Financial Behaviours of Stock Market Investors

C. Magesh Kumar
Research Scholar, Department of Business Administration
Annamalai University, Chidambaram, Tamil Nadu, India
https://orcid.org/0000-0002-9876-4898

K. Sujatha
Professor, Department of Business Administration
Annamalai University, Chidambaram, Tamil Nadu, India
https://orcid.org/0000-0003-2984-5798

K. Rajesh Kumar
Professor, Department of Business Administration
Annamalai University, Chidambaram, Tamil Nadu, India
https://orcid.org/0000-0002-8218-301X

OPEN ACCESS

Manuscript ID:
MGT-2025-12038213

Volume: 12

Issue: 3

Month: January

Year: 2025

P-ISSN: 2321-4643

E-ISSN: 2581-9402

Received: 27.09.2024

Accepted: 23.11.2024

Published Online: 01.01.2025

Citation:
Magesh Kuamr, C., et al. "Financial Behaviours of Stock Market Investors." *Shanlax International Journal of Management*, vol. 12, no. 3, 2025, pp. 25-30.

DOI:
https://doi.org/10.34293/management.v12i3.8213

Abstract
Behavioural Finance research has received significant attention in recent years, and now it plays a vital role in determining the behaviour of investors when investing in the stock market. Financial Behaviour refers to the psychological factors that influence the investing decisions of investors in the stock market. This article attempts to review several prior and current studies done on this research area based on the Heuristics, Prospect, Market, and Herding theories, which classify many behavioural factors. As an outcome, this will provide a comprehensive literature on the financial behaviours of stock market investors, which will assist investors in their investment decision-making as well as academicians, professionals, and researchers in their research.
Keywords: Financial Behaviours, Investors, Stock Market, Decision-Making, Investment

Introduction

Behavioural finance is an alternative to traditional finance, also referred to as standard finance theories, since it deals with the exploration of why people make investing decisions (Statman). Behavioural finance has been an emerging approach of research in the financial markets of developed and developing countries for the past two to three decades due to the irrational decisions made by investors. Behavioural finance is the integration of psychology and finance. The behavioural factors of investors influence the decision-making process to act as if they were irrational in the financial markets (Bhatt and Chauhan). Neuroeconomics research also evidence that emotions of an individual would influence the decision-making in investment selection (Kuhnen and Knutson). The checklist, which comprises the important factors of behavioural finance (Ricciardi and Simon), is provided in Table 1.

Behavioural bias plays a significant role in the investment decision-making process by influencing an individual in the stock market (Elhussein and Abdelgadir). Hence, this article will present the reviews of financial behaviours of investors investing in the stock market.

Table 1 The Behavioural Finance Checklist

Anchoring	Fear	Panics	Overreaction
Financial Psychology	Greed	Disposition Effect	Under-reaction
Cascades	Herd Behaviour	Loss Aversion	Overconfidence
Chaos Theory	Framing	Prospect Theory	Mental Accounting
Cognitive Bias	Hindsight Bias	Regret Theory	Irrational Behaviour
Cognitive Dissonance	Preferences	Groupthink Theory	Economic Psychology
Cognitive Errors	Fads	Anomalies	Risk Perception
Contrarian Investing	Heuristics	Market Inefficiency	Gender Bias
Crashes	Manias	Behavioural Economics	Irrational Exuberance

Source: Ricciardi and Simon

Financial Behaviours of Stock Market Investors

The main objective of this article is to review the financial behaviours of stock market investors that influence their investment decisions. The financial behaviours of investors investing in the stock market observed from these studies (Barber and Odean; Calzadilla et al.; Bhatt and Chauhan; Obeng; Sharma; Subash; Zahera and Bansal) are provided in Table 2.

Table 2 Financial Behaviours

Anchoring	Regret Aversion	Framing
Overconfidence	Disposition Effect	Confirmation Bias
Representativeness	Cognitive Dissonance	Hindsight Bias
Herding	Availability Bias	Home Bias
Mental Accounting	Gamblers' Fallacy Bias	Self-attribution
Loss Aversion	Endowment Effect	Conservatism

Source: The Authors observed from the above cited researches

Anchoring

Anchoring is the tendency of investors to make their decisions based on the initial value or information they receive and subsequent decisions based on the past information.

Overconfidence

Overconfidence tends to lead investors to be highly optimistic in their judgements, which leads to high uncertainty by underestimating the risk due to their ignorance of the other factors around it.

Representativeness

Representativeness is the tendency of investors to consider that one situation is similar to another situation, so this makes them more likely to believe that the situation will prevail without considering its uncertainty.

Herding

It is the tendency of investors to follow the judgement of others in making investment decisions, and so this behaviour affects the individual's decision-making ability by imitating others, even if their own decision is favoured by fundamental or technical analysis.

Mental Accounting

Mental Accounting is the allotment of investment policies to the respective mental categories of investors, which satisfies their emotions but may not be profitable to them.

Loss Aversion

Investors tend to take no risks when they have profits, but when there is any chance of loss, they tend to take more risks.

Regret Aversion

It is an emotional bias of investors which tends to make decisions in the future by avoiding the feeling of regret.

Disposition Effect

Disposition is the tendency of investors to make financial decisions based on their perceived gains but not on their perceived losses.

Cognitive Dissonance

It is the mental conflict experienced by investors when they make wrong beliefs or assumptions, and this affects their confidence while making decisions.

Availability Bias

Availability Bias is the tendency of investors to make decisions with examples of things or recent scenarios that come to their mind readily without any delay.

Gamblers' Fallacy Bias

This bias arises when investors make an inappropriate prediction that reverses the trend and are drawn into contrarian thinking.

Endowment Effect

In this effect, investors are likely to retain on their current position and feel resistant to change their position.

Framing

Framing is the tendency of investors to avoid risks when the information results in a positive, but they avoid losses and are ready to take risks when the information results in a negative.

Confirmation Bias

In this bias, investors tend to use future information to suit their opinion, and this leads to irrational decisions.

Hindsight Bias

Hindsight Bias occurs when investors form cause and effect relationships based on their previous conceptions, which results in irrational decisions.

Home Bias

Investors tend to prefer investments in domestic companies due to their sense of belonging, even if international companies are performing well.

Self-Attribution

Self-attribution is when investors attribute their success to their personal foresight, but they attribute their failure to others or outside factors.

Conservatism

Conservatism arises when investors prefer to stand by their own beliefs and they are not willing to consider any other useful information in their decision-making.

Furthermore, this article reviews the financial behaviours that influence investors' stock market investing decisions.

Financial Behaviours in Investment Decisions

The influential financial behaviour factors of stock market investors on investing decisions are reviewed here. The various behavioural factors are categorised on the basis of the Heuristics, Prospect, Market, and Herding theories (Waweru et al.), is provided in Figure 1. The Heuristics theory comprises Representativeness, Overconfidence, Anchoring, Gamblers' Fallacy, and Availability Bias. The Prospect theory includes Loss Aversion, Regret Aversion, and Mental Accounting. The Market theory consists of Over-reaction, Under-reaction, Information, Preference, Past Trends, and Price Changes. The Herding theory comprises Buying, Selling, Choice, Time, and Volume.

Figure 1 Theories for Financial Behaviours

Source: Waweru et al.

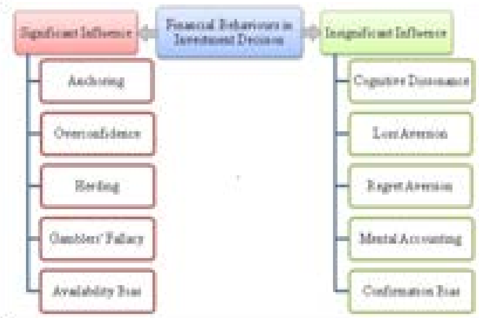
The investigation conducted by Waweru et al. has explored that the behaviours of institutional investors' Heuristics process strongly dominated the prospect theory while market theory highly impacts the stock market investors' investing decisions. And (Ngoc) also finds that these Heuristics, Prospect, Market, and Herding behavioural factors highly impacts the individual investors' decisions while investing in the stock market. Then, (Kengatharan and Kengatharan) analysed and results that in Heuristics only Anchoring has positive influence while other factors has negative, in Herding only Choice of stocks have positive influence while others has negative, and both the Prospect and Market factors has negative influence in the investment performance of individual investors. To support these results, (Elhussein and Abdelgadir) reveals that the investment decision-making process was impacted significantly by these Heuristics, Prospect, Market and Herding behavioural factors, while Availability bias, Price Change, Choices and Regret Aversion had an insignificant impact on the decisions of stock market investors.

The research conducted by (Subash) which categorises investors as experienced and younger, to compare their influential financial behaviours in decision-making, namely Overconfidence, Representativeness, Herding, Anchoring, Cognitive Dissonance, Regret Aversion, Gamblers' Fallacy, Mental Accounting, and Hindsight Bias. The results reveal that both types of investors suffer from all the factors except the Cognitive Dissonance bias, but the younger investors significantly suffer more from the Anchoring, Gamblers' Fallacy and Hindsight bias than the experienced investors in the stock market. Then, an empirical investigation was conducted by (Hussain Khan) to explore the behavioural factors, namely, Framing and Herding Effect of perceived investment performance of investors in the stock market, which resulted in both the factors influencing the perceived investment performance of investors by indicating a positive significant relationship in the stock market.

In similar studies, the impact of psychological factors, namely Overconfidence, Conservatism, Herding, and Availability Bias, on the investing decisions of stock market investors was investigated by (Bakar and Yi), and the results indicate that Overconfidence, Conservatism, and Availability Bias have significant impacts on stock market investors' decision-making, whereas Herding behaviour has no impact on the decision-making of investors. Then, an investigation was conducted by (Rauf et al.) on the behavioural factors, namely Overconfidence and Loss Aversion in the stock market and found that both have a significant relationship with investor decisions, while Overconfidence has a slightly higher impact than the other.

In support of the views of these studies, (Sharma) examined the influential behavioural factors, namely, Herding, Overconfidence, Availability Bias, Mental Accounting, and Regret Aversion of individual investors on their investment decisions and found that all these factors have a significant effect on stock market investors' investing decisions. In addition to this, (Shafqat and Malik) also find that there is a positive significant impact of Overconfidence on their investors' trading frequency, while Loss Aversion and Regret Aversion have a negative effect on the stock market.

Figure 2 Influence of Financial Behaviours in Investment Decision



Source: The Authors Observed this through the Reviews

Through the reviewing of several prior and recent research studies, it indicates that financial behaviours based on Heuristics theory such as Anchoring, Overconfidence, Herding, Gamblers' Fallacy, and Availability Bias are highly significantly influencing investment decisions, while financial behaviours based on Prospect theory such as Cognitive Dissonance, Loss Aversion, Regret Aversion, Mental Accounting, and Confirmation Bias have insignificant influence, as provided in the above Figure 2. However, financial behaviours based on Market and Herding theories have a timely influence on investment decisions dependent on the specific circumstances. Overall, this literature study demonstrates that financial behaviours based on Heuristics, Prospect, Market, and Herding theories have significant influences on the investment decisions of the investors in the stock market, with Heuristics and Prospect theories having the highest impact, followed by other theories depending on internal and external factors of the circumstances.

Conclusion and Suggestions

This study provides a comprehensive literature on the influential financial behaviours that drive stock market investors' decision-making. It is highlighted that financial behaviours based on the Heuristics theory have a highly significant influence on investing decisions, whereas the Prospect theory has minimal influence, followed by other theories.

Moreover, investment decisions are highly influenced by the financial attitudes of the investors (Adiputra). Stock returns are also affected by investor sentiment (Baker and Wurgler: Investor Sentiment and the Cross-Section of Stock Returns), and measuring this investor sentiment with trading activity would lead to the identification of irrational investors (Baker and Wurgler: Investor Sentiment in the Stock Market).

In addition to this, since this behavioural finance area is vast, the unidentified influential behavioural factors should be explored, and in addition to this, the financial attitudes and investor sentiment, which have similar influences on investment decisions, should be focused on by the researchers in their future research. However, the research studies on behavioural finance are highly concentrated on developed economies, but it is still growing in developing economies (Sajid and Bhardwaj). The developed markets also make their investment decisions on the basis of research and opinion in behavioural finance (Park and Sohn). Therefore, concentrating on behavioural finance research is essential for emerging economies to improve their market efficiency. Furthermore, investors can incorporate both fundamental and technical analysis to strategise their investment decisions in emerging markets, thereby mitigating the impact of these financial behavioural biases. Thus, this article reviewed the financial behaviours of stock market investors, which is beneficial for the investors themselves to avoid their own mistakes when investing, as well as academicians and professionals, and suggested some research areas for researchers, so they might concentrate their future work on these fields.

References

Adiputra, I. Gede. "The Influence of Financial Literacy, Financial Attitude and Locus of Control on Financial Satisfaction: Evidence from the Community in Jakarta." *KnE Social Sciences*, 2021, pp. 636-54.

Bakar, Suzaida, and Amelia Ng Chui Yi. "The Impact of Psychological Factors on Investors' Decision Making in Malaysian Stock Market: A Case of Klang Valley and Pahang." *Procedia Economics and Finance*, vol. 35, 2016, pp. 319-28.

Baker, Malcolm, and Jeffrey Wurgler. "Investor Sentiment and the Cross-Section of Stock Returns." *The Journal of Finance*, vol. 61, no. 4, 2006, pp. 1645-80.

Baker, Malcolm, and Jeffrey Wurgler. "Investor Sentiment in the Stock Market." *Journal of Economic Perspectives*, vol. 21, no. 2, 2007, pp. 129-51.

Barber, Brad M., and Terrance Odean. "The Behavior of Individual Investors." *Handbook of the Economics of Finance*, vol. 2, 2013, pp. 1533-70.

Bhatt, Babaraju K., and Apurvaa A. Chauhan. "Behavioral Finance: A New Paradigm of Finance." *International Journal of Application or Innovation in Engineering & Management*, vol. 3, no. 2, 2014, pp. 359-62.

Calzadilla, J. F., et al. "A Systematic Review of Ordinary People, Behavioural Financial Biases." *Economic Research*, vol. 34, no. 1, 2021, pp. 2767-89.

Elhussein, Nawal Hussein Abbas, and Jarel Nabi Ahmed Abdelgadir. "Behavioral Bias in Individual Investment Decisions: Is It a Common Phenomenon in Stock Markets?." *International Journal of Financial Research*, vol. 11, no. 6, 2020, pp. 25-36.

Hussain Khan, Mushtaq. "An Empirical Investigation on Behavioral Determinants of Perceived Investment Performance; Evidence from Karachi Stock Exchange." *Research Journal of Finance and Accounting*, vol. 5, no. 21, 2014, pp. 129-37.

Kengatharan, Lingesiya, and Navaneethakrishnan Kengatharan. "The Influence of Behavioral Factors in making Investment Decisions and Performance: Study on Investors of Colombo Stock Exchange, Sri Lanka." *Asian Journal of Finance & Accounting*, vol. 6, no. 1, 2014, pp. 1-23.

Kuhnen, Camelia M., and Brian Knutson. "The Influence of Affect on Beliefs, Preferences, and Financial Decisions." *Journal of Financial and Quantitative Analysis*, vol. 46, no. 3, 2011, pp. 605-26.

Ngoc, Luu. "Behavior Pattern of Individual Investors in Stock Market." *International Journal* of *Business and Management*, vol. 9, no. 1, 2014, pp. 1-16.

Obeng, George. "Behavioural Finance: A Concept or Catalyst Explaining Distortions in Investment Decision." *European Journal of Business and Management Research*, vol. 5, no. 1, 2020.

Park, Hyoyoun, and Wook Sohn. "Behavioral Finance: A Survey of the Literature and Recent Development." *Seoul Journal of Business*, vol. 19, no. 1, 2013, pp. 33-42.

Rauf, Abdul, et al. "Impact of Overconfidence and Loss Aversion Biases on Equity Investor's Decision-Making Process and Performance." *NICE Research Journal*, vol. 11, no. 2, 2018, pp. 156-80.

Ricciardi, Victor, and Helen K. Simon. "What is Behavioral Finance?." *Business, Education and Technology Journal*, 2000.

Sajid, Mohd, and R. Bhardwaj. "Literature Review of Behavioral Finance: Then and Now." *Elementary Education Online*, vol. 20, no. 1, 2021.

Shafqat, Sayed Ibtasam, and Imran Riaz Malik. "The Impact of Over Confidence, Loss Aversion and Regret Aversion on Investors Trading Frequency: Empirical Evidence of Pakistan Stock Exchange." *Journal of Managerial Sciences*, vol. 15, no. 1, 2021, pp. 83-100.

Sharma, Aarzoo. "Influence of Behavioual Bias on Investment Decisions of Individual Investors in Delhi NCR." *Journal of Public Administration, Finance and Law*, no. 16, 2019, pp. 117-26.

Statman, Meir. "What is Behavioral Finance?." *Handbook of Finance*, 2008.

Subash, Rahul. *Role of Behavioral Finance in Portfolio Investment Decisions: Evidence from India*. Charles University in Prague, 2012.

Waweru, Nelson Maina, et al. "The Effects of Behavioural Factors in Investment Decision-Making: A Survey of Institutional Investors Operating at the Nairobi Stock Exchange." *International Journal of Business and Emerging Markets*, vol. 1, 2008, pp. 24-41.

Zahera, Syed Aliya, and Rohit Bansal. "Do Investors Exhibit Behavioral Biases in Investment Decision Making? A Systematic Review." *Qualitative Research in Financial Markets*, vol. 10, no. 2, 2018, pp. 210-51.

Author Details

C. Magesh Kumar, *Research Scholar, Department of Business Administration, Annamalai University, Chidambaram, Tamil Nadu, India,* ***Email ID:*** *magesh245@gmail.com*

Dr. K. Sujatha, *Professor, Department of Business Administration, Annamalai University, Chidambaram, Tamil Nadu, India*

Dr. K. Rajesh Kumar, *Professor, Department of Business Administration, Annamalai University, Chidambaram, Tamil Nadu, India*