

Affect Heuristic and Influence of ‘Name’ in Investment Decisions of Nepalese Investors

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Abstract

The study aims to investigate the presence of affect heuristics in investment decisions and analyze the influence of company and financial tool names in investment decisions. The framework of the Affect Heuristic Model was adapted to measure perceived risk and perceived benefit. Besides the impact of fluency, association and familiar names were tested to discover the level of perceived risk and perceived benefit during the investment decision. The research was conducted among 150 investors who invest in the Nepal Stock Exchange through an online form. The study indicates that Nepalese investors tend to rely on heuristic shortcuts, such as fluency, familiarity, and association, when assessing investment opportunities. They are notably influenced by affect ‘name’ heuristics, shaping their perceptions of benefits. Moreover, their perception of risk and benefit is more influenced by trends and superficial factors like glitz than past performance and corporate character. Local companies and well-known brands are favored due to the familiarity heuristic.

Keywords

Affect heuristic, name, behavioral finance, investment decision, Nepalese investor.

Introduction

One fundamental assumption of mainstream finance is that investors are rational and make investment decisions that maximize value based on available information. Hence, information processing holds critical importance in shaping investment decisions. However, the literature on behavioral finance suggests that investors do not consistently exhibit rational behavior due to inherent biases, information gaps, and emotional influences during decision-making. The marketing discipline has done extensive research on how the “name” of a product or service can affect consumer buying behavior and brand value. In real-life scenarios, the name significantly impacts acceptability and value development (Green & James, 2013). Thus, this study aims to investigate the name's influence on investment decisions. Cooper et al. (2000) studied on 95 companies adopting dot-com names between 1998 and 1988 found that these companies experienced significant and positive abnormal returns due to investor mania, indicating that a company's association with a specific field contributes to value addition.

This paper adopts the framework from the “Affect Heuristic” model related to behavioral finance and analyzes the influence of company names in investment decisions. Factors like perceived risk and perceived benefit are measured that impact the decision of investors during investment decisions through 150 responses collected from an online Google form.

The presence of affect heuristic bias and the impact of fluency, association, and familiar names were tested to discover the perceived risk and perceived benefit level. The study reveals

that Nepalese investors' investment decisions are influenced by affect heuristic bias, with the type of name affecting the scale of perceived risk and benefit.

Review of Literature

Behavioral Finance

Conventional finance theories assume rational investment decisions, but behavioral finance reveals that a significant minority of investors are subject to behavioral biases. Cognitive biases, influenced by personal preferences and experiences, lead to less rational decisions. Behavioral finance examines cognitive limitations and heuristics' impact on decision-making and how these biases diverge for poor decisions. It helps recognize and prevent mistakes, highlighting the importance of understanding and addressing these biases in financial decision-making (Bhattacharya, 2012; Waweru et al., 2008; Byrne & Brooks, 2008; Slovic et al., 1977; Lovallo & Sibony, 2010).

The Efficient Market Hypothesis outlines how people make investment decisions, but behavioral finance examines how people behave in the market (Peters, 1996). According to (Shefrin, 2002), behavioral finance is important for recognizing one's own and others' mistakes, understanding those mistakes, and making efforts to prevent doing them. Behavioral finance studies the influence of psychology on the behavior of investors. It explores investors' cognitive biases' impact on financial decisions (Fieger, 2017).

Affect Heuristic

Heuristics are general guidelines that people follow in difficult and ambiguous situations. When there is a shortage of time, these heuristics aid in decision-making (Waweru et al., 2008). Consequently, people could choose an illogical, simpler, and more successful method of decision-making (Tin & Hii, 2020), which may lead to biases like overconfidence, mental accounting, representativeness and framing (Ritter, 2003). Similarly, Ngoc (2013) concluded that individual investors' decisions at Vietnamese securities companies are influenced by behavioral factors. Research of (Aziz & Khan, 2016; Kengatharan & Kengatharan, 2014; Rajeshwaran, 2020) found the impact of heuristic factors in investment decisions.

Dangol and Manandhar (2020) found that all heuristic biases significantly impact investing decisions, with overconfidence bias having the greatest impact. Additionally, the locus of control was found to have a moderating influence on anchoring and adjustment bias, but not on representativeness or availability bias. Gnawali (2021) discovered that investment decisions are highly influenced by psychological elements, social interaction, regulatory regulations, and corporate image.

Decision-makers use heuristics in uncertain situations, such as the affect heuristic, which involves assessing the dangers or advantages of something without considering its consequences. The interaction of emotion and cognition is a common subject in academic research (Lovallo & Sibony, 2010). The term "affect" describes the character of 'goodness' or 'badness' that is felt as a state of mind that distinguishes between a stimulus that is positive or negative. Individual risk perception is significantly influenced by affective responses (Slovic et al., 2002).

Alhakami & Slovic (1994) found that an individual's perception of risk and benefit of using pesticides is inversely related to their positive and negative affect. Human responses to risk are categorized into two fundamental modes: feelings and analysis. Firstly, "risk as feeling" refers to individuals' instinctive and intuitive reactions to danger. Secondly, "risk as analysis" is the application of logic, reason, and scientific analysis in risk assessment and management. The

“affect heuristic” refers to the tendency of risk as feelings (Slovic & Peters, 2006). Affect’s role in decision-making is gaining recognition, but its limited role may hinder thorough evaluation of options, as noted by Shafir et al. (1993). Zajonc (1980) advocates the strong role of affect in decision making. According to him, all perceptions contain some level of affect. “We do not just see a house; we see a handsome, ugly, or pretentious house.”

Name

Stereotyping occurs when people add traits to an individual based on their name, such as origin, religion, race, ethnicity, or culture. This can be spontaneous and unconsciously activated (Kunda, 2002). Research by Kumar et al. (2012) found that after 9/11, negative stereotyping against South Asian and Middle Eastern individuals led to a decline in fund flow.

According to Lobão et al. (2017), a market portfolio produces higher returns than a recognition heuristic portfolio. On the other hand, there is little evidence based on Google Trends data to suggest that a company’s monthly search volume increases may cause abnormal returns in the subsequent month.

The search for the right corporate name is crucial for a company's identity and initial point of contact with stakeholders (Koku, 1997; Tadelis, 1999). Globalization and competitiveness have increased business requirements, limiting the availability of perfect names. This has led to a rise in corporate name consultants and online platforms like 'Name This'. The name issue is more than just an intellectual exercise in business and marketing, as seen with Chevrolet's Nova in Spain (Kotler, 1994; Limbach & Goettner, 2011).

Name and Fluency

Easy-to-pronounce names are associated with good brand recognition, according to Bao et al. (2008). Easy-to-process names, or fluent names, have been associated with increased ownership, better liquidity, and greater business values. Short, uncomplicated words are digested more frequently and cause a good emotional state, as demonstrated by Oppenheimer (2006). Participants in a financial survey by Alter & Oppenheimer (2006) showed that fictitious companies with more fluid names will yield higher future returns.

Research has indicated that processing fluency in simple writing is associated with several favorable attributes. Evaluations of truth, confidence, frequency, notoriety, and even liking are all improved by fluency (Reber & Schwarz, 1999; Norwick & Epley, 2003; Tversky & Kahneman, 1973; Jacoby et al., 1989; Reber et al., 1998).

Name and Association

Spence (1973) defined name changes as communication devices for corporate management to share information with stakeholders, either about business changes or secret management's future success, as per Karpoff & Rankine (1994). Research suggests that changing a company's name can be seen as an investment in intangible assets like reputation, as the name is considered a powerful symbol of historical performance and company attributes (Tadelis, 1999; Einwiller & Will, 2002).

Sobel (2000) studied US manias in the 1850s and 1960s, focusing on railroad, mining, and scientific stocks. Cooper et al. (2000, 2005) suggested that the rise in dotcom business value indicates market irrationality, and that changing business names to internet-related 'dotcom' names leads to a favorable stock price reaction and increasing fund flow.

Name and Familiarity

Zajonc (1968) found that the more often a neutral stimulus is exposed, the more one grows to like it. He suggested that people prefer familiar, previously encountered stimuli to novel ones. People perceive disfluently processed stimuli as more dangerous than fluently processed stimuli, according to Song & Schwarz (2009). They concluded that perceptions of the novelty or familiarity of a stimulus can act as a cue when judging risk.

Research Methodology*Research Design*

This study aims to determine the impact of a financial tool or company name's name on investment decisions. The analysis of this research is based on the questionnaire survey through primary data collection. The study is carried out using the Affect heuristic model prescribed by Finucane. The "Affect Heuristic" model is constructed to test perceived risk and perceived benefit using a 5-point Likert Scale.

Population and Sample

Responses were collected through an online Google form. A total of 150 responses were collected from different investment forums, website platforms, and social media groups, particularly Facebook groups created for discussions on the Nepalese capital market.

Instrument Used

The questionnaire is divided into three sections. The first section contains the respondent profile, and the second and third sections have the test of affect heuristic, test of fluency, test of association, and test of familiarity for perceived risk and benefit. The second and third sections measure the independent, dependent, and confounding variables. All the behavioral responses were measured using a 5-point Likert scale that explains the perceived risk and benefit level.

Scales in case of perceived risk:

- 1- Not at all risky
- 2- Little risky
- 3- Somewhat risky
- 4- Much risky
- 5- Extreme risky

Scales in case of perceived benefit:

- 1- Very bad
- 2- Bad
- 3- Fair
- 4- Good
- 5- Excellent

Further, data collected from the Google form was edited in Microsoft Excel and SPSS for processing. The mean score of the responses is tagged as Impression and categorized into two segments for analysis. Similarly, a correlation coefficient analysis has been applied to see the connection between opinions forwarded on perceived risk and perceived benefits.

Analysis Framework

This research is built around whether the name affects investment decisions based on affect heuristic and shaped by name fluency, association, and familiarity. The outline of behavioral heuristics, literature in the context of name, and literature of behavioral finance provide perspectives on the influence during investment decisions.

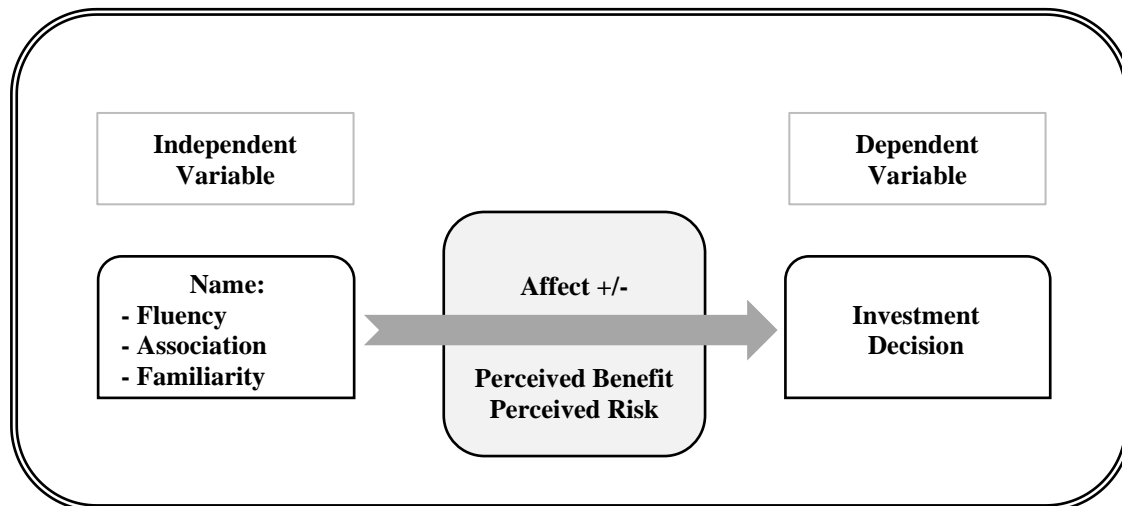
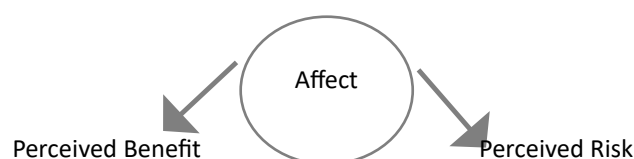


Figure 1: Framework of Affect Model (Finucane et al., 2000)

In Figure 1, the company's name and investment tools have been coined as independent variables. The name has been further classified into fluency, association, and familiarity. Here, fluency refers to short, easy-to-pronounce words linked with positive dimensions during investment decisions (Alter & Oppenheimer, 2006; Bao et al., 2008; Reber & Schwarz, 1999). Name can be associated with a new glamor industry with growth potential by changing the name related to that industry (Sobel, 2000), connecting investment tools with the current hot investment style (Cooper et al., 2005). Familiarity is related to company or investment tools that are recognized through different advertisements and news (Goetzmann & Peles, 1997), companies with known headquarters or geographical proximity (Coval & Moskowitz, 1999; Frieder & Subrahmanyam, 2004; Grullon et al., 2002; Huberman, 2001).

The affect heuristic, which involves evaluating goodness or badness, experience, and setting boundaries for positive or negative stimulus quality, plays a crucial role in investment decisions, as it is automatic and quick (Slovic & Peters, 2006).

Figure 2: Model of Affect Heuristic (Finucane et al., 2000)



Keller et al. (2006) found that affect significantly influences risk perception and may increase risk availability. Finucane et al. (2000) found an inverse relationship between perceived risks and benefits. Slovic and Peters (2006) found that states' affect influences risk perception, with benefits information influencing risk perception. High use indicates low risk, and vice versa.

Results and Discussions

This part deals with the results from the interpretation of the responses forwarded by the sampled respondents.

Respondents' Profile

The table below illustrates the respondents' profile:

Table 1 Respondents' Profile

Gender	Frequency	Age Group	Frequency	Investment Experience	Frequency
Male	136 (90.7)	Below 25	27 (18.0)	Up to 2 years	48 (32.0)
Female	14(9.3)	25-35	101 (67.3)	2-5 years	60 (40.0)
		35-45	21 (14.0)	5-10 years	35 (23.3)
		45 and above	1 (0.7)	10 years and above	7 (4.7)
Total	150 (100.0)				

Source: Online Survey, 2024 (Value in parentheses is percent)

Most investors are male, comprising 90.7 percent of the total, while females make up 9.3 percent. The largest age group of investors falls between 25 and 35 years old, constituting 67.3 percent of the total. The least represented age group is those aged 45 and above, accounting for only 0.7 percent. Most investors have 2-5 years of investment experience, making up 40.0 percent of the total. The least common category is investors with 10 years or more of experience, comprising 4.7 percent.

Perceived Risk and Perceived Benefit under Affect 'Name' Heuristics

The table below shows how the Nepalese investors perceive risk and benefit under affect 'name' heuristics:

Table 2 Opinion on Perceived Risk and Perceived Benefit under Affect 'Name' Heuristics

Items	Perceived Risk				Perceived Benefit			
	Mean	Std. D	Skew	Kurt	Mean	Std. D	Skew	Kurt
Investment in financial tools (Stock, Bond, Insurance, Fund, and Savings Scheme) your friend/boss recently invested.	2.7	0.9	+0.4	-0.1	3.1	0.8	0.0	+1.2
Make decision whether to buy or sell stock of company with good news in the media.	2.6	0.8	+0.8	0.0	3.1	0.8	-0.2	+0.3
Some informative news about company, saving a/c, insurance schemes and funds will lead you to conclude about their character (goodness or badness).	2.3	0.9	+0.8	+0.5	3.5	0.8	-0.9	+0.8
Admitting your pick of stocks are different from those of a friend.	2.7	1.0	+0.2	-0.6	3.0	0.8	-0.1	+0.5
You decided to choose unpopular stock for investment.	3.1	1.2	-0.1	-1.0	2.6	1.0	0.5	-0.4
Overall Average	2.7				3.1			

Source: Online Survey, 2024

Table 2 shows that the Nepalese investors have been generating better perceived benefit under affect 'Name' heuristics behavior. Heuristics are mental shortcuts or rules of thumb that people often use to make decisions quickly and efficiently, although they may not always lead to optimal outcomes. Here, the term, 'Name' is used to address company name, individual associated with the listed company or, branding name that is linked with the company image. The result from Table 1 shows that the Nepalese investors are trying to get benefit from the 'Name' attributes under the heuristics approach while trading at the stock market.

Generally, in context to Nepalese investors, scenarios with positive news or informative content about investments tend to have higher perceived benefits compared to scenarios involving unpopular or different investment choices.

Perceived Risk and Perceived Benefit under Fluency of 'Name'

The table below shows how the Nepalese investors perceive risk and benefit under fluency of 'Name':

Table 3 Opinion on Perceived Risk and Perceived Benefit under Fluency of 'Name'

Items	Perceived Risk				Perceived Benefit			
	Mean	Std. D	Skew	Kurt	Mean	Std. D	Skew	Kurt
Company with easy to pronounce name may also have sound financial conditions.	2.8	1.3	+0.4	-0.9	2.7	0.9	-0.4	-0.1
Company with shorter names might get the recognition from investor.	2.9	1.1	+0.4	-0.4	2.7	0.9	-0.2	-0.6
Follow stock ticker with easy language construction for investment.	2.9	1.0	-0.2	-0.2	2.9	1.0	-0.5	-0.7
Overall Average	2.9				2.8			

Source: Online Survey, 2024

The fluency of a 'Name' can significantly influence investor decisions by shaping perceptions of risk, attractiveness, and potential returns associated with specific investment options. However, it's essential for investors to supplement heuristic decision-making with thorough analysis and consideration of objective factors to avoid falling prey to cognitive biases.

Overall, the data in Table 3 suggests that Nepalese investors generally perceive moderate levels of risk and benefit associated with companies' name characteristics, such as ease of pronunciation or length. While these factors may influence investor perceptions to some extent, they likely represent just one aspect of the broader decision-making process in the stock market. Other factors such as financial performance, market trends, and industry dynamics are likely to play significant roles in investment decisions as well. Nevertheless, Table 2 shows that the Nepalese investors had a higher perceived risk than perceived benefits from the fluency of 'Name' for the listed companies.

Perceived Risk and Perceived Benefit under 'Association'

The table below shows how the Nepalese investors perceive risk and benefit under 'Association':

Table 4 Opinion on Perceived Risk and Perceived Benefit under 'Association'

Items	Perceived Risk				Perceived Benefits			
	Mean	Std. D	Skew	Kurt	Mean	Std. D	Skew	Kurt
Company name can represent past performance and corporate characters.	2.6	1.1	+0.1	-0.7	2.7	0.9	+0.6	-0.2
Investing in mutual funds whose title reflects recent hot investment styles.	2.2	1.0	+0.9	+0.5	3.4	0.8	-0.7	+0.2
Choose stock that is associated with industry that has glamour and growth with positive price reaction.	2.3	1.0	+0.7	+0.2	3.4	0.8	-0.5	+0.5

Cont.

Overall Average	2.4				3.2			
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Source: Online Survey, 2024

Heuristic behavior often involves simplifying complex decisions by focusing on a few key factors. Investors may rely on the association of company names with perceived risk and benefits as a simple heuristic for decision-making, especially when faced with a large number of investment options or limited time and resources for analysis. Overall, heuristic behavior in investment decisions related to the association of company names with perceived risk and benefits can lead to simplified judgments and biases. While heuristics can be useful for making quick decisions, they may also result in suboptimal outcomes if investors overlook important information or fail to consider a broader range of factors influencing investment performance. Table 4 illustrates that the overall average perceived risk across all scenarios is moderate, with a mean of 2.4. The overall average perceived benefit is higher at 3.2, indicating that investors generally perceive more benefits than risks in the scenarios presented. In summary, the data suggests that Nepalese investors perceive varying levels of risk and benefit associated with different investment options based on the characteristics of company names and industry associations. Trends and glamour seem to influence perceived benefits more strongly than past performance and corporate character.

Perceived Risk and Perceived Benefit under 'Familiarity'

The table below shows how the Nepalese investors perceive risk and benefit under 'Familiarity':

Table 5 Opinion on Perceived Risk and Perceived Benefit under 'Familiarity'

Items	Perceived Risk				Perceived Benefits			
	Mean	Std. D	Skew	Kurt	Mean	Std. D	Skew	Kurt
'Company Name' with meaningful local or international names (Nepalese or English word) can be easily recognizable than company with complex and meaningless names.	2.4	0.9	+0.7	+0.7	3.0	0.8	-0.5	+0.7
Investing in the company with visible brands i.e. Company which appears in different media frequently through advertisement, analysis and for social causes.	2.6	0.8	0.0	-0.5	2.8	0.9	+0.4	-0.5
Considering companies with geographical proximity, known headquarters from your place for investment.	2.4	1.0	+0.8	+0.5	3.0	0.8	-0.3	+0.5
Overall Average	2.5				3.0			

Source: Online Survey, 2024

Familiarity behavior of an investor is a powerful factor in heuristic behavior among investors, influencing their judgments, perceptions, and decision-making processes in the financial markets. While familiarity can provide a sense of comfort and confidence, it can also lead to biases and oversights if investors rely too heavily on familiar information without considering alternative perspectives or new developments.

Table 5 illustrates that the overall average perceived risk across all scenarios is moderate, with a mean of 2.5. The overall average perceived benefit is higher at 3.0, indicating that Nepalese investors generally perceive more benefits than risks in the scenarios presented. In summary, Nepalese investors perceive varying levels of risk and benefit associated with

different characteristics of companies and investment strategies. Familiarity, brand recognition, and geographic proximity play significant roles in shaping these perceptions, with Nepalese investors generally viewing recognizable brands and local businesses more favorably.

Correlation Matrix

A correlation matrix is a table that displays the correlation coefficients between variables in a dataset, represented by distinct rows and columns. These coefficients quantify the linear relationship between two variables in intensity and direction. The table below shows the correlation coefficients among the variables used in the paper:

Table 6 Correlation Matrix

Var	FPB	FPR	FluPB	FPR	APR	APB	ANHR	ANHB
FPB	1							
FPR	-0.144 (0.079)	1						
FluPB	+0.322** (0.000)	-0.105 (0.203)	1					
FPR	+0.018 (0.830)	+0.422** (0.000)	-0.268** (0.001)	1				
APR	-0.037 (0.654)	+0.534** (0.000)	+0.027 (0.746)	+0.401** (0.000)	1			
APB	+0.466** (0.000)	-0.033 (0.692)	+0.322** (0.000)	-0.102 (0.216)	-0.155 (0.059)	1		
ANHR	+0.133 (0.104)	+0.272** (0.001)	-0.020 (0.805)	+0.284** (0.000)	+0.157 (0.055)	+0.025 (0.762)	1	
ANHB	+0.550** (0.000)	+0.033 (0.687)	+0.228** (0.005)	+0.035 (0.672)	-0.011 (0.895)	+0.478** (0.000)	-0.016 (0.843)	1

** Correlation is significant at the 0.01 level (2-tailed).

Table 6 show a statistically significant low degree of positive correlation (+0.322) between fluency perceived benefit and familiarity perceived benefit under heuristic investment behavior of Nepalese investors, but a statistically significant low degree of negative correlation (-0.268) between fluency perceived benefit and fluency perceived risk. Although, fluency perceived risk is positively (+0.401) associated with association perceived risk, and association perceived risk is positively (+0.534) associated with familiarity perceived risk.

Table 5 also shows a statistically positively correlated between association perceived benefits and familiarity perceived benefits (+0.466) and fluency perceived benefits (+0.322). At the same time, affect name heuristic risk is seen associated positively (+0.272) and with fluency perceived risk (+0.284).

An affect 'name' heuristics benefits is seen statistically significant associated with familiarity perceived benefits (+0.550), fluency perceived benefits (+0.288), and association perceived benefits (+0.478).

Discussion

According to Bank et al. (2011), investors who are typical internet users are likely to look up a company using Google by its "name," rather than using technical stock symbols such as German Securities Identification Code (WKN) or International Securities Identification Number (ISIN). Like this, Nepalese investors are also thought to be concerned about the company's "name" in relation to its track record, corporate culture, and degree of recognition.

Lobão et al. (2017) stated that a recognition heuristic portfolio yields poorer returns than a market portfolio. On the other hand, there is insufficient data to suggest that substantial rises in a company's monthly search volume could result in unusual returns the next month. Similarly, this study found that the Nepalese investors perceived benefits and risks in certain ways with fluency, familiarity, and association with the 'name' of the listed company.

Green and Jame (2013) found a significant impact by the 'name' effect on the acceptability and value development of the listed companies, while the study on Nepalese market did not build a significant impact but associated to perceived benefits.

Conclusion and Implications

This study observes the impact of name elements in investment decisions. The study considers factors like affect heuristic, fluency, association, and familiarity to determine the pact during investment decisions. Overall, findings suggest that Nepalese investors demonstrate certain heuristic tendencies in their decision-making processes. They tend to weigh perceived benefits and risks in certain ways, with fluency, familiarity, and association playing significant roles. Additionally, the influence of affect 'name' heuristics is notable in shaping Nepalese investors' perceptions of benefits.

Nepalese investors' perception of risk and benefit in investment opportunities is influenced more by trends and glitz than past performance and corporate character, based on company names and industry connections. Local companies and well-known brands are typically seen more favorably by Nepalese investors when taking the familiarity heuristic into account.

Overall, by acknowledging and addressing the implications of heuristic tendencies in investment decisions, Nepalese investors can enhance their ability to make rational, well-informed choices aligned with their financial goals and risk preferences. Similarly, Nepalese investors may need to diversify their investment portfolios to mitigate the influence of heuristic biases. Similarly, encouraging a long-term investment perspective can help Nepalese investors avoid being swayed by short-term trends and glitz.

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