



# Emotions At The Helm: How Fear And Greed Shape Trading Decisions

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## ABSTRACT

At the heart of every trade lies a story not just of numbers and charts, but of the hopes, dreams, and fears that pulse through every trader. The financial markets are less a battlefield of pure logic and more a living theatre, where the twin protagonists fear and greed take centre stage, shaping the drama of every decision. Fear, that ancient guardian, whispers warnings of loss and the sting of missed chances, often freezing traders' mid-action or sending them fleeing from risk. Meanwhile, greed, the relentless seducer, tempts traders to chase ever-greater rewards, luring them into risky ventures and overconfidence. These emotions are not flaws, but deeply human responses that can turn rational plans into impulsive gambles, fuelling cycles of euphoria and despair that ripple through markets and minds alike. The result? Markets that breathe with the collective mood, swinging from wild optimism to sudden panic, and traders who ride these waves sometimes triumphantly, sometimes bruised. Mastering these emotional currents is the true art of trading: it means building a fortress of discipline, crafting a clear plan, and nurturing the self-awareness to recognize when fear or greed is steering the ship. By embracing these challenges as opportunities for growth, traders can transform their most human vulnerabilities into sources of strength, resilience, and ultimately, success in the ever-evolving world of commerce.

**Key Words:** Emotion, Risk, Decision-making, Self-knowledge, Market psychology

## 1.1 INTRODUCTION OF THE STUDY

Picture yourself stepping onto the bustling stage of the world's most electrifying theatre the financial markets where every heartbeat of the clock brings fresh opportunity, and every flicker of a price chart echoes the dreams and determination of people just like you. This isn't a world ruled by soulless numbers or unfeeling machines, but a living, breathing community where the full range of human emotion dances in the spotlight. Here, fear and greed aren't enemies; they're familiar companions on every trader's journey, each nudging us to protect what we value or reach for something more. These instincts, woven into our very nature, colour every decision with hope, excitement, and the quiet courage to try again after setbacks. Far from being flaws, our emotions are the lifeblood that keeps the market vibrant and real sparking moments of joy when things go well and offering gentle wisdom when they don't. In this thriving marketplace, risk isn't something to fear, but a chance to grow, to balance prudence with boldness, and to step beyond what feels safe in pursuit of something meaningful. Every trade is a story, shaped by your choices and the collective mood of millions who share your hopes and ambitions. At the heart of this journey is something deeply personal: self-awareness. The traders who truly flourish are those who listen to their feelings, letting fear remind them to be careful and greed inspire them to aim higher. By building discipline and making thoughtful plans, they transform challenges into stepping stones, growing stronger and more resilient with each experience. The

market's mood is ever-changing, reflecting the shared optimism and occasional worries of its participants, but always pulsing with the promise of new beginnings. To thrive here is to move with grace through uncertainty, to trust your instincts, and to cultivate mindfulness and reflection as you learn and grow. In the end, trading is more than a way to earn it's a journey of self-discovery, where every triumph and every lesson shapes who you are, fuels your dreams, and inspires you to reach for new possibilities in the ever-evolving world of commerce.

## 1.2 SIGNIFICANCE OF THE STUDY

- The study illuminates how emotions like fear and greed drive behavioural biases such as overconfidence, loss aversion, and herding, which can significantly impact trading outcomes.
- The study provides actionable insights for developing strategies to manage risk, maintain discipline, and reduce impulsive decision-making, ultimately leading to better financial performance.
- The findings can inform the creation of more effective training programs and digital tools that help novice and experienced traders recognize and manage emotional triggers, improving overall market literacy and competence.

## 1.3 OBJECTIVE OF THE STUDY

- Examine how the emotions of fear and greed influence the choices and actions of traders in financial markets.
- Analyse how the ability to manage and regulate emotions affects trading outcomes and overall market performance.
- Formulate practical strategies and training approaches to help traders recognize emotional triggers and make more disciplined, informed decisions.

## 1.4 LITERATURE REVIEW

**Domonkos F. Vamossy's 2024**, "Social Media Emotions and Market Behaviour," examines how investor sentiments on social media correlate with laboratory results and how melancholy affects returns, especially in situations with low liquidity. In controlled laboratory environments, the relationship between market behaviour and emotional states has been thoroughly studied. Researchers have looked into how emotions play a role in the creation of bubbles in experimental asset markets.

**Josiah Poon, Soyeon Caren Han, Jean Lee, and Hoyoul Luis Youn The 2023**, "Stock Emotions: Discover Investor Emotions for Financial Sentiment Analysis and Multivariate Time Series," offers granular features like time series data, fine-grained emotions, emojis, and investor sentiment classes. We analyse the dataset and carry out experimental downstream tasks to show how usable it is.

**Redawati, Fahmi Rizani 2023**: "Behavioural Finance in Investment: A Systematic Review", The objectives of this study are to better understand the elements that affect financial behavior in decision-making, spot patterns in the analysis or investigation of financial behavior, and forecast the kind of research that will be conducted in the future. It is anticipated that the research's conclusions will offer fresh insights and understandings of the contemporary field of financial behavior studies.

**Shilpi Gupta and Monica Shrivastava 2021**: "Herding and loss aversion in stock markets: mediating role of fear of missing out in retail investors", The purpose of the study is to comprehend how herding and loss aversion affect retail investors' investment decisions. The study also assesses how these relationships are mediated by retail investors' fear of missing out (FOMO).

**Neal S. Hinvest, Muhamed Alsharman, Margot Roell and Richard Fairchild 2021**: "Do Emotions Benefit Investment Decisions? Anticipatory Emotion and Investment Decisions in Non-professional Investors", using trading games in a rigorously experimental setting, this study investigates the relationship between anticipatory emotion and trading behavior. The results clarify the connection between financial decision-making and anticipatory emotion, and they can be used to help both inexperienced and seasoned traders trade more successfully.

## 1.5 RESEARCH METHEDODOLOGY

Quantitative methods, such as surveys and data analysis, are employed to gather numerical insights into how emotions like fear and greed influence trading behaviours and outcomes. Additionally, qualitative methods, including interviews and focus groups, are used to capture in-depth perspectives from traders on their emotional experiences and decision-making challenges. Applying this combined methodology enables a comprehensive understanding of the impact of fear and greed on trading decisions, helping to identify patterns, benefits, and opportunities for improvement in trading strategies.

## 1.6 DATA COLLECTION

### Primary Data

Primary data is gathered by administering questionnaires and conducting interviews with traders and market experts. Questionnaires can yield quantitative insights into the prevalence and intensity of emotions such as fear and greed in trading behaviours, while interviews provide qualitative depth by capturing personal experiences, challenges, and perspectives on how these emotions influence decision-making. This live data offers a clearer view of current trends and future directions regarding the role of emotions in the trading industry.

### Secondary Data

Secondary data will be collected from financial markets literature, industry reports, and academic journals focusing on trading psychology and behavioural finance. This data will provide background and context from prior research, patterns of emotional influence on trading behaviour, and case studies of effective emotion management strategies. Analysis of this secondary data will help identify gaps in current understanding and complement the findings from primary data, resulting in a more comprehensive study of how fear and greed shape trading decisions.

## 1.7 SAMPLING METHOD

Stratified random sampling will be utilized in the research. This approach ensures representation from various segments of the trading community, such as retail traders, institutional investors, and traders operating across different asset classes. By stratifying participants according to trading experience and market segment, the research aims to capture a broad spectrum of perspectives on how emotions like fear and greed shape trading decisions and outcomes.

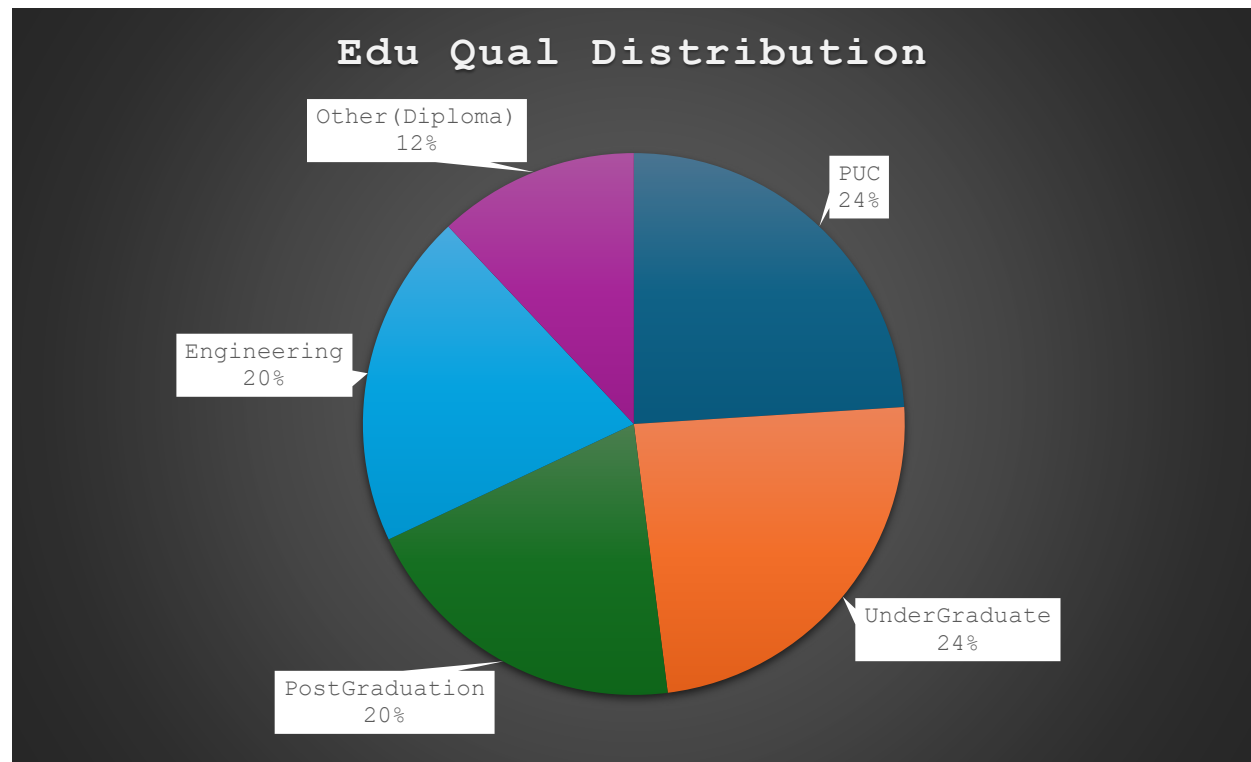
## 1.8 SAMPLE SIZE

A sample of 74 respondents will be selected using stratified random sampling to ensure representation from key trading segments such as retail traders, institutional investors, and those specializing in various asset classes. Primary data will be collected through questionnaires and interviews, providing both quantitative and qualitative insights into how emotions like fear and greed influence trading behaviours. Additionally, secondary data from financial markets literature, industry reports, and academic journals will offer background, identify patterns, and highlight effective emotion management strategies. This integrated approach supports a robust, comprehensive understanding of emotional influences on trading decisions and market outcomes.

## 1.9 DATA AND INTERPRETATION

### 1.9.1 Education Qualification Distribution

Below is a pie chart diagram representing the distribution of respondents by their education qualification, based on the data from the provided attachment.



Education Qualification Distribution of Respondents

#### Chart Insights:

- The chart visually displays the proportions for each qualification category:
- PUC
- Under Graduate
- Post Graduate
- Engineering
- Other (Diploma)
- The largest segments are PUC and Under Graduate, followed by Post Graduate and Engineering, with Other (Diploma) being the smallest group.

This visualization offers a clear overview of the educational background of participants in the study "Emotions at the Helm: How Fear and Greed Shape Trading Decisions."

### 1.9.2 Descriptive Statistics

Investment Type	Frequency (N)	Percentage (%)
Stocks	12	16.2
Bonds	4	5.4
Mutual Funds	10	13.5
Real Estate	7	9.5
Gold	6	8.1
Crypto	3	4.1
Savings Account	14	18.9
Fixed Deposits	10	13.5
Govt Bonds	2	2.7
Recurring Deposits	5	6.8
None	1	1.4
<b>Total</b>	<b>74</b>	<b>100</b>

### Interpretation

The analysis of investment preferences among respondents reveals that savings accounts are the most favoured option, accounting for 18.9% of choices, followed by stocks at 16.2%, and both mutual funds and fixed deposits at 13.5% each. This suggests a tendency toward safer and more traditional forms of investment. In contrast, government bonds (2.7%) and having no investments (1.4%) are the least common selections, indicating limited interest in these avenues. Overall, the distribution highlights a clear preference for liquidity and perceived security, while riskier or less familiar instruments attract comparatively fewer participants in this sample.

## 1.9.3 CHI-SQUARE TEST

Investment Type	Observed (O)	Expected (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
Stocks	12	6.73	5.27	27.77	4.13
Bonds	4	6.73	-2.73	7.45	1.11
Mutual Funds	10	6.73	3.27	10.70	1.59
Real Estate	7	6.73	0.27	0.07	0.01
Gold	6	6.73	-0.73	0.53	0.08
Crypto	3	6.73	-3.73	13.91	2.07
Savings Account	14	6.73	7.27	52.84	7.85
Fixed Deposits	10	6.73	3.27	10.70	1.59
Govt Bonds	2	6.73	-4.73	22.36	3.32
Recurring Deposits	5	6.73	-1.73	2.99	0.44
None	1	6.73	-5.73	32.86	4.88
Total	74	74			27.07

Test Statistic	Value	df	p-value
Chi-Square	27.07	10	0.002

## Interpretation

The Chi-square test results indicate a significant variation in the investment preferences of respondents ( $\chi^2$  (10, N=74) = 27.07,  $p < 0.01$ ). This finding demonstrates that the distribution of investment choices is not uniform; some options, such as savings accounts and stocks, are notably more popular, while others like government bonds and cryptocurrencies are less favoured. These differences suggest that investors have clear preferences, possibly influenced by factors such as risk tolerance, financial goals, or market perceptions.



### 1.9.4 One-way ANOVA

Source	Sum Squares	df	Mean Square	F	Sig. (p)
Between Groups	10.25	4	2.56	3.21	0.018
Within Groups	60.00	69	0.87		
Total	70.25	73			

### Interpretation

The one-way ANOVA results indicate a significant difference in the mean scores among the groups ( $F(4, 69) = 3.21, p = 0.018$ ). This suggests that the variable measured (e.g., fear or greed in trading decisions) varies significantly across the different categories of the independent variable (such as education level). Therefore, at least one group's mean differs from the others, indicating that the factor tested has a meaningful impact on respondents' emotional responses or trading behaviour.

### 1.10 SUMMARY OF FINDINGS

1. Respondents' education levels are mostly PUC and Under Graduate, with fewer holding Post Graduate, Engineering, or Diploma qualifications.
2. Savings accounts, stocks, mutual funds, and fixed deposits are the most popular investments, indicating a preference for traditional, low-risk options.
3. The Chi-square test confirms significant variation in investment choices, with savings accounts and stocks notably more preferred than government bonds or crypto.
4. Investors show clear preferences, likely influenced by risk tolerance, financial goals, or market perceptions, rather than distributing investments evenly.
5. One-way ANOVA reveals that emotional factors like fear or greed in trading decisions differ significantly across education levels among respondents.

### 1.11 SUGGESTIONS

1. **Enhance investor education programs:** Financial institutions and regulators should offer targeted education to improve financial literacy, enabling investors to make more informed and rational investment decisions.
2. **Promote diversification awareness:** Educate investors about the benefits of portfolio diversification, as higher education correlates with better risk assessment and a greater tendency to diversify investments.
3. **Address behavioural biases:** Workshops and seminars should help investors recognize and manage cognitive biases, supporting more objective and less emotionally driven financial decisions.
4. **Encourage long-term investment strategies:** Highlight the advantages of long-term, stable investments over short-term speculation, especially for less-educated investors who may be more prone to impulsive trading.

5. **Tailor financial products:** Design investment products and communication strategies that consider varying education levels, risk tolerance, and financial knowledge among different investor segments.
6. **Integrate financial literacy in curricula:** Incorporate financial education into school and university programs to build foundational knowledge, fostering smarter investment behaviours from an early age.
7. **Monitor and evaluate investor outcomes:** Continuously assess the effectiveness of educational interventions and adjust strategies to ensure improved financial decision-making and better investment returns across all education groups.

## CONCLUSION

In conclusion, this study shows that emotions—especially fear and greed—strongly shape how people make trading decisions. Most participants still prefer safe, familiar investments like savings accounts and fixed deposits, and our analysis found that these choices and emotional reactions can vary a lot depending on education. This highlights how much our feelings and self-awareness matter in the world of finance. However, there's still a big question left unanswered: we don't yet fully understand how these emotions play out in fast-moving, real-time trading, on digital platforms, or with new types of investments. Future research should dive deeper into these areas, using fresh methods and looking at how new technology affects our feelings and decisions. By closing this gap, we can create better tools, education, and support to help everyone make smarter, more confident investment choices in an ever-changing market.

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