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A Study on Influence of Overconfidence Bias and Financial Risk Perception on Stock Investment Decision-Making

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Abstract: *Investor behavior in financial markets is frequently influenced by factors beyond reason, according to classic economic theories. Behavioral finance has emphasized the influence of psychological elements and perceptions on financial decision-making. This study investigates the impact of overconfidence bias and financial risk perception on stock investment decisions among individual investors in India. Overconfidence bias denotes investors' propensity to overrate their expertise and forecasting skills, whereas financial risk perception encompasses the subjective assessment of market uncertainty. Both notions are crucial in influencing investment decisions, especially in emerging countries with growing retail involvement. The study used a quantitative research design, gathering primary data using a structured questionnaire distributed to 700 individual investors across diverse age groups, genders, and investment experience levels. Descriptive statistics were employed to examine demographic distributions, and inferential analysis was performed using simple linear regression to evaluate the hypotheses. The findings indicate that overconfidence bias has a substantial and statistically significant favorable effect on stock investment decision-making. Perception of financial risk exerts a substantial positive influence, suggesting that investors' subjective assessments of risk shape their trading actions. The results highlight the significant influence of behavioral biases on investment behavior and provide practical consequences for investors, advisors, and legislators. Improving financial literacy and incorporating behavioral insights into advisory and regulatory frameworks might promote more rational, informed, and sustainable investment behaviors in the Indian stock market.*

Keywords: Overconfidence bias, financial risk, investment decision, Behavioral Finance, Investors