The International Journal's
Research Journal of Commerce & Behavioural Science
ISSN:2251-1547

INVESTOR ATTITUDE ON RISK AND INVESTMENT GOALS AMONG EXPATRIATE - INDIANS IN OMAN

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Abstract

The study is exploratory and empirical in nature attempts to understand the mobilization of savings and levering of the Investment among the expatriates in a multi-cultural environment like the Oman, utilizing the results of an attitude survey, analyses the motivations of Expatriate-investors and their attitudes in the participation across a range of the investment initiatives. It examines the influence of investment education and investment knowledge in the pattern of their Investment. By using statistical tools the study attempts to evaluate the association between variables such as investment goals, investor willingness to take risk, attitude towards Investment portfolio construction etc.

Key words: Investor attitude, Investment goals, risk taking attitude and Investment stress

1.1 Introduction

The present study attempts to understand Mobilization of savings and levering of the Investment among the Expatriates in a multi-cultural environment like the Oman, utilizing the results of an attitude survey, analyses the motivations of Expatriate-investors and their attitudes in the participation across a range of the investment initiatives, enables us to gain an enhanced understanding of how an individual investor uses Investment education to make useful Investment decisions. The study also covers the Investor stress, factors causing the same, attitude over the alternate investment opportunities, the market cycle, reasons for holding an investment portfolio etc., among expatriate investors in Oman.

2.1. Statement of the Problem

Most of the expatriates in Oman have financial goals but not many of them know how to go about achieving the same. They lack investment knowledge or expertise to design an investment plan that maximizes their savings. Consequently, they adopt the default approach of leaving all the savings in bank deposits. This results in an asset allocation decision, one that is very conservative. This conservative investment plan is simply not working as the savings are not compounding fast enough to keep up with inflation. The investor need to invest more wisely so that the savings earn sufficient returns to pay for essentials, holiday trips, as well as their retirement plans.

2.1.1 Research Objectives

The specific objectives of this study are listed below:

1. To understand and review the existing literature on the significance of Investor attitude, factors influencing the attitudes, investment stress and Investor risk taking behaviour etc.,
2. To study the investor attitude among expatriate investor in Oman and examine the factors influencing the same.
3. To examine the individual investors' Investment education and Investment knowledge in deciding their pattern of Investment.

2.2 Methodology

The study is exploratory and empirical in nature; primary data have been employed for the study. The study consists of 50 samples, which are collected from the investors in Oman. The data set include, primary data were collected through a method using structured questionnaire and secondary data was collected from relevant publications and websites. The data collected was converted into readable data and was tabulated and analyzed for logical status using Microsoft-Excel spread-sheets and other appropriate statistical method. In this study, Chi-square test has been employed to interpret. Suitable hypothesis framed and analyzed to predict the preference of the investors.

2.2.1 Hypothesis of the study

Hypotheses are set for Chi-square analysis to check whether there was any association between variables. The variables identified for analysis include; investment goals, investor willingness to take risk, attitude towards Investment portfolio construction etc.

2.2.2 Data collection

Duration of 6 months was spent for the completion of the research topic and research activity, carried out mainly in the city of Muscat, Oman among Indian expatriates. This period was directed towards data gathering and analysis, as well as towards the drafting of reports on the various phases of the research. The researcher selected samples to represent all segments in the data. Keeping this fact in view, after identifying the factors influencing the attitude, a questionnaire was prepared and it was pre tested and necessary modifications were incorporated in the final draft which was administered for the collection of primary data. By virtue of data obtained from the research survey, descriptive and analytical tests were carried out.

2.2.3 Statistical Tools

The questionnaires are entered, verified, and edited using Microsoft-Excel spread-sheets. Completed questionnaires were analyzed and the tests were calculated by using Microsoft-Excel 2007 version as the tools of the study. Further, the chi-square test has been employed to test the relationship between the socio-economic background and the level of attitude of the respondents.

2.3 Positive and Negative Investor Attitude

An investor with a positive (optimistic) attitude is more likely to make money than one with a negative (pessimistic) attitude.

Investor with an optimistic attitude

- Realizes that not all choices are winners, that over the long run, with patience and discipline, he will make money.
- Sets aside his pride and let's himself learn valuable investing lessons.
- Understands that everyone makes mistakes, including himself and realizes that if you learn from a mistake, it can be a good thing.
- More likely to make money, given the same recommendations than someone who has a negative attitude.
- Likely to be happy at the end of each day, and more likely to start investing with a positive attitude the next day.

Investor with a pessimistic attitude

- Is more likely to give up hope and abandon a successful system and emotions,
- More likely to focus on bad investments rather than good ones.
- He is more likely to think he is always right, rather than others.
- More likely to lose money, given the same recommendations than someone who has a positive attitude.
- More likely to be mad or upset or stressed out at the end of the day and more likely to bring that back the next morning.

These cycles continue on and on and on...

That is why most successful people are optimists and most unsuccessful people are pessimists. Investors must learn the value of this quality and always look on the bright side of life!

2.4 Factors influencing Investment attitude

Everyone experience setbacks from time to time with his/her investments. Sometimes these setbacks can put one down to the point that one loses the confidence in his/her ability to make sound investment decisions.

Following factors influence investment attitude and contribute to regain investor confidence

1. Taking full responsibility for one's own investment decisions and avoid making excuses or justifying one's actions is the most important attitude expected of a successful investor. Excuses are indicators of hidden fears and some time prevent the investor from looking out for such cases where some one else successfully overcome the situation that the investor is using as an excuse.
2. Investors must be in the group of associates with positive investment attitude. In doing so, they develop the supportive habits that attract abundance into your life. Building an excellent support network of like-minded investors who share a similar investment philosophy or approach is very essential for positive investment attitude.
3. Investor must focus on what he can change in the moment, not on what has already passed or could happen in the future. Live your life to the fullest in joy and gratitude one day at a time. Life should be fun and so should investing.
4. Investor must be busy in stress releasing activities every day, whether physical or mental. Relieving stress has a positive impact on both mental and physical health. It clears ones' mind, facilitate better investment decisions.
5. Investor must take positive steps towards changing his/her attitude. Actions speak louder than words. Identify and focus on those actions that bring about increasing confidence in his/her abilities. In addition to reading the stock investment book that help improve one's investment knowledge, spending more time researching potential stocks gives greater confidence to his/her investing abilities.
6. Investor ability to learn from failures determines whether or not he will become successful. He must not take his/her failures personally and let him/her down.
7. Establish short-term goals that one can accomplish within a week or month. Consider goals that entail networking online more with other investors, finding and connecting with a mentor, or checking out an investment course to improve a specific gap in one's investment knowledge.

Once becoming more confident and better investor, the success stories of investment continues

2.5 Leveraging the stress of investment

Inevitably people tend to get caught up in the potential returns of an investment and forget to assess how to deal with the downside risk. And more often than not the problem stems from their failure to understand the essence of what they are investing in and whether managing such a strategy would suit their personality, their lifestyle and their risk profile. However this could and is unnecessary and completely avoidable.

If people actually considered an investment from the point of whether they have the right equity, time, experience, tenacity or knowledge to learn and manage the investment, then most investors will find themselves thriving towards their dreams. On top of this in many cases a poorly structured finance facility adds to a person's problems because they're unable to gain access to more equity or exit earlier than expected incurring prohibitive costs and penalties.

In most cases its just time that they need to buy for the situation to remedy itself and well structured lending facilities will do this provided allowances have been made when the loan was first established. Experiencing a loss through investment foul, causes a person's confidence to be shot to shreds so severely that they may never attempt investing again of any type, all because they were not given the right advice and information.

The road to financial freedom is filled with many lessons to learn so knowing what type of investment suits you and your personality and having the right lending structure in place, will not only save you a great deal of heartache, it will enhance your life the way investing is intended to.

Individuals have different risk tolerances. Investor ***risk tolerance*** is the ability and willingness to assume risk. Ability to assume risk is based on Investor's chosen asset base, investment time horizon, and his/her liquidity needs. In other words, investor's ability to take investment risks is limited by how much he/she have to invest, how long to invest it, and their need for portfolio to provide cash—for use rather than reinvestment—in the meantime. Also willingness to take risk is shaped by his/her "personality," investment experiences, knowledge and education. Attitudes are shaped by life experiences, and attitudes toward risk are no different. Figure 2.5.1, "Risk Tolerance" shows how investor level of risk tolerance develops.

Figure 2.5.1. Risk Tolerance

3.1 Review of Literature

Before undertaking the study on the motivations of Omani-Expatriate investors, an exhaustive review of existing literature on the analysis of investor attitudes, in the participation across a range of urban investment initiatives, enables us to gain an enhanced understanding of how an individual investor uses information contained in analyst and management forecasts, reasons for holding an urban regeneration investment portfolio, evaluate factors and perspectives concerning the attraction of private finance into urban investment.

In their study, Dhar & Zhu (2006) used investor trading records to investigate individual differences in the disposition effect. They found that a fifth of the sample exhibited behavior contrary to the disposition effect. They attributed this to investors' information quality and ability to analytically process information. Interestingly they found that wealthier, older and professional investors exhibited less of the disposition effect. They also found that trading

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ISSN:2251-1547

experience reduced the tendency for investors to commit the disposition effect. Individual behavioral examination of methods to alleviate the disposition effect is a new direction in the literature. Krishnan & Booker (2002) observed the characteristics which influenced investor decision making when using analyst recommendations to make a short-term decision to hold or sell a stock. They found that the 'strength' of the forecasts, which was determined by the level of detail in the forecast, was a contributing factor in reducing the disposition effect. When a weak analyst forecast was provided (i.e. no supporting information was provided to support the analyst recommendation), it was found that it reduced the disposition effect for gains, but it had no impact on losses. However, when an analyst forecast was strong, it reduced the disposition effect for both gains and losses. Krishnan &Booker found that investors had a tendency for regret aversion' consistent with Shefrin & Statman (1985). In this respect, investors preferred to follow the analysts' recommendations rather than to do the opposite. This was especially apparent for the strong analyst recommendations for a paper loss, which is also consistent with loss aversion theory (Odean 1998) where investors were reluctant to realize their losses. Krishnan & Booker (2002) is significant because it examines a plausible solution to reduce the disposition effect with the use of detailed analyst forecasts.

More recently, the interrelationship between disclosures provided by management and analysts has received considerable attention where the latter have been labeled as accomplices in management's earnings guidance in situations where they have been manipulated by management in their effort to improve perceived performance (Mittendorf &Zhang 2005).The central theme of attribution theory is that individuals 'interpret behavior in terms of its causes and that these interpretations play an important role in determining reactions to the behavior' (Kelley & Michaela 1980, p. 458). We draw on this framework to explain our prediction that news that is contrary to investors' expectations will have a greater influence on their decisions.

Consumer behavior research began in the 1960s but there have been few studies on consumer decision-making under risk about financial service industry. Financial products investors often purchase investment products by drawing on experience or through the investment appraisal process (Harrison, 2003). Therefore, past investment experience and expertise of investors provides them with risk awareness and so have become important commodity risk assessment factors in future. Some personal traits such as risk preference, and personal experience affect risk assessment and awareness.

The propensity to build up risk can further affect actual behavior, where risk refers to how far decision makers are prepared to extend their exposure to risk . Risk perception forms the basis of risk communication which means that people facing uncertainty and ambiguity in the available information, construct inferences and draw conclusions for them. These faculties determine people’s attitude to risk and their behavior in risk related decisions. Risk perception is determined from the questions investors ask, their familiarity with organizational and management systems etc. all of which are important factors. Risk perception and propensity to risk have a strong negative correlation. In fact, prospect theory does not deal with the effects of past investor experience on future investment behavior. Sitkin and Pablo (1992) developed a model of determinants of risk behavior. In this model, personal risk preferences and past experiences form an important risk factor in which to frame the problem, and social influence also affects the individual’s perception. Sitkin and Weingart (1995) extend the Sitkin-Pablo model leading to the definition that risk perception and propensity are the mediators in risk behaviours of uncertainty decision-making. In this hypothesis, past investment establishes the frame for the propensity to risk, risk transfer, and risk awareness which impact decision-making behaviour. Thus risk orientation and risk perception are reduced to antecedent variables in decision-making behaviour under risk.

Investment experience is an important factor influencing behaviour. Investors with more experience have relatively high risk tolerance and they construct portfolios of higher risk (Corter and Chen, 2006). The success or failure of past investor experience influences the tendencies of investors towards risk and risk perception, and further affects decision-making behaviour. Kathleen Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation and past experience of successful investment increases investor tolerance of risk. Inversely, unsuccessful past experience leads to reduced tolerance to risk. Therefore past investment behaviour affects future investment behaviour.

The impact of behavioural differences by gender is also an important variable. Female investors more of often than their male counterparts tend towards risk aversion which is demonstrated by their more conservative investment behaviour. This claim is evidenced by a smaller number of market enquiries, lower trading volume and lower frequency of transactions attributable to females (Fellner and Maciejovsky, 2007). Ronay and Kim (2006) have pointed out that there is no difference in risk attitude between individuals of different gender, but between groups of such, males indicate a stronger inclination to risk tolerance. That is, no gender difference was found at an individual level, but in groups, males expressed a stronger pro-risk position than females.

Investor perception of risk affects the expected return on investment. In traditional concepts of finance, it is understood that investors do not welcome risk but that investments with higher expected rates of return are also understood to bear higher levels of risk. Thus risk and reward are in positive correlation. However, not all investors possess this knowledge. Despite a wealth of literature and trained professional opinion supporting the existence of a positive correlation between risk and return, some novice traders and unskilled investors perceive expected return to be in negative correlation to risk (Muradoglu, 2005) (Byrne, 2005).

Despite risk perception and the tendency of such to be transmitted and influence the decision making behaviour, people continue to make investments in the face of uncertainty. This decision making under risk is reflected in the individual investor's portfolio construction. That is, risk perception affects return expectations and asset allocation behaviour simultaneously. Therefore the expected utility theory based on a traditional finance perspective cannot explain the anomalous investment behavior of irrational people. Since this incongruity was noticed, Kahneman and Tversky have proposed prospect theory as a reasoned theoretical explanation for this phenomenon.

Normal investors are affected by cognitive bias and emotions in decision-making behaviours, rational investors are not (Statman, 2005). Behavioural Finance scholars have already proven that the act of engaging in risky decision-making in uncertain circumstances cannot be considered "rational" and that this descriptor should best be replaced with the more appropriate "heuristic" in that such decisions are by rule of thumb (they are experience based). Thus decision-making in such circumstances may be understood without cognitive bias. Heuristics is an important feature of the individual decision-making process which may be considered to include thought representativeness heuristics (Tverversky and Kahnemen, 1972, 1973, 1974 and 1982) and availability heuristics (Tversky and Kahneman, 1973 and

1979). It is important here to understand that there is anchoring bias in the decision-making process which arises due to factors such as overconfidence, loss aversion, status quo bias, mental accounting, framing and so on. Investors in the process of assessing the risks and returns are influenced by this anchor effect (Tversky and Kahneman, 1974). Kahneman and Tversky claim that in the process of assessment, people use certain starting values as reference points, and that these reference points may be volatile values to which subjects add necessary adjustments. The KT experiment demonstrates that this adjustment is usually not reliable and people confronted with different situations produce different anchor values. Perceptions of risk are affected by anchors, which lead investors to raise their returns expectations when given a bias/anchor of a higher value.

Behaviour Finance scholars believe in objective consideration of investment risk and return because these factors can be strongly impacted by subjective framing influences. Decision-making processes relying on frames often cause problems to be viewed in different ways, which leads to different choices. Investors in financial markets receive a spectrum of reports which can be interpreted differently making cognition a factor in the final decision-making response. Shefrin and Statman (1994) found that noise traders have a greater cognitive bias than informed traders.

Overconfidence and optimism are further forms of bias. De Bondt (1993) found that individuals rely on their personal past experience as a foundation and it is from this that excessive self-confidence in decision-making can originate. Such investors make inappropriate decisions with insufficient information due to this personal trait (Shefrin and Statman, 1994). In addition to Overconfidence bias, optimism is an Achilles heel leading to investment losses. Individuals with this failing often feel they possess an innate talent and in their optimism, over-rate their own assessment ability (Kahneman and Riepe, 1998). Having overconfidence and optimism causes people to further overestimate their own knowledge, underestimate risk, and it even reduces risk recognition.

4.1 Analysis and Interpretation

The data set include, primary data were collected through a method using structured questionnaire. The respondents include 50 Oman based Indian expatriates of whom 30 were male and 20 female. The respondents were questioned for their opinion on Investment habit, saving pattern, period/frequency of investment, preferred investment areas, knowledge of investments perception on Risk and Return, attitude towards Risk etc.,

The major findings include:-

Investment Knowledge:-

- 62% of the respondents agreed to have limited to nil knowledge of investment. More than 50% of the male respondents possess limited to nil knowledge of investment. 28% of the female and 18% of the male respondents with less than AED 5000 monthly income possess limited to nil knowledge of investment.26% of the male and 12% of the female respondents possess good/extensive knowledge of investment.

Investment Goals:-

- 44% of the respondents have Inflation protection as their investment goal, followed by significant growth of capital (24%) /capital preservation (20%).Only 12% of the respondents preferred aggressive growth as their investment goal. Investor with aggressive growth as their investment goal has Islamic securities /national bonds /structured products as preferred areas of investment.

Investor risk taking nature:-

- 82% of the respondents were either average risk takers or low risk takers. 18% of the respondents who were high risk takers have their investment goals evenly distributed between - Aggressive growth, Capital preservation, Inflation protection and Sig. growth of capital. Inflation protection was the most common investment goal among all categories of risk takers.

Investor attitude:-

- 66% of the respondents – (42% male and 24% female) were having "aggressive investor attitude" whereby they would feel worse -Being in the stock market and seeing their account go down substantially in value.34% of the respondents – (18% male and 16% female) were having "conservative investor attitude" whereby they would feel worse - Not being in the stock market and seeing it (index) go up substantially in value. Of the respondents -60% with average-to-low risk taking nature were having "aggressive investor attitude" whereby they would feel worse -Being in the stock market and seeing their account go down substantially in value.

Investor expected return on investment:-

- 64% of the respondents were expecting return in less than 1 year; out of which 52% were averages to low risk takers and 12% were high risk takers. 36% of the respondents were expecting return only after 1 year; out of which 30% were averages to low risk takers and 6% were high risk takers. Over all only 2 % of the respondents were expecting return within 3 months and none of the female respondents were expecting return within 3 months. Maximum number of respondents (62%) had expected return in 6-12 months. Maximum number of respondents (82%) was either low or average risk takers.

4.2 Hypothesis testing

Hypotheses are set for Chi-square analysis to check whether there was any association between the variables investment objectives, investor willingness to take risk, attitude towards Investment portfolio construction etc

1. Testing for association between investment goals and Risk taking categories of the respondents: - (Ref: Annexure Table-1)

Null H_O: There is no significant association between investment goals and Risk taking category of the investors.

Alternative H_O: There is significant association between investment goals and Risk taking category of the investors.

Table-1 showing investment goals and Risk taking categories of the respondents

Risk taking category \ Investment Goals	Average risk taker	High risk taker	Low risk taker	Grand Total
Aggressive growth	3	2	1	6
Capital preservation	4	2	4	10
Inflation protection	11	2	9	22
Significant growth of capital	3	3	6	12
Grand Total	21	9	20	50

- Chi Square Statistic χ2 Absolute Values= 5.9382, Degree of Freedom= 6.
- Table value @ 95% confidence (for 6 degrees of freedom) = 12.59.
- The calculated chi-square value, 5.9382 is lower than the critical value at 0.05 and 0.01 significant levels. Hence, we accept the NULL hypothesis and conclude that there is no relationship between investment goals and Risk taking category of the investors.

2. Testing for association between investment attitude and Risk taking categories of the respondents Ref: Annexure Table-2)

Null H_O: There is no significant association between investment attitude and Risk taking category of the investors.

Alternative H_O: There is significant association between investment attitude and Risk taking category of the investors.

Table-2 showing investment attitude and Risk taking categories of the respondents

Investment attitude\ Risk taking category	**Being in the stock market and seeing my account go down substantially in value.**	**Not being in the stock market and seeing it (index) go up substantially in value**	**Grand Total**
Average risk taker	14	7	21
High risk taker	3	6	9
Low risk taker	16	4	20
Grand Total	**33**	**17**	**50**

- Chi Square Statistic χ2 Absolute Values=6.0309.Degree of Freedom= 2
- Table value @ 95% confidence (for2 degrees of freedom) = 5.99147.
- The calculated chi-square value, 6.0309 is higher than the critical value at 0.05 significant levels. Hence, we reject the NULL hypothesis and conclude that there is a significant relationship between investment attitude and Risk taking category of the investors.

3. Testing for association between education and investment knowledge and Risk taking categories of the respondents Ref: Annexure Table-3)

Null H_O: There is no significant association between Education and Investment knowledge of the investors.

Alternative H_O: There is significant association between Education and Investment knowledge of the investors.

Table-3 showing associate Relationship exist between Education and Investment knowledge

	Investment knowledge				
Education	Extensive	Good	Limited	None	Grand Total
Graduate	3	8	7	5	23
Post Graduate & Above	2	6	15	4	27
Grand Total	5	14	22	9	50

- Chi Square Statistic χ2 Absolute Values=3.21. Degree of Freedom=3
- Table value @ 95% confidence (for 3 degrees of freedom) =7.8147.
- The calculated chi-square value, 3.21 is lower than the critical value at 0.05 and 0.01 significant levels. Hence, we accept the NULL hypothesis and conclude that there is no relationship between Education and investment knowledge of the investors.

5.0 Conclusion

Positive attitude enhances the capabilities of Investors. They are able to focus on opportunities, not obstacles, and are persistent in finding solutions to investment challenges. Most of the investments of Omani-Expatriates involve investments that are completely unsuited to them. The reason being is that executives investing in property, stock or derivative strategies that require a degree of diligence that becomes completely unmanageable when combined with the day to day demands of their careers. Consequently they make hasty decisions or fail to act when required and lose significant proportions of their portfolios. The survey analysis had given clear conclusions that because of the expatriate investors have limited to nil knowledge of investment and they have Inflation protection followed by significant growth of capital and capital preservation as their investment goal and no other aggressive investment goals they can aim at. This was justified by the fact that 82% of the respondents were either average risk takers or low risk takers. The age-old fact that that Education coupled with investment knowledge are the essential factors decides the investment attitude of any Investor, was proved correct once again in the study.

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