Effect of Behavioural Biases on Investment Decisions of Individual Investors: An Empirical Study

Dr. Amiya Kumar Mohapatra
Professor and Dean (Research),
Jaipuria Institute of Management,
Dakachaya, Indore,
Madhya Pradesh, India.

Dr. Debasis Mohanty
Assistant Professor,
Jaipuria Institute of Management,
Dakachaya, Indore,
Madhya Pradesh, India.

Dr. Kompalli Sasi Kumar
Associate Professor - Finance
& Accounting,
GITAM - School of Business
(GSB-Hyderabad),
GITAM Deemed to be University,
Hyderabad, Telangana, India.

Dr. Subhasish Das
Assistant Professor,
School of Management Studies,
Gandhi Institute of Engineering and
Technology University,
Gunupur, Odisha, India.

Abstract

The study aims to explore the influence of behavioural biases on investors' investment decisions in Indian states like Chhattisgarh and Odisha. Structural Equation Modelling (SEM) is used as a tool in this study to evaluate the impact of various behavioural biases like 'optimism', 'overconfidence', 'disposition', 'herding', and 'anchoring' on the decisions of individual investors. Data of individual investors is obtained through a structured questionnaire based on survey-based research design. A total of 200 sample data is considered for the study after due scrutiny. The result revealed that optimism, herding, and anchoring biases positively influence investors' investment decisions, with beta values of 0.37, 0.05, and 0.73 respectively. However, it is found that 'overconfidence' and 'disposition' biases have negative effects on investors' investment decisions. The findings of this study will enable investors to make more rational and informed investment decisions by recognizing, anticipating, and mitigating the influence of behavioural biases and their consequential effects on investment outcomes. It will also be helpful to the policymakers to identify the anomalies in the financial market and will develop the appropriate strategies to overcome/eliminate their adverse effects.

Keywords: Behavioural Biases, Individual Investors, Investment Decisions, Structural Equation Modelling

Introduction

Behavioural finance is that part of finance that gives more importance to the behaviour of the investor than other factors which influence the financial market. The behaviour of human beings is diverse and can even be different in a particular situation. Behavioural finance attempts to understand the behavioural patterns of investors, and the research identified some biases that do not go hand in hand with traditional finance, which contradict the 'Efficient Market Hypothesis (EMH)' and other traditional models like the 'Capital Assets Pricing Model (CAPM)'. These models are helpful to investors in calculating expected returns and making decisions accordingly. EMH argues that the price of