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PROSPECT THEORY AND INVESTOR BEHAVIOUR

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ABSTRACT

Increasing governance through effective control mechanism, upcoming hybrid financial products coupled with the application of new technology in the financial market both equity and the debt market has resulted in the euphoria in terms of volume and price. However, with this increasing volatility has resulted in the fluctuations in the market leading to increased unpredictably and uncertainty in prices. Other than the market fundamental and corporate development resulting from micro and macro changes in policy, Investors have to discount the impact of the steep market declines prompted by deteriorating revenues, alarming reports of scandals ranging from bribing to insider trading, practices of illegal corporate accounting etc. Information explosion has resulted into the irrational exuberance where investor has lost self-control and is motivated by the fear and greed. Traditional market theories are losing their relevance while new schools of thoughts like behavioral finance are gaining dominance. Human emotions and personality is gaining significant attention in the field of finance. It has been realized by the researcher worldwide that the investors are irrational and are ruled by emotions and the situations. This paper being the conceptual and exploratory article is an attempt to find the key behavioral elements impacting the decision making of the individual investors.

KEYWORDS: *Hybrid Financial Products, Financial Market, Equity, Debt Market, Corporate Accounting.*

Introduction

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute." - William Feather

Most of the financial and the economic theories are based on the assumption that human is rational and make informed decisions. If this is the case than investors will hold on stock which have growth outlook and one would never sell these, while if it not worthy of holding no informed investor would have purchased it keeping rationality in mind. But it never happens that way. In recent past as we progressed with the new technology, enhanced product portfolio and improved governance through stringent policies in the equity market, we have witnessed increasing volatility and fluctuations in the market leading to increased unpredictably and uncertainty in prices. Today, investors have to endure a sluggish economy, the steep market declines prompted by deteriorating revenues, alarming reports of scandals ranging from bribing to insider trading, practices of illegal corporate accounting etc.. Impact of all these business activities needs to be discounted by the investor while making investment decisions. Today, Stock market performance is no longer the result of intelligible characteristics of market but is guided to extremes by investor's emotions that are still baffling to the analysts. Today, it is not only about the information mining; financial analysis; corporate performance; or commonly accepted criterion of stock performance measurement but the investor's irrational emotions like fear, greed, overconfidence, risk aversion, etc., seem to resolutely drive and dictate the fortunes of the market. In this era of information explosion when it has become easy to locate the required information, the idea of fully

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