Devina Mehra lists 8 investment biases you should avoid

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Devina Mehra, Co-Founder of First Global is of the view that there are eight behavioural biases that investors should avoid as they derail investments.

One factor preventing investors from making the right investment decisions could be inherent behavioural bias. Speaking to CNBC-TV18, Mehra said that there is a huge gap between understanding number crunching and translating that into a successful investment.

"The gap really lies in understanding your own mind, and understanding the human mind and how that at times can derail you from what you want to achieve," said Mehra.

Here are eight investment biases you should avoid:

1. Storification Bias

Thanks to the inextricable link between stories and humans, stories work very well in convincing us. With regard to investment, stories could result in under-analysed and oversimplified opinions. Mehra explained, "A fund manager could weave a good story about a company's brand value and customer relationship. This could impress you to invest. But once you invest, you have the market, and not a human, on the other side. And the market does not care about the story you were told."

A company's performance depends on market evolution, competitor growth and customer evolution among other parameters and, therefore, cannot be contained in a single story. Investors need to be aware of the various probabilities and possibilities, and not believe in a simplistic story regarding an investment opportunity.

2. Endowment Effect

The Endowment Effect is a bias where you value something more, simply because you own it. This kind of bias causes people to defend stocks in their portfolio and hold them longer than needed. The bias is also present among experts and one shouldn't hold on to something even when there are signals that things are going downhill.

3. Survivorship Bias

This one arises out of analysing only entities that have lasted till today, before investing. Citing the example of mutual funds, Mehra said, "While investing in mutual funds, you will look at schemes as they exist today and look at their past performance. But you will miss out on all that didn't work in the past. Therefore, you will miss out on all the entities that existed in reality in the past."

4. Loss Aversion

Loss aversion is a bias that stems from the human instinct to avoid loss. This fear entraps investors in many ways. Some investors choose a 100 percent risk-free form of investment despite it not yielding optimum returns. People become conservative as they cannot bear the thought of loss. It also causes them to hold onto investments to avoid realizing a loss in their portfolio.

5. Self Attribution Bias

Self attribution bias is an investor believing that while a good investment is a result of his or her skill, a bad turn is due to unforeseen circumstances. It is important to not let this bias impact your choices and understand that all outcomes are a combination of skill and luck.

6. Confirmation Bias

Confirmation bias causes you to filter all information regarding your investment to fit your preconceived notions of the situation. It causes you to only take in information that is consistent with your theory and discard everything that does not align with it. This could cause you to hold on to some poor investments.

7. Bandwagon Effect

Bandwagon Effect or herd mentality leads you to blindly invest in an entity because a large number of people are doing so. This does not mean one must not make a popular investment, but it is important to analyse the market objectively and not make decisions just to join the bandwagon.

8. Hindsight Bias

This bias causes investors to ignore past events in favour of more recent ones while making a decision. Investors believe that a stock that is doing well now will always appreciate and one that has not done well recently will continue to be on the downward trajectory.