

“A STUDY ON INFLUENCE OF BEHAVIOURAL BIASES AND THEIR IMPACT ON INDIVIDUAL INVESTMENT DECISION MAKING”

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ABSTRACT

This analysis focuses at the ways in which behavioural and emotional biases affect individual investors' decisions in today's financial markets. It highlights key biases such as anchoring, overconfidence, herd behaviour and loss aversion alongside emotional factors like fear, greed, optimism, and regret. The research finds that many investors are influenced by these psychological and emotional elements, often resulting in irrational choices. To improve decision-making, the study recommends managing emotional responses, enhancing financial literacy and using rational strategies such as diversification. These findings deepen the understanding of actual investor behaviour and emphasize the growing importance of behavioural finance in guiding investment decisions.

Key words - overconfidence, aversion to loss, anchoring, herd behaviour and diversification.

I. INTRODUCTION

Traditionally, it was assumed that with the help of the financial theories investors make decisions rationally, using complete information and logical reasoning. However, real life behavior shows that emotions, personal beliefs, and psychological tendencies often influence investors, causing them to act irrationally. Behavioural finance bridges psychology and finance to explain these patterns. Common biases include overconfidence where investors overestimate their skills, aversion to loss where they choose to prevent losses rather than earn

benefits, anchoring where initial information heavily influences decisions, and herd mentality where investors frequently go with the masses. Feelings like optimism, fear, regret and greed also significantly impact choices. Moreover, demographic characteristics such as income, education, age and experience shape how individuals perceive risk and make investment decisions. Further this research paper also investigates how these behavioural biases, emotional influences, and demographic characteristics together affect individual investors' decision making and risk assessment.

II. LITERATURE REVIEW

Behavioural finance has made substantial importance in understanding how the psychological aspects impact the process of making financial decisions.

Daniel Kahneman and Amos Tversky's Prospect Theory (1979), which demonstrates that investors tend to be less reasonable and prefer to minimize deficits over obtaining profits, is one of the fundamental contributions in this discipline.

According to Chen et al.'s (2007) research on bias of overconfidence, investors frequently exaggerate their skills, which leads to high levels of trading and lower profits.

Baker & Wurgler (2017) discovered that the collective sentiment of investors can influence market prices, causing them to momentarily diverge from their genuine value.

Zahera & Bansal (2018) identified common traits such as aversion to loss, excessive confidence, and herd behaviour as persistent across markets.

Rasheed and associates (2018) focused on emotional influences such as fear and greed, showing that emotions often overpower rational thinking.

Agarwal et al. (2020) emphasized that knowledge of finance reduces behavioural biases.

III. OBJECTIVES

1. To study key behavioural finance concepts like herd behaviour, loss aversion, anchoring, and overconfidence in relation to individual investors.
2. To examine major emotional factors like fear, greed, optimism, regret, and overconfidence influencing investment decision-making.
3. To analyze the cognitive biases' effect on investors' risks.
4. To examine the impact of demographic variables on biases in behaviour.
5. To provide suggestions to investors for boosting their ability to make decisions.

IV. RESEARCH METHODOLOGY

Research Design: The study follows a descriptive research design to analyze these biases and how they affect investment.

Source of Data: The study includes both main and secondary information. Primary information was gathered from investors utilizing a standard survey via a Google Form, whereas the secondary data was acquired from journals, research papers, and financial websites.

Sampling Method: A random sample technique was carried out to select respondents purely by chance, so that every individual in the population has an equal opportunity of being chosen.

Sample Size: The study consists of 100 individual investors.

Data Collection Tools: Information was gathered by adopting an organized survey,

Study Scope: This research focuses on individual investors and examines how these biases affect investment decision making.

Limitations: The study is limited by a small sample size, use of random sampling, time constraints, and reliance on self-reported data.

V. DATA ANALYSIS AND INTERPRETATION

#Analysis 1 – Investor Confidence in Decision-Making

Options	Frequency	Percentage
Strongly Disagree	12	12%
Disagree	20	20%
Neutral	30	30%
Agree	31	31%
Strongly Agree	7	7%
Total	100	100%

Interpretation - According to the chart above, it is clear that 38% of the participants think that they make wiser choices regarding investments, while 30% remain neutral. This indicates a moderate level of confidence among investors, with signs of overconfidence bias in decision-making.

#Analysis 2 - Loss Aversion Behaviour

Options	Frequency	Percentage
Never	21	21%
Sometimes	47	47%
Often	21	21%
Always	11	11%
Total	100	100%

Interpretation - Based on the table listed above, it is obvious that 79% of those surveyed sometimes hold onto losing investments instead of selling them. This shows that majority of investors are emotionally influenced and avoid accepting losses, reflecting the presence of loss aversion behaviour.

#Analysis 3 - Presence of Anchoring Bias

Options	Frequency	Percentage
Strongly Disagree	12	12%
Disagree	16	16%
Neutral	27	27%
Agree	40	40%
Strongly Agree	5	5%
Total	100	100%

Interpretation - It is clear from the previous figure that 45% of the responders consider the purchase price before selling, while 27% remain neutral. This states that many investors rely on initial price as a reference point, reflecting the presence of anchoring bias in investment decisions.

#Analysis 4 - Presence of Herd Behaviour

Options	Frequency	Percentage
Never	19	19%
Sometimes	42	42%
Often	28	28%
Always	11	11%
Total	100	100%

Interpretation – According to the chart above, it is clear that 81% of the participants are influenced by others at least sometimes while making investment decisions. This indicates a strong presence of herd behaviour among investors.

#Analysis 5 - Impact of Emotional Control on Investment Outcomes

Options	Frequency	Percentage
Disagree	12	12%
Neutral	35	35%
Agree	53	53%
TOTAL	100	100%

Interpretation - It is clear from the previous figure that 53% of the responders believe that controlling emotions can improve investment outcomes, while 35% remain neutral. This indicates that the majority of the

Investors appreciate the worth of emotional control in making better decisions regarding investments.

#Analysis 6 – Diversification strategy

Options	Frequency	Percentage
Very Effective	23	23%
Effective	45	45%
Slightly Effective	24	24%
Not Effective	8	8%
TOTAL	100	100%

Interpretation - Most respondents 68% believe diversification is effective in reducing risk, showing strong awareness of its importance. A smaller group 32% is unsure or unconvinced, indicating the need for better understanding of how diversification works in practice.

VI. FINDINGS

1. Behavioural Biases - This research demonstrates that biases such as herd mentality, fear of loss, anchoring, and overconfidence influence investors. Many rely on past prices, follow others, and hesitate to book losses, suggesting that choices could be unreasonable.

2. Emotional Influence - Emotions play a key role in investment decisions. Fear of loss, optimism about returns, regret after mistakes, and attraction toward high profits all influence how investors behave in the market.

3. Demographic Factors - Factors such as income, education, experience, and age significantly affect investment decisions. Higher knowledge and experience increase confidence, while responsibilities and income shape risk-taking ability.

4. Risk Perception & Financial Knowledge - Investors show a mixed approach to risk, with many not consistently analyzing it. However, most believe that improving financial knowledge, controlling emotions, and using strategies like diversification can lead to better decisions.

Overall, the study shows that decisions regarding investment are influenced by a combination of psychological, emotional, and personal aspects rather than being purely logical.

VII. CONCLUSION

The research clearly indicates investment decisions are not totally reasonable but are significantly influenced by behavioural biases, emotions, and demographic factors. Investors often act based on fear, greed, overconfidence, and regret rather than logical analysis. External influences such as market trends and social factors further affect decision-making. Additionally, demographic characteristics shape risk taking ability and financial awareness. The research indicates the significance of behavioural finance in understanding real investor behaviour. It suggests that improving financial literacy, controlling emotions, and adopting rational strategies can definitely assist in making better investment outcomes.

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