International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

"A Study On Behavioral Biases In Investing"

***Vignesh Sudhir, **Prof. (Dr.) Vishal Dilip Chavan, *** Prof. (Dr.) Bhawana Sharma**

* MBA B&F 4th Semester, Amity Business School, Amity University Mumbai

** Associate Professor, Amity Business School, Amity University Mumbai

*** Director-International Affairs & Programs and Offig.HOI, Amity Business School, Amity University Mumbai

ABSTRACT :

This study looks at how common psychological biases, like loss aversion, endowment bias, framing bias, and overconfidence, can influence investment decisions and lead to poor financial outcomes. It emphasizes the importance of recognizing these biases so that investors can make smarter, more rational choices. To counter these biases, the study suggests practical steps like seeking out diverse sources of information, cross-checking data, and being honest about one's own knowledge and skills. Getting advice from professionals or others outside of one's usual circle can offer a fresh perspective and help avoid making emotional decisions. Regularly reviewing and adjusting one's investment portfolio ensures it stays in line with both personal goals and the changing market landscape. Visualizing different possible outcomes also helps to keep a more balanced view of risks and rewards, reducing the chances of being swayed by biases. Ultimately, this research highlights how understanding and addressing these biases can help investors make more informed choices, improve their financial results, and feel more confident and satisfied with their investment strategies.

Keywords: Behavioural biases, investment decisions, loss aversion, overconfidence, emotional decisions, portfolio review, financial goals, informed choices.

Introduction

Investing is often thought of as a numbers game focused on analysis, logic, and data but in reality, human emotions and psychological biases play a big part in the choices people make with their money. Whether someone is just starting out or has years of experience, it's easy to fall into common behavioural traps like overconfidence, fear of losses, or simply following the crowd. These patterns can lead to decisions that don't always make sense and may even hurt long-term financial goals. While traditional finance theories, like the Efficient Market Hypothesis, assume that people make rational decisions and that markets reflect all available information, behavioural finance shows that our minds don't always work that way.

This study takes a closer look at how these biases affect the way people invest, why they happen, and what can be done to manage them. The goal is to help investors understand their own behaviour better so they can avoid costly mistakes and make smarter financial decisions. The insights shared here aren't just useful for individual investors they also matter for financial advisors, investment firms, researchers, and policymakers who are all working toward building more stable and informed markets. At its core, this research aims to connect the dots between theory and real-life investing, giving people the tools and awareness they need to navigate the financial world with more confidence and clarity.

Literature Review

Traditional financial theories like the Efficient Market Hypothesis (EMH) (Fama, 1970) assume investors act rationally, but behavioural finance challenges this, showing that psychological biases shape investment decisions (Thaler, 1985). Key biases include overconfidence, leading to excessive risk-taking (Barber & Odean, 2001); loss aversion**,** where fear of losses outweighs potential gains (Kahneman & Tversky, 1979); herding behavior**,** which fuels market bubbles (Shiller, 2000); and confirmation bias, where investors favor information that supports their beliefs (Nickerson, 1998).

These biases contribute to poor portfolio performance and market volatility (De Bondt & Thaler, 1985). For instance**,** loss aversion drives the disposition effect**,** causing investors to sell winners too soon and hold onto losing stocks (Shefrin & Statman, 1985). To counteract biases, research suggests financial literacy programs (Lusardi & Mitchell, 2014**),** robo-advisors to reduce emotional decisions (Dhar & Zhu, 2006), and behavioural nudges to promote rational investing (Thaler & Sunstein, 2008).

While existing studies highlight these bias**es,** further research is needed on practical strategies to help investors make better decisions. This study aims to bridge that gap by identifying biases, analysing their effects, and proposing ways to mitigate them.

Statement of the Problem

Investing is often viewed as a logical, numbers-driven process, but in reality, our emotions and psychological habits play a major role in the decisions we make with our money. Whether someone is new to investing or has years of experience, it's easy to fall into common behavioural traps like overconfidence, fear of losses, or simply going along with the crowd. These biases can lead people to take unnecessary risks or miss out on good opportunities, often resulting in poor financial decisions and added stress in the markets.

Even though behavioural finance is gaining attention, many investors still make irrational choices often without even realizing it. Traditional financial theories suggest that people always act rationally, but the real world tells a different story, one shaped by emotions, instincts, and reactions to uncertainty. This study dives into how and why these biases influence investor behavior and looks at practical ways to manage them. By recognizing these patterns, investors can make clearer, more thoughtful decisions and in the process, build a more stable and confident approach to investing.

Objectives of the study

- **Understand** why investors sometimes make irrational financial decisions and the biases behind them.
- **Explore** how emotions like fear and overconfidence shape investment choices.
- **Analyze** the real-world impact of behavioural biases on both individual portfolios and the market.
- **Identify** practical ways investors can recognize and reduce these biases in their decision- making.
- **Provide** simple, actionable strategies to help investors make smarter, more rational investment choices.

Research Methodology

This study follows a quantitative research method, which involves collecting and analyzing numerical data to classify features, test hypotheses, and explain patterns. Unlike qualitative approaches, it focuses on measurable outcomes using structured tools.

5.1 Research Design

This study uses a descriptive research design, aimed at understanding the characteristics of the target population. Data was collected through online surveys, combining open- and close-ended questions, making it an effective method for gathering feedback from a large sample.

5,2 Data Collection Methods

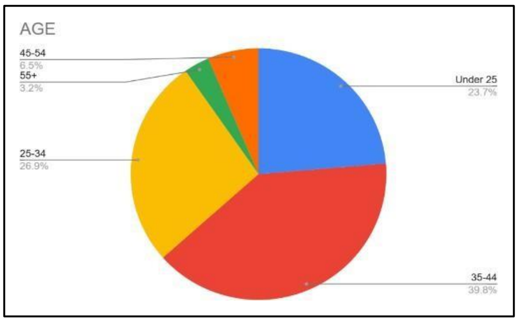
Primary data was gathered through online surveys right from students to working professionals the study has a cosmopolitan range of respondents.

Secondary Data was sourced from various research papers, insights from industry experts, and psychological books to get an understanding and to draw relation between finance and psychology.

5.3 Data Analysis and Interpretation

Quantitative data was analyzed using percentages and frequency distributions to identify consumer patterns. Qualitative responses were examined using thematic analysis to uncover insights into customer sentiment and the brand's strategic impact.

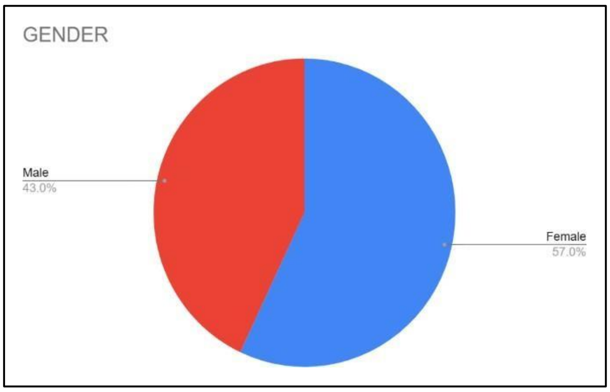
1. **Age Group**



Interpretation:

The majority of the respondents were of the age group of **35-44** which accounted to the working- class people who are more familiar to investing since they have more disposable income at hand than the rest of the respondents.

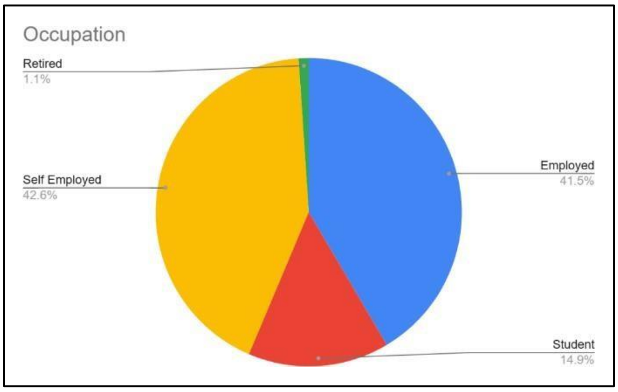
2. Gender



Interpretation:

The respondents for this survey accounted 57% of females as compared to males. This shows the number of women interested in investing and wanting to understand more on how to become financially independent by getting a better understanding of their psychology.

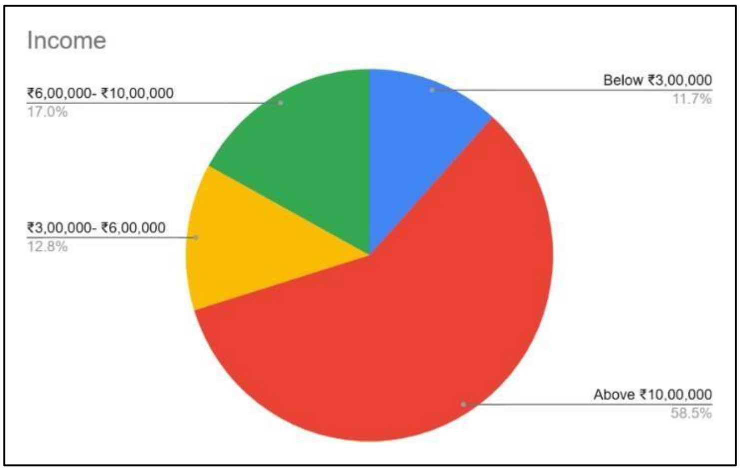
3. Occupation



Interpretation:

The respondents varied from students to employed individuals to people owning their own businesses. The data had a fair share of respondents both from employed and self-employed persons which were 41.5% and 42.6%.

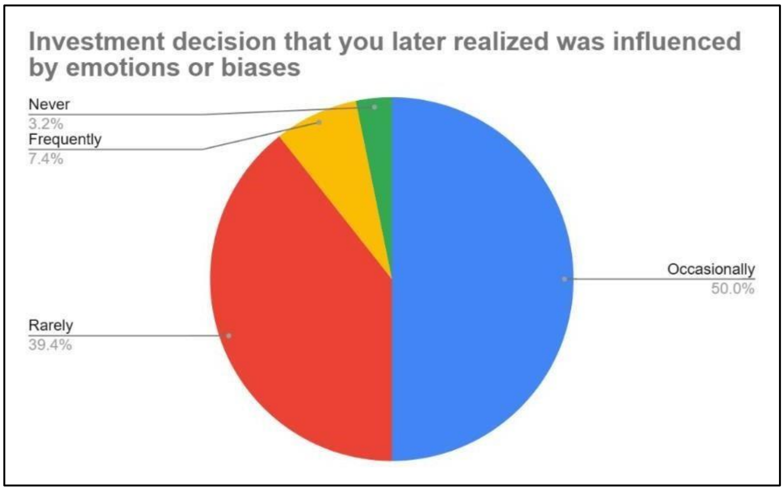
4. Income



Interpretation:

The demographic of income was taken into account on to see how the biases changes with relation to the income a person earns or holds. Whether the income affects their view in how they perceive a stock. From the data 58.5% of the respondents had an income of ₹10,00,000 and above.

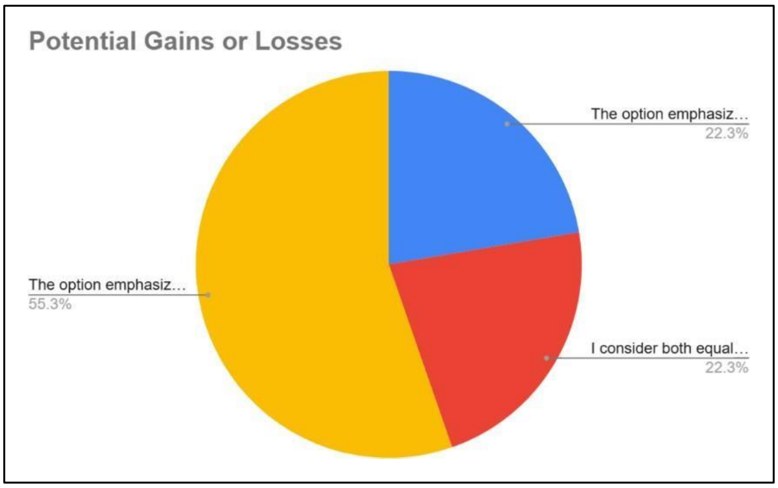
5. **Investment Decision Made on Emotion**



Interpretation:

Most of the decisions we make are influenced by our emotions. Whether it's something as simple as choosing an outfit or as significant as selecting an investment option, our emotional state plays a major role in the choices we make. Data suggests that in around 50% of cases, people rely on emotions rather than making purely rational decisions.

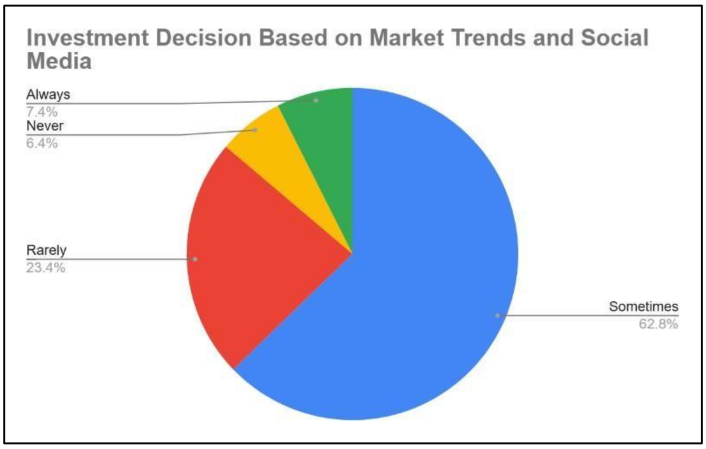
6. **Decision over potential gains or losses**



Interpretation:

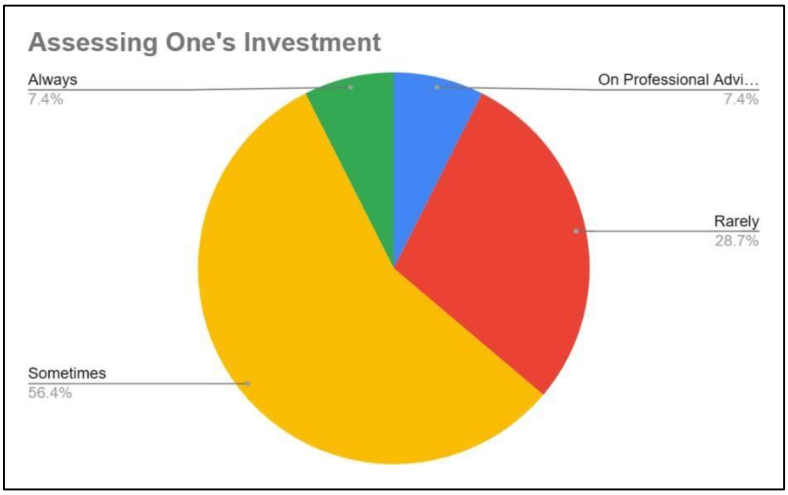
Humans are not inherently rational thinkers, and this has long been observed. When faced with two options one highlighting potential gains and the other potential losses most people focus on avoiding losses. Data shows that 55.3% of respondents chose the loss-focused option, underscoring our natural tendency toward loss aversion in investment decisions.

7. **Investment decisions based on market trends and social media**



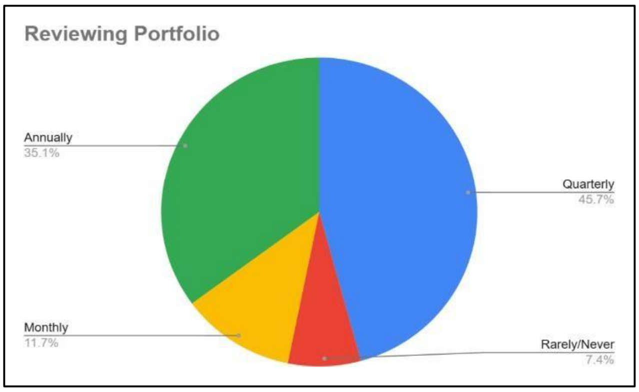
Interpretation:
62.8% of respondents base their investment decisions on market trends and social media, reflecting a strong influence of herd mentality. While these sources may not always be reliable, many rely on them due to limited time or resources.

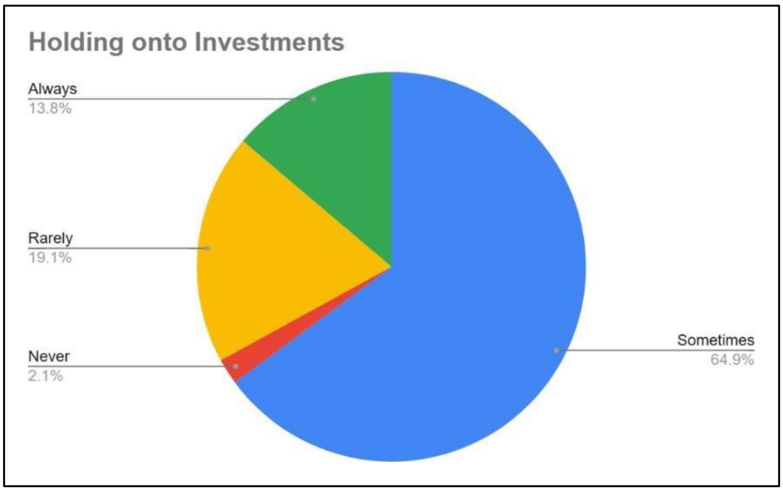
8. Assessing One's Investment Decision



Interpretation:
Overconfidence bias leads investors to believe their skills and knowledge surpass others, often causing them to ignore contrary evidence. Data shows 56.4% of respondents think their investment decisions are better than the average investor's, while only 28% acknowledge they rarely beat the market indicating greater self-awareness in the minority.

9. Holding an investment longer than expected

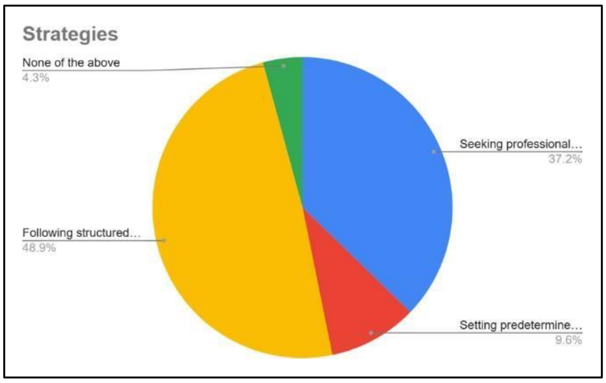




Interpretation:

Confirmation bias often leads investors to hold onto assets simply because they own them, convincing themselves the investment is beneficial despite poor performance. Data shows 64.9% of respondents retain investments primarily due to ownership, even when it negatively impacts their portfolio.

10. Strategies to reduce decision bias



Interpretation:

Regular portfolio review and a structured investment approach are key strategies to reduce behavioral biases. While 45.7% review their portfolio quarterly an ideal balance excessive monitoring can lead to emotion-driven decisions like FOMO. To combat biases like herd mentality, 48.9% of respondents follow a structured financial plan, and 37.2% rely on financial advisors for rational, objective decision- making.

Conclusion

This study highlights how deeply our emotions and psychology influence investment decisions, often at the expense of rational thinking. Biases like loss aversion where **65.8%** of investors hold onto losing investments to avoid the pain of realizing a loss and overconfidence, seen in **56.4%** of investors who believe they outperform the market, are especially common. Herd mentality also plays a big role, with 62.8% relying on market trends or social media rather than independent analysis, often leading to poor timing and reactive decisions. Emotional triggers like fear and greed only amplify these patterns. However, the research also shows that these biases can be managed. Nearly half of the respondents use structured financial planning, while others turn to financial advisors for a more grounded perspective. Financial literacy and regular portfolio reviews help investors stay focused and avoid impulsive decisions. These patterns are consistent across income levels and genders, showing just how widespread these behaviors are. Ultimately, understanding our own tendencies and using clear strategies like diversification, disciplined planning, and behavioral coaching can lead to smarter, more confident investing over time.

Summary of the Findings

The study reveals that behavioral biases significantly shape investor decisions, often overriding rational thinking. Key biases such as **loss aversion** (55.3%) and **overconfidence** (56.4%) are prevalent, with **65.8%** of investors holding onto losing investments in hopes of recovery. Herd mentality is widespread, with **62.8%** relying on trends and social media, while emotional triggers like fear and greed influence **41.8%** of choices. Ownership bias leads **64.9%** to retain underperforming assets, and only 10.6% make data-driven decisions. Despite this, mitigation strategies are in place **48.9%** follow structured plans, and **37.2%** consult financial advisors. The findings validate key hypotheses, confirming the strong influence of overconfidence, loss aversion, herding, and emotional biases, while also showing that financial literacy improves decision-making. These biases persist across income levels, with a notable participation from women (57%), indicating rising financial engagement

Recommendations to the Investor

To avoid behavioural biases an investor can follow these three key points:

- **Follow a structured financial plan:**
  Having a disciplined, well-defined investment plan with clear goals, asset allocation, and rebalancing strategies helps investors make decisions based on logic rather than emotion. This reduces the impact of biases like loss aversion and overconfidence, and keeps the focus on long-term objectives rather than short-term fluctuations
- **Seek Professional advice:**
  Engaging a financial advisor provides an external, rational perspective that can counter emotional and herd-driven decisions. Professional guidance helps investors remain focused during volatile markets and reduces impulsive actions influenced by fear, greed, or social media trends
- **Educate oneself and reflect regularly:**
  Improving financial literacy equips investors to identify and challenge their own cognitive biases. Tools like investment journals, periodic portfolio reviews, and scenario planning (e.g., visualizing gains vs. losses) can enhance self-awareness and promote more informed, bias-resistant decision-making

Implications of the study

This study brings to light how much our emotions and mental shortcuts influence the way we invest, often without us even realizing it. It shows that common biases like holding on to losing investments out of fear, blindly following market trends, or being overly confident in our decisions are more widespread than we might think. What's important is that these patterns show up across all kinds of investors—whether they earn a little or a lot, or whether they're new or experienced. The takeaway is clear: being aware of these habits is the first step toward making smarter choices. The study encourages investors to take a more thoughtful approach, use structured plans, and seek guidance when needed. It also highlights an opportunity for financial educators and advisors to focus more on behavior, not just numbers, to help people build better, more balanced financial futures.

Scope for future study

Looking ahead, this study opens the door to exploring how behavioral biases evolve with changing market dynamics and growing digital influence. As more investors turn to online platforms and social media for financial advice, there's a greater need to understand how these sources impact decision-making. Future research could dive deeper into how age, technology use, and financial literacy levels shape an investor's vulnerability to certain biases. There's also scope to examine how tools like AI-based advisors or financial apps can help reduce emotional investing. By continuing to study these patterns, we can find better ways to guide investors toward more mindful and informed financial decisions in an increasingly fast-paced market environment.

REFERENCES :

1. Against the Gods: the remarkable story of risk by Peter L. Bernsteien
2. Richard Thaler's book Misbehaving (2015) explores how human behavior often deviates from rational economic models.
3. Barber & Odean (2001) highlighted overconfidence bias in their study Boys Will Be Boys.
4. Robert Shiller's Irrational Exuberance (2000) discusses market bubbles driven by herd mentality and emotional investing.
5. Lusardi & Mitchell (2014) emphasized the role of financial literacy in reducing behavioral biases.
6. Google Scholar provides a wide range of academic resources on behavioral investing.
7. Behavioural Biases in Investing https://www.valueresearchonline.com/stories/51847/beware-these-biases-might-be- hurting-your-investments
8. Money Wisdom By Rolf Dobeli- https://www.youtube.com/playlist?list=PLDjzAiBEkIe8Gjkyew1I06jhC8JEoO0yO