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A Study of Confusion in Investment Behavior of Mongolian People

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Abstract

Behavioral finance has gained significant attention as researchers explore how cognitive biases and emotional factors influence individual decision-making and financial markets. Unlike traditional finance, which assumes rational behavior, behavioral finance emphasizes the psychological elements that often lead to irrational investment decisions. This study applied a structured questionnaire to analyze the investment behavior of Mongolian individuals, examining twenty distinct behavioral biases. Using a scoring system and behavioral type identification tests, the study identified five key biases that affect investor decision-making: loss aversion, regret aversion, overconfidence, optimism, and illusory control. The results indicated that loss aversion and regret aversion were the most prominent biases, followed by optimism and illusory control. Overconfidence was found to have a relatively smaller effect on decision-making. These findings suggest that psychological factors play a significant role in shaping investment choices among Mongolian investors.

***Keywords**: Behavior, illusion, behavioral finance, illusory management, erroneous cognitive reflections*

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Introduction

Behavioral finance is an interdisciplinary field that blends psychology and economics to understand the effects of cognitive biases and emotional factors on financial decision-making.

Unlike traditional finance, which assumes that investors make decisions rationally and markets are efficient, behavioral finance recognizes that human behavior is often irrational and influenced by cognitive biases. This approach seeks to explain the anomalies and inefficiencies observed in financial markets that cannot be fully explained by conventional theories such as the Efficient Market Hypothesis (EMH). A significant area of research within behavioral finance, as identified by Singh (2021), is the study of investor sentiment. This includes the emotional states or feelings that can influence the decisions of investors and impact market movements. According to Singh, recent research trends in behavioral finance have focused on the intersection of sentiment, social media, investors' attention, and financial literacy. These trends emphasize how external psychological factors, including public perception and media influence, can lead to market anomalies such as bubbles and crashes. The role of investor sentiment in shaping market behavior is explored further by López-Cabarcos et al. (2020), who have analyzed how emotional and psychological factors drive market activity. Their findings suggest that there is no consensus on the theoretical structure of investor sentiment within behavioral finance. However, their

research demonstrates that sentiment significantly impacts market fluctuations, aligning with broader theories in behavioral finance that argue investors often act irrationally based on emotions like fear, greed, or optimism. Sharma and Kumar (2020) offer a detailed review of the growing influence of behavioral finance on asset pricing theory. They argue that the traditional belief in market efficiency, which holds that all available information is already reflected in asset prices, has been increasingly challenged by evidence from behavioral finance. Their review highlights how biases such as overconfidence and loss aversion—common themes in behavioral finance—can distort investor decisions and lead to inefficiencies in stock prices. This gap in the efficient market hypothesis is a crucial area of focus for researchers in the field, who argue that behavioral finance provides a more accurate and comprehensive understanding of market behavior.

Behavioral finance experiments have also been a subject of increasing interest. Valcanover et al. (2020) conducted a systematic literature review to examine experimental studies in behavioral finance. The study identifies key findings and trends in the research community, including a growing interest in how cognitive biases like framing effects and overconfidence shape financial decisions. Their work emphasizes the need for experimental data to better understand the psychological factors that influence investor behavior and market outcomes. Wong (2020) provides a broader review of both behavioral economics and behavioral finance, covering topics like risk measures, portfolio optimization, and diversification strategies. He suggests that while early work in behavioral finance focused on developing theoretical models, recent advancements have also included statistical and econometric models to quantify the effects of psychological factors on financial decisions. These advancements help in understanding the deviations from rational behavior in financial markets and guide the development of strategies that account for these biases. Together, these studies underline the importance of behavioral finance in explaining financial anomalies and investor behavior. They highlight the growing recognition that cognitive biases, emotions, and social factors play a central role in shaping market dynamics. As behavioral finance continues to evolve, it is expected to further challenge traditional finance theories and provide a richer understanding of the complexities of financial markets.

Behavioral finance has been extensively studied since the mid-1970s, linking financial markets to the science of psychology and investor behavior. People are drawn to the stock market because it offers opportunities to "increase their capital in the long run, receive dividends, and secure assets against devaluation" (Teweles & Bradley, 1998). Additionally, investing in stocks is often motivated by the desire to gain control over a company, earn dividends, or profit from rising stock prices (Croushore, 2006). The development of a country is closely tied to the progress of its financial markets. The stock market, as one of the pillars of the financial system, directly impacts the overall economy. As the stock market grows, it fosters economic growth. Therefore, the decisions made by investors play a critical role in shaping financial and capital market trends, ultimately influencing the broader economy. While financial science has been studied for centuries, behavioral finance is a relatively recent concept. Rooted in psychological theories, behavioral finance examines how emotional and cognitive biases influence individual investor decisions. In the context of the Mongolian stock market, there are two compelling reasons to explore behavioral finance. First, it is a relatively new field of study, offering a framework for understanding the decisions of financial market participants (Kim & Nofsinger, 2008). Second, subjective, academic, and experimental evidence suggests that Asian investors, including those in Mongolia, are more susceptible to behavioral biases compared to investors in other regions (Kim & Nofsinger, 2008). Thus, behavioral factors must be considered when analyzing the decision-making processes of Mongolian investors.

Investment decision-making has become increasingly complex due to the intricate and dynamic nature of market operations, which occur continuously across time and space and involve numerous methods. This complexity compels investors to approach their decisions with greater

caution and precision. Psychological attitudes often influence decision-makers, leading to errors in judgment and suboptimal economic outcomes (Barber & Odean, 1999; Kahneman & Riepe, 1998). Consequently, this study aims to integrate behavioral models to identify factors influencing investor behavior and the patterns exhibited by individual investors in the decision-making process. To better understand investor decisions, it is crucial to examine the psychological traits of those trading on the Mongolian Stock Exchange, the behavioral factors affecting their decisions, and the impact of these factors on investment performance. By identifying these elements, this study seeks to help investors make optimal decisions by understanding their behavioral tendencies. Additionally, the findings will benefit brokers and dealers by enabling them to better understand their clients, improve forecasting, and provide more effective advice. Research on behavioral finance in emerging markets like Mongolia remains limited compared to studies conducted in developed markets.

Theoretical review

The assumption in classical financial theory that efficient markets require rational investors has attracted the attention of psychologists such as Daniel Kahneman and Amos Tversky, who demonstrated that individual decision-making is often irrational (Kahneman, 1973). Research on the behavioral biases influencing decision-making and the theoretical foundations developed since the mid-1970s has challenged Fama's efficient market hypothesis. Intensive studies of behavioral biases since the 1990s have led to the emergence of an independent financial theory. Daniel Kahneman, the pioneer of this theory, was awarded the Nobel Prize in Economics in 2002 for integrating psychological insights into economics, particularly in the study of human decision-making under uncertainty. Behavioral finance theory has demonstrated that investors exhibit a variety of cognitive biases that affect asset pricing and financial market behavior. This theory, a branch of behavioral economics, contradicts classical financial theories by identifying behavioral biases in market participants. The behavioral economics concepts introduced by Kahneman and Tversky—considered the founders of behavioral finance—in their study Prospect Theory: An Analysis of Decision Under Risk have been widely supported by empirical research (Kahneman & Tversky, 1974). A study on the effects of biases, risk attitudes, and expectations on individual investors' decision-making found that as risk tolerance decreased, perceived risk increased (Nosic & Weber, 2009). This suggests that investment behavior has evolved over time. Predicting global financial markets with complete accuracy, understanding price-setting mechanisms, and having full knowledge of competitors' investment decisions are unrealistic goals (Olsen, 1998). However, behavioral finance suggests that investment decision-making can be predicted to some extent since it is influenced by psychological factors (Kahneman, 1975). This indicates that Fama's efficient market hypothesis has been challenged, as investors process and interpret information differently, reinforcing the importance of behavioral finance in understanding market dynamics. Four key factors contribute to investor optimism: expected outcomes, cognitive mechanisms, self-perceptions compared to others, and overall mental state (Shepperd et al., 2002). However, optimism bias can lead to distorted risk perceptions. Research has shown that optimists often underestimate their likelihood of experiencing negative events, such as becoming victims of crime (Chapin & Coleman, 2009), smokers believing they are less susceptible to lung disease than other smokers, and first-time jumpers from high places failing to perceive the associated risks (Weinstein & Klein, 1996). Similarly, optimists may believe that potential losses in the market are smaller compared to other traders (Elder & Alexander, 1993).

In cases of optimism bias, individuals align their beliefs with their interests, leading to an increase in subjective probability when they strongly desire an outcome. Psychological biases can distort economic interpretations, creating excessive optimism. Overconfidence, another significant behavioral bias, leads investors to overestimate their knowledge and abilities, often resulting in disregarding publicly available information or suffering from an eventual loss of confidence. Both optimistic and pessimistic attitudes can influence financial decision-making. While optimistic individuals may believe they will achieve greater financial success, studies suggest that

pessimists may experience fewer negative outcomes, such as alcohol-related problems (Shepperd et al., 2002; Elder & Alexander, 1993). The consequences of optimism and pessimism vary: positive expectations can enhance well-being and self-esteem, whereas negative expectations can increase risk-taking and neglect of preventive measures (Shepperd et al., 2002). According to Michael M. Pompian, author of Wealth Management and Behavioral Finance, "The illusion of self-control is a behavioral bias in which individuals believe they can influence outcomes that are actually beyond their control." He explains that money often exacerbates this illusion, leading investors to misjudge their financial decisions. Pompian identifies four common investor mistakes caused by the illusion of self-control:

Short-term wealth accumulation – Investors, driven by the illusion of self-control, may increase their savings today or spend excessively in anticipation of future wealth. While they may achieve short-term financial goals, they often adjust their portfolios too frequently, complicating their investment strategies. Failure to meet retirement goals – Investors with self-control illusions may neglect retirement planning, making them less likely to invest in long-term assets such as real estate. Imbalanced asset allocation – Some investors, influenced by the "spend today" mentality, prioritize short-term gains over balanced investment strategies. Risk-averse individuals may prefer alternative asset classes instead of bonds, undermining financial stability. Violation of fundamental financial principles – Investors affected by self-control illusions may disregard key financial principles, such as interest rate fluctuations and inflation. However, adhering to these principles is essential for long-term wealth accumulation.

Loss aversion, a core principle of behavioral economics, describes individuals' tendency to avoid losses more strongly than they seek equivalent gains. Research suggests that psychological losses are perceived as twice as impactful as gains (Kahneman & Tversky, 1992). Amos Tversky and Daniel Kahneman first introduced loss aversion in 1979 using an S-shaped curve (Kahneman & Tversky, 1979). According to Kahneman, "The pain of losing is psychologically more powerful than the pleasure of gaining," meaning that investors instinctively avoid losses. This tendency stems from an inherent cognitive process that influences individuals' comparisons, judgments, and financial decisions (Kahneman, 2013). Loss aversion is a fundamental aspect of prospect theory, which serves as the foundation of behavioral economics. This theory highlights how individuals misjudge probabilities, often overweighting low-probability events while underestimating high-probability events (Kahneman & Tversky, 1992). Furthermore, loss aversion explains why individuals experience stronger emotional reactions to losses than to gains of equal magnitude.

Regret aversion, closely related to loss aversion, refers to individuals' tendency to avoid decisions that could lead to future regret. This psychological response can significantly influence investment choices, as individuals fear making poor financial decisions. Regret-driven decision-making can sometimes lead to positive outcomes, but it can also cause confusion and emotional distress. This bias often results in extreme decision-making, driven by the fear of making mistakes. The illusion of control, another common bias, occurs when individuals believe they can influence external events, such as stock market fluctuations, when they actually have little or no control. Researcher Ellen Langer describes this phenomenon as "an unrealistic and overly optimistic belief in personal success." Decision-making, problem-solving, and personal involvement can enhance self-esteem but may also reinforce control illusions. This bias is particularly prevalent in financial trading, where investors overestimate their ability to predict market movements (Thompson, 1999). Studies suggest that framing success rather than failure can increase effectiveness, while focusing on failure reduces performance (Thompson, 1999). Interestingly, research indicates that individuals with depressive tendencies exhibit fewer illusions of control, though their confidence in controlling outcomes strengthens when they perceive themselves as in charge (Thompson, 1999). Competitive and high-stress environments, such as financial markets, amplify the illusion of control. Studies suggest that traders frequently

overestimate their ability to influence market trends, leading to excessive risk-taking (Fenton-O'Creevy et al., 2003). However, illusions of control are not universal; some investors exhibit adaptability in decision-making (Gino, Sharek, & Moore, 2011). Understanding these cognitive biases is crucial for mitigating their effects and improving investment strategies.

Literature review

Traditional and behavioral financial theories have shown that the market reacts quickly to any news or information. However, studies in behavioral finance have empirically demonstrated that investors are subject to various behavioral illusions that influence asset pricing. To identify the behavioral illusions affecting investors' decision-making on the Nairobi Stock Exchange in Kenya, Waruingi (2011) collected data from 100 investors using questionnaires. The data were analyzed using mathematical and statistical methods, including discretionary statistics, factor analysis, and Cronbach's alpha tests to measure reliability. The survey found that investors are often influenced by heuristics such as "overconfidence" and framing effects like the "foothold" bias. Additionally, illusions such as "loss avoidance," "regret resentment," and "mental arithmetic" significantly impact market behavior. Market factors and stock price fluctuations also play a crucial role in shaping investors' decisions (Waruingi, 2011). Abu Nada (2013) examined the factors influencing investor behavior on the Palestinian stock exchange by randomly sampling 337 investors. Using statistical methods such as the Kolmogorov-Smirnov test, correlation analysis, Cronbach's alpha test, and parametric t-tests, he hypothesized that nine behavioral illusions—including representation bias, overconfidence, anchoring, probability misjudgment, loss aversion, regret resentment, mental arithmetic, and optimism—affect investor decision-making. The study found that all hypotheses were supported except for the heuristic of "overconfidence." Additionally, when demographic factors such as age, gender, and education were considered, it was found that age and gender had no significant impact, whereas education level influenced decision-making differently (Abu Nada, 2013). Koff (2013) investigated the relationship between investment strategy and investor behavior by randomly selecting 20 investors from the Investor Posts website and analyzing questionnaire responses. The study found that investors who rely on fundamental analysis are more prone to the framing effect of regret resentment, while those who adopt sales and construction strategies tend to exhibit greater discrimination in their decision-making (Coffie, 2013). Lovrik (2011) sought to explain behavioral finance in intermediary-based markets through a mathematical model. His study concluded that investors using LLS and SSE models were more skeptical of the market compared to overconfident investors. Moreover, each broker had different expectations based on the SimStockExpect model (Lovrik, 2011). Subash (2011) analyzed the impact of investor illusions on investment decision-making in the Indian stock market using the Chi-square test. A total of 92 investors—both experienced and inexperienced—were surveyed, and nine types of behavioral illusions were identified using discriminant analysis and Chi-square testing (Subash, 2011). The study by Khulan and Banzragch (2017), Influence of Behavioral Finance on Investment Decision-Making, explored common behavioral illusions in finance through a theoretical approach. While international studies have provided empirical evidence on behavioral biases in investment decision-making, similar research has yet to be conducted in Mongolia. The findings from these international studies aimed to analyze investor behavior and assess whether specific behavioral illusions influence stock market movements. Our study employed a questionnaire-based approach, with data processed using the scoring method. The primary objective was not to determine whether these biases represent the entire market but rather to identify the types of biases investors are susceptible to, assess suitable investment and hedging strategies, and ultimately enhance investment satisfaction. Furthermore, demographic factors such as age and education level were found to have varying effects on stock market participation and investor behavior.

Methodology

This study aimed to explore the influence of behavioral illusions on investment decision-making among individual investors in Mongolia, employing both a literature review and an empirical

survey. The research followed an empirical research design based on a quantitative approach to collect data from Mongolian investors. The survey-based methodology facilitated the identification of various behavioral biases and provided insight into how demographic factors, such as age, gender, education level, and income, affected the likelihood of investors experiencing these cognitive biases. Data collection was carried out using a structured questionnaire, distributed online via Google Forms due to the constraints posed by the global pandemic. The questionnaire comprised 160 questions designed to assess behavioral illusions, including loss avoidance, regret avoidance, self-control, optimism, and mismanagement. The survey was distributed to a sample of 127 Mongolian investors selected through convenience sampling. These respondents were asked to reflect on their investment experiences, ensuring anonymity and confidentiality to minimize bias. In addition to questions regarding behavioral illusions, the survey collected demographic information to explore whether these factors influenced investor behavior.

The questions in the survey were designed to assess the presence of the five main behavioral illusions. Each item was rated on a 5-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree. This scale helped measure the extent to which respondents were influenced by each behavioral illusion. Descriptive statistics, including means and standard deviations, were calculated for each survey item to summarize responses. Regression analysis was then used to examine whether gender had any significant impact on investment decision-making, with t-tests and p-values calculated to evaluate the relationships between demographic factors and the behavioral illusions. Additionally, factor analysis was conducted to group related behavioral illusions and identify underlying patterns, while Cronbach's alpha was applied to assess the reliability of the survey instrument. Although the sample size of 127 respondents was adequate for the study, it is not large enough to draw broad conclusions for the entire population of Mongolian investors. The use of convenience sampling and the online format of the survey may have introduced some limitations, such as the exclusion of individuals without internet access. Nevertheless, the study's findings provide valuable insights into the behavioral biases affecting investment decisions and offer recommendations for improving decision-making among individual investors in Mongolia.

Results and Discussion

A comprehensive study on the characteristics of Mongolian individual behavior has not yet been conducted, although certain foreign and domestic scholars, researchers, and tourists have touched upon this topic to some extent in their studies and works. The phrases "I am Mongolian, he is Russian, and she is Chinese" carry connotations of ethnicity. However, we often fail to recognize that these terms also represent distinct behavioral and psychological traits that differentiate these ethnic groups. For instance, the commonly used phrase "Don't act like a Manchu" in folk speech highlights the behavioral differences between Mongols and Manchus, even though both were nomadic groups that lived in Central Asia in ancient times (Namjil, 2006). Behavior can be understood as the stable psychological traits that emerge in the process of human interaction with others and objects, shaped over centuries by the natural environment, social conditions, lifestyle, history, culture, customs, and religion of a particular nation. Traditional Mongolian behavior is not just about cultural practices or moral values; it also reflects the psychological commonalities of the Mongolian people (Namjil, 2006). Historical records from J.P. Carpini, Marco Polo, A. Juvayni, and J. Yotin describe the Mongolian people as hospitable, adaptable, loyal, heroic, courageous, and bold, while also noting traits such as pride, impulsiveness, greed, rudeness, filthiness, and cruelty. In the early 1900s and during the period from 1921 to 1990, research by scholars such as Lhaashid, Namjil, Baabar, Naranthuya, Gankhuyag, Urantsatsag, Tserenkhand, Davaajav, and Kimura Ayako highlighted the Mongolian people's hospitality, friendliness, respect for others, loyalty, honesty, patience, adaptability, and observance. However, negative traits, including pride, dishonesty, cunning, greed, disregard for time, laziness, dependence on others, and lack of responsibility, were also noted (Kahneman &

Tversky, 1979). Mongols are known for their quick-wittedness but also exhibit traits like trickery and childish naivety. They tend to be stubborn and quick-tempered, yet they are forgiving and soft-hearted. They dislike sycophantic behavior and are generally kind-hearted, friendly, hospitable, and respectful toward others, offering everything they have to provide hospitality (Gino, Sharek, & Moore, 2011). Behavioral illusion studies are not conducted to represent the market or population as a whole but rather to determine the types of investor behavior, the occurrence of illusions, and appropriate investment and hedging strategies (Fenton-O'Creevy, Nicholson, Soane, & Willman, 2003). Researchers used a maximum of nine illusions in the study, as some were not relevant. These illusions were collected through questionnaires and processed using a scoring system. A questionnaire consisting of more than 160 questions was used to identify 20 behavioral illusions (Barber & Odean, 1999). Due to the global epidemic, the survey was conducted online using Google Forms, with 127 eligible samples collected. B. Khulan's theoretical research was expanded with an empirical study, and five types of illusions were selected to suit the peculiarities of the Mongolian mentality as well as Western and Eastern cultural influences (Khulan & Banzragch, 2017).

According to the survey data, 85% of the surveyed investors were between the ages of 26 and 40, 65% were women, and 75% were married. Additionally, 97% were full-time employees. In terms of education, 1% held a doctoral degree, 68% had a bachelor's degree, 22% had a master's degree, and 9% had completed secondary education. Investment experience varied among respondents, with 68% having invested in stocks using their funds, 7% possessing strong investment knowledge, 69% having limited knowledge, and 24% having no knowledge at all (Coffie, 2013). Investment amounts also varied, with 28% investing 1–1.5 million MNT, 59% investing 1–3 million MNT, 15% investing 3–5 million MNT, and the rest investing more than 5 million MNT. Regarding investment preferences, 79% believed that money should be put into circulation, while 17% believed it should be kept (Croushore, 2006). The study classified investors based on their responses. The results showed that 24.5% of respondents were traders, 42.9% were researchers, 16.3% were defenders, and 16.3% were advisees. These findings suggest that commercial bank dealers are more likely to be independent and accumulative, as they exhibit active trading behavior (Elder, 1993). The SPSS regression analysis method tested whether investment decisions depended on the investor's gender. The p-value ranged from 0.492 to 0.922, meaning the null hypothesis could not be rejected. This indicates that investment decision-making is completely gender-independent (Thompson, 1999). The results of the gender-based regression analysis showed that N = 127, df = 125, and the t-critical value = 1.645, further reinforcing the gender-neutral nature of investment behavior among Mongolian investors (Weinstein & Klein, 1996).

Table 1. Results of the gender-based regression analysis

	Mean	SD	T	P	Decision
The illusion of avoiding loss	1.4286	.53452	.829	.223	Not reject
The illusion of avoiding regret.	1.7143	.95119	-.068	.492	Not reject
The illusion of self-monitor.	1.8571	.89974	.200	.934	Not reject
The illusion of optimism.	2.0000	.81650	.907	.730	Not reject
The Illusion of mismanagement	2.1429	1.34519	.465	.498	Not reject

Each survey question was rated using a 5-point Likert scale, and the results are shown in the table below.

Table 2. Results of the survey

	N	Mean	Standard deviation
The illusion of avoiding loss	127	1.569	0.9251
The illusion of avoiding regret.	127	2.4776	1.794
The illusion of self-monitor.	127	1.9731	0.49827
The illusion of optimism.	127	1.7238	0.47946
The Illusion of mismanagement	127	1.3667	1.4741
Valid N (listwise)	127		

Analyzed the results of a survey to determine what behavioral illusions private investors have:

Analysis of the results of the loss avoidance illusion questionnaire:

A total of 3 questions were used to determine loss avoidance illusions.

An answer to question 1: People who develop a loss avoidance illusion choose option "A".

An answer to question 2: Most people selected option B because most people tend to avoid losses. Loss-avoiding financiers are willing to gamble at a loss far greater than the loss of an A-option.

An answer to question 3: The best answer would be option "B", but investors who avoid losses would prefer option "A" as a guarantee of profit, with a 64% majority.

Recommendation: This illusion limits portfolio opportunities and leads to the over-trading of securities. Knowledge of capital expenditures and the importance of diversification are very important, and it may not be beneficial for investors to keep a stock portfolio due to emotions. Avoiding losses can lead to unprofitability for investors.

Analysis of the results of the regret avoidance illusion question:

Questions 1, 2, and 3: People who answer "A" or "B" to any question may feel regret. Investors exposed to this illusion should try to stop reflecting on herd mentality when making investments.

Recommendation: The investor tends to avoid past regrettable decision-making experiences. In many cases, regretting a financial loss or regretting a decision increases the loss. The reluctant attitude will encourage investors to continue to own stocks with poor performance. This desire may also negatively affect their decision-making on new investments. Advise your clients not to regret it when finding out about an investment loss. This can reduce resentment by anticipating that people may experience frustration when they lose.

Analysis of the results of the self-monitoring illusion question:

Questions 1, 2, 3: People who answer "B" or "C" to any of these questions may be prone to self-control. The survey found that the vast majority of 46% answered "A" to the first three questions, and the self-control illusion was relatively low.

The tendency to self-control is the conflict between people, the excessive desires and aspirations of the individual caused by the lack of something lead to take certain steps to fulfill it. Self-control may lead investors not to plan for retirement. People who do not plan to retire are less likely to invest in securities. Consultants should emphasize not to make investments because planning is like building a house without a design. Planning is the essential key to achieving long-term financial goals. Self-control tends to create imbalances in the asset distribution. Investors exposed to self-control may prefer to make a profit. Their self-control attitude will lead to a loss of the basic financial principles such as interest, and the average cost of the dollar.

Over time, clients will miss the opportunity to accumulate long-term wealth and lose profits.

An analysis of the results of the optimism illusion questionnaire:

Questions 1 and 3: Option "B" tends to show a tendency to be optimistic.

Questions 2 and 4: 80.4% of respondents answered "A" with an optimistic outlook. According to the survey, the results are confirmed by the analysis.

The primary key to financial success is long-term investment and savings. Often, the accumulation of optimists is deteriorating, so try to invest wisely at every opportunity to combat this illusion.

''Proper allocation of asset portfolios is the key to success.'' Optimism can make investors ignore others and become too fond of certain asset categories. Therefore, consultants need to challenge their clients to allocate assets, adhere to them, and create a balance.

An optimistic outlook can obscure the benefits of a disciplined investment. Challenge your clients to save money year by year. Of course, such a regime can be difficult to follow, but the outcomes will be worth it.

Analysis of the results of the illusion of mismanagement questionnaire:

Four questions defined this confusion.

Question 1: 60% of the respondents were more likely to be misled by the illusion because those are more confident in spinning the dice themselves instead of letting others do it.

Question 2: 62% of the respondents were more likely to be misled by the self-control illusion as they believe they feel that they can control themselves.

Question 3: 41.3% of the respondents believe that self-shuffling is more controlled and effective. Question 4: Instead of randomly selecting a lottery number, respondents were more optimistic about their lottery number by selecting themselves so they chose "A" to control the tendency to create false impressions. Fifty-six percent chose the “A” option, indicating the prevalence of the illusion of mismanagement.

Recommendation:

Misrepresentations of control bias may lead investors to trade more than they usually do. Researchers have revealed that online retailers, in particular, are ample to take more control over themselves. According to the research, the most common or confusing are listed as Mismanagement, Optimistic, Loss avoidance, Regret avoidance,& Self-control.

Applications of the Study

The findings of this study have several practical applications, particularly in improving investor decision-making and enhancing financial advisory practices. First, by understanding the key biases that influence Mongolian investors, financial advisors and investment managers can better tailor their strategies to mitigate the impact of irrational decision-making. For example, recognizing the dominance of loss aversion and regret aversion can prompt advisors to help investors develop more balanced and diversified portfolios, reducing emotional reactions to short-term market fluctuations. Additionally, the study's identification of optimism and illusory control as significant biases suggests the importance of educating investors on the long-term nature of investments and the potential risks of overestimating their ability to control outcomes. Financial literacy programs can incorporate this insight to foster more realistic expectations and promote a disciplined approach to investing. The findings can also be used to design behavioral interventions, such as nudges, to guide investors toward more rational choices. For example, providing reminders about past decisions or framing options in a way that reduces regret could encourage investors to make more thoughtful decisions. Furthermore, these results can inform the development of tools and apps that assist investors in tracking their biases and decision-making patterns. Finally, policymakers and financial institutions could utilize the study's insights to create regulatory frameworks that protect investors from making emotionally driven, irrational investment choices. By incorporating behavioral finance principles into market regulations and investor protections, authorities can help create a more stable and efficient financial environment.

Conclusion

In this study, the following conclusions were drawn from a survey on individual investment behaviors, types of investments, and illusions that affect investment decision-making. First, it was found that behavioral illusions are irrational financial decisions that arise from erroneous cognitive reflections or emotional reactions. Among the most common patterns of investor behavior are "regret-avoidance" and "loss-avoidance," both of which are influenced by the investor's income level. At lower income levels, investors are less likely to experience regret due to investment performance, whereas higher-income individuals tend to prioritize avoiding losses. Additionally, individual investors often face both logical and emotional biases when making investment decisions. Acknowledging that much of what happens in life is beyond our control, it is crucial to understand that believing we are fully in control could be one of the greatest illusions. By recognizing and eliminating this illusion, investors can focus on what is manageable and within their control. Another key conclusion is the tendency for reluctance in decision-making, suggesting that hasty decisions should be avoided unless one is a world-class expert. Rushed decisions are often poor, sometimes due to overconfidence and the inability to recognize mistakes. Therefore, it is recommended that investors slow down their decision-making process, taking the time to reflect before acting.

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