Different facets of investment behaviour

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Introduction

Investment behaviour is a complex phenomenon that is influenced by a variety of factors such as personality traits, risk tolerance, economic conditions, and market trends. Let's take a look at a caselet that illustrates some of the different facets of investment behaviour:

The Case

John is a successful entrepreneur who has built a thriving business over the past decade. He has accumulated a significant amount of wealth and is now considering investing some of it in the stock market. John has a high risk tolerance and enjoys the thrill of taking calculated risks. He has done extensive research on the stock market and believes that he can make a substantial profit if he invests wisely.

However, John also has a tendency to be impulsive and make decisions based on his emotions rather than logical analysis. He has a history of making impulsive purchases and investments that have not always worked out in his favor. He is aware of this tendency and has been working on developing a more disciplined approach to his investment decisions.

John's financial advisor has recommended that he diversify his portfolio by investing in a mix of stocks and bonds. John is hesitant to invest in bonds because he views them as low-risk and low-reward. He is more interested in investing in high-growth stocks that have the potential for substantial returns.

Despite his impulsive tendencies, John has a solid understanding of market trends and has developed a set of criteria for selecting stocks to invest in. He is also aware of the importance of monitoring his investments and making adjustments as needed.

In summary, John's investment behaviour is influenced by a variety of factors including his risk tolerance, personality traits, knowledge of the market, and discipline. He is aware of his tendency to be impulsive and is working on developing a more disciplined approach to his investment decisions. By diversifying his portfolio and investing in a mix of stocks and bonds, John can mitigate his risk while still pursuing his desire for high returns.

Questions:

1. How would you describe different behaviour of investors while making investment decisions?
2. How it (behavioral investment) is different from traditional investment theory.