A Conceptual Framework for Investor's Trading Behavior: An Analysis on Behavioral Finance and Social Dimension Perspective

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In sharp contrast to the traditional finance paradigm, which seeks to understand financial decisions by assuming that markets and many of its participating people and institutions (called economic agents) are rational, behavioral finance aims at improving the understanding of financial markets and its participants by applying insights from behavioral sciences such a psychology and sociology. For many investors, investing does not constitute or limit to simply weighting the risk and expected returns of various investment assets The objective of this paper is to build a conceptual framework for the study of investor's trading behavior from a behavioral finance and social dimension perspective . It is based on extensive literature study so as to achieve a clear understanding of the current state of the literature on individual investor behavior and concepts that might be relevant for this behavior, For a lot of investors, investment is merely not about utilitarian benefits but also expressive benefits such as feeling of patriotism, social responsibility, need to affiliate with other investors. Investments, however, have been private matter and considering their low visibility, investments could be assumed to have a limited signaling function towards outsiders. This study contributes by investigating the effect of more socially oriented needs as well as investors' level of investment-related knowledge and experience on the investors' propensity for conformity behavior. Subsequently, do these socially oriented needs and knowledge and experience lead to Herding behavior and Competency effects. The study probes the investor's behavior in three dimensions like, (a) Trading Behavior, (b) Social Influence and, (c) Investment Needs. If investors have more socially oriented needs, this can have important implications for their decision-making processes and market interactions. It would, for example imply that they do not make their decisions in social isolation. Rather, individual investors would be susceptible to social influences from other investors and also they would exert social influence on other investors. Accordingly, the framework suggests eight hypotheses to examine the individual investors' personal needs, level of investment-related knowledge and experience, and the effect of these investor characteristics on the psychological biases such as Conformity behavior, Herding behavior, Overconfidence and Competence effect from a social dimension perspective. This conceptual model will enable investment professionals like investment consultants, financial advisors, fund managers, financial services organization to consider and to be aware of the multiple needs of different groups of investors both financial needs as well as social needs. It may also be relevant to be aware of the social biases that influence the investor's propensity to conform thereby exhibit Herd behavior. The understanding of these needs and the effect on the behavior of the investors are relevant while developing new investment products, while adopting marketing strategies for the new as well existing products, and also for communication with existing as well as new clients.

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