



A Study on Investment Decisions and Performance of Individual Households in the Northern Province of Sri Lanka

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Abstract

Investment decision making involves arriving at a number of decisions such as type, mix, amount, timing and grade of investment and disinvestments. Investment performance is the outcome of an investment program. The primary objective of the study is to find out the impact of investment decisions on investment performance of households in the Northern Province of Sri Lanka. The data for the study were collected through questionnaire form 1810 sample respondents from the Northern Province of Sri Lanka, who were selected under stratified random sampling method. The results of the study reveal that Investment Decisions have positive impact ($R^2=0.447$) on Investment Performance of households in the Northern Province of Sri Lanka. In addition, it was also found that standard finance based decisions have positive impact on investment performance, whereas, behavioural finance based decisions have negative impact on investment performance. Standard Finance Based Investment Decisions elements of Return, Risk, Economic Condition, Political Environment and Personal Financial Needs based investment decisions have positive impact on Investment Performance of households. In the case of behavioural finance based decisions, the elements of Representativeness, Availability Bias, Regret Aversion and Herding based investment decisions have positive impact on Investment Performance, whereas Overconfidence and Loss Aversion have negative impact on Investment Performance. It was also found that there are significant differences in the investment performances of households in the Northern Province of Sri Lanka based on their gender, age, educational qualification, occupation, income and residential area. As a whole, the households in the Northern Province of Sri Lanka exhibit bounded rational investment behaviour. Based on the findings of the study, necessary recommendations were provided to improve the investment performance of households. This study provided valuable contribution to the field of household finance by incorporating the roles of the standard finance and behavioural finance based factors in investment decision making.

Key Words: Investment, Investment Decisions, Investment Performance, Standard Finance, Behavioural Finance, Rationality.

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