The Role of Behavioural Biases and Personality Traits of Retail Investors in ICOS

By avoiding behavioural biases investors can more readily reach impartial decisions based on available data and logical processes. Barber and Odean (2001) study the role of trading behaviour and gender bias for a sample of 35,000 individual accounts over a six-year period. Their findings reveal that males are not only more overconfident about their investing abilities but also trade more often than females. Compared to women, men also tend to sell their stocks at the incorrect time resulting in higher trading costs. Emotional: Investors with this personality type invest using the heart and follow trends or “hot tips.” Instead of investing through diligence, investors with this type of personality are more likely to trust their instincts. Although theory may deem markets to be efficient, investor biases can explain a lot about why assets are often mispriced. Indeed, they have had to cede some ground to behavioral economists who point to the role of bias in financial decisions. The efficient market hypothesis essentially says that investors cannot beat the markets over time since stock prices are based on all available information. The concept underlies some types of passive investment strategies, and I can see certain truths in the efficient market hypothesis. However, bias can play a significant role by unconsciously affecting our decision-making.