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## BEHAVIOURAL BIASES AND THEIR INFLUENCE ON INVESTOR'S INVESTMENT DECISION: A CONCEPTUAL REVIEW

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### ABSTRACT

**1.Purpose** – Behavior finance is an emerging study in the finance branch since it focuses more on psychological and financial theories with economic, financial, and market understanding of investors making financial decisions, it examines the psychological feature biases and feelings of investors. The objective of the study is to observe the implications of the growth in financial sector also various opportunities are increasing for the capitalist to make their financial investments which is leading to their financial growth. Behavioural finance theories aid in understanding the investor's rational and irrational decisions and their cognitive biases being responsible for financial decisions. By assessing existing literature and empirical studies the study's intention furnishes an exhaustive and nuanced comprehension of how these predispositions affect investors' behavior and the inferences for investment outcomes. **2. Design/Methodology/Approach-** the study is predicted on Prisma literature review methods and founded on the review analysis the data visualization is done using Power BI and Word Cloud and period of the study is from January to June. **3.Findings-**The key highlights of the survey is to know the significance and handling behavioral biases of capitalist to improve their outlay decision devising which might lead in better financial outcomes. Behavioral favoritisms are significantly influencing investors decision making processes frequently leading to sub-optimal investments results. These psychologically and emotionally based biases can cloud judgment, skew perceptions and lead illogical investing choices. The research is aiming at examining the several cognitive biases and various financing options and seeking out diverse outcomes.

**KEYWORDS:** Behavioral Finance, Finance Decisions, Investors Behaviour, Investment, Cognitive Biases

### 1. INTRODUCTION

Traditional finance posits that rational investors to evaluate risk and return before making investment choices. Behavioral finance is an evolving area of finance which helps in

understanding the behavioral and cognitive aspects of the monetary decisions making process of capitalist. As there is growth of finance sectors which is aiding more investment opportunities and investment avenue for the capitalist to diversify their investment. Investors possess divergent perspectives when they decides regarding the allocation of resources in a particular investment channel because of their behavioral biases are being the reasons for the investment patterns. These biases rooted in psychology and emotion can distort perception, affect judgment and result in irrational investment choices therefore understanding biases is very crucial for investors. This conceptual review aims to explore the diverse cognitive predispositions that impact investor. Financing decision and analysis these biases be challenge in there ration investment choices. Investors typically analyze investment using many approaches like passive investing active investing value investing growth investing income investing contrarian investing socially responsible investing(SRI) quantitative investing but they majorly focus on these three aspect fundamental analysis technical analysis and judgement. They preferably use decision tools to support their investment judgment it is believed that the structural of information and market factors systematically determinant the investors decision making and market outcomes.

### 1.1 Conceptual framework:

Investment Biases are systematic mistake in judgment or decision pathway that may impact the investors perceptions and choices of there investment. These biases canful lead investors to make sub-optimal decision, deviating from what from what might be considered logical or analytical behavior.

Few of the major types of biases are by Painoli (2022) are:

Table 1: Types of biases

Emotional Biases	Cognitive Biases
Overconfidence bias	Anchoring bias
Loss-aversion bias	Mental accounting bias
Regret aversion bias	Herd behavior
Endowment bias	Hindsight bias
Position quo bias	Disposition effect
Self - control bias	Framing bias
	Self- attribution bias
	Ambiguity aversion bias
	Conservatism bias
	Representatives bias

Source: *pompian,M.(2016).risk profiling through a behavioral finance lens.CFA institute research foundtaion.*

### Operational definition

- **Overconfidence bias:** Investor will tend to overvalue their ability to predict future market actions and makes investment decision.
- **Loss Aversion:** Stockholders feel the discomfort of losses more strongly than the pleasure of equivalent gains, persuading them to avoid selling losing investment.
- **Anchoring bias:** Investors fixate on specific information such as the purchase price of a stock and give it more weight than is warranted when making subsequent decisions.
- **Confirmation Bias:** Savers pursue data that corroborates their reinforce their pre-existing convictions by selectively attending to evidence that validates these beliefs, while dismissing or downplaying data that challenges them.
- **Herding behavior:** savers often tend to track the crowd's actions, even when they opposes their analysis or beliefs, which might trigger market bubbles and crashes..
- **Framing Bias:** The what information is presented can stimulus investors decisions.
- **Regret aversion:** Investors hold back from result they fear could result in regret, even if those decisions might be in their best interest from a rational standpoint.

- **Mental accounting:** investors treat money differently depending on its source or intended use leading to sub-optimal allocation of funds
- **Availability bias:** investor overestimate the importance of information that is readily available to them, based on news events, foremost to biased decision making.
- **Disposition effect:** Investors incline to sell winning investment too early and hold onto losing investment too long driven by the desire to avoid the regret of realizing a loss.
- **Status Quo bias:** there preference for maintaining one's current situation and opposing actions that may change the state of decision making.
- **Hindsight bias:** moderate clients may be susceptible to hindsight bias, wherein they perceive past investment outcomes as predictable after the fact.
- **Conservatism bias:** this bias arises when individual reject new information in favor of sticking to existing beliefs or forecasts.
- **Representation bias:** when processing new information a flawed perceptual framework can lead to representational bias. Some investor may attempts to predict outcomes that align with their existing notions to better understanding the new information.

The study is attempting to analysis how these biases may impact investors decision making.

## 2. LITERATURE REVIEW

Luong and Ha (2011) has conducted a study “ Behavioral factors manipulating individual investors decision pathway and performance: A investigation at the Hochi Minh stock market the educates to explain the various theories of behavioural finance also study tries to explores the result of behavioural factors on the decision-making procedure of discrete investors the heuristics behaviour are found to have the highest positive effect on the investment performance.

Marchand (2012) “Behavioral biases in monetary decision making has conducted research the study aims to prove the various biases which might influence the behavioral financial decision making the researcher aims in describing various behavioural biases like prospect theory, excessive confidence, the disposition effect, narrow framing, heuristics, regret aversion, cognitive dissonance, anchoring and mental accounting. The study concludes by the various behavioral anomalies being responsible for behavioral biases. Bashir (2013) had conducted as research on “Impression of behavioral biases on investors choice making: the study proves decision making differences between males and females concerning overconfidence bias with illusion of control bias awareness bias, loss aversion bias and confirmation bias the study aims in identifying there is no any consequence difference between male and female decision making regarding overoptimism bias. Rehan and Umer (2017) conducts and research on Behavioural preconceptions and investors decisions the study aims in analysing that behavioural factors have a profound effect on investors decision as argued by behavioral finance theorists. Kapoor and Prosad (2017) have conducted an invistigation on “Behavioural finance: A review” the study states the connotation between behavioural finance and decision making with perceptive biases such as overconfidence, anchoring effect and confirmation bias”. The bias presenting the closest proximity to the behavioral finance field in the present study was overconfidence. Khalid et al. (2018) as conducted a research on “Impact of behavioral biases on investment decision making with regulating role of financial literacy”. the results demonstrate that overconfidence and herding bias exhibit a positive effect on investment on result making and financial literacy positively influence investment deciosn – making. Nikolić (2018) had conducted a research on biases in the decision - making process and possibilities of overcoming them. The research attempts in analyzing the rational choice made by a conclusion maker and emerging as a consequence of their limited cognitive capacity and the information asymmetry Omoruyi and Ilaboya (2019) conducted a research on “Does Behavioural biases influences individual investment decisions” the reseraches tries to explain compared to other biases hindsight bias significantly influenced individual investor decisions.

Shukla et al. (2020) had done a research on “Effect of behavioral biases on investment decision ‘ A systematic review’”. The emphasis on emerging concepts of behavioral finance and it aims in indentifying the solutions to minimize the outcome of biases in decision making approach. Kigen et al. (2020) “ The consequence of behavioral biases on speculation evaluation choices by unit trust investors in Kenya. The study aims to prove that bias have insignificant negative effect on outlay choices. Sattar et al. (2020) had conducted a research on “Behavioural finance biases in investment decision making”. The researcher aims to discover how behavioral biases distress investment decision construction framework under uncertainty also the study majorly finds portfolio allocation decision making influenced by heuristic behaviors over than predictions and behavior characteristics. Dhungana et al. (2022) had conducted a research on “Effect of cognitive biases on investment decision making : A case of Pokhara Valley Nepal” The study finds various psychological factors have a important role in funding decisions and overconfidence bias appears to positively impact the irrationality of separate investor investmnet decisions. Beatrice et al. (2021) had conducted research on “the effect of demographic factors on behaviral biases” the study tries to observe the demographic factors the results shows that the overconfident bias was influenced by investment experience. Ayaa et al. (2022) had conducted a research on “Influence of heuristic techniques and biases in investment decision making : A conceptual analysis and directions for future research” the study tries to prove heuristics which frequently lead to systematic errors in judgement. Ahmed et al. (2022) has conducted a research on Arbitrating role of risk awareness between behavioral prejudices and investors investment results. Research tries to explore the direct and indirect connections between behavioral partialities and investors investing decisions through the mediating part of risk perception using structural equation modeling. Weixiang et al. (2022) had performed a research on “ An experimental assessment of finnacila literateness and behavioral biases on speculation decision: Fresh evidence from minor investor insight. The study aims in finding individual investors financial educational level momentarily impact the choices made about speculation in stock market.

Korteling et al. (2023) “Cognitive bias and how to improve sustainable decision making” the study helps in understanding the how cognitive biases is affecting the sustainable choice or behaviors of people. Yashvi et al. (2023) had conducted a research on “ An examination on Behavioural Biases in investment Decision” the helps in understanding the investors needs to accomplish their sentiments while making investment choices.

### **3. RESEARCH GAP**

Based on the available evidences founded on the above literature review the investigate gap was recognized. The prevalent literature evaluation was conducted using methodical literature review method where it was initiate that several studies have been showed world wide in USA, UK, Pakistan, Indonesia, Nepal and china similarly in India was involved in it as well. The research gap acknowledged was Gender difference in behavioral biases, effects of financial literacy, cross- cultural studies, impact of demographic factors, Interventions to mitigate biases and long term Impact of biases. The following areas are found missing.

### **4. STATEMENT OF THE PROBLEM**

Despite the extensive research on psychological biases in investment decision making, there remains a need for a comprehensive conceptual review that synthesizes existing literature and empirical studies to provide a clear and deeper knowledge and understanding of how these biases affect investor behaviour and the implications for investment outcomes. The studies tries to more focus on examining various cognitive biases and their impact and factors that are responsible in making investment decision. The research aims in addressing key biases that significantly affect decision making processes. And exploring potential strategies to mitigate these biases for improved financial outcomes.

### **5. OBJECTIVES OF STUDY**

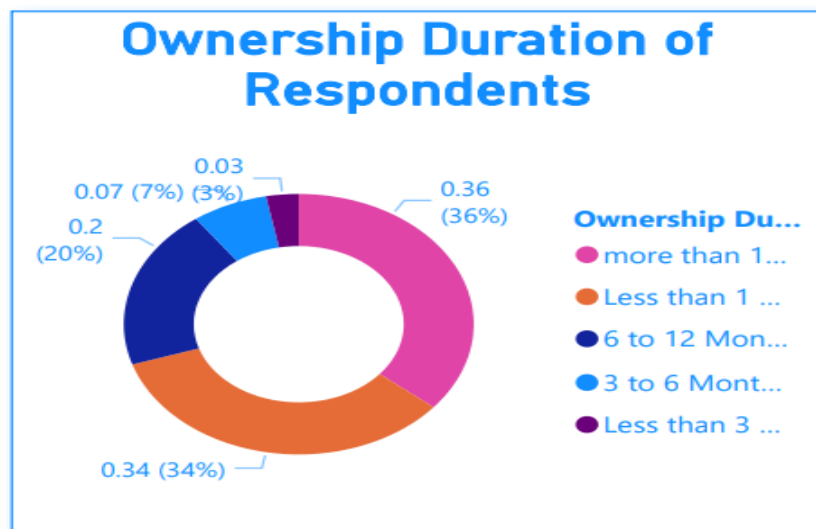
- To provide a comprehensive outline of the key behavioral biases identified in literature that impact investors investment decisions.
- To analyze the implications of the biases on stockholders decision making processes and the resulting investment outcomes.
- To inspect the association between demographic factors susceptibility to behavioral biases in investment decision making.

## 6. METHODOLOGY

The data is obtained based on secondary data utilizing the preferred reportage items for systematic reviews (PRISMA) method also through many sources like government agencies, journals, book chapters and published studies the available data is the data which is collected is explored using descriptive statistics and visualization to understand its distribution, patterns and relationships. The same data is analyzed using Power BI and Tableau analytical software.

## 7. ANALYSIS AND INTERPRETATIONS

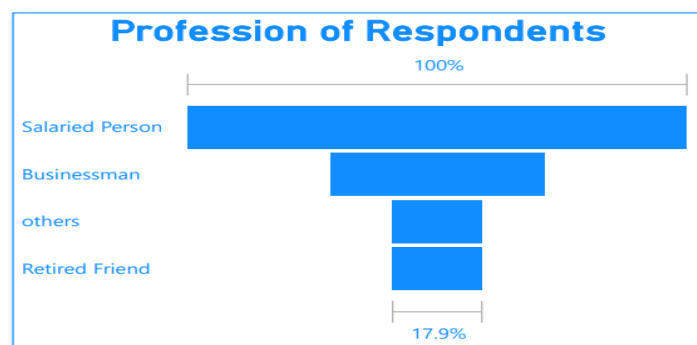
- To examine the implications of the biases on investors decision pathway and investment out come and also to inspect the association between demographic factors susceptibility to behavioral biases and investment choice Power BI software is used.



**Figure 1**

- In which figure1 donut chart tries to represent ownership duration from the respondents out of which 36 % of the population is trying to invest over a year and 34% of population is opting under a year for investing option 20% population is opting for less then 6 months and 7% , and 3% population respondents trying less than 6 months.

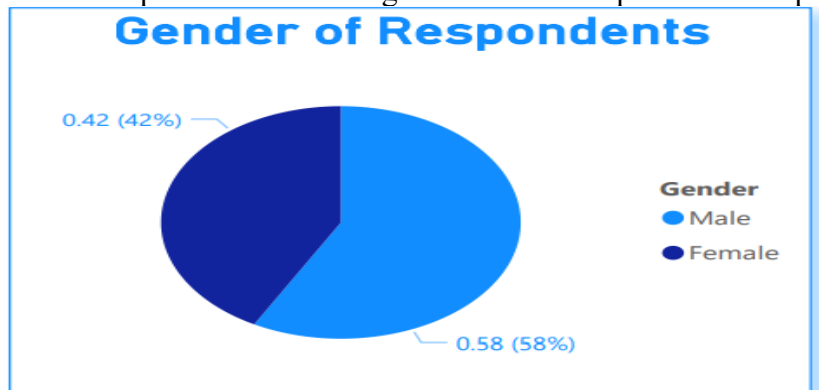
Funnel chart



**Figure 2**

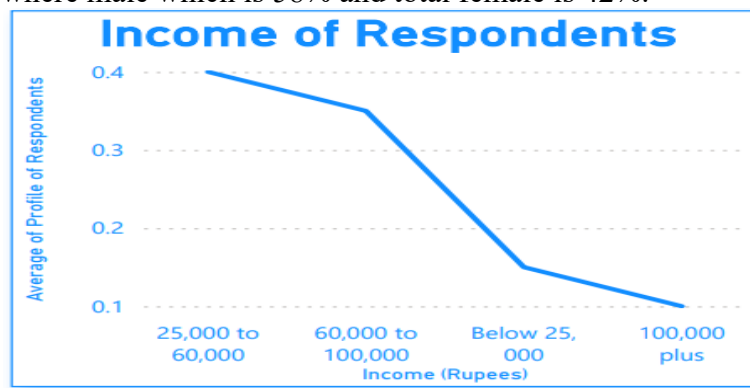
- Funnel chart figure 2 represents the profession of the respondents grounded on the various review collected majority of the respondent information were collected through following professions salaried persons, businessman, retired friends and other individuals where

taken into study it tries to conclude the high progression of profession is been visualized in the study is salaried person are investing more than other profession respondent.



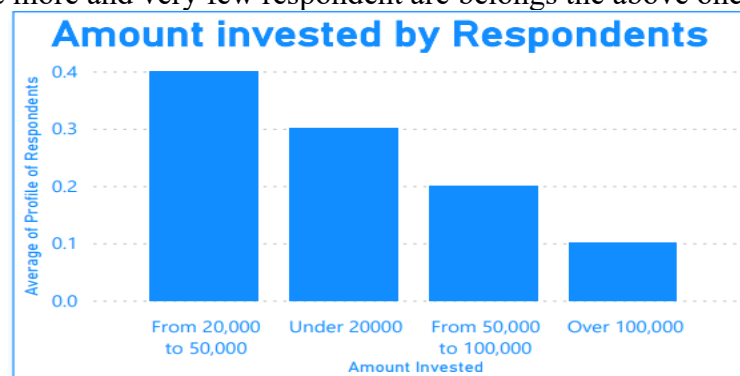
**Figure 3**

- Pie chart figure 3 indicated the number of respondent based on the review it clarifies that most of them were male which is 58% and total female is 42%.



**Figure 4**

- Line chart figure 4 used to analyse the trends of the participant of which income of the contributor is analyzed respondent whose income is between 25 thousand to 60 thousands seems to be more and very few respondents belong to the above one lakh category.



**Figure 5**

- Column chart 5 represents the visualized proportion of investment pattern of the respondent. In which based on the review collected respondent whose investment is between 25,000 to 50,000 annually visualized more investors compared to others.



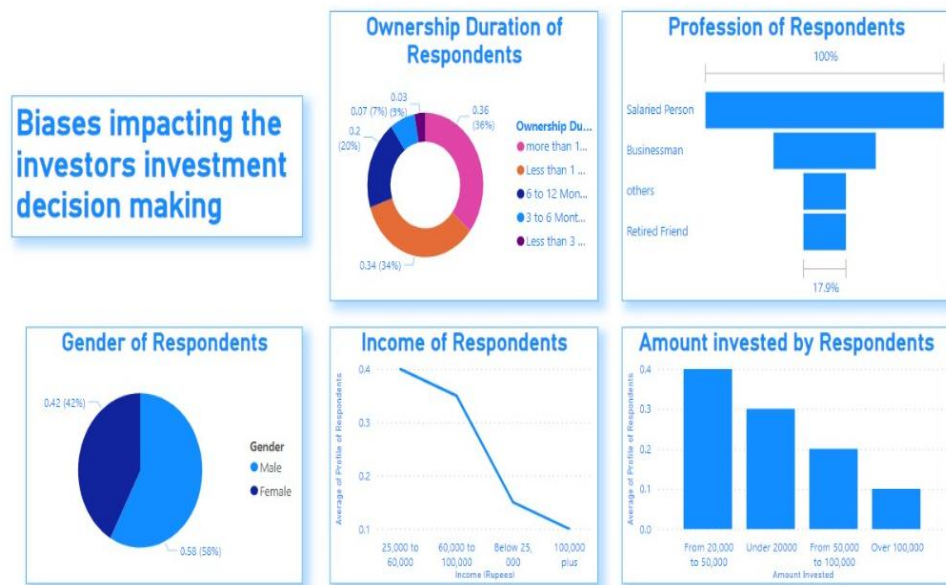


Figure 6

- the consolidate dashboard using power bi which help in visualizing
- To provide a complete overview of the key behavioral biases identified in literature that impact investors investment decision for analyzing these various visualization methods have been adopted using Power BI and tableau software

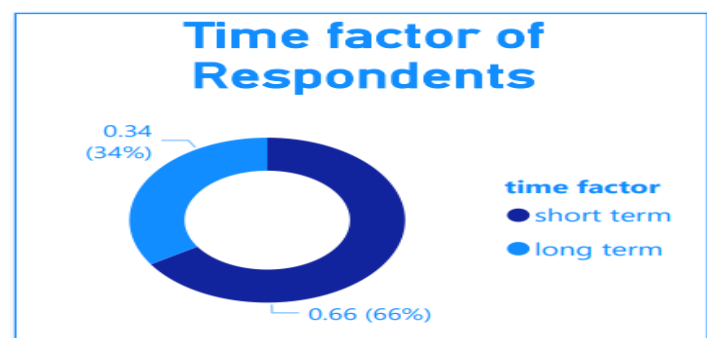


Figure 7

The pie chart 7 is representing the the time factor of the informant highest category of the population of the respondent belongs to short term investment. Only 34% of the researchers are concluding that they are willing to invest in long term.

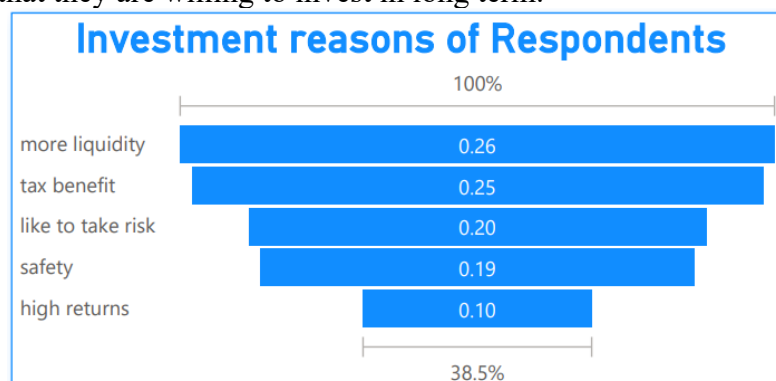
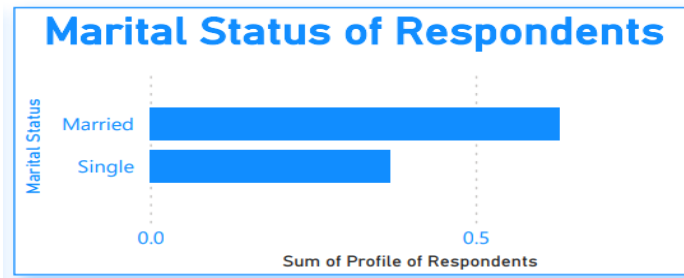


Figure 8

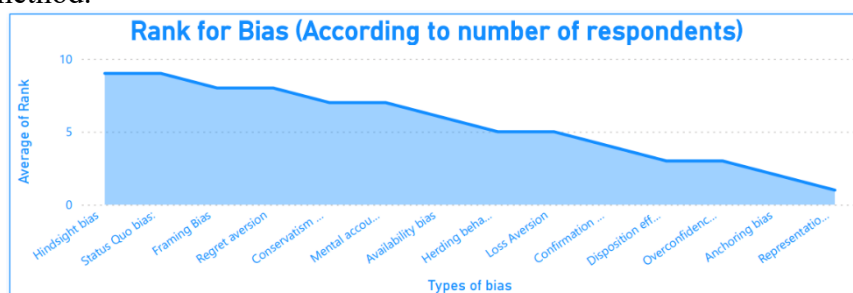
Funnel chart 8 represents the reasons for the investment of the respondent among which 26% of the researchers are tries to show investors are investing based on liquidity and 25% are focusing on tax benefits, 20% of researcher are focused on taking more risk, 19% are

concluding that there are looking on safety and 10% tries to prove they focal point is on high returns.



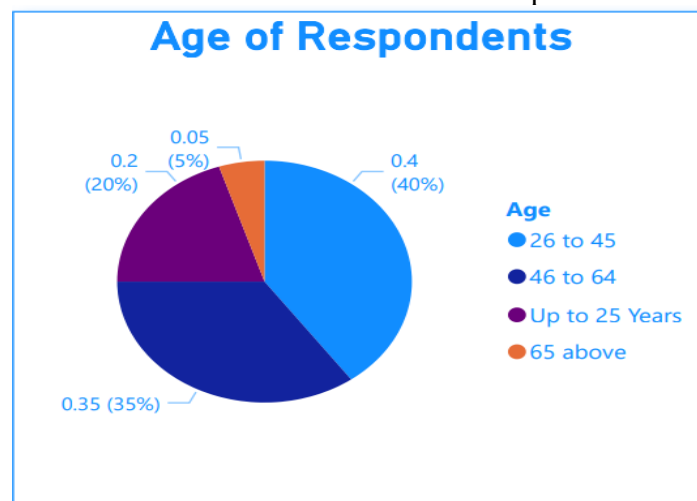
**Figure 9**

Figure 9 indicates the marital status the various research are concluding that most individuals are from married class that is 63% and 37% people belongs to unmarried category. Tree Map Analysis is done using Power BI which is conducted to analysis the behavioral bias based on the ranking method.



**Figure 10**

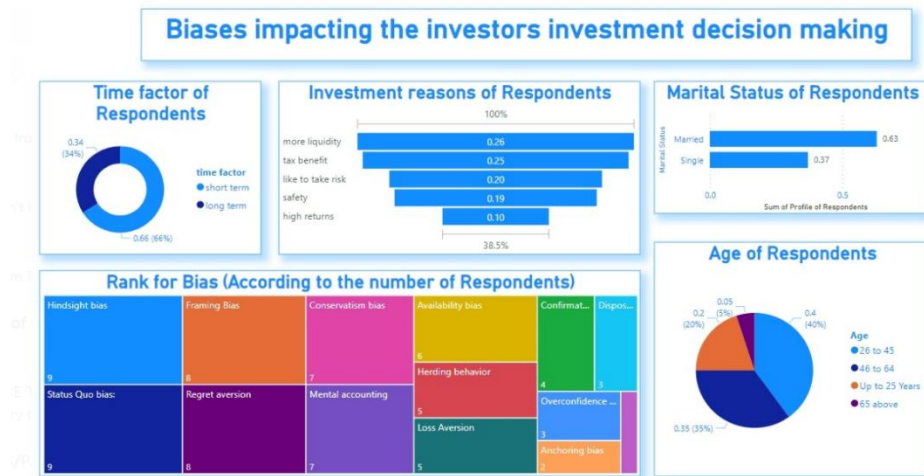
Researchers are manifested in their study representative bias, overconfidence bias, anchoring bias confirmation bias are impact more. Among which representative bias is ranked 1<sup>st</sup> and status quo bias and hindsight bias is ranked highest order which indicates the involvement of these bias are preferred less which does not make much impact on investment decision



**Figure 11**

Pie chart 11 representation is used to view the age of the response in which the 40% range of population belongs to age category of 25 to 45 and 35% of the response belongs to age of 46 to 64 also 20% of the response belongs to up to 25 years lastly 5% of the people belongs to the phase of above 65 years.





**Figure 12 source extracted from Power BI dashboard**

Consolidate dashboard of the power bi which includes times factors , reasons for investment , marital status of respondents, age of response and rank of bias.

#### Sentiment Analysis using Word Cloud



**Figure 13 source extracted from word cloud**

**Sentimental Analysis** is also performed using word cloud in figure 13 which two parameters was selected for the analysis types of bias and its ranks. The analysis tries to establish the representative bias is impact more compared to other bias. Sentiment analysis helps in understanding how emotions are impacting the investors decision making.

**To check the correlation between types of bias and rank of the research review the correlation analysis is conducted.**

**Table 2: Correlation analysis**

Types of bias	Rank
Overconfidence bias	3
Loss Aversion	5
Anchoring bias	2
Confirmation Bias	4
Herding behavior	5
Framing Bias	8
Regret aversion	8
Mental accounting	7
Availability bias	6
Disposition effect	3

Status Quo bias:	9
Hindsight bias	9
Conservatism bias	7
Representation bias	1

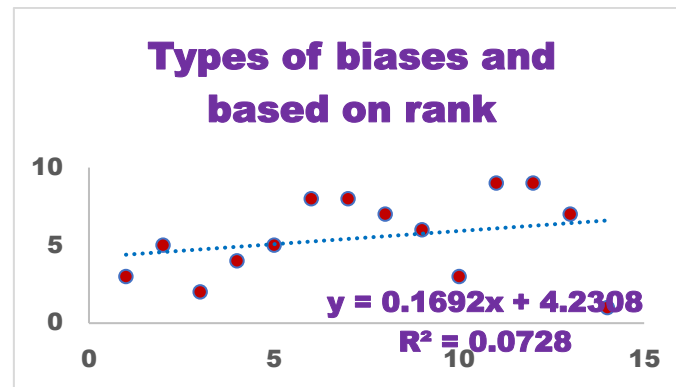


Figure 14

The above graph 14 designates that all the appearances are positively correlated with the aid of a linear line the y value is 0.1692 and the  $R^2$  value is 0.0728 which shows a substantial correlation between the types of biases and their rankings.

## 8. MAJOR FINDINGS

- Based on systematic review among 36% of people are investing more then 1 year for the long term basis.
- Liquidity and tax benefit is the major look-over by the investors.
- Investors majorly belongs to married population compared to unmarried group.
- Mainly investors between the age of 25 to 45 years are investing more compared to other age category.
- The study identifies that representative bias , overconfidence bias, anchoring bias confirmation bias are impact more compared to other biases.
- The study tries in recognize the emotional level based on which representative bias effects investors sentimentally.

## 9. CONCLUSION

The above study indicates a noteworthy relationship between the types of biases and psychological reasons for investment choices likewise more influencing biases are representative biases overconfident bias and anchoring effect. Maximum of the investors are younger populations in the age group between 25 to less than 50 years of age emotions also impact people in decision-making patterns lastly most of the financier are focusing on the short term rather long term.

### Conflict of Interest statement

Its is statement is critical to ensure the openness and integrity in research and authors declare that there are no conflicts of interest that could affect the research performed or the results and explanations presented in this paper . A conflict of interest occurs when there is a conflict between an individual's personal interest and their professional responsibilities to the research its publication. As the researchers declare there is no financial, personal or professional conflict of interest connected to the contents of this investigate paper also there is no funding or grants received from any commercial entities that could impact the research results. There is no any affiliations or professional engagements are stands unrelated to the subject matter of this paper, ensuring objectivity in the study's findings and interpretations by both authors.

### Author's contribution

Eshwari B: Investigation, Data analysis, drafting original draft, software usage, validation, data visualization.

Dr A Megala: supervision, reviewing and editing, methodology and conceptualization.

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