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Original Article (Qualitative)

## Designing a portfolio management model for investment funds with an emphasis on behavioral finance

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### Abstract

The aim of this research is to design a portfolio management model for investment funds with an emphasis on behavioral finance. The research method is applicable in terms of its purpose, qualitative in terms of implementation method and time of data collection, and descriptive-survey in terms of nature and research method. The statistical population of the research includes managers of 329 investment funds present in the Tehran Stock Exchange, selected using purposive sampling and snowball method. Interviews continued until theoretical saturation. Semi-structured interviews were used to collect information. Thematic analysis technique was used to analyze the data. The results showed that the most important behavioral finance variables affecting portfolio management in investment funds included behavioral optimism and pessimism, controlling the fear of profit retention, paying attention to risk-taking and risk-averse behavior, paying attention to self-control behaviors, normalizing conservative behaviors, controlling herd behavior, having a written strategy, controlling regret-avoidance behaviors, propensity behavior, and mental accounting. It is suggested that investment funds as well as real individuals pay attention to these behavioral finance variables in order to better manage their portfolios.

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## Extended Abstract

### Introduction

In recent years, a new field of research in finance has emerged that has transformed financial theory. In the wake of the anomalies found in financial markets, it was concluded that markets are not as efficient as previously thought in the last century, but are affected by several biases that indicate their imperfection, and as a result, a new theory called behavioral finance theory is presented (Paule-Vianez et al., 2020). Behavioral finance suggests that human decision-making involves a combination of cognitive and emotional dimensions. Behavioral finance believes that human decision-making can be explained from cognitive, emotional, and social dimensions. Personal values, emotions, personality traits, and social influence affect investors' subjective perceptions of reality in financial decision-making (Karimkhani & Karimkhani, 2021). One of the keys to success in the capital market is for investors to adopt an appropriate approach to managing the stock portfolios they have built. A portfolio is actually a collection of different securities and assets formed by an individual investor or an investment fund. As previously mentioned, the main question in this area is how to distribute and allocate capital to assets and form a portfolio of securities and then manage it (Hassanloo, 2017). A stock portfolio is a suitable combination of stocks or other assets that an investor has purchased. The purpose of forming a stock portfolio is to divide the investment risk among several stocks; the profit of one stock can compensate for the loss of another stock. The financial and cash value of any individual or legal entity is called portfolio value. For pricing investment companies listed on the stock exchange, the most important factor is the portfolio value of these companies. The first investment fund in its current form was formed in 1924 in Boston, USA. Since that year, investment funds have continued their activities successfully in the world, especially in the United States. Therefore, in this research, we seek to answer the question of what the portfolio management model of investment funds with an emphasis on behavioral finance is like?

### Theoretical Framework

#### Portfolio Management

Portfolio management is the process of guiding the investor to select the best available securities that provide the expected rate of return for each degree of risk and also reduce risk. This is a strategic decision that is considered by top management (Kapoor, 2014).

#### Mutual Funds

Mutual funds have continued to operate successfully in the world, especially in the United States. These funds, which are one of the most important capital market institutions for raising small but large-scale capital and have significantly reduced investment risk, have led to a boom in the stock market and management and have attracted more ordinary people unfamiliar with the market to the capital market (Asadi Gharehjeloo & Abdo Tabrizi, 2020).

#### Behavioral Finance

Behavioral finance studies how psychological phenomena affect financial behavior. Financial behavior studies how humans behave in determining financial matters. Behavioral finance is a new theoretical branch in finance defined by combining the knowledge of psychology, sociology, and other social sciences (Meisa Dai et al, 2021).

Moghdisi et al. (2025) studied the modeling of factors affecting the profit response coefficient of companies by combining behavioral finance components using the structural equation modeling method. The results of the study showed that the financial condition and performance factor with a path coefficient of -0.19, the capital market condition and performance factor with a path coefficient of 0.167, and the investment environment factor

with a path coefficient of 0.12 have a significant effect on the profit response coefficient at the 0.05 error level. Accordingly, the structures of earnings per share, financial leverage, information asymmetry, market index return, inflation rate, free float, stock turnover rate, and stock trading frequency were identified as structures affecting the profit response coefficient. Among the aforementioned structures, the absolute value of the coefficients of the structures showed that the inflation rate has the highest and the profit per share has the lowest impact on the profit response coefficient.

Shahamat et al. (2025) studied the presentation of a portfolio management model in investment funds based on behavioral financial variables. The results showed that at the first level, the most influential components included: controlling the fear of profit retention, normalizing conservative behaviors, and controlling regret-avoidant behaviors. At the second level, the components affecting the first level were attention to self-control behaviors, having a documented investment strategy, and attention to mental accounting principles, and at the third level, the components affecting the second level included behavioral optimism and pessimism, attention to risk-averse and risk-taking behaviors, and control of herd behaviors. At the fourth level, there is the most influential component, which includes the tendency effect.

### Research Methodology

The research method is applicable in terms of its purpose, qualitative in terms of implementation method and time of data collection, and descriptive-survey in terms of nature and research method. The statistical population of the research includes managers of 329 investment funds listed on the Tehran Stock Exchange selected using purposive sampling and snowball method. Interviews continued until theoretical saturation. Semi-structured interviews were used to collect information.

### Research findings

Thematic analysis technique was used to analyze data. The results showed that the most important behavioral financial variables affecting portfolio management in investment funds included behavioral optimism and pessimism, controlling fear of profit retention, paying attention to risk-taking and risk-averse behavior, paying attention to self-control behaviors, normalizing conservative behaviors, controlling herd behavior, having a documented strategy, controlling regret-avoidance behaviors, propensity behavior, and mental accounting. It is recommended that investment funds as well as individuals pay attention to these behavioral finance variables in order to better manage their portfolios.

### Conclusion

The present study was conducted with the aim of designing a portfolio management model for investment funds with an emphasis on behavioral finance. The results of this study are consistent with previous studies, including Moghdisi et al. (2025), Shahamat et al. (2025), Mousavi Kakhki & Khatabi (2024), Aurengzeb & Maqbool Shah (2022), Chung Wu et al. (2022), Nassim Mellem et al. (2022), Betancourt & Chen (2021), Gruszka & Szwabiński (2021), Karimkhani & Karimkhani (2021), Ebrahim Nejad et al. (2021), Ranjbari Vahid et al. (2020), and Risboff Fakur (2020). Shahamat et al. (2025) showed that at the first level, the most influential components included: controlling the fear of profit loss, normalizing conservative behaviors, and controlling regret-avoidance behaviors. At the second level, the components affecting the first level were attention to self-control behaviors, having a well-documented investment strategy, and paying attention to mental accounting principles. At the

third level, the components affecting the second level included behavioral optimism and pessimism, attention to risk-averse and risk-taking behaviors, and controlling herd behaviors. At the fourth level, there is the most influential component, which includes the tendency effect. In the MicMac model, most of the variables were placed in the linked variables section, which have a strong influence force and also a strong dependency force. According to the results of the research, it is suggested that: Investors should be aware of their behavioral biases towards optimism or pessimism and try to have a balanced and realistic perspective when making investment decisions. Investment funds and individuals should develop strategies to manage and reduce fear of possible losses and ensure that decisions are not simply driven by fear.