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Studying Intuitive Decision Making and its Applicability by Secondary Equity Market Investors

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"Reflect on all that I have said and do whatever is best."

Sri Krishna, Bhagwad Gita

I. INTRODUCTION

After Lord Krishna 'clarified' everything to Arjuna through 18 chapters, Arjuna was confused by the contradictions. Krishna's final advice was, "Reflect on all that I have said and do whatever is best." In other words, the lord suggested the decedent to use intuition!.

While making the suggestion the preacher did not specified the type of decision where the decedent could apply Intuitive decision making. The word 'intuition' stems from the Latin word, in-tuir, which means 'looking, regarding or knowing from within'. Intuition is **instinctive and unconscious knowing without deduction or reasoning.** Intuition has numerous synonym such as gut feeling, sixth sense, inner sense, instinct, inner voice, spiritual guide, etc. the human senses relay about 10 million times more pieces of information per second to the brain that can be consciously perceived. It is complicated for the brain to process such enormous amount of information, so the brain uses simplifications and shortcuts to facilitate information processing. Such shortcuts are Intuitive Instincts. The intuitive "hunch" comes to attention as a feeling "good feel or bad". This feeling represents a subconscious emotional process that is manifested in physical sensations. According to Jack Welch (Former CEO of GE), in his biography "Jack: Straight from the gut", mentioned that the outcomes in the business world are high stakes and inherently uncertain, an ideal environment for integrating intuition and expert judgement. Same is said about George Soros, a highly successful stock market investor, mentioned that his back started killing him, when he was required to change his position in the market.

Example of George Soros prompted the researcher to study: Do the rational investors of secondary equity market anchor their decision of investing to Intuitive decision making also.

Traditional theorist believed Investing in secondary equity market to be a rational decision based on facts & figures till the evolvement of a new branch of Finance i.e. Behavioral Finance. The collaboration between Finance and other social sciences that has become known as behavioral finance has led to a profound deepening of the knowledge of financial markets (Shiller, 2003)*. The behavioral anomalies may not explain the price movement to an exact level but they do form a very crucial component in price discovery process as a human investor cannot behave rationally always. Complementing to the real world situations, behavior of the equity market is also uncertain, and in reality the experts do not have a formal and concrete model to predict the uncertainty, under such circumstances Intuitive Judgment could be way for assessing uncertainty.

II. LITERATURE REVIEW

Literature review on Intuitive decision making dated back in Hindu philosophy, the sacred text of India's culture i.e. the Vedas were based upon **darsana or insight.** It was believed that via this insights the seers (rsi means seer) were able to see in to reality. The credit of establishing Intuition as a philosophical concept rests on **Patanjali**, which believed Intuition to be a **supra normal insight**. Patanjali literature focussed on self realization and the discipline to be followed to achieve self realization. According to Patanjali, when a jogin develops yoga proper, i.e. the stilling of the mind, to a high state called samyama, Intuition arises.One prominent example is mentioned in the great epic of Mahabharata, where

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*Robert J. Shiler (2003), “From Efficient Markets Theory to Behavioral Finance”, Journal of Economic Perspectives—Volume 17, Number 1—Winter 2003—Pages 83–104

The human senses relay about 10 million times more pieces of information per second to the brain,the brain uses simplifications and shortcuts to facilitate information processing. Such shortcuts are Intuitive Instincts.

Goldberg Philip and Tarcher Jeremy P. (1983), mentioned the work of **Graham Wallas (1929)**, in his book “The Art of thought”, and mentioned stages of creative process: incubation period, Illumination stage (the Intuitive breakthrough) and then verification. The authors discussed the paradoxes of intuition, explained about the holistic nature of intuition mentioned that the parts and their sum can be discerned through rational analysis, but the greater can be apprehended only through Intuition. Intuition appears as a flash with no sequential arrangements that comes and goes instantaneously. The paper explained that the rational thoughts are verbal while the Intuitive thoughts are non verbal, emotions are subject matter of intuition expressed in the form of feeling sad, restless, happy etc. **Fitz Hope K. (2002)**, mentioned Dr. Radhakrishnan’s writings while describing types of Intuition. Radhakrishnan believed intuition as higher form of knowledge, criticized by the author as Intuition is not knowledge in itself while it’s a means of gaining knowledge.The process is one in which present impressions are brought together with past related memories on a focus of concern. The process involved**Reason,** the reason was used to form a number of the memories and also used in relating those past memories to present impressions and favored the softer areas still benefit from information and measurement, an instinctive, intuitive approach can save time and resources: providing, of course, that the decision is right. The theory can be criticized on the fact that finance looks like a hard core decision area but wherever humans are involved the decisions become softer in nature. **Sjoberg L.(2003)**, mentioned the preferred mode of taking decisions under different circumstances or when and for what kind of decisions is the intuitive mode preferred to the analytical?. The situations were classified on the basis of professional vsnon professionaljudgements. The author used intuitive–analytical judgment scale ranging in five steps, from ‘‘completely intuitively’’ to ‘‘completely analytically’’. The respondents were asked to rank the different situations (28) and were asked to mention whether decisions should be made in an intuitive or an analytical mode, the risk of a negative outcome of the decision, the chance of a positive outcome of the decision, and the extent to which the outcome was under the control of the decision maker. The study revealed that the respondents favour intuitive decision making in situations where they were making personal decisions in non-professional roles. The study was not able to differentiate between the decision making technique to be used under risky situations.

Sayegh Lisa et. al. (2004),provided a breakthrough, concentrated on utility of intuitive decision making under conditions of uncertainty and crisis especially during the 26/11 attacks on USA. Further supported the theory, that relevant experience plays a major part in intuitive decision making. The paper assumed that experience is composed of education, training, and exposure to events similar to the current situation. Also cognitive schema played a vital role (exemplified by decision making by CEO of Disney (Michael Eisner)), role of self efficacy (confidence or belief in self), a higher degree of self efficacy was found responsible for intuitive decision making, mentioned organizations are social structures and their success demands a combination of the two components, information held by the manager and the emotional response resulting in ‘‘gut feeling’’ about the ‘‘right’’ decision—what we commonly refer to as ‘‘intuition. **Thoo Ai chin (2005)**, studied the relationship between intuitive decision-making style and situation factors (information, time, risk and uncertainty) by the academic staff (University of Malaysia) and observed that the staff is highly intuitive decision maker and they trusted their feeling and believed that their instincts are always correct. **Williamson (2007)** suggested that, phenomenological, intuitions are akin to inclinations to believe. However, advocated that intuitions are a species of judgment. Since judgments are belief entailing where intuitions are not. **Hendrie (2009),** Psychologist, and author of , 'The Genius of Instinct, defined Intuition as stimuli that is below the conscious awareness and believed that most human beings made mistake in by listening others and not listening to their *natural intuitive decision making skill, the author also suggested* five indicators which should be attentively listened and acted upon to make a correct decision.

a. Watch your facial expressions, b. It's not what you say but how you say it, the act of listening to your inner voice or 3rd ear, c. Actions, c. louder than words, becoming aware of the behavior, d. Increase your "sensory awareness", e. Visualize and Feel the Outcome of Your Decision-Making

Investment decisions or specifically investing in stock market is considered to be a rational and analytical decision, but since the human nature cannot be separated from emotions and inner self, intuition is also assumed to play a vital role in the process of investing in share market. An individual can experience some peculiar feelings indicating the decision of investing in a particular security to be profitable or loss making investment.**Daniel Kahneman (2011)**, in his scholarly work mentioned in his book "Thinking fast and slow", postulated that there are two broad neural systems underlying decision making:

The Intuitive i.e. **System 1 observed to be fast, intuitive, and emotional and the other is**

The Analytical i.e. **System 2 observed to be slower, more deliberative, and more logical** Analytical judgement is primarily logic based, while the Intuitive system is rapid and feel based. Intuitive decision making seem to flourish under conditions of - risk, uncertainty, with performance expectation, and under time pressure. Intuitive decisions rely on "gut knowledge". Listening to one's gut knowledge creates tremendous advantages (as well tremendous danger) for market participants.**Hensman Ann, Sadler-Smith Eugene (2011)**, studied applicability of intuitive decision making by the experienced executives selected wrt: domain knowledge and experience of a FTSE-100 bank. Recalled the incident where they applied intuitive decision and obtained a detailed description of the incident. The study observed that intuitions could be compelling and even alluring, but are likely to have a lower perceived validity than rational analyses in business organizations; further supported prior learning, experience and pattern recognition as bases for intuitive judgment in banking.

Michael Pratt, Erik Dane & Kevin W. Rockmann (2012), tested intuition against analysis, observed that intuition isn't always bad and there are conditions where it is a good way to make the right decision. People can trust their gut and rely on intuition when making a broad evaluation, in an area where they have a domain expertise (in-depth knowledge of the subject).

Traditional investment theory postulates that people use reasoning and objective analysis during decision making, according to traditional theory, investors slowly and mechanically judge potential outcomes, weighting their probabilities and their potential gains or losses, to arrive at a rational analytical decision. Scholars and practitioners alike agreed that sound decision-making was understood to occur under only the most rational conditions **(March, 1978; Simon, 1957)**. **The investors arrives at a choice after a series of calculations i.e. a risk reward analysis. Damasio (1994)** pointed out, ''An important aspect of the rationalist conception is that to obtain the best results, emotions must be kept out.'' (p. 171). But in a world where ultimate outcomes are uncertain and volatility can arise unexpectedly, investment practice is not as rational as theory suggests. Many of the best performing portfolio managers are observed to perform a two step analysis before making an actual choice, initially they perform a rational analysis of known facts and figures after gathering information from corporate management, customers, suppliers, employees and stock analysts. But in order to consolidate all this complex information into a single decision, they resorted to Intuitive process.
Till now theory of intuition is greatly facilitating managers for arriving their business and routine decisions, as previous researchers preferred to revolve around managers in intuitive decision making **(Agor, 1984)**. Intuitive decision makers are likely to be more risk seeking, impulsive and belief in luck **(Martin et al., 2005)**. People use intuition for making decisions in situations of great uncertainty or lack of information (Judge and Robbins, 2006; David,2009). **Sinclair and Ashkanasy (2005)** found that intuitive decision is very useful in ambiguous situations, particularly for those decision makers in business world who have restricted information and they must decide which alternative strategies will benefit the companies most. People relied heavily on intuition to make decision because they are not completely sure of the alternative **(Certo and Certo, 2005)**. Previous researches indicates that the greater the time pressure, the more likely individuals are to base their decisions on their intuitions **(De Dreu, 2003; Kruglanski& Freund, 1983)**

Intuitions are not always easy to follow, strong emotions drown out gut feelings. Feeling generates distractions to the gut feeling. Feelings that resulted from remembering, experiencing, or anticipating environments in which one is under significant time, social or performance pressure, can easily bias intuitive judgement. In simple decision making situations, conscious thought usually leads to better decisions, but after a certain level of informational complexity is reached, the quality of conscious choices falls below that of effective choice. Feelings provide mental shortcuts, allowing people to quickly judge the “rightness” and “wrongness” of complex scenarios.

The pitfalls of overthinking, strong emotional biases, and subliminal emotions render intuitive judgement excessively biased for most investors. Experience (gained through honest appraisals and rapid feedback) and emotional intelligence (specifically self awareness) are the remedies that excellent investors use to fortify intuitive process.

III. RESEARCH METHODOLOGY

The research aimed to study the inclination of the respondents aka investors towards intuitive decision making while taking equity investment decision. Further an effort was made to understand the logical approach followed to assist the same decisions.

Two set hypothesis were formed, Main & Ancillary

Main Hypothesis:

H0: Exposure in the equity market is independent of Intuitive decision making

H1: Exposure in the equity market is independent of Intuitive decision making

Ancillary Hypothesis tested the effect of demographic variables on adoption of Intuitive and logical decision making Opinion of the respondents was recorded by following Descriptive approach. Few statements were ranked by the respondents on 5 point likert scale indicating the degree of agreement & disagreement following the Intuitive and logical approach while taking investment decisions.

Sampling technique used was non probability convenience and snowball sampling. Questionnaire was distributed to the respondents in hard copy as well as online through Surveymonkey.com. The target audience decided was 650 but usable responses received were 507 with an effective response rate to be 78%. The data collected was analyzed with the help of suitable statistical technique and software MS Excel and SPSS 19.0, the analysis techniques followed were reliability analysis, crosstab and ANOVA analysis.

The statements that explained the nature of next factors when clubbed together were related to the Intuition and gut feeling of the respondent. The factor studied the inclination of the respondents towards Intuitive decision making whether the respondent followed intuitive decision making in general life decisions and investment decisions. The statements were tested for internal consistency with Cronbach’s alpha. The statements and the value of alpha indicated in next section.

The statements on Intuitive decision making approach indicated a reliability statistics of .714.

a. Indians are strong on their Intuitive abilities.
b. My gut feeling is right most of the times
c. WhenIam1tcertainIhearmyinnervoice
d. While making a decision have you felt I have a good enthusiastic feeling about it
e. While taking investment decisions I hear my inner voice
f. I experience a feel in my stomach or heart if the decision may be wrong

The study also tried to explore the other aspect of decision making i.e. logical decision making. The statements that explored the logical decision making style of the respondents were

a. I take decisions only on the basis of facts and figures
b. Performing logical analysis is the best way of decision making

The statements explained the variation to the extent of 69%.

The effect of two variables was studied across the demographic characteristics of the respondents as well there form of equity market investment. Results after analyzing the data are discussed in the next section.

IV. RESEARCH RESULTS

After analyzing the data, following results were obtained. Initially the study concentrated on identification of the effect of Demographic features over Intuitive and Logical decision making. The study identified that mid aged respondents seem more inclined towards Intuitive decision making, than their younger and older counterparts. Married respondents believed in intuitive decision making than single. Homemakers and respondents engaged in own business indicated a high degree of usage of Intuitive decision making, in contradiction to the govt. employee. Effect of experience in investing was also studied wrt the inclination towards Intuitive decision, the analysis indicated that the respondents with less experience in the market or at the initial stages of their investment procedure, favoured taking decision intuitively while as their experience increased respondents followed logical & rational thought.

Main aim of the study was to identify what percentage of the respondents engaged in secondary equity market following Intuitive decision making style. The descriptive mean ranking indicated that as the degree of involvement of the respondent increased in the equity market, the degree of inclination towards the Intuitive decision making reduced.

ANOVA was conducted to test that whether the difference in opinion was significant or not, P value of the test was less than .05 indicated rejection of the Null hypothesis and acceptance of the alternate hypothesis that the exposure in the equity market is independent of Intuitive decision making. Post hoc LSD was conducted to test which of the two or more groups indicated a significant difference regarding the usage of Intuitive decision making and the equity market exposure.

Multiple Comparisons
Intuition
LSD

(I) Exposure St. Mkt	(J) Exposure St. Mkt	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
No Exposure	Details not furnished	-.16161	.09002	.073	-.3385	.0153
	Indirect Exposure	-.23397*	.09633	.015	-.4232	-.0447
	Direct Exposure	-.27564*	.08023	.001	-.4333	-.1180

The mean difference is significant at .05 level *

The mean ranking of the respondents of “No Exposure” with “Indirect Exposure” & “Direct exposure” indicated a significant difference while the mean ranking of the respondents with “Indirect Exposure” & “Direct exposure” did not differ significantly. The respondents engaged in equity market indicated less inclination towards Intuitive decision making. Another aspect studied the inclination of the respondents towards logical decision maker under the same demographic and investment profile. The respondents with more than 65 years of age indicated a strong degree of inclination towards logical decision making, with least degree was indicated by the younger counterparts. Among the male and female respondents, male respondents adhered to more logical decision making but were indifferent on intuition. Married respondents indicated less inclination towards logical decision making than single. Respondents engaged in professional practise and own business indicated highest inclination towards logical decision. As the income of the respondents increased, they favoured logical decision making.

As the respondent gained years of experience in the investing environment, more the respondents become logical in their decision making and less of Intuitive as identified in the previous section. Most importantly the respondents with “Direct exposure”indicated a high degree of inclination towards the logical decision makers and were less inclined towards intuitive decision making.

ANOVA
Logic

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.461	3	2.487	3.858	.010
Within Groups	324.226	503	.645		
Total	331.686	506			

Post hoc LSD indicated a significant difference between the respondents with Direct & Indirect exposure.

The study identified that though the respondents did not declined the idea of Intuitive decision making completely, but they still adhered themselves to logical decision making. The study asked for an investment behavior followed majorly, and observed that for most of the times the investors believed in following a logical decision making approach. Intuitive decision making approach was followed but under few circumstances.

The study identified a basic understanding and approach of the investors towards intuitive decision making while investing in secondary equity market. The study could be substantiated with further studies concentrating on the event and circumstances (eg.: under the boom and crash period, investing in new share etc.) based approach of following a particular decision making style.

The role and importance of Intuition in decision making has been acknowledged throughout the ages of man. In today's world, many practicing executives and managers posited that Intuition is not only a brain skill that is inherited but also one that can be trained and expanded for applied use in management. The vast majority of the routine decisions made rapidly, automatically and beneath conscious awareness, Intuition and "Gut feeling' often underline some of the most consequential decisions. Intuitive decision making is honed unconsciously, through experience, and it is the foundation of more than 90% of all decisions. Similarly the investors must develop the inner self with the help of insight gained from the past and apply to the investment decisions made. Must listen the first thought that came to mind as the first thought is based on Intuitive judgment.

V. LIMITATIONS

1. The study only focused on the Intuitive decision making compared with logical decision making, other decision making styles were not covered.
2. The respondents residing in the NCR region were studied, the study could be conducted in other regions also.

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