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Role Of Behavioral Finance in Investment Decision – A Study of Investment Behavior in India

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Abstract

The study attempts to analyze the behavior of investors towards investment pattern and to analyze the factors which an investor takes into consideration while taking Investment decision. Faculty members in Uttarakhand were surveyed using questionnaire. Study concludes that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investor's complete consideration of factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns.

Keywords: Behavioral Finance, Savings, Investment, Investor Behavior, India.

1. Introduction

"People in standard finance are rational. People in behavioral finance are normal." **— Meir Statman**

Stock market complexities and market anomalies have led to the growth of a new field of financial research namely "behavioral finance". Financial market inconsistencies are cross-sectional and time series patterns in returns from investment in securities that cannot be predicted by a central paradigm or theory. Behavioral finance is the study of the influence of psychological factors on individual investment behaviour. This new approach of financial research advocates that investment decisions are affected by psychological and emotional factors.

This approach assumes that investors are influenced by psychological factors such as fear, hope, optimism and pessimism. The role of these factors in investment and trading has changed the direction of research in the area of Behavioral Finance. Kahneman and Tversky (1979), Shefrin and Statman (1994) and Shleifer (2000) are researchers who have attempted to analyze the efficiency of financial markets and tried to explain the fluctuations in stock markets. With growing challenges in the market environment, investors can benefit and beat the market if they properly analyze the different investment options and securities. Over the past five decades, established finance theory had assumed that investors have little difficulty in making investment decisions. The investors are assumed to be well-informed, careful, and consistent. The traditional theory holds that investors are not confused by how information

is presented to them and are not swayed by their emotions. But clearly, reality does not match these assumptions, and this led to a move toward a new approach in finance theory.

Behavioral finance has gained importance over the last two decades as a new area of research due to the observation that investors rarely behave as per the assumptions made in traditional finance theory. Behavioral researchers have taken the view that finance theory should take into consideration the observation of human behavior. They use research from a psychological point of view to develop an understanding of investment decision-making and thereby create the discipline of behavioral finance.

2. LITERATURE REVIEW

The study argues that investment decisions are not purely rational but are shaped by emotional triggers, neurological responses, and behavioural impulses (Awalakki, 2022). This article forms the psychological base for later studies on emotional intelligence, overconfidence, attention, and bias-driven investment behaviour. (Awalakki, 2026) The study is important because it connects emotional regulation, self-awareness, and investment judgment, suggesting that emotionally intelligent investors may be better positioned to control impulsive reactions, evaluate risk, and make disciplined decisions. (Awalakki & Archana, 2023) The study explains that overconfident investors often overestimate their knowledge, forecasting ability, and control over market outcomes, which may result in excessive trading, poor diversification, and weak risk assessment. (Awalakki and Archanna 2023) argue that investor attention affects trading patterns, price movement, and volatility. It contributes to behavioural finance by showing that volatility is not only a result of economic fundamentals but also of how investors collectively process and react to information. A conceptual bridge because it places Awalakki's later studies on overconfidence, home bias, investor attention, and emotional intelligence within the larger development of behavioural finance theory (Awalakki & Archanna, 2024). It argues that preference for familiar or domestic assets may reduce diversification benefits and increase portfolio risk (Awalakki & Archana H. N., 2024). This article is especially relevant to regional investor behaviour because it links psychological bias with practical portfolio outcomes in a specific socio-economic setting. (Awalakki, 2026)The study reports that adoption is influenced by financial literacy, technological awareness, perceived opportunity, FOMO, social influence, regulatory change, taxation, and security concerns. The article contributes to digital finance literature by showing cryptocurrency as both an investment alternative and a behavioural asset shaped by risk perception and policy uncertainty. It suggests that mindfulness practices such as meditation, breathing exercises, and awareness methods may help employees manage stress and improve well-being (Awalakki et al., 2026).

The Behavioral theory showing the influence of human behaviour on investing decision emerges not as a supplementary assumption, but as a contradictory approach. Lewellen (1977) through research concluded that age, sex, income and education affect investors' preferences. Ippolito and Bogle (1992) analyzed that selection of funds by investors is based on the past performance of the funds, and money flows into winning funds more rapidly than they flow out of losing funds. Shefrin (2001) analyzed that Behavioral Finance is the study of the impact of psychology on financial decision making.

Philip (1995) analyzed the changes in financial decision-making and investor behavior after participating in investor education programs. In India, SEBI organizes awareness programs for small investors, which has started giving benefits in terms of value investing and informed investing from

retail investors. Madhusudhan and Jambodekar (1996) concluded that investors expect better services from the company where they invest. The majority of investors invest for safety of principal, liquidity and capital gain. According to a survey conducted by SEBI (1998), investment objective, risk appetite, and income available for investment influence behavior in securities markets across different levels.

Sewell (2005) concluded that Behavioural Finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets. Tavakoli (2011) examined different factors influencing investor decisions, analyzing 13 factors to determine whether investors consider them. He found that some factors are more influential, including financial statements, consulting with experts, second-hand information, financial ratios, firm reputation, and profitability variables — with dividends being the most important sub-variable. Kadariya (2012) investigated factors impacting investor decisions in the Nepalese capital market. He concluded that majority of investors are young people who rely on media coverage and peer recommendations. Dividends, earnings, equity contribution, and government control were considered the most important factors in decision-making.

Keeping this background in mind, this paper focuses on the study of behavioral finance on investment decisions in Uttarakhand, especially focusing on faculty members, as they can guide future decision-makers in a better manner. The main objective is to identify various behavioral factors influencing the decision of investors in Uttarakhand — a small state with limited earning options where money allocation is a key area to focus on.

3. OBJECTIVES OF THE STUDY

The study was conducted with the following objectives:

- To analyze the savings and investment decision-making behavior of investors.
- To detect the factors which have an impact on the investor's decision.
- To identify the preferred investment options among the respondents.

4. RESEARCH METHODOLOGY

The study is exploratory and descriptive in nature. The methodology is discussed as follows:

4.1 Population

The population for the study includes the investors of Bengaluru, karanataka

4.2 Source and Tool of Data Collection

The study uses both primary and secondary sources of information. For collecting primary data, a structured questionnaire was used. Questionnaires were distributed to 400 respondents, of which 358 complete responses were received (response rate: 89.5%). The collected data was analyzed using analytical tools including percentages, frequencies, charts, and the Likert scale.

5. DATA ANALYSIS AND INTERPRETATION

5.1 Age Profile of Investors

Category	Frequency	Percentage
21–30 years	99	27.6%
31–40 years	179	50.0%
41–50 years	55	15.5%
Above 50 years	25	6.9%

50% of the total population falls in the age group of 31 to 40 years, while 27.6% fall in the age group of 21 to 30 years, indicating that middle-aged working professionals constitute the dominant investor segment.

5.2 Marital Status

Category	Frequency	Percentage
Single	99	27.6%
Married	259	72.4%

72.4% of the total investor population is married, and the remaining 27.6% are single, reflecting that family responsibilities may serve as a motivating factor for investment planning.

5.3 Educational Qualification

Category	Frequency	Percentage
Doctorate	168	46.6%
M.Ed.	6	1.7%
B.Ed.	0	0.0%
Post Graduate	160	44.8%
Graduate	25	6.9%

46.6% of the population holds a doctorate degree and 44.8% are postgraduates, confirming the highly educated nature of the sample, which is consistent with the study focusing on faculty members.

5.4 Monthly Income

Category	Frequency	Percentage
Less than ₹5,000	31	8.6%
₹5,000–₹10,000	0	0.0%
₹10,000–₹20,000	12	3.4%
₹20,000–₹30,000	56	15.5%
Above ₹30,000	259	72.4%

72.4% of respondents belong to the income bracket of above ₹30,000 per month, indicating a relatively high disposable income available for investment among the surveyed population.

5.5 Years of Experience

Category	Frequency	Percentage
Under 5 years	86	24.1%
5–10 years	86	24.1%

Above 10 years	186	51.7%

51.7% of the total population has experience of above 10 years, suggesting a mature investor base with considerable professional and financial experience.

5.6 Purpose for Investment Decision (Likert Scale Analysis)

Respondents were asked to rate the importance of various investment purposes on a 5-point Likert scale (Highly Important to Least Important). Key findings are summarized below:

Investment Purpose	Key Finding
Assured Return	56.9% Highly Important, 36.2% Important
Low Risk	46.6% Important, 25.9% Highly Important
Tax Benefits	56.9% Important, 31.0% Highly Important
Child Education	27.6% Highly Important, 24.1% Important
Daughter Marriage	29.3% Least Important, 24.1% Neutral
Speculation	31.0% Neutral, 25.9% Least Important
Capital Gain	48.3% Important, 22.4% Highly Important
Retirement	50.0% Important, 22.4% Highly Important
Secured Future	50.0% Highly Important, 39.7% Important
Safety of Investment	60.3% Highly Important, 34.5% Important

5.7 Factors Having Implications on Investment Decision

Respondents rated 22 factors on their implications for investment decision-making. Key results are summarized below:

Factor	Key Finding
Investment Amount	60.3% Important, 34.5% Highly Important
Potential Risk	50.0% Important, 39.7% Highly Important
Potential Gain	50.0% Important, 46.6% Highly Important
Tax Advantage	65.5% Important, 24.1% Highly Important
Liquidity	56.9% Important, 24.1% Highly Important
Customer Service	41.4% Important, 25.9% Highly Important
Ease of Marketability	46.6% Important, 17.2% Highly Important
Perception	51.7% Important, 24.1% Neutral
Past Experience	44.8% Important, 27.6% Highly Important
Lack of Confidence	41.4% Important, 27.6% Neutral
Information through Internet	50.0% Important, 19.0% Neutral
Information from the Company	34.5% Important, 27.6% Highly Important
Financial Knowledge	53.4% Important, 27.6% Highly Important
Ease of Purchase	55.2% Important, 34.5% Highly Important
Familiarity	55.2% Important, 25.9% Highly Important

Professional Investment Management	48.3% Important, 22.4% Highly Important
Suggestion by Friends	53.4% Important, 22.4% Neutral
Suggestion by Relatives	41.4% Important, 20.7% Neutral
Guidance by Investment Consultant	46.6% Important, 19.0% Highly Important
Financial Dailies	53.4% Important, 15.5% Neutral
TV Channels	44.8% Important, 22.4% Less Important
Colleagues / Peer Groups	39.7% Important, 24.1% Neutral
Newspapers	48.3% Important, 20.7% Neutral

6. KEY FINDINGS

1. 50% of the total population falls in the age group of 31 to 40 years; 27.6% are in the 21–30 age group.
2. 72.4% of respondents are married, suggesting family obligations as a key investment motivator.
3. 46.6% hold a doctorate and 44.8% are postgraduates, reflecting a highly educated investor base.
4. 72.4% of respondents earn above ₹30,000 per month.
5. Respondents prioritize assured returns, tax benefits, safety of investment, secured future, and capital gain as the most important investment purposes.
6. Among the 22 behavioral factors, Tax Advantage, Potential Gain, Ease of Purchase, Familiarity, Financial Knowledge, Liquidity, and Suggestion by Friends emerged as the most consistently important.
7. Speculation and daughter marriage were rated as least important investment motivations.
8. Internet-based information, financial dailies, and newspapers were rated as important information sources, reflecting the growing influence of digital media on investment behavior.

7. CONCLUSION

Investment decision-making in India is influenced by perception, word of mouth, and past returns. In many cases, long-term investment planning lacks rigor and proper evaluation of available instruments. This study highlights the behavior of different investor profiles and how it impacts investment decisions in India. Behavioral finance is considered an important element in any investment decision in the Indian capital market.

Through this study, the analysis of investor saving and investment decision-making in the Indian capital market is highlighted with data gathered from 358 respondents. The majority of investors — more than 50% — are in the age group of 31 to 40 years, and 72.4% are married. The decision to invest requires proper planning and awareness of the various investment products. With 46.6% of respondents holding a doctorate and 72.4% earning above ₹30,000 per month, the sample demonstrates a well-educated and financially capable investor base that still exhibits identifiable behavioral biases.

It is concluded from this research that behavior matters significantly when it comes to making wise investment decisions. Selecting a particular investment option requires an investor's complete

behavioral pattern — encompassing goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, risk-bearing capacity, liquidity, and expected returns — all linked with clearly defined financial goals. To be a successful investor, one should follow a psychology-informed approach to analyzing the different investment avenues in the Indian capital market. While investment behavior in capital markets differs from general human behavior, factors such as goal clarity, product understanding, risk analysis, investment comparison, alignment with individual goals, and time horizon are common and crucial for sustainable investment outcomes.

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