An Analysis of the Influence of Psychological Cognitive Factors on Investment Behavior

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Abstract: With the active and awakening of market economy, in the field of economic investment, due to the limitation of people's psychological cognition, professional ability and mastering timely and accurate information, it is difficult to do the problem of choosing investment, such as the rational person's hypothesis [1] in economics, and most of them are judgments rather than rational choices. As a result, visions that contradict traditional financial theories often occur.

1. Investors Generally Appear Three Psychological Factors and Their Adverse Effects

There are always two main reasons why the mind and emotions generated by the human brain are extremely complex and often lead to irrational decisions that people should have made under the circumstances of reason: one is that the information obtained is incomplete or the professional knowledge reserve is insufficient; the other is the influence of psychological factors.It is obvious that psychological factors influence investors to make correct and ideal judgments and choices when making investment decisions. This paper takes the psychological factors of investors as the starting point to analyze the impact of their investment behavior.

Figure 1 Stock market chart

1.1. Emotional Investment By Investors and Its Adverse Effects

In the eyes of emotional investors, the norm is "fast decision-making and investing, making substantial profits in the fastest time ."When people make risk decisions in the investment process, when it comes to money, their emotions are likely to beat their minds quickly and become the dominant force in making decisions. Those who are not sure about their emotions, called impulsive investors, tend to use emotion as a vane in all aspects of their lives. So it also puts such strong feelings into investment decisions. When they were an investor, the biggest reason to buy a stock was that one of its characteristics resonated emotionally, so they simply bought it. The influence of emotion on financial decision-making is generally referred to as the wrong attribution bias, and people always bring their emotions into the financial decision-making, increasing the risk of investment. And emotional investors sometimes make the right judgment because of their keen

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intuition.In the long run, however, this emotional investor is not really a qualified investor. Even if they were given enough time to obtain relevant information, there would be no detailed analysis of the current situation. The model pursued by such investors, while seemingly exciting, has not yielded the desired results, since the lack of rational analysis of investment decisions and the inability to steadily concentrate thoughts on the mood of making decisions makes the investment mentality of this model almost impossible to make long-term gains. Many emotional investors view stocks as personal privatisation and idealize the stocks they own, while at the same time prone to extreme disappointment.

1.2. Regret Aversion of Investors and Its Adverse Effects

This sense of regret and disgust refers to the fact that when people are suffering from their own wrong decisions, in order to be able to further avoid the occurrence of regret, people usually make some irrational behavior, the core of this theory is:

Investors are less likely to regret the failure to do so when compared to making the wrong move.

In comparison with the regret caused without the relevant responsibility, the investor's regret is stronger when the final result of the action requires the relevant responsibility. Thus, for investors, a stronger sense of regret would be felt if losses were implicated in their own wrong decisions, and a lesser degree of regret would occur if losses were attributed to factors beyond their control.

In fact, regret is related to the fact that there are too many choices in the choice, because it may increase people's reference point based on the division of income and loss, which in turn leads to a lot of end results will become losses. In addition, too many options may increase the psychological cost and the cost of making decisions. When a person is making a choice, the choice itself is small, then there may be no regret. regret this psychological factor can affect people to make decisions.There is a theory that investors are still reluctant to sell when stocks fall because they want to avoid regret and suffering from their own mistakes. As a result of this psychological impact, many investors may hold a significant share of the loss-making stock.In general, this situation may lead to an increase in the volume of stocks that are profitable themselves, but a decrease in the volume of stocks that fall.This means that these investors have to pay more taxes. In addition, when the regret aversion of investors leads to making decisions in the face of uncertainty, the psychology will produce a less positive action than a negative face. they tend to be unhappy with the experience of producing regret, however, there are many more risky options in reality, that is, regret minimizing options. There are two options, one high risk and the other low risk, but policymakers always know the outcome of choosing the high risk option. In such cases, if investors choose low-risk options, they may eventually regret knowing that high-risk options result better than low-risk ones.

Figure 2 Stock market chart

1.3. Psychological Factors of Investor Overconfidence and Their Adverse Effects

When many investors invest, they often have the psychological problem of "overconfidence ", which is not often referred to as arrogant, arrogant, usually refers to the psychological quality of investors' arbitrariness, thus producing cognitive bias in decision-making. These investors often overestimate their ability to invest and their level of knowledge in this area, specifically for the following reasons for overconfidence:

In reality, people tend to focus only on those who agree with themselves and ignore those who conflict with themselves. Such behaviour is a consequence of overconfidence. In the process of investment, investors can be properly confident, but excessive self-confidence is very dangerous. This kind of overconfidence of investors is more intuitive to explain the amount of change in securities trading confusion, and investors tend to be very confident that understand the subsequent trend of the stock price, but also confident to determine which stock will fall, and which stock will rise, resulting in information misunderstanding, and then the accuracy of the reduction while overestimating their own analytical ability. These investors would then make risky trades and two wrong trades of over-trading, which would eventually lead to losses on the market. The overconfidence of investors is mainly manifested in the following two:

Frequent and excessive trading and problems arising from frequent trading include not only large commission payments but also the possibility that some investors will eventually buy some wrong stocks and sell some good ones.

When investors are affected by risky behaviour, most rational investors, trying to maximize their own yields, are too confident to lead to the level of risk of misjudgment, which often entails greater risk consequences.

Investors have false illusions about the level of knowledge that people tend to believe that as the amount of information they acquire grows, so does their familiarity with it. This illusion of mental error can lead to overconfidence among investors.

Figure 3 Stock market chart

2. Recommendations on These Psychological Factors

When making a decision, investors need to understand some of the psychological biases they have committed in the past investment process and identify them, so that they can use their own strength to overcome these psychological weaknesses as much as possible, and then better control their emotions.

Investors also need to have a clear understanding of the psychological situation of the rest of the investors, observe the collective investment sentiment of the public, so as to know themselves and the enemy, so that they can win the game to the maximum extent and profit from it.

Investors should pay attention to improving their rational understanding of themselves, improving their ability to collect and classify all kinds of information, and reducing investment risk. In addition, the government should actively guide investors to establish a correct and healthy concept, optimize the scale of market investment, and ensure that the market can run stably.

Investors should make clear the reasons for their investment, set reasonable investment targets and maintain a healthy investment environment.

3. Conclusion

To sum up, as long as investors in the investment to achieve rational analysis, reasonable decision-making, to make a more suitable for their actual situation when the decision. Such investors often have to know how to control their psychological emotions. Because often in most cases, investors in the financial stock market game, not only with the rest of the investors to fight, but also with their own emotions and psychology to fight [2]. Therefore, before the stock exchange, the most important thing is to carry on the self-psychological construction, lay a strong psychological defense line and the foundation, and make the appropriate investment behavior in the case of keeping a cool head.

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