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OVERCONFIDENCE AND AVAILABILITY BIAS IN THE INDIVIDUAL INVESTOR'S INVESTMENT DECISION-MAKING BEHAVIOUR THROUGH THE LOCUS OF CONTROL

Ms. KIRUTHIKA R.

Research Scholar

PG and Research Department of Commerce

Srimad Andavan Arts and Science College (Autonomous)

(Affiliated to Bharathidasan University)

Tiruchirappalli, Tamil Nadu, India - 620005.

Dr. S. RAMYA

Research Advisor

PG and Research Department of Commerce

Srimad Andavan Arts and Science College (Autonomous)

(Affiliated to Bharathidasan University)

Tiruchirappalli, Tamil Nadu, India – 620005.

ABSTRACT

This research aims to investigate the effect of behavioural determinants factors of Overconfidence Bias and Availability Bias on individual investors' investment decisions, with a moderating effect of Locus of control. The connection was investigated by distributing a questionnaire and gathering empirical data from investors regarding their own perceptions of these biases using self-administered surveys from Stoke Exchange and multiple brokerage companies. According to the study, Overconfidence Bias and Availability Bias significantly positively affect the individual investor's investment decision. The locus of control also moderates overconfidence bias and investment decisions. investigate the effect of behavioural determinants factors of Overconfidence Bias and Availability Bias on individual investors' investment decisions, with a moderating effect of Locus of control. The connection was investigated by distributing a questionnaire and gathering empirical data from investors regarding their own perceptions of these biases using self-administered surveys from Stoke Exchange and multiple brokerage companies. According to the study, Overconfidence Bias and Availability Bias significantly positively affect the individual investor's investment decision. The locus of control also moderates overconfidence bias and investment decisions. This study evaluated existing empirical literature and collected data using cluster sampling and quantitative research approaches, with a sample size of 146. Data were analyzed using descriptive, Chi-square, and regression analysis.

KEYWORDS: Behavioural finance, Overconfidence and Availability Bias, Locus of Control, Investment Decision.

INTRODUCTION

Finance has been studied for thousands of years, but behavioural finance, which takes into account how people behave in the financial world, is a relatively recent discipline. Now a day's behavioural finance is an integrated part of decision-making because it is against modern finance arguments and says market anomalies can be perceived by understanding investor psychology in the pattern of the decision-making process. Behavioural finance results from an interdisciplinary convergence of cognitive psychology and financial economics. Behavioural finance is a field of finance that proposes psychology-based theories to explain the investor investment decision (Ceren, 2013). This new branch of finance known as "Behavioural Finance" is an effort to unite this behavioural approach with traditional finance and economics theories to explain the reasons for investors' irrationality in investment choices these days (Gill, 2018).

Behavioural finance attempts to investigate the psychological and sociological issues that influence the investment decision-making process of individuals and institutions. Factors of behavioural finance like overconfidence, availability, locus of control, cognitive, and emotions also affect the investment strategies and investment decisions making process (Sattar, 2020). The field of finance known as "behavioural finance" has just begun to take off. It describes market outcomes and the impact of various psychological biases on how people and company managers approach investment decisions. Behavioural finance mainly focuses on how people interpret and act upon information for making investment decisions. It investigates and explains factors of human psychology and their effects on investment decision-making in the financial market.

REVIEW OF LITERATURE

The behavioural determinants, their effects on investment decisions, and the moderating effect of locus of control, including their personal profile. the following studies are reviewed in this area:

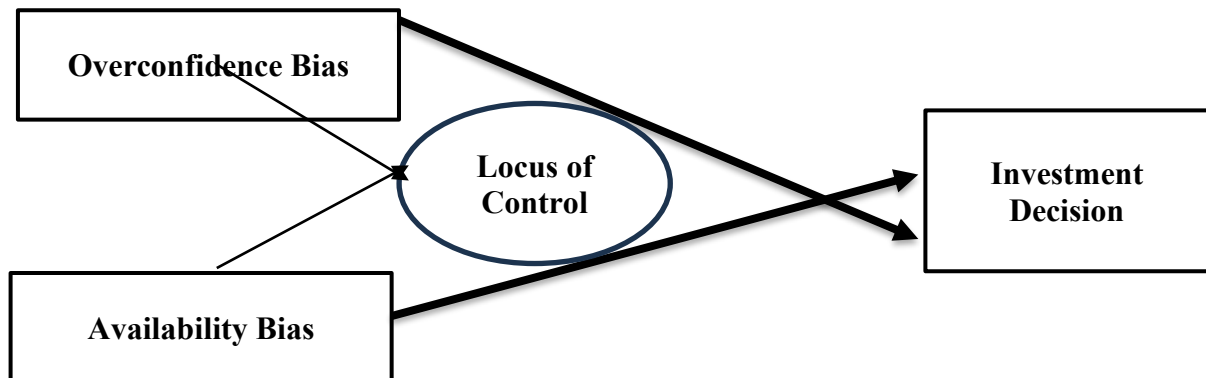
Shefrin (2000) defines "Behavioural finance as a rapidly growing area which deals with the influence of psychology on the behaviour of investors." **Ritter, (2003)** In particular, there are two representative topics in behavioural finance: -cognitive psychology and the limits of arbitrage **Barber and Odean (2000)** have studied the impact of thinking on the investment pattern of individual investors, identifying distinctive financial specialist classifications based on their features and attitude toward optional investment in the market. The ET was one of the organizations surveyed through a retail equity survey. **Alsabbab, (2020)** this research aims to empirically investigate investors' irrational behaviour in the Saudi stock market, Tadawul, by using a Vector autoregression (VAR) model to investigate the lead-lag relationship between market returns and market turnover. Results suggest investors are overconfident, with professional traders having a higher degree of overconfidence. **Areiqat, (2019)** the purpose of this study is to investigate the impact of a variety of major behavioural finance variables on stock investment decisions at the Amman Stock Exchange. (ASE). The findings revealed that overconfidence had the greatest relative relevance, recommending that investors trading at ASE use a scientific basis when making stock investment selections. More research is required to investigate the impact of behavioural finance on various sorts of risks and yields at ASE. **Jain, (2022)** The primary objective of this study is to create a complete, reliable, and valid scale for measuring the behavioural biases that influence investors' decision-making process. The study's findings revealed that behavioural biases are a multifaceted phenomenon with many dimensions and substantially impact investors' judgments. The scale can help progress in behavioural finance, and other research studies may find it valuable in achieving their objectives.

OBJECTIVES OF THE STUDY

- To analyze the behavioural bias and their effect on investment decisions in stock markets.

- To examine the impact of Locus of control on the investment decision-making behaviour of Individual Investors.

CONCEPTUAL FRAMEWORK



Overconfidence Bias

Overconfidence is the most prevalent judgment bias. Several studies find that overconfidence can lead to suboptimal decisions on the part of investors, managers, or politicians (Glaser, 2010). The overconfidence suggests – “investors overestimate their ability to predict future market events, and because of this overconfidence they often take risks without receiving the commensurate returns for them” (Nevins, 2004). Several variables contribute to overconfidence, including the illusion of knowing, the illusion of control, the illusion of understanding, the illusion of validity, and the illusion of talent. According to psychologists, overconfidence leads people to overestimate their skills, underestimate risks, and exaggerate their capacity to manage things.

Availability bias

Availability bias is based on the information available to investors. They make their investment decisions based on the information they have and therefore invest in family companies in a less diversified way (Keswani, 2019). Heuristics (rules of thumb) drive availability bias, which is described as the tendency to base decisions on prior experience or historical events. Individuals who display this bias will base their assessment of the likelihood of a result on how quickly they can recall the information. Overconfidence is an emotional bias, as opposed to availability bias, which is an information-processing bias and a cognitive error.

Locus of control

“Locus of Control is a psychological construct, which originated from the Social Learning Theory, a theory that attempts to incorporate concepts from both the behavioural and cognitive schools of learning theory” (Ntayi, 2005). The Locus of Control is the degree of control individuals perceive they have with regard to the consequences of their behaviour (Rotter, 1966). Individuals with an Internal Locus of Control generally expect that their actions will produce predictable outcomes and thus are more action-oriented or motivated than externals (Hoffman, Novak, and Schlosser 2000). The locus of control is an action where a person connects events that happen in his life with external forces beyond his control (Robbins 2001).

RESEARCH METHODOLOGY

This study thoroughly evaluated the existing empirical literature in numerous articles and online databases from the beginning to the end of 2024. This study collected data using cluster sampling and quantitative research approaches. The sample size of the study is 146. The questionnaire tool was used to collect data for the study, and a survey was conducted to collect responses from stock market investors and financial institutions. The quantitative scale used

in a questionnaire (1-strongly disagree to 5-strongly agree). After data collection, descriptive analysis, Chi-square, and regression analysis were applied through SPSS software, and interprets were statistically analyzed. These investigations were carried out in order to find the empirical inquiry to evaluate the effect of behavioural factors and investment decisions in the Trichy district.

RESULT AND DISCUSSION

Table - 1

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.503
Bartlett's Test of Sphericity	Approx. Chi-Square	255.076
	df	190
	Sig.	0.001

KMO and Bartlett's Test: The value of Kaiser-Meyer- Olkin, in Table 3 is 0.503. Bartlett's test of sphericity value for p is <0.001. So, the sample is adequate for factor analysis and a relationship present between the variables. KMO and Bartlett's test is more than 0.5 and can be considered acceptable and valid to conduct the data reduction technique.

Table – 2

Normality Test for Distribution of Investment Decisions of Investors

N	Mean	Median	Min	Max	Skewness		Kurtosis	
					Statistic	Std.Error	Statistic	Std.Error
146	77.6918	78.0000	67.00	85.00	-0.250	0.201	0.136	0.399

Skewness is -0.250 with a standard error of 0.201. This gives a measure of skewness of $-0.250/0.201 = -1.244$. Kurtosis is 0.136 with a standard error of 0.399, giving a value of $0.136/0.399 = 0.341$. Based on the Z value for the normality test, either or both the Skewness and Kurtosis value should be within the range value ± 1.96 .

Table – 3

Model of Summary

	R	R²	Adjusted R²	Std. Error of the Estimate	Durbin-Watson
1	.538 ^a	0.290	0.242	2.80074	1.458

a. Predictors: (Constant), Overconfidence Bias, Availability Bias, Locus of Control, Investment Decision

b. Dependent Variable: Investor Decision- Making

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	434.328	9	48.259	6.152	<0.001
	Residual	1066.803	136	7.844		
	Total	1501.130	145			

a. Predictors: (Constant), Overconfidence Bias, Availability Bias, Locus of Control, Investment Decision

b. Dependent Variable: Investor Decision- Making

		Coefficients				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	77.692	0.232		335.181	0.000
	X1	0.482	0.233	0.150	2.072	0.040
	X2	0.744	0.233	0.231	3.200	0.002
	X3	0.840	0.233	0.261	3.613	0.000
	X4	0.980	0.233	0.304	4.212	0.000

In the model summary table above, R^2 is .290, meaning 29% of the variation from the dependent variables can be explained by variation in the independent variables. The remaining 71 % can be explained by other factors that are not in the model. The adjusted R-value was .242. it means that about 24.2 % of the variation is explained by the variation in the independent variables. Durbin-Watson (DW) statistics show 1.458 indicate no auto-correction.

F value was 6.152 and the P value was significant at the 1% level. The ANOVA table reveals that the regression equation is significant. It implies that at least one parameter of the model is significant.

As per the R of unstandardized coefficient beta generated above table, the equation is,
 $Y = a + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4$

Becomes,

$$Y = 77.692 + 0.482x_1 + 0.744x_2 + 0.840x_3 + 0.980x_4.$$

From the above coefficient table, we see that the X1, that is β_1 , is significant since the p-value is 0.040, the X2 parameter, which is β_2 , is significant since the p-value is 0.002 and the X3, and X4 parameters as well as significant since the p-value is 0.000. given the coefficients ($\beta_1=0.150$, $\beta_2=0.231$, $\beta_3=0.261$, $\beta_4=0.304 \neq 0$), with the betas not equal to Zero, we shall therefore reject the null hypothesis and accept the alternative hypothesis, which says, the parameter for determining the overconfidence bias, availability bias, and locus of control that sat investor's investment decision is significant.

FINDINGS AND SUGGESTION

The study found that overconfidence, availability bias and locus of control are statistically significant to impact the investment decision of individuals. The positive and strong parameter of the model is significant. The study findings support various studies that have been conducted in the field of Behavioural Finance. The research study investigated the causal effect of Behavioural finance factors on individual investment decisions. Further study needs to be conducted to examine the impact of other behavioural determinant factors on individual investment decision. The study reached only 146 respondents of individual investors. Future research can attempt to reach about 200 in order to reflect the true dynamic of investment decisions on individuals and use other analytical models other than regression analysis.

CONCLUSION

The objectives of this article were to determine whether investors' investment decisions are influenced by overconfidence bias and availability bias, as well as the moderating effect of locus of control in influencing the investor's investment decision. In the study, the Locus of Control significantly changes the relationship between Overconfidence bias and investment decisions. There are two areas of thinking on whether Overconfidence bias is the most common judgment bias and whether Availability bias is the availability of information significantly impacts investment decision-making. Certain optimized decisions are intended to be made by prudent and knowledgeable investors. The above behavioural aspects

were discovered to be important in the investor's investment decision. Individual investors consider these aspects when making investment decisions. Finally, this paper concludes that behavioural factors play an important effect in individual investors' investment decisions.

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