

EMOTIONAL ASPECTS OF INDIVIDUALS TOWARDS INVESTMENT BANKING

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ABSTRACT

INVESTMENT BANKING:

A part of banking system that operates complex task included in financial transactions such as initial public offerings, merger acquisition, underwriting. They mainly focus on their customers to help them to survive in the competitive market of finance. As this banking method includes highly professional experts to predict the present and future perspective of market they can point out the current investment pattern to individuals. Raising of money a crucial task will be managed by investment banks and helps companies, governments and other entities. They not only focus on their clients but also they give importance to brokers and private investors by facilitating mergers, acquisitions and reorganizations. Emotional aspects of individuals are influenced by their different types of personality traits and behaviour. Eventhough emotions influence the investment decision there includes the money management backup for each individuals to invest in the banks. Only the people who have the ability to handle emotional aspects can handle their investment wisely and there by acquire a strong base.

LITERATURE REVIEW:

RajaRajen vayeko in his study analyzed the market conditions that exhibit the future preferences of investors towards investment banking. According to him rural market of the economy depends on the growth of the economy.

Gloria Hamilton main part of her style depicts about the collection and amount by investment banks in the forms of deposits and they invest in the sector in which demand or capital have high requirement. Investment bank mainly concentrates on the corporation for funds and raising of money. For this fund raising some of the industries issue debt and others may sell their equity.

Kunnanatt analyzed the influence of emotions on the investment and he said that investors with high emotional influence had win win relationship and those with less emotional influence had lose relationship

Richard through his study emphasized the emotional aspects of individuals who made investment after considering their moods, emotions attitudes. According to him brain involves a main part of an individuals to take risky decision on their investment.

CONEPTUAL FRAMEWORK

THE ROLE OF EMOTIONS IN INVESTMENT DECISIONS

The role of emotions in investment decisions cannot be overstated. Even the most experienced investors can fall prey to their emotions, making irrational decisions that can result in significant financial losses. One of the most significant emotions that influence investment decisions is fear. During a market downturn, investors may become fearful and sell their investments, often at a loss, to avoid further losses. However, selling during a market downturn can be a costly mistake, as markets tend to rebound eventually, and investors who hold their positions often reap the rewards. On the other hand, greed can also be a significant driver behind investment decisions. When markets are performing well, investors may become greedy and take on too much risk. They may invest in speculative or high-risk investments, hoping to make a quick profit. However, these investments often come with a high degree of volatility and can result in significant losses. Overconfidence is another emotion that can impact investment decisions. Overconfident investors may believe they have a unique ability to predict the market and may make investment decisions based on this belief.

However, the reality is that no one can predict the market with complete accuracy, and overconfident investors may end up making poor investment decisions that result in significant losses. Finally, excitement is another emotion that can impact investment decisions. Investors may become excited about a particular stock or investment opportunity and invest without conducting proper due diligence. This can be a costly mistake, as investments that seem promising on the surface may have significant risks that are not immediately apparent. In summary, emotions play a significant role in investment decisions, and investors should be aware of their emotions and work to avoid making irrational investment decisions based on them.

The impact of emotions on the composition and returns of the selected investment decisions:

The impact of emotions on the composition and returns of selected investment decisions can be significant. Emotions such as fear and greed can lead investors to make poor investment decisions, resulting in lower returns. For example, fear of market volatility may cause an investor to sell their investments prematurely, missing out on potential gains when the market rebounds. Conversely, greed may cause an investor to take on too much risk, resulting in significant losses. Additionally, emotions can impact the composition of an investor's portfolio. For example, fear may lead an investor to avoid certain sectors or asset classes, resulting in an unbalanced portfolio. Conversely, greed may cause an investor to over-invest in a particular sector or asset class, increasing their portfolio's risk exposure. Emotions can also impact the timing of investment decisions. For example, fear of missing out (FOMO) may cause an investor to buy into a particular stock or investment at the peak of its value, resulting in lower returns. Similarly, emotions such as panic or anxiety may cause an investor to make impulsive investment decisions, resulting in losses. In contrast, rational decision-making can lead to better investment outcomes. By avoiding emotional biases and making investment decisions based on objective criteria, investors can build a well-balanced portfolio with appropriate risk exposure. For example, a disciplined investment strategy that incorporates regular rebalancing and diversification can help investors avoid the negative impact of emotions on their investment decisions. Emotions can have a significant impact on the composition and returns of investment decisions. Investors should be aware of their emotional biases and work to make rational investment decisions based on objective criteria to achieve their long-term investment goals.

A) Balance your emotions and financial decisions

The good news is once you have identified these negative feelings; it can motivate you to come up with creative solutions to correct any financial problem. Some of these negative emotions are listed:

SADNESS:

The impact of sadness on financial decision-making has been studied extensively, and research shows that it can lead to impatience and narrow-mindedness. When individuals experience sadness, they tend to focus on immediate gratification over long-term benefits, resulting in present biases. These biases can skew decision-making towards short-term gains instead of long-term benefits, leading to poor financial planning and potential losses. One reason for this effect is that sadness can alter an individual's perception of time, leading them to place a greater value on immediate rewards over delayed gratification. This can result in impulsive spending decisions, such as making purchases on credit, taking out loans, or withdrawing savings prematurely. Such decisions can have long-term consequences, such as higher debt, lower savings, and reduced financial security. Sadness can also cause individuals to adopt a more pessimistic outlook towards the future. This can result in a reluctance to invest in long-term financial planning, such as saving for retirement or investing in the stock market. Instead, individuals may prefer to focus on immediate needs, such as paying bills or reducing debt, even if this means sacrificing long-term financial security. Furthermore, sadness can cause individuals to narrow their focus, leading to a lack of creativity in finding financial solutions. This can lead to missed opportunities for investment and growth, as well as a reluctance to take calculated risks that could lead to long-term financial success.

ANXIETY:

Fear and a lack of awareness are two common reasons why people hesitate when it comes to making investment decisions. These factors can lead to indecision and inaction, resulting in missed opportunities for financial growth and security. Fear is a natural response to uncertainty, and when it comes to investing, uncertainty is inherent. Investors are often afraid of losing their capital, particularly in volatile markets where the value of investments can fluctuate rapidly. This fear can be compounded by social pressures and expectations, leading investors to hesitate even when opportunities for growth are present. A lack of awareness is another factor that can lead to hesitation when it comes to making investment decisions. Personal financial planning can be complex and overwhelming, particularly for those with limited experience or knowledge. Investors may feel unsure about how to proceed, leading them to hesitate and delay making important investment decisions. In addition, the fear of relying on family and friends for money can be a significant deterrent for many individuals. This fear can lead to a lack of confidence in their ability to manage their finances independently, leading them to avoid making investment decisions altogether. To overcome these barriers, individuals can take steps to improve their financial literacy and confidence. This can include seeking out information and resources on personal financial planning, such as attending workshops or seminars, working with a financial advisor, or reading books and articles on the subject. By gaining a deeper understanding of the investment landscape, individuals can feel more confident in making investment decisions and taking calculated risks to achieve their financial goals.

ENVY:

Envy is a common emotion that many people experience when they see others with possessions that they desire. However, when envy turns into jealousy, it can have a detrimental effect on personal financial planning. Jealousy can cause individuals to feel embarrassed or inferior, leading them to spend beyond their means in an attempt to measure up to others. This can lead to debt, financial insecurity, and even bankruptcy. Jealousy can manifest in various ways when it comes to personal finances. For example, an individual may feel the need to buy a new car or house to match that of their peers, even if they cannot afford it. They may feel embarrassed to say no to social outings or events that are beyond their budget, leading to overspending and a lack of financial discipline. Furthermore, jealousy can lead to impulsive and irrational financial decisions. An individual may feel the need to make a big purchase to prove their worth, even if it is not in their best interest financially. This can lead to overspending, credit card debt, and a lack of savings, which can have long-term consequences for their financial security. To avoid the negative effects of jealousy on personal financial planning, it is important to focus on one's own financial goals and priorities. This can include setting a budget, creating a savings plan, and working towards long-term financial goals such as buying a house or saving for retirement. By focusing on one's own financial situation and goals, individuals can avoid making impulsive and irrational financial decisions based on jealousy.

OVER-CONFIDENCE

Optimism is a powerful emotion that can have positive effects on many aspects of life, including personal finances. However, when optimism turns into blind faith, it can have a negative impact on investment decisions and personal financial planning. Some individuals tend to be too optimistic when it comes to their investment decisions. They may lack an understanding of investment planning or believe that their investments will somehow work out without taking the necessary steps to ensure success. This can lead to a lack of diversification, ignoring risks, and an overreliance on market trends and short-term gains. One of the main risks of blind optimism in investment decisions is the potential for significant losses. By ignoring risks and failing to diversify their investments, individuals put themselves at risk of losing their capital in the event of market downturns or unexpected events. This can have a significant impact on their long-term financial security and retirement planning. In addition, blind optimism can lead to overconfidence and poor decision-making. An individual may believe that they have a special insight or knowledge about the market that others do not, leading them to take on excessive risks or make impulsive investment decisions. This can result in poor investment performance, missed opportunities for growth, and financial stress. To avoid the negative effects of blind optimism on personal financial planning, it is important to take a disciplined and strategic approach to investment decisions.

This can include setting realistic investment goals, diversifying investments, and regularly reviewing and adjusting investment strategies based on changing market conditions.

CONCEPTS OF INVESTMENT BANKING

Investment banks act as intermediaries between a corporation and the financial markets. IB mainly concentrates for the creation of wealth.

Underwriting: Investment banks provides primary service as underwriting by providing initial public offering and debt financing. Invest banks analyses the market conditions, capital requirements, self-confidence, socio economic status, perception level of investors for identifying the requirement of capital.

Transaction Advisory -Investment banks include the merger, acquisition, leveraged buyouts and consolidation .It promotes the value of stakeholders’ investment bank.

Sales and Trading -It also facilitates the sales placement of stock services with profitable ideas. For attaining profit investment banks introduce some products such as equity, debt, commodities, derivatives or a mix. For facilitating the services the bank charges commission or brokerage for the transaction.

Research-Research divisions are the backbone of each organization. Investment banks create high value for the creation of clients through their profit centers. So in order to satisfy the clients and also to maximize the profit they may concentrate on specific products.

CATEGORIES OF INVESTMENT BANKS

Regional Boutique Banks

This kind of banks includes specialized employees with special skills. It is very small and the clients will be based on place they situated or state wise.

Elite Boutique Banks

It provides national and international presence and mainly concentrates on merger acquisition. This type of banks deals mainly with large deals.

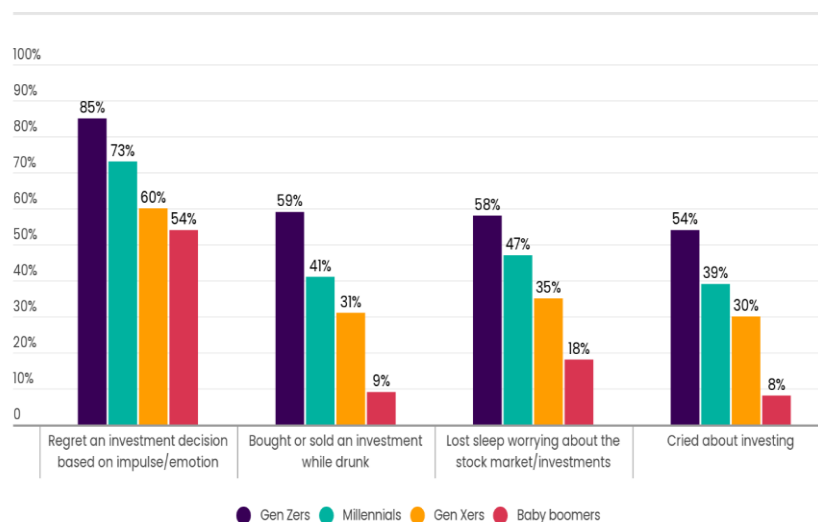
Middle Market Banks

It is between regional boutique bulge bracket bank which mainly concentrates on the industries for raising equity, debt and asset managing.

Bulge Bracket Banks

It is one of the huge bank with worldwide presence. Trading advisory and retail are the three main profit generating divisions. This type of banks include large no of employees and may more clients.

GENERAL ANALYSIS



This is the analyses conducted by magnify money survey from 1116 individuals. In this chart we can see that 85% of individuals regret about their investment decisions they did on the basis of emotions and the same happened when move on to the last part of chart here 54% of individuals cried about their investment. Emotions plays a vital role here.

CONCLUSION

The combined effect of an uncertain future need, the marketing pressure created by financial institutions and current financial status influence the individuals to select their investment banking opportunity. The right balancing of emotions with correct financial knowledge will only make an individual to take good investment banking decisions.

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