

**INVESTORS' DEMOGRAPHIC AND
PSYCHOLOGICAL CHARACTERISTICS ON
INVESTMENT BIAS IN SRI LANKA**

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**Dissertation submitted in partial fulfillment of the requirement for
the Master degree of science in Financial Mathematics**

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DECLARATION OF CANDIDATE

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text. Also, I hereby grant to University of Moratuwa the non-exclusive right to reproduce and distribute my dissertation, in whole or in part in print, electronic or other medium. I retain the right to use this content in whole or part in future works (such as articles or books).

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Declaration Supervisor

The above candidate has carried out research for the Masters Dissertation under my supervision.

Name of the supervisor: Mr. Rohana Dissanayake

Signature of the supervisor:

Date :

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Researcher

Abstract

Behavioral finance is not a new paradigm in financial markets, which has recently emerged in the 20th century as a response to the problems faced by modern financial theory. Broadly speaking, it discusses that some financial phenomena are better understood by means of models in which agents are not fully rational. Present study is an attempt to analysis the relationship between investors' characteristics and investment bias. For the study purpose researcher distributed 500 questionnaires among the CSE investors simple random sampling method. But only 67% of questionnaires were received by researcher. Investor's demographics variables and five personality traits variables are the independent variables. Deposition bias, herding bias and overconfidence bias are the dependent variables. From the analysis researcher can conclude that education level and age have significant relationship with investment bias. Therefore when the education level and age of the individual investors are increasing biases will be decreased. Psychological variables and investment bias results revealed that extrovert and neuroticism personality's individuals have significant relationship with investment bias. Further researcher can claim that when the education and income level of the extrovert personality's investors are increased, investment bias will be decreased. Investors who are qualified as having responsibilities and being open to experience should analyze market's information carefully and advise with the experts. They should find a real understanding of their own abilities in the stocking market. They should try to limit their false confidence by doing more trades for a decrease in the cost of the trades and an increase in their own outcome.

Keywords: Demographics Factors, Agreeableness, Conscientiousness, Neuroticism, Openness Extrovert, Overconfidence bias, Herding bias, Deposition effect and Investment Bias.

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List of Abbreviations

VEV	Variance-extracted value
CFR	Composite factor reliability
VIE	Variables in the equations
NM	Null model
OTM	omnibus tests of model
MS	Model summary
LR	likelihood ratio
C& S	Cox & Snell R Square
N	Nagelkerke
EL	Education Level
Gen	Gender
Ag	Age
Re	Religion
MS	Marital Status
MI	Monthly income
IV	Independent variable
VIE	Variable in equation
Op	Openness
Ag	Agreeableness
Ne	Neuroticism
Con	Conscientiousness
Oc	Overconfidence bias
De	Deposition effect
Hb	Herding bias
Ob	Optimism bias
PF	Psychological Factors
M	Male
F	Female