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Behavioral Finance: A Study of Correlation Between Personality Traits with the Investment Patterns in the Stock Market

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built up and finally busted. During this time period, investors showed herd mentality, and they preferably invested in companies having “.com” attached to them. The market prices of IT companies rose much above their intrinsic value or fair value. It also happened in the subprime crisis when real estate prices in the USA started rising much above their fair value. After a certain time period, the bubble collapsed leading to the fall of stock prices, wiping off the hard-earned money of investors. The history of irrational behavior can be traced to the sixteenth century in Holland. The tulip bulbs were imported to Holland from Constantinople. These bulbs became very popular with Dutch elite class. Trading of these bulbs started on major stock exchanges in Europe. The prices rose to great heights and people started trading in bulbs in a big way. After a certain time period, people started selling these bulbs and the prices began falling. People started defaulting on their tulip contracts. This bubble finally collapsed leading to huge losses. Therefore, it was realized that there was something which these

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is especially significant in the context of managing portfolios in these recovering markets post-recession which the global economies have witnessed in recent times. The concept of behavioral finance is one such emerging area which if incorporated well in the hard-core finance, based on fundamentals, can yield dividends for portfolio managers and equity analyst and also on the wealth generation of the overall economies emerging in the aftermath of the recession.

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