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ABSTRACT

Purpose

This paper investigates the psychological biases and behavioural patterns influencing individual investment decisions in India. It particularly examines how demographic factors, confidence levels, and information sources shape the way investors behave in financial markets.

Design/Methodology/Approach

A cross-sectional descriptive survey was conducted among 25 individual investors across different age groups and educational levels. Data were gathered through a structured questionnaire, and statistical analyses, including chi-square tests and correlation coefficients, were applied to identify significant patterns and relationships.

Findings

The study found that overconfidence and herd behaviour were the most prominent behavioural biases. A moderate correlation was observed between self-reported market confidence and herd-following tendencies. Education level did not show a statistically significant relationship with susceptibility to these biases. Diversification emerged as the most frequently used strategy to counter bias-driven risks.

Practical Implications

The results underscore the importance of incorporating behavioural insights into investor education programs and financial advisory services. By addressing common cognitive biases, these interventions can promote more rational and informed investment behaviour.

Originality/Value

This study contributes region-specific empirical data to the growing field of behavioural finance, highlighting the unique characteristics of Indian retail investors. It bridges the gap between theoretical frameworks and practical financial behaviour in emerging markets.

Type of Paper

Descriptive research paper.

Keywords : Behavioural finance, investor psychology, overconfidence bias, loss aversion, investment decision-making.

1. INTRODUCTION

1.1. Background and Rationale for Studying Behavioural Finance

For a long time, conventional financial theories like the Rational Choice Theory and the Efficient Market Hypothesis (EMH) have held that investors maximize utility by making logical judgments based on all available information. However, repeated anomalies in the financial markets—such as bubbles, crashes, and herd behaviour—have challenged these assumptions, giving rise to behavioural finance.

Behavioural finance integrates insights from psychology with financial theory to understand better how cognitive biases and emotional factors influence investor behaviour. Unlike classical models, it acknowledges that individual investors often deviate from rationality due to heuristics, overconfidence, anchoring, loss aversion, and herd mentality, among others (Barberis & Thaler, 2003). These biases can significantly impact investment choices, risk perceptions, and financial outcomes.

In the Indian context, with increasing retail participation in stock markets and mutual funds, the psychological underpinnings of investment behaviour becomes increasingly relevant. Age, gender, education, and investing experience are examples of demographic factors that may further mitigate the impact of these biases, affecting how people interpret information and make financial decisions (Ising, 2007).

The impetus for this study stems from the rising need to close the gap between theoretical financial models and real-world investor behavior. By describing how demographic characteristics, behavioural biases, and information sources manifest among investors, this study offers valuable insights for financial advisors, educators, and policymakers aiming to foster more informed and rational investment practices.

1.2. Importance of Understanding Investor Psychology

Investor psychology is critical in determining financial markets, especially as individual investors increasingly participate in varied investment routes such as equities, mutual funds, and digital assets. Recognizing the psychological drivers behind investment decisions is essential for explaining deviations from rational behaviour that traditional models often overlook.

Insights from behavioural finance suggest that psychological tendencies can influence investor reactions, especially during periods of volatility such as bubbles or crashes. Investors, for example, may display loss aversion, in which the psychological anguish of losing is more extreme than the pleasure of an equivalent

gain (Kahneman & Tversky, 2013). This can lead to holding on to losing investments longer than is financially prudent or selling winning assets prematurely.

Other common psychological biases, such as overconfidence, may lead investors to overestimate their financial knowledge or ability to time markets—often resulting in excessive trading or underestimating risk (Barberis & Thaler, 2003). Herd behaviour, where individuals mimic the majority's actions without independent evaluation, can contribute to market inefficiencies and collective irrationality (Banerjee, 1992).

For financial advisors, policymakers, and educators, understanding these behavioural tendencies is valuable for designing investor education programs, behavioural nudges, and advisory tools that align with how people actually make decisions. In rapidly evolving investment environments—particularly in emerging economies—such insights can support better financial decision-making and contribute to more stable market participation.

1.3. Overview of Decision-Making Patterns in Individual Investors

In India, the financial landscape has experienced a surge in individual investor participation, especially with the proliferation of mobile-based trading platforms and mutual funds. Individual investors frequently depart from rational economic behavior, and their decisions are impacted by psychological, social, and cultural elements peculiar to the Indian environment (Chandra & Kumar, 2011).

Patterns observed in previous research suggest that Indian investors may exhibit herd behaviour, often influenced by peer suggestions or trending media narratives—especially during market rallies or downturns. This behaviour may be further reinforced by limited financial literacy, which leads many investors to depend on informal information sources such as friends, family, or social media, rather than seeking professional financial advice. A common tendency among older or less-educated investors is risk aversion and a preference for traditional asset classes like gold, fixed deposits, or real estate (Sultana & Pardhasaradhi, 2012). In contrast, younger and more educated investors tend to show interest in equities and digital assets, though some may also demonstrate overconfidence and a tendency to engage in high-frequency trading based on perceived market-timing ability.

Recognizing these patterns is important for shaping effective financial education programs, developing investor protection policies, and equipping financial advisors to better understand and guide individual investors using behaviourally informed approaches.

1.4. Relevance of this Study

cognitive biases rather than sound financial reasoning. While global behavioral finance offers useful frameworks, India's unique cultural traits, reliance on informal advice, and lower financial literacy call for

2. LITERATURE REVIEW

2.1. Theoretical Foundations of Behavioural Finance

Prospect Theory, created by (Kahneman & Tversky, 2013), is a core theory in behavioral finance that outlines how people assess possible profits and losses. Unlike predicted utility theory, Prospect Theory demonstrates that people are more sensitive to losses than similar gains—a phenomenon known as loss aversion. This loss sensitivity influences investment decisions, often causing investors to avoid risk even when potential returns justify it.

2.2. Common Behavioural Biases: Overconfidence, Herd Behaviour, and Loss Aversion

Overconfidence

Overconfidence occurs when investors overestimate their knowledge, forecasting skills, or ability to control outcomes, often leading to excessive trading and poor diversification. In the Indian context, empirical evidence has shown that overconfidence is particularly evident following positive market returns, which encourages retail investors to increase trading activity without commensurate gains in performance (Azam & Baig, 2023).

Herd Behaviour

Herd behaviour refers to investors' tendency to follow the majority, especially during times of uncertainty, rather than relying on independent analysis. In addition, demographic characteristics such as gender and investment experience This behavior has been well documented in Indian markets, particularly during moments of volatility like the COVID-19 epidemic. Studies indicated that retail investors frequently mimicked the activities of others owing to a lack of confidence, and access to trustworthy information has been found to impact the degree of overconfidence, with younger and male investors usually demonstrating higher amounts.

Loss Aversion

Loss aversion, which is founded in Prospect Theory, emphasizes that the psychological anguish of a loss is felt more strongly than the pleasure of an equivalent gain. Indian investors often demonstrate this bias by avoiding the sale of loss-making investments in hopes of recovery or by preferring capital-safe instruments like gold and fixed deposits, even at the expense of better long-term returns (P. C. Sharma, 2023). This behaviour limits risk-taking and can result in missed opportunities in equity markets.

2.3. Prior Empirical Findings on Demographic Influences

Vinay et al. (2024) performed a large-scale study in the Indian stock market and discovered that marital status, educational qualification, and investing experience strongly affected emotional and behavioral biases, including overconfidence, herd behavior, loss aversion, and mental accounting. Interestingly, no significant relationship was observed between gender or age and emotional biases, suggesting a nuanced role of demographics in shaping investor psychology (Vinay et al., 2024).

2.4. Strategies for Managing Behavioural Biases

Financial knowledge is consistently a moderating factor, mitigating the influence of behavioral biases. For example, a research in Kerala found that investors with greater financial expertise could better buffer the impacts of anchoring, overconfidence, and herding on their decision-making (N et al., 2024).

2.5. Role of Information Sources in Investor Behaviour

Shiva and Sethi (2022) studied retail investors in the National Capital Region and found that financial advisors were the most influential information source, followed by word-of-mouth and financial news. The study emphasized the importance of weekly interactions and informal sharing in shaping mutual fund investment behaviour.

3. RESEARCH OBJECTIVES

, such as reliance on others' investment decisions, while controlling for demographic factors like

4. METHODOLOGY

4.1. Study Design

This study used a cross-sectional descriptive survey approach to investigate the behavioral patterns, biases, and investing decision-making techniques among individual investors in India. The design is appropriate for summarizing characteristics and estimating the prevalence of psychological and informational factors that influence investor behaviour without attempting to test statistical hypotheses.

4.2. Sample and Sampling Technique

The sample comprised 25 individual retail investors from diverse professional and educational backgrounds. A non-probability purposive sampling strategy was employed to select individuals who actively participated in investment decision-making. The limited sample size reflects the exploratory and descriptive nature of the study.

4.3. Instrument for Data Collection

A structured questionnaire was used as the primary tool for data collection. The instrument was developed based on concepts from behavioural finance literature and was designed.

4.4. Data Collection Procedure

Data were collected using Google Forms, and the survey was distributed digitally via email, WhatsApp, and other investor-related forums. The form was active for approximately three weeks. Participation was voluntary, anonymous, and no personally identifiable information was collected. All ethical considerations regarding consent and data privacy were maintained.

4.5. Data Analysis

Because the study was descriptive, the data were examined using simple descriptive statistics.:

- Frequencies, percentages, mean and standard deviation were used to summarize demographic variables.
- Inferential statistical tests like chi-square analysis and correlation were applied.
- Data analysis was conducted using Microsoft Excel and SPSS.

4.6. Scope and Limitations

This study does not aim to test causal relationships but focuses on describing observed investment behaviours and estimating the distribution of behavioural traits across different educational levels. It examines how investors' confidence and crowd-following tendencies vary within a small, non-random sample. While the findings may not be generalizable due to the limited sample size, they offer valuable insights into patterns of investor behaviour in the Indian context.

5. DATA ANALYSIS AND RESULTS

This section presents descriptive findings from the survey, focusing on simple frequency analysis for demographic characteristics of the respondents, Chi-Square and Correlation Analysis.

5.1 Simple Frequency Analysis for Demographic Characteristics of the respondents

		18 – 24Years	2	8.0	2.56	0.76
		5 – 34 Years	9	36.0		
		5 – 44 Years	12	48.0		
		5 – 54 Years	2	8.0		
		55 +	-	-		
			16	64.0	1.36	0.48
			9	36.0		
		Other / Prefer not to saay	-	-		

	Education level	High School / Below	-	-	2.96	0.60
		Bachelor's Degree	5	20		
		Master's Degree	16	64		
		Ph.D or Higher	4	16		
	Investment experience	Less than 1 year	4	16	2.24	0.86
		1 – 5 years	14	56		
		5 – 10 years	4	16		
		More than 10 years	3	12		

35–44 years age group, followed by 25–34 years (36%). A smaller portion of participants falls into the 18–24

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Most participants have 1–5 years of experience, while 16% each had less than a year or 5–10 years. A smaller group, 12%, had more than 10 years of experience, which shows that most participants are relatively new to investing, with experience clustered between 1–5 years.

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3.2 CHI-SQUARE ANALYSIS

RESPONSE FOR FOLLOWING CROWD IN INVESTMENTS LEADS TO BETTER OUTCOME

3.2.1 Null Hypothesis (H₀): There is no significant relationship between educational level of respondents and response for following crowd in investments leads to better outcome.

3.2.2 Alternative Hypothesis (H₁): There is a significant relationship between educational level of respondents and response for following crowd in investments leads to better outcome.

	RESPONSE FOR FOLLOWING CROWD IN INVESTMENTS LEADS TO BETTER OUTCOME					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	1	4	0	0	0	5
	0	11	2	2	1	16
	0	1	2	1	0	4
	1	16	4	3	1	25

P Value : 0.216	Df : 8	Not significant	
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5.3 CORRELATION ANALYSIS

- **H₀ (Null Hypothesis):** There is no significant correlation between the confidence level of respondents in predicting market movements and their responses to crowd-following behaviors in investment decisions, when gender is controlled.
- **H₁ (Alternative Hypothesis):** There is a significant correlation between the confidence level of respondents in predicting market movements and their responses to crowd-following behaviors in investment decisions, when gender is controlled.

Correlations					
Control Variables			Confidence level of ability to predict market movements	Response for following crowd in investments leads to better outcomes	Response to make investment decisions based on what others are doing
Gender Distribution of the Respondents	Confidence level of ability to predict market movements	Correlation	1.000	.441	.411
		Significance (2-tailed)		.031	.046
		Df	0	22	22
	Response for following crowd in investments leads to better outcomes	Correlation	.441	1.000	.379
		Significance (2-tailed)	.031		.068
		Df	22	0	22
	Response to make investment decisions based on what others are doing	Correlation	.411	.379	1.000
		Significance (2-tailed)	.046	.068	
		Df	22	22	0

is rejected, and it is concluded that there is a significant association between respondents' confidence in

5.4 Findings of the study

- The majority of respondents (48%) are in the 35–44 years age group.
- The mean age group is 2.56, indicating a concentration in the younger to mid-career segments.
- The standard deviation is 0.76, suggesting moderate variability across age groups.
- The majority of the respondents 64% are male.
- The mean gender score is 1.36, showing a male-dominated sample.
- The standard deviation of 0.48 indicates limited gender variation in the sample.
- A large majority (64%) of respondents have a Master's Degree.
- The mean education level is 2.96, suggesting high educational qualifications among the respondents.
- The standard deviation is 0.60, reflecting relatively low variability in education levels.
- The largest group (56%) has 1–5 years of investment experience.
- The mean investment experience is 2.24, indicating a tendency toward early to mid-level experience.
- The standard deviation is 0.86, showing a moderate range in investment experience.

Chi-square Analysis

- There is no significant association between educational level and the belief that following the crowd in investments leads to better outcomes.

Correlation Analysis

- There is a significant association between respondents' confidence in predicting market movements and their susceptibility to crowd-following behavior in investment decisions, even when gender differences are accounted for.

5.5 Suggestions for Future Research

Future research can expand on this study by involving a larger and more diverse sample that includes participants from varied geographic and socio-economic backgrounds. Incorporating other behavioral biases—like anchoring, framing, and confirmation bias—would give a more thorough picture of investor psychology. Adopting mixed-method approaches, including qualitative interviews or longitudinal tracking, could yield deeper insights into behavioural evolution and the long-term effectiveness of investor strategies.

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