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A STUDY OF INFLUENCE OF COGNITIVE BIAS AND EMOTIONAL BIAS ON INVESTMENT DECISIONS OF SALARIED EMPLOYEES IN AMRAVATI CITY

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Abstract

This study examines the influence of cognitive and emotional biases on the investment decisions of salaried employees in Amravati city. In today's financial environment, individuals often rely on psychological factors rather than rational analysis while making investment choices. The main objective of the study is to analyze how cognitive biases such as overconfidence, herding behavior, and confirmation bias, along with emotional biases like loss aversion and optimism, affect investment behavior.

A descriptive research design was adopted, and primary data were collected from 100 respondents through structured questionnaires. The data were analyzed using percentage analysis and presented through tables and graphs. The findings reveal that most respondents are influenced by market conditions and personal beliefs while making investment decisions. A significant number of investors show confirmation bias by preferring information that supports their existing beliefs. Emotional responses such as confusion, hope, and fear were also observed during market fluctuations.
The study concludes that both cognitive and emotional biases play a crucial role in shaping investment decisions. These insights are useful for investors, financial advisors, and policymakers to promote better financial awareness and rational decision-making.

Keywords: Behavioral Finance, Cognitive Bias, Emotional Bias, Investment Decisions, Salaried Employees

1. Introduction

In today's financial environment, effective money management is essential for salaried employees who earn a fixed monthly income. They must manage regular expenses, family responsibilities, and long-term goals such as education, healthcare, and retirement. Since income growth is limited, investment decisions play a crucial role in wealth creation, inflation protection, and financial security.

Traditional financial theories assume that investors behave rationally while making investment decisions. However, in practice, investors are often influenced by psychological factors rather than objective analysis.

Emotions, personal beliefs, past experiences, and social influence frequently affect investment behavior. This gap between theory and actual behavior is explained by behavioral finance.

Behavioral finance highlights how cognitive and emotional biases influence investment decisions. Cognitive biases arise from errors in thinking, such as overconfidence, herding behavior, and anchoring, where investors rely excessively on past information. Emotional biases, including loss aversion and regret aversion, are driven by fear and emotions, often leading investors to avoid risk or delay decisions, even when opportunities are favorable.

Salaried employees are particularly vulnerable to these biases due to their fixed income and cautious approach toward risk. The growing availability of digital investment platforms has increased their market participation, but limited financial knowledge and reliance on informal advice increase the chances of biased decision-making.

Most behavioral finance studies in India focus on metropolitan investors, while limited attention has been given to salaried employees in smaller cities such as Amravati. This study aims to examine the impact of cognitive and emotional biases on the investment decisions of salaried employees in Amravati city, contributing to improved financial awareness and informed investment behavior.

2. Statement of the Problem

People are supposed to make smart investment choices based on facts and financial analysis. But in real life, a lot of salaried employees tend to rely on their own judgment, feelings, and the opinions of others instead of objective evaluation. Biases like overconfidence, herding behavior, mental accounting, anchoring, loss aversion and regret aversion, often lead them to make bad investment choices. In Amravati city, salaried employees are investing more and more, but we don't know much about effects of these biases on their choices. Most recent research has focused on students or general investors, which lacks in identifying the behavioral factors influencing the financial decisions of salaried employees. Consequently, this study aimed to examine the impact of cognitive bias and emotional bias on investment decisions of salaried employees.

3. Review of Literature

(Kaushik, 2025): This study highlights that investment decisions are not always rational as traditional finance assumes, but are strongly driven by emotions and psychological influences. The study explains how feelings like fear, greed, regret, and overconfidence can push investors toward risky or impulsive actions. Cognitive biases such as loss aversion, anchoring, and confirmation bias also play a major role, causing individuals to ignore logic and market fundamentals while making choices.

(C. B. Singh, 2024): The study investigated the influence of psychological tendencies on investment behavior, particularly among individual traders. Their findings show that investors are not always rational, decisions are greatly shaped by the level of information available, the framing of situations, and personal risk-taking tendencies. The study emphasizes that greater financial awareness and disciplined practices such as diversification and regular portfolio review can support more sound investment decisions.

(Baser D. K., 2023): Explains that investors often make financial decisions based on emotions and psychological influences rather than logical thinking. Their study discusses major behavioral biases such as anchoring, overconfidence, herd behavior, overreaction, underreaction, and loss aversion, which can lead to poor investment choices. They conclude that understanding these biases can help investors make more rational and better-informed decisions.

(Nair S. P., 2020): The study found that most employees choose traditional and secure investment options like bank deposits and insurance because they do not feel confident about higher-risk options such as mutual funds and shares. They generally prefer medium-term investment plans, and their decisions are mainly driven by safety of money, long-term security, and low risk.

(Novianggie V., 2019): The study examined behavioral biases affecting stock investment decisions of university students. The results showed that students are often influenced by herding behavior, risk perception, overconfidence, and representativeness bias.

Research Gap

Even though many researchers have explored behavioral biases influencing investment decisions, most of the studies are focused either on general retail investors in large cities. There is very limited literature that examines how these biases affect the investment behavior of salaried employees in smaller, growing cities like Amravati, where financial awareness, access to expert guidance, and income levels are comparatively lower. Therefore, there is a clear gap in understanding how both emotional and cognitive biases continue to shape investment preferences and risk perception among salaried employees in Amravati City.

4. Objectives of the Study

1. To study the cognitive biases affecting investment decisions of salaried employees.
2. To study the emotional biases influencing investment behavior.

5. Research Methodology

This study used a descriptive research design. Primary data were collected through a structured questionnaire designed to measure cognitive and emotional biases in investment behavior. Secondary data were gathered from research journals, books, reports, financial magazines, and reliable online sources to support the findings. The universe of the study included all salaried employees residing and working in Amravati City who are investors. The population comprised men and women from different age groups, income levels, and occupational categories to ensure diversity and balanced representation. The sampling unit was an individual salaried employee who makes personal investment decisions. The sampling frame included employees working in various organizations within Amravati City. The study selected 100 respondents using convenience sampling technique.

A structured questionnaire was used for data collection consisting of demographic details, investment-related information, and statements related to various cognitive and emotional biases. The data collected from the respondents will be coded, classified, and analyzed using appropriate statistical tools. The analysis was carried out using Microsoft Excel.

6. Data Analysis and Interpretation

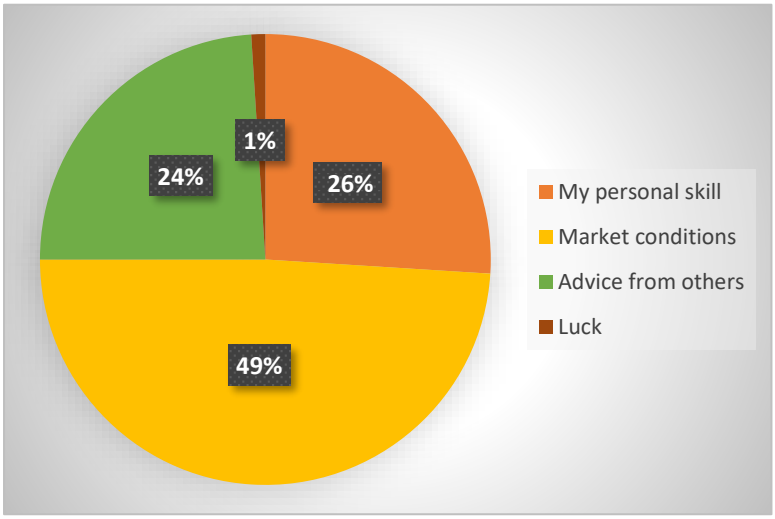
6.1 Analysis and Interpretation of Perceived Reasons for Investment Performance

Table No. 6.1: Table showing analysis of Perceived Reasons for Investment Performance

Options	No. of Respondents	Percentage (%)
My personal skill	26	26
Market conditions	49	49
Advice from others	24	24
Luck	1	1
Total	100	100

(source: primary data)

Graph No. 7.1 Graph showing analysis of Perceived Reasons for Investment Performance



(source: primary data)

Interpretation

The above table shows the reasons for successful investment performance. Nearly 49% credited market conditions, while 26% believed it was due to personal skill. Around 24% relied on advice from others. Very few considered luck as a factor. This shows the importance of external market factors.

6.2 Analysis and Interpretation of Information Preference Before Investment:

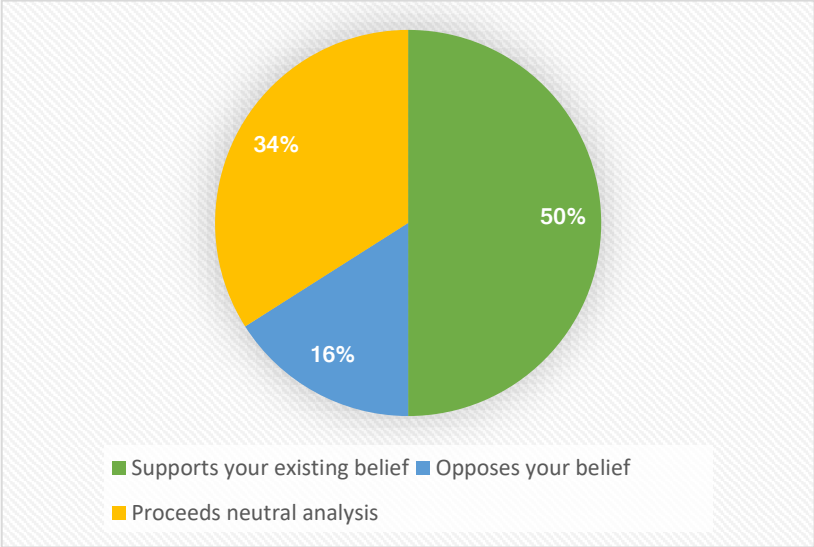
Table No. 6.2: Table showing analysis of Information Preference Before Investment

Options	No. of Respondents	Percentage (%)
Supports your existing belief	**50**	**50**
Opposes your belief	**16**	**16**
Proceeds neutral analysis	**34**	**34**
Total	**100**	**100**

(source: primary data)

Graph No. 6.2: Graph showing analysis of Information Preference Before Investment

(source: primary data)



Interpretation

The above table shows the type of information preferred before investing. 50% preferred supportive information, while 34% relied on neutral analysis. Only 16% considered opposing views. This indicates the presence of confirmation bias. Investors tend to favor information matching their beliefs.34% relied on neutral analysis, and 16% looked for information that opposed their beliefs.

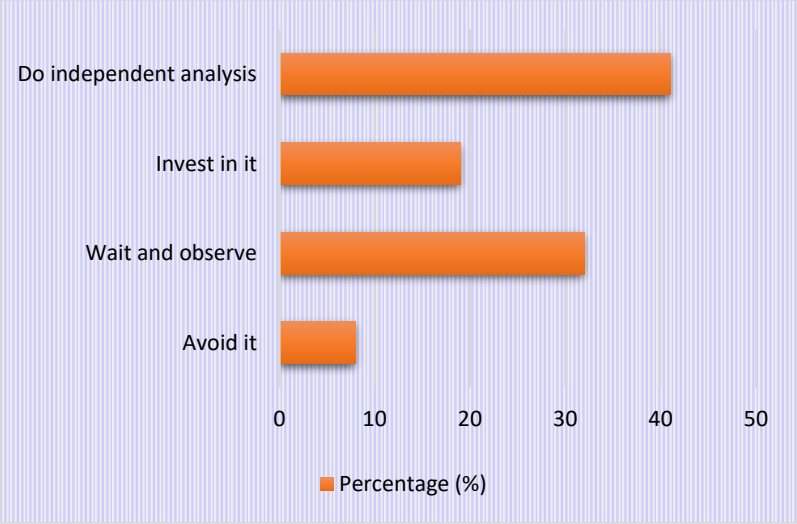
6.3 Analysis and Interpretation of Behavior Towards Popular Investments

Table No. 6.3: Table showing analysis of Behavior Towards Popular Investments

Options	No. of Respondents	Percentage (%)
Avoid it	**8**	**8**
Wait and observe	**32**	**32**
Invest in it	**19**	**19**
Do independent analysis	**41**	**41**
Total	**100**	**100**

(source: primary data)

Graph No. 6.3: Graph showing analysis of Behavior Towards Popular Investments



(source: primary data)

Interpretation

The above table shows how respondents react to popular investment trends. 41% conducted independent analysis, while 32% waited and observed. About 19% directly invested, and 8% avoided such options. Most respondents avoid blindly following others. A smaller group showed herd behavior by directly investing, while very few chose to avoid such situations altogether.

6.4: Analysis and Interpretation of Emotional Reaction to Poor Investment Performance

Table No. 6.4: Table showing analysis of Emotional Reaction to Poor Investment Performance

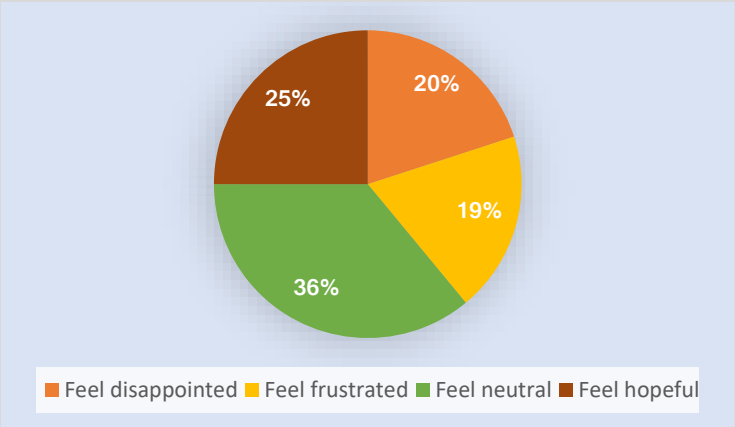
Options	No. of Respondents	Percentage (%)
Feel disappointed	**20**	**20**
Feel frustrated	**19**	**19**
Feel neutral	**36**	**36**
Feel hopeful	**25**	**25**
Total	**100**	**100**

(source: primary data)

Graph No. 6.4: Graph showing analysis of Emotional Reaction to Poor Investment Performance

(source: primary data)

Interpretation



The table showed how respondents felt when an investment did not perform as expected. Out of 100 respondents, 36% felt neutral, 25% felt hopeful, 20% felt disappointed, and 19% felt frustrated. This indicated that a large proportion of respondents tried to remain emotionally balanced, as reflected by the neutral response. 25% feeling hopeful suggested the presence of optimism bias, where investors expected improvement despite poor performance.

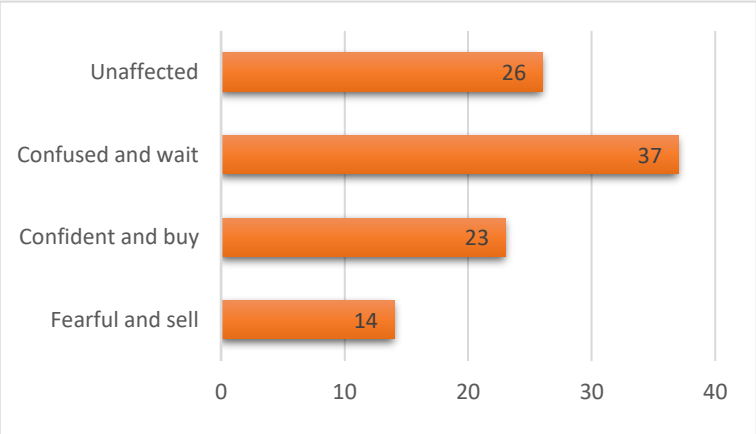
6.5: Analysis and Interpretation of Reaction to Sudden Market Price Fall

Table No. 6.5: Table showing analysis of Reaction to Sudden Market Price Fall

Options	No. of Respondents	Percentage (%)
Fearful and sell	**14**	**14**
Confident and buy	**23**	**23**
Confused and wait	**37**	**37**
Unaffected	**26**	**26**
Total	**100**	**100**

(source: primary data)

Graph No. 6.5: Graph showing analysis of Reaction to Sudden Market Price Fall



(source: primary data)

Interpretation

The above table shows how respondents react when market prices fall. 37% preferred to wait, while 26% remained unaffected. Around 23% bought more, and 14% sold due to fear. This indicates mixed reactions during market fluctuations. Fear and confidence both influence decisions.

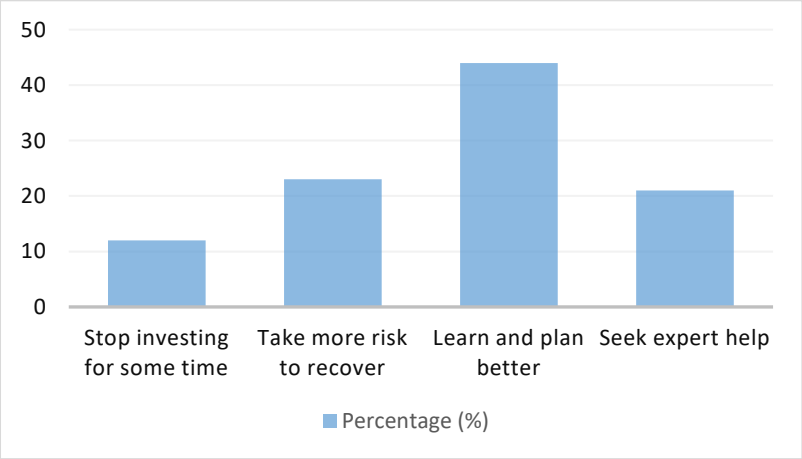
6.6: Analysis and Interpretation of Reaction to Heavy Investment Loss

Table No. 6.6: Table showing analysis of Reaction to Heavy Investment Loss

Options	No. of Respondents	Percentage (%)
Stop investing for some time	**12**	**12**
Take more risk to recover	**23**	**23**
Learn and plan better	**44**	**44**
Seek expert help	**21**	**21**
Total	**100**	**100**

(source: primary data)

Graph No. 6.6: Graph showing analysis of Reaction to Heavy Investment Loss



(source: primary data)

Interpretation

The table showed how respondents reacted after suffering heavy losses. Out of 100 respondents, 44% preferred to learn from their mistakes and plan better, 23% took more risk to recover losses, 21% sought expert help, and 12% stopped investing for some time. The 12% who stopped investing indicated strong risk aversion.

7. Findings of the Study

1. A majority of respondents (49%) believed that investment success is mainly due to market conditions, while 26% attributed it to personal skill, indicating partial presence of overconfidence bias.

2. Around 50% of respondents preferred information that supports their existing beliefs, showing a strong presence of confirmation bias in investment decisions.

3. Most respondents (41%) relied on independent analysis, but 19% followed popular investment trends, indicating moderate herding behavior among investors.

4. When investments underperformed, 36% of respondents remained neutral, while others showed emotions like disappointment, frustration, and hope, reflecting emotional influence and optimism bias.

5. During market downturns, 37% of respondents felt confused and waited, while 14% sold investments out of fear, indicating loss aversion and emotional decision-making.

6. After facing losses, 44% of respondents preferred to learn and plan better, while 23% took higher risks to recover losses, showing the presence of loss recovery bias alongside rational behavior.

8. Limitations of the Study

1. The sample size was limited and confined to salaried in Amravati city which restricts the generalization of results to other regions.
2. The research covered only selected cognitive and emotional biases, not all behavioral factors influencing investment decisions.

9. Scope for Future Research

This study aimed to focus on cognitive and emotional biases shaping the investment decisions of salaried employees in Amravati city. The research was conducted in Amravati city and included salaried employees from both public and private sector organizations. It represented insights from individuals working in diverse professions to ensure understanding of investment behavior across the city. The focus was on common investment avenues preferred by salaried individuals such as mutual funds, stock market investments, fixed deposits, and other savings schemes. The study analyzed how various psychological biases affected the choices people make while investing in these options. The research concentrated on the psychological and behavioral factors particularly cognitive and emotional biases that influence financial decisions.

10. Conclusion

The study concludes that cognitive and emotional biases play a significant role in influencing the investment decisions of salaried employees in Amravati city. While traditional financial theories assume rational behavior, the findings clearly show that psychological factors such as confirmation bias, overconfidence, herding behavior, loss aversion, and optimism significantly affect investor decisions.

The research highlights that although many investors attempt to act rationally by analyzing information and learning from past mistakes, biases still influence their judgments, especially during uncertain market conditions. Emotional reactions such as fear, confusion, and hope further impact investment choices.

This study contributes to the field of behavioral finance by providing insights into the behavior of salaried employees in a developing city context. It emphasizes the importance of financial awareness, disciplined investment strategies, and emotional control. By understanding and managing these biases, investors can make more rational and effective financial decisions, ultimately leading to better financial stability and wealth creation.

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