Machhapuchchhre Capital Limited
माछापुच्छ्रे क्यापिटल लिमिटेड
(Subsidiary of Machhapuchchhre Bank Limited)

Behavioral Biases in Investment Decision

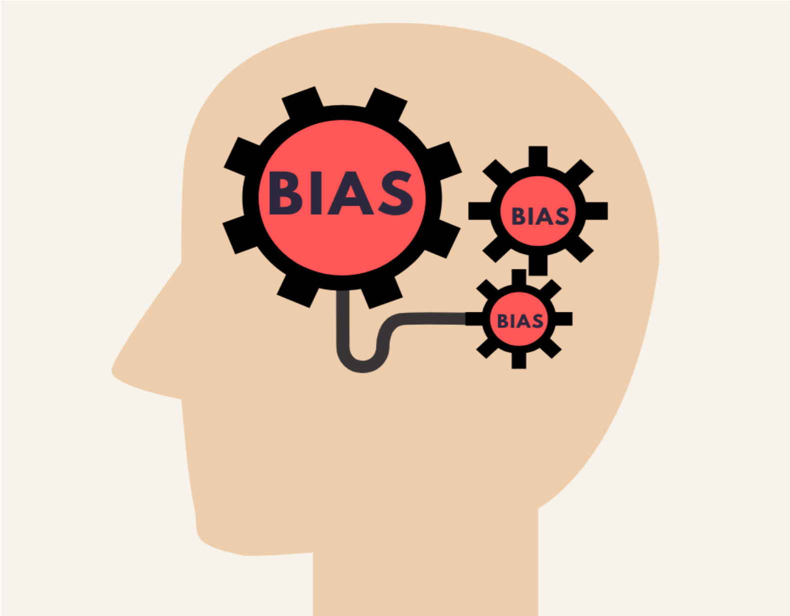
-Research, Strategy & Product Development Team

Behavioral Biases

- Beliefs and preconceived notions that affect our decisions related to our investment actions.
- Caused by factors such as emotions, social pressure, cognitive limitations.
- Leads individuals to make irrational decisions

Types of Behavioral Biases

- Overconfidence bias
- Confirmation bias
- Loss aversion bias
- Herding bias
- Anchoring bias
- Availability bias



Overconfidence Bias

- Tendency to see ourselves better than we are.
- Overestimation of own abilities
- *Example:*

  A stock trader who is convinced that a particular stock is going to rise invested heavily in the stock, but the market turns out to volatile than they had anticipated, and the stock price plummets, resulting in significant losses.


“Confidence is good but overconfidence always sinks the ship”

Confirmation Bias

- Tendency to seek out and interpret information in a way that confirms our pre-existing beliefs and opinions.

- *Example;*

  An investor believes certain stock is going to perform well in the future. They may seek out news articles, opinions that support their belief and ignore those that don't. They may interpret any positive news about the company as evidence that their belief is correct, and any negative news as irrelevant or temporary.

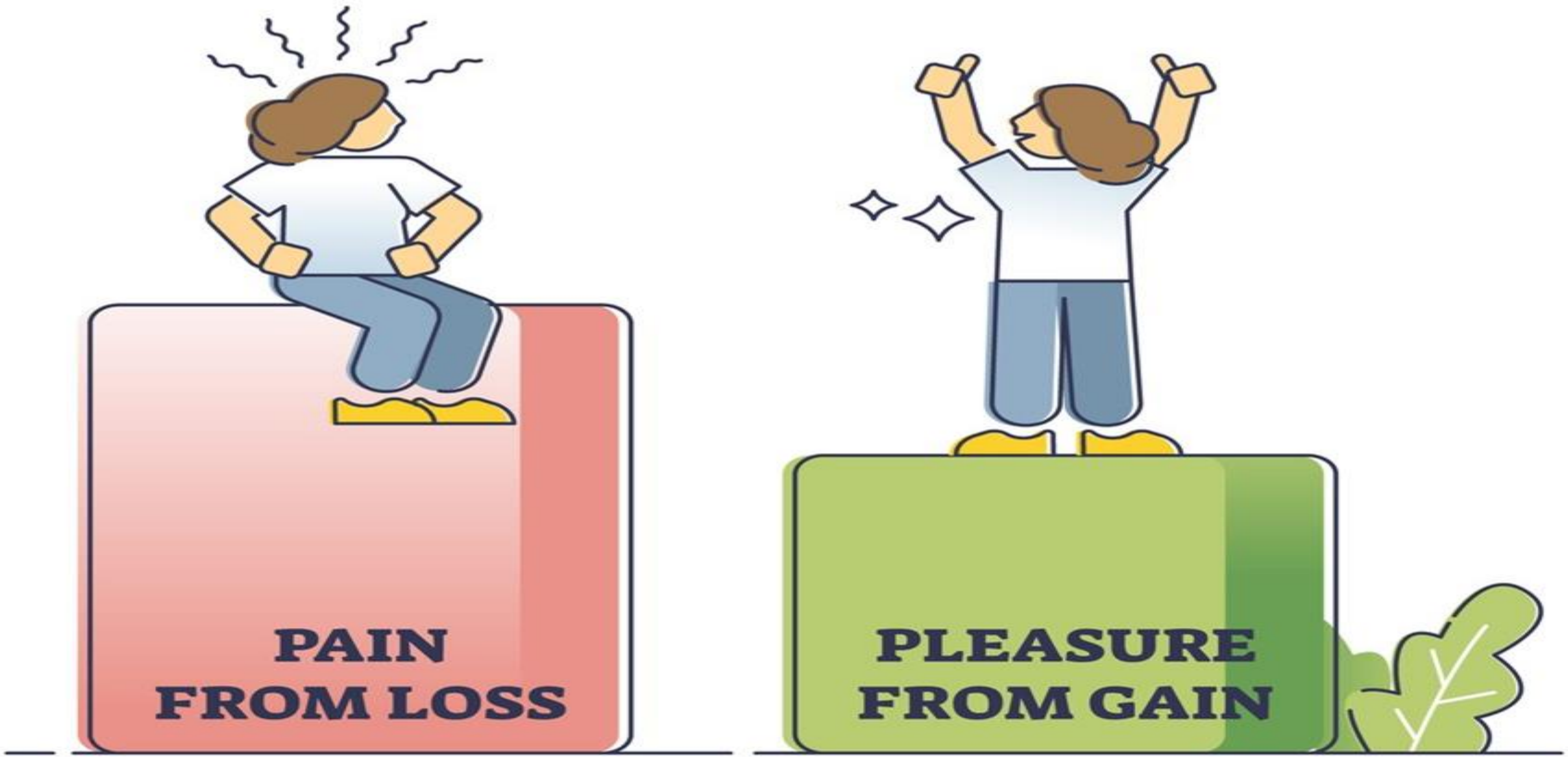
"Don't see the world through your own filter"

Loss Aversion Bias

- Tendency to feel the pain of losses more acutely than the pleasure of gains, leading us to take unnecessary risks or avoid potentially beneficial opportunities.

- *Example :*
  Selling a stock that has gone up slightly in price just to realize a gain of any amount in fear of losses, even though your analysis indicates that the stock should be held longer for a much larger profit.

“Take calculated risk or lose the chance”



Herding Bias

- Tendency to follow the crowd or to conform to social norms, rather than making independent decisions based on objective analysis.
- “Fear of Missing Out”
- Bubble Creation
- *Example :*

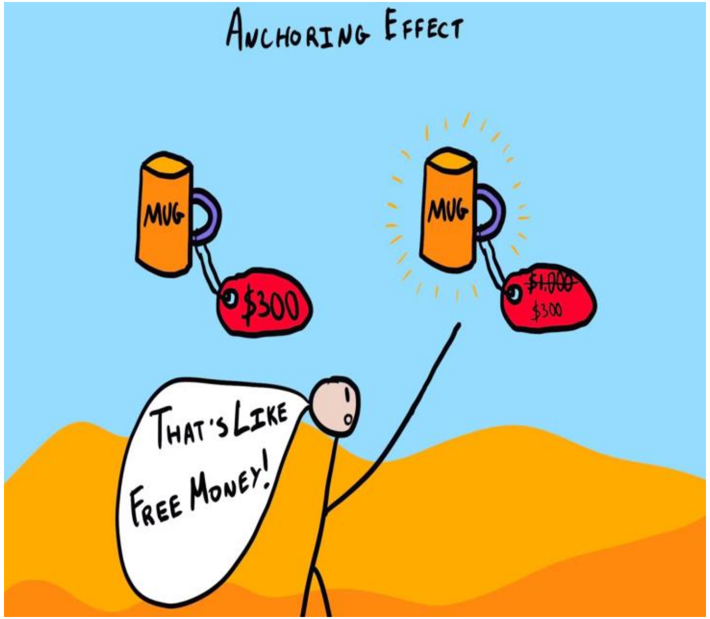
  If your colleagues are making money investing in a particular stock, it feels uncomfortable to sit on the sidelines while everyone else is doing so.


“Be the shepherd, not the herd!”

Anchoring Bias

- Tendency to rely too heavily on the first piece of information we receive when making a decision, and to use it as a reference point for all subsequent judgments.

- *Example :*
  A trader buys ABC Stock shares based on the stock's price hike in the past year. The trader becomes anchored to the past performance and assumes that the stock will continue to rise at the same rate, without considering other important factors such as market trends, competition, or the company's financial health.



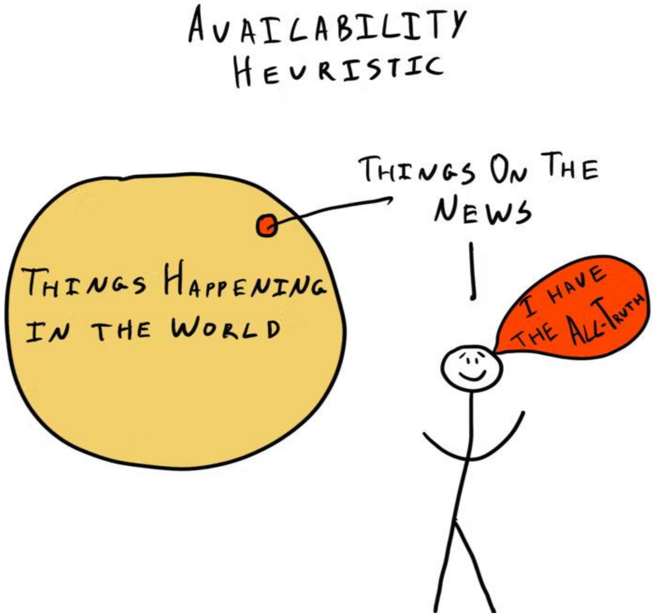
“Never limit yourself to one point of view”

Availability Bias

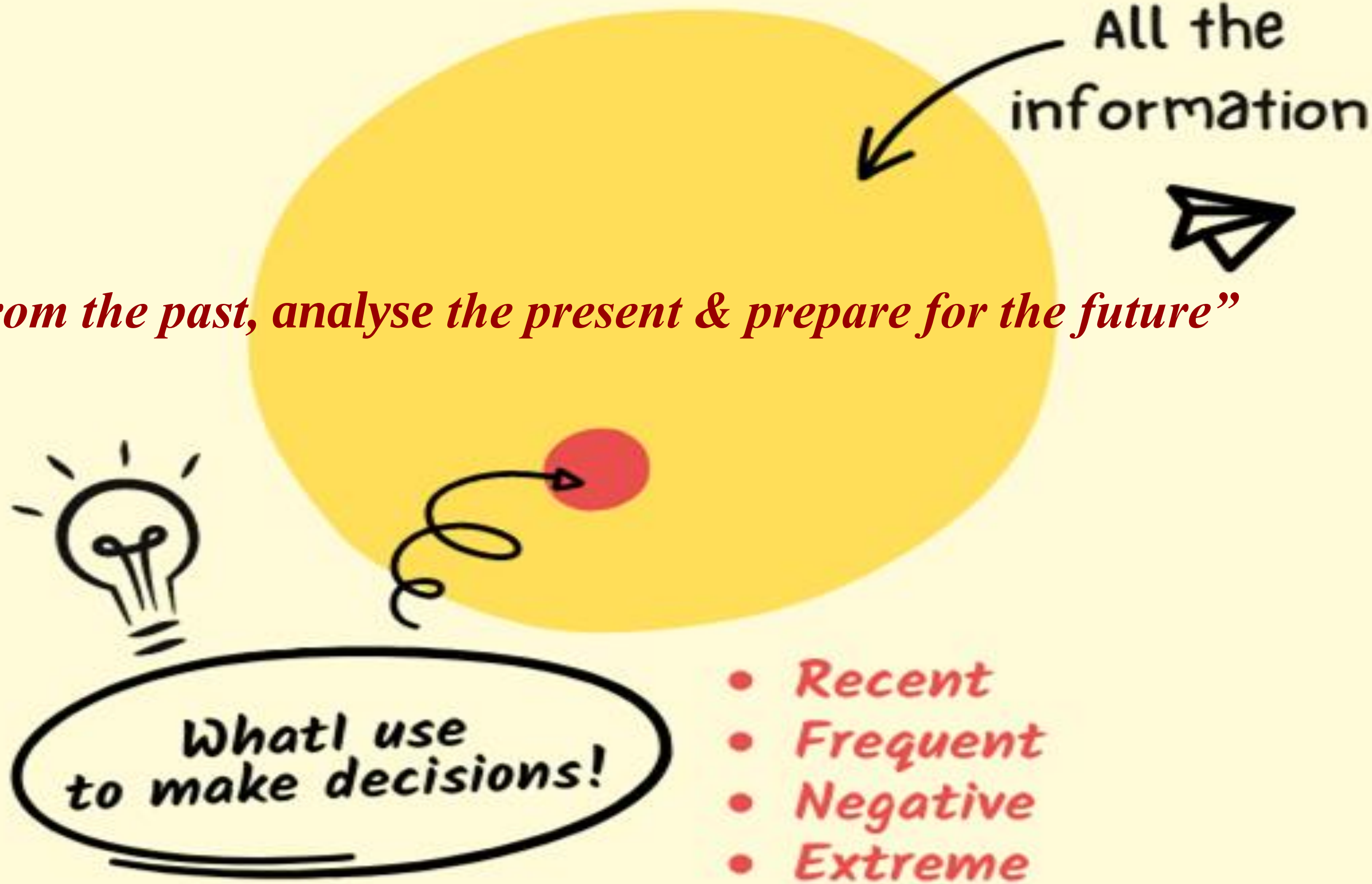
- Tendency of people to rely on easily accessible information to make decisions or judgments, rather than considering all relevant information.

- *Example :*

  Suppose an investor is considering investing in the stock market, and they've heard a lot of recent news stories about a particular sector that has had a series of successful IPOs. Because this information is readily available and memorable, the investor may decide to invest heavily in a related company without fully considering other investment options or assessing the risks associated with the investment.



“Learn from the past, analyse the present & prepare for the future”




Thank you!