self-confidence and the investor’s decision making**

Overconfidence always causes people to underestimate the risks and overestimate their knowledge. They are overconfident in their predictions to identify the price of stocks and trade aggressively. This leads them to make faulty decisions. (Chung and Lee, 2006).

**H3: There is a significant relationship between regret and the investor’s decision making**

Everyone will experience regret in real life. Investors feel regret when they buy too high or sell too low or trade too much of their stocks. Besides, investors might sell winner stocks too early or holding on to losers. This will cause them regret. (Sherfin, 2009).

**H4: There is a significant relationship between “snake bite” effect and investor’s decision making**

After experiencing a financial loss, people become less willing to take risks. (Odean, Strahilevitz, and Barber, 2005).

IV. FINDINGS

*A. Descriptive Statistics*

Descriptive statistics presents an overview and summary of the respondents’ demographic details and their past experiences in stock trading as shown in Table 1 and Table 2. 70% **(**174**)** of the respondents are male and 30% (76) of the respondents are female from the survey. This shows male respondents are more likely to trade in stock market then female. The range of respondent’s age is from 20 years old to 50 years old above. Most of the respondents or 42.8% (107) belong to the group of 30-39 years old whereas there are only 3.2% (8) respondents belonging to group 50 years old or above. Meanwhile, 32.4% (81) of the respondents are between 20-29 years old and 21.6% (54) of the respondents are between 40-49 years old. This shows that the investors in the group of 30-39 years old are the most active in the stocks market.

Chinese respondents occupy 57% (142). This is followed by Malay respondents, 28% (71), Indian respondents, 14% (35) and lastly, there are 2 respondents from other races. Most of the respondents, 42.8% (107) are employees. 26% (65) of the respondents are self- employed. University students represent 28.4% (71) of the respondents whereas 2.8% (7) of the respondents are retirees.

Table 2 shows most of the respondents, 42.4% (106) of total 250 respondents have been trading stocks between 0-5 years. 38.8% (97) of the respondents have been trading stocks between 5-10 years, 15.6% (39) between 10-15 years, 2.8% (7) between 15- 20 years and only 1 respondent has been trading stocks for more than 20 years.

Table 2 shows that 77% (192) of the respondents use online trading. Conversely, 23% (58) of the respondent trade stocks though their remisiers. Based on the technology nowadays, more of the investors are using online trading rather than by the remisier. Investors who are trading stocks through remisiers belong to the older group. As illustrated in Table 2, OSK188 is the most popular trading account from the survey as 38% (95) of respondents are using it. This is followed by Maybank2u, 18% (45). HLeBroking is the third most popular account as 17% (43) of the respondents are using it. I\*trade@CIMB has 37 (15%) users. 7.2% (18) of the respondents select Public Invest eTrade as their trading account and 3% (7) of the respondents use AMeSecurities.

Only 2% (5) of the respondents choose RHBInvest as their trading account.

Table 3 shows that 157 (63%) of the respondents are risk averters while 93 (37%) of the respondents are risk seekers in the survey. This shows that most of the respondents are usually risk averters and this evidence is consistent with the studies done by Olsen (1998), where most people consider themselves to be risk-avoiders rather than risk-takers.

TABLE 1

STATISTICS FOR DEMOGRAPHIC VARIABLES

Table 1 shows70% **(**174**)** of the respondents are male and 30% (76) of the respondents are female from the survey. This shows male respondents are more likely to trade in stock market then female. The range of respondent’s age is from 20 years old to 50 years old above. Most of the respondents or 42.8% (107) belong to the group of 30-39 years old whereas there are only 3.2% (8) respondents belonging to group 50 years old or above. Meanwhile, 32.4% (81) of the respondents are between 20-29 years old and 21.6% (54) of the respondents are between 40-49 years old. This shows that the investors in the group of 30-39 years old are the most active in the stocks market. Chinese respondents occupy 57% (142). This is followed by Malay respondents, 28% (71), Indian respondents, 14% (35) and lastly, there are 2 respondents from other races. Most of the respondents, 42.8% (107) are employees. 26% (65) of the respondents are self - employed. University students represent 28.4% (71) of the respondents whereas 2.8% (7) of the respondents are retirees

TABLE 2

STATISTICS RESULTS FOR TRADING EXPERIENCE, SOURCE OF

TRADING AND ONLINE TRADING ACCOUNT

Table 2 shows most of the respondents, 42.4% (106) of total 250 respondents have been trading stocks between 0-5 years. 38.8% (97) of the respondents have been trading stocks between 5-10 years, 15.6% (39) between 10-15 years, 2.8% (7) between 15-20 years and only 1 respondent has been trading stocks for more than 20 years. 77% (192) of the respondents use online trading. Conversely, 23% (58) of the respondent trade stocks though their remisier. Based on the technology nowadays, more of the investors are using online trading rather than by the remisier. Investors who are trading stocks through remisiers belong to the older group. As illustrated in Table 2, OSK188 is the most popular trading account from the survey as 38% (95) of respondents are using it. This is followed by Maybank2u, 18% (45). HLeBroking is the third most popular account as 17% (43) of the respondents are using it. I\*trade@CIMB has 37 (15%) users. 7.2% (18) of the respondents select Public Invest eTrade as their trading account and 3% (7) of the respondents use AMeSecurities. Only 2% (5) of the respondents choose RHBInvest as their trading account.

TABLE 3

STATISTICS RESULTS FOR ATTITUDE TOWARD RISKS

Descriptive test is also being used to analyse and summarise the questions designed based on independent and dependent variables. The item on each variable is measured against a 4-point Likert Scale. As presented in table 4, the item “I trust the research and past performance of the company” in the beliefs variable, scores the highest mean of 3.37 with a standard deviation of 0.559. The plausible interpretation of this evidence is people normally reduce the complex tasks of forming expectations and probabilities to make simple judgments. These judgments heuristics are useful, but sometimes result in systematic errors or cognitive illusions as suggested by Tversky and Kahneman (1974). People also try to spot trends in stock price and expect past prices to continue. This is called “extrapolation bias” according to De Bont (1988) and De Bont (1993).

Most of the respondents show their over-confidence in their prediction as the item in Self-confidence “I can predict the future stock price movement after I did some analysis has the highest mean of 3.24 with a standard deviation of 0.620. This evidence is supported by studies by Langer (1975) on “Illusion of Control” and “Self- attribution bias” by Barberis and Thaler (2003) .

Most of the respondents also hope to earn more as they regret selling the stock too soon. The item “I should hold the stock longer because now the price has increased over the selling price” has the highest mean of 3.26 with a standard deviation of 0.569. This evidence is supported by the study done by Shefrin (2009).

From the result, most of the respondents fear a financial crisis as they had experienced before and which had caused them lose a lot of money in stock markets. This evidence of “snakebite” is consistent with the studies by Odean, Strahilevitz, and Barber (2005).

Respondents are found to be risk averters as they want to avoid risk and choose the safer option in making the decision. This is supported by studies done by Olsen (1998), where most people consider themselves to be risk-avoiders rather than risk-takers.

TABLE 4

STATISTICS FOR SCALE ITEM IN EACH VARIABLE

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **N** | **Mea** | **Std.** |
|  |  | **n** | **Dev** |
| **Beliefs** |  |  |  |
| *I follow the ‘hot’ tips from some forums.* | 250 | 3.13 | 0.555 |
| *When I hear the good announcements from* | 250 | 3.01 | 0.523 |
| *the particular company, I buy the stock.* |  |  |  |
| *Meanwhile, when I hear the bad news, I* |  |  |  |
| *quickly sell the stock.* |  |  |  |
| *I follow the crowd to buy/sell the ‘popular’* | 250 | 3.21 | 0.559 |
| *stock.* |  |  |  |
| *I trust the research and past performance of* | 250 | 3.37 | 0.523 |
| *the company.* |  |  |  |
| *I trust the judgement and opinions from* | 250 | 3.04 | 0.597 |
| *newspapers.* |  |  |  |
| **Self-confidence** |  |  |  |
| *I consider that I buy the stock at the lower* | 250 | 3.23 | 0.474 |
| *price and sell at the higher price.* |  |  |  |
| *I believe that my stock will go up in the bull* | 250 | 3.18 | 0.673 |
| *market.* |  |  |  |
| *I can identify ‘good’ stock with my* | 250 | 3.00 | 0.674 |
| *knowledge and skills.* |  |  |  |
| *I can predict the future stock price movement* | 250 | 3.24 | 0.620 |
| *after I did some analysis.* |  |  |  |
| **Regret** |  |  |  |
| *I should buy the stock earlier at a lower* | 250 | 3.08 | 0.547 |
| *price because now its price has risen.* |  |  |  |
| *I should sell the stock earlier at a higher* | 250 | 3.14 | 0.687 |
| *price before the price has dropped over the* |  |  |  |
| *buying price.* |  |  |  |
| *I should hold the stock longer because now* | 250 | 3.26 | 0.569 |
| *the price has increased over my selling* |  |  |  |
| *price.* |  |  |  |
| *I should listen to the advice from my elders* | 250 | 3.24 | 0.571 |
| *or friends before I buy/sell the stock.* |  |  |  |
| **“Snakebite effect”** |  |  |  |
| *I don’t want to take the high risk although* | 250 | 3.18 | 0.516 |
| *high risk brings high return.* |  |  |  |
| *I try to avoid buying losing stock in which I* | 250 | 3.12 | 0.670 |
| *had made losses.* |  |  |  |
| *When the price drops temporarily, I will sell* | 250 | 3.07 | 0.610 |
| *the stock to prevent from getting more losses.* |  |  |  |
| *I worry about the influence of financial* | 250 | 3.21 | 0.578 |
| *crisis.* |  |  |  |
| **Decision making** |  |  |  |
| I work out all the pros and cons before make | 250 | 3.33 | 0.487 |
| decision. |  |  |  |
| I remain calm when I have to make decision | 250 | 3.18 | 0.643 |
| very quickly. |  |  |  |
| I make decision after considering all of the | 250 | 3.29 | 0.559 |
| implications. |  |  |  |
| I take the safe option if there is one. | 250 | 3.55 | 0.498 |

*B. Reliability Analysis*

As shown in Table 5, reliability analysis is performed using Cronbach’s alpha. Cronbach’s Alpha of beliefs is 0.720, self- confidence, 0.743, regret, 0.719, snake bite effect, 0.710 and decision making has 0.740 of Cronbach’s Alpha. Cronbach’s alpha is one of the most used reliability statistics to test the reliability of each variable. It verifies the internal consistency or average correlation of items in a survey instrument to measure its reliability. Cronbach’s value of 0.60 and above is considered to be reliable (Nunnally and Bernstein, 1994) as it indicates the items are homogenous and measuring the same construct. Reliability analysis is applied to identify how well the items grouped are positively correlated to one another.

TABLE 5

RESULTS FOR RELIABILITY ANALYSIS

*C. Pearson Correlation Analysis*

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. The relationship between each independent variable and dependent variable is investigated using Pearson Correlation analysis. Preliminary analysis notes no serious violations of assumptions.

Based on the correlation results shown in table 6, there is a significant positive and moderate relationship between beliefs and investor’s decision making, r=0.224, n=250, p=0.012 < 0.05. It shows that people believe in the news they obtain from others. They are perseverant in their beliefs once they are convinced by the ‘hot’ tips or some rumours from others. They may overreact to the news or announcements which may result in making the wrong decision.

The correlation between overconfidence and investor’s decision making is moderate and positive, r=0.224, n=250, p=0.098<0.01. This indicates that the relationship is only significant at the 0.10 level. From the survey, not everyone is overconfident. Conversely, some of them lack confidence with regard to their skills and knowledge in decision-making. They are pessimistic about their stocks. They tend to think that their stock prices will go down and this could not be avoided.

Regret is found to have a significant moderate relationship with investor’s decision making as it has a p-value of 0.32 (p<0.05). It is normal that everyone will have the experience of feeling regret in real life. As a result, the investors regret when they buy at a high price and sell at a low price. Sometimes, they hold the stocks too long and the price may have reached lower than the buying price. All these would cause them regret and affect their decision-making. This is consistent with the findings by Shefrin (2009).

The results also show that the relationship between “snakebite” effect and investor’s decision making is significant, r = 0.242, N=250, p= 0.024 < 0.05. The reason being is investors feel fear after having experienced a big loss in the share market. They feel pessimistic and don’t have confidence to buy ‘winning’ stocks. They are unwilling to take high risks even though it brings high returns. Besides, they are more sensitive to the price movements. They take action quickly in selling their stocks when they gain a little profit or when they suffer some losses to prevent more losses. They also tend to worry about other external factors that could have an influence on their stock performance.

TABLE 6

CORRELATION RESULTS AMONG THE VARIABLES

*D. Partial Correlation Analysis*

Partial Correlation is also used to control the effect of gender on the independent variables. This analysis is necessary as gender effect could introduce some biases which could affect the accuracy of the results. As suggested by Ricciardi (2008), females are more worried and anxious during the decision-making process. The results shown in table 7 indicate that the relationship between each independent variable and dependent variable is stronger except for the pair of variables between regret and decision making. The relationship between each independent variable and dependent variable is still significant and moderate after controlling for gender effect.

*E. One Way Analysis of Variance (ANOVA)*

Analysis of Variance (ANOVA) compares the variance or variability in scores between the different groups for all the variables. This paper investigates the mean differences of the different age group in beliefs, self-confidence, regret “snakebite” effect and decision making. Variability for between and within the age groups for each variables are shown in table 8. The mean differences between the age group in beliefs, self- confidence, regret, “snakebite” effect are significant at significance level of 0.05 as all the p-values for between age groups in each independent variables are lower than 0.05. However, there is no mean difference found

in age groups with regard to decision making. This suggests that age is not a significant factor in affecting decision making and instead decision making are influenced by beliefs, self-attribution, regret and as well as “snakebite” effect. Age between 20-39 could be considered as young while 40 and above could be considered as old in the survey. The plausible interpretation of this evidence is that the older group of investors believe in the news from newspapers or from their friends. The younger group is more confident than the older group. The younger group could be overconfident of their predictions and knowledge of the markets. As for regret, the older group of investors has more experience of regret compared with the younger group. Hence, they are more risk-averse especially for those who had experienced major losses before.

TABLE 7

PARTIAL CORRELATION AFTER CONTROLLING FOR GENDER

Analysis of Variance (ANOVA) compares the variance or variability in scores between the different age groups. The mean differences between the age group in beliefs, self-confidence, regret, “snakebite” effect are significant at significance level of 0.05 as all the p-values for between age groups for each independent variable are lower than 0.05.

*F. Independent Sample T-test*

Independent sample t-test is also performed to examine if there is a significant mean differences between the investors who regard themselves as risk averter and those who regard themselves as risk seeker. The results (table is not shown) show no significant mean differences between these two groups of investors in all the variables. All the p-values are smaller than 0.05. This suggests everyone could be influenced by these four psychological biases.

V. CONCLUSIONS AND IMPLICATION

The evidence documented in this study shows that psychological characteristics will affect investors in their decision-making. The hypotheses of the research have been tested in the previous chapter and the results show all the independent variables such as beliefs, regret, self-confidence and as well as “snakebite effect” have a significant relationship with investors’ decision.

There is a relationship between beliefs and investor’s decision-making. This suggests respondents rely on beliefs in making decisions. Some of them rely on ‘hot’ tips. Some investors buy shares on a whim or believe in the recommendations given by even a stranger. They follow the crowd in buying or selling shares. Besides, they may overreact to the news. They tend to take action as they receive the news though it could be rumours or it could be false. Investors are advised not to rely so much on beliefs and not to overreact to the news, as overreacting may lead to wrong decisions.

The results from this study show that the relationship between self-confidence and decision-making is only found to be significant at 0.10 level. From the findings, the respondents lack confidence in their skills and prediction. They are pessimistic when making decisions.

Everyone experiences regret in real life. Therefore, investors should learn from the lessons on the reasons that caused them regret. They should avoid making similar mistakes. They will not regret if they could make better decisions. Most people consider themselves to be risk-avoiders rather than risk-takers (Olsen, 1998).

Some investors who had experienced losses are reluctant to assume risks or buy stocks though it is appropriate to buy at that particular moment. Consequently, they may miss out many opportunities to profit from high returns.

Most of the findings of this study are consistent with most of the evidences presented by researchers in other countries. The insights provided by this study could be capitalized by investors, organizations and the government in formulating better strategies to control and monitor the stock market behavior in Malaysia.