

# The Role of Behavioural Finance in Investment Decision

**Hadi Memon**

The Byramjee Jeejeebhoy College of Commerce, Mumbai

**Abstract:** *Behavioural finance is a field that combines psychology and finance. It explains how investors really behave in markets. Old financial theories say investors are smart and markets work well.. Real-life evidence shows investors are often influenced by feelings thinking errors and social factors. Behavioural finance studies these mistakes and their impact on investment choices.*

*This research paper looks at how behavioural finance shapes investment decisions. It highlights thinking errors like being too confident relying on first impressions following the crowd and fearing losses. The study also examines how these errors affect investment results and market efficiency. The research uses an analytical approach with data from journals, articles and past studies.*

*The findings suggest that behavioural factors greatly influence investment decisions. This often leads to choices and market problems. Understanding these errors can help investors make financial decisions and improve their investment results.*

**Keywords:** Behavioural finance is a field that combines psychology and finance. It explains how investors really behave in markets.

## I. INTRODUCTION

Investment decisions are crucial in management. Old theories like the Efficient Market Hypothesis assume investors are smart and aim to get the returns.. Real-life observations show this is not always true.

Behavioural finance emerged to address this gap. It incorporates insights into financial decisions. It explains how feelings, mental shortcuts and biases influence investor behaviour. Behavioural finance helps us understand why investors make mistakes and how these mistakes affect markets.

## II. REVIEW OF LITERATURE

Many researchers have contributed to finance and its application to investment decisions. Studies show that behavioural finance challenges finance theories. It emphasizes the role of influences on investors. Research identifies factors like being too confident relying on first impressions following the crowd and fearing losses. These factors greatly affect investment choices. Systematic reviews highlight that behavioural finance helps us understand how human behaviour and feelings shape decisions and market trends.

## III. STATEMENT OF THE PROBLEM

financial theories assume investors are smart and markets work well.. In reality investors often behave irrationally due to psychological and emotional factors. The key problem addressed in this study is:

“How do behavioural biases influence investment decisions and what's their impact on financial results?”

This research aims to bridge the gap between assumptions and real-world investor behaviour.

## IV. RESEARCH METHODOLOGY

Research Design: The study is descriptive and analytical. It focuses on understanding factors influencing investment decisions. Data Collection: data from journals, research papers, books and online databases. Research Approach:



Qualitative analysis of existing literature and comparative analysis of finance versus behavioural finance. Techniques: Literature review, conceptual framework analysis and interpretation of prior empirical findings.

**Scope of Study:** The study focuses on investors and behavioural biases affecting their investment decisions.

### **V. DATA ANALYSIS AND INTERPRETATION**

Behavioural finance identifies psychological biases that influence investment decisions:

- 1. Overconfidence Bias** – Investors think they know more than they do. This leads to trading and risk-taking.
- 2. Anchoring Bias** – Investors rely heavily on initial information. They fail to adjust decisions based on data.
- 3. Herding Behaviour** – Investors follow the crowd. They do not make decisions.
- 4. Loss Aversion** – Investors prefer avoiding losses. They make irrational decisions to hold onto losing investments.
- 5. Representativeness Bias** – Investors make decisions based on trends. They do not consider analysis.
- 6. Emotional Influences** – Emotions like fear and greed greatly affect investment behaviour.

Empirical studies show that these biases directly impact investment decisions. They contribute to market inefficiencies and anomalies.

### **VI. CONCLUSION**

Behavioural finance plays a role in understanding investment decisions. It acknowledges that investors are not always smart. They are influenced by factors.

The study concludes that behavioural biases greatly impact investment decisions. Investors often make choices due to emotions and thinking errors. These biases contribute to market problems. Awareness of finance can help investors improve decision-making and achieve better financial results.

Thus incorporating finance into investment strategies is essential for individual investors and financial professionals.

### **REFERENCES**

- [1]. Jia, Y. (2023). A Literature Study of Behavioral Finance and Investor Decision-Making.
- [2]. International Journal of Accounting, Finance and Risk Management (2020). Behavioral Finance Biases in Investment Decision Making.
- [3]. Rizani (2023). Behavioral Finance in Investment: A Systematic Review.
- [4]. Singh, S., & Kumar, S. (2017). Review on Behavioural Factors Affecting Investment Decisions.
- [5]. Leal, C. C. (2015). Behavioral Finance and Investment Decisions.
- [6]. Advances, in Economics, Management and Political Sciences (2024). Behavioral. Investor Expectations.
- [7]. Wikipedia (2025). Behavioural Finance.

