European Economic Letters
ISSN 2323-5233
Vol 16, Issue 1 (2026)
http://eelet.org.uk

Mind Over Market: How Behavioural Finance Shape Individual Investment Choices

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Abstract:
The study "Mind Over Market: How Behavioral Finance Shapes Individual Investment Choices" explores the psychological factors influencing investors' decisions. Unlike traditional financial theories assuming rational decision-making, behavioral finance examines biases such as overconfidence, loss aversion, and herd behavior. These biases often lead individuals to make irrational choices, deviating from optimal financial strategies. By analyzing investor behavior through these lenses, the study highlights the impact of emotions and cognitive errors on market outcomes. The research underscores the importance of understanding these psychological factors to improve investment strategies and promote more rational decision-making in the financial markets. Every human choice is fundamentally influenced by individual perception; hence, psychology significantly impacts all decisions, including those in finance and investment. Behavioral finance is the discipline that examines the influence of psychology on financial decision-making, particularly the cognitive shortcuts and biases individuals possess. In contrast to conventional finance, which is grounded in logic and rationality, behavioral finance takes into account emotions and intuition. In summary, conventional finance pertains to rational thought, while behavioral finance relates to emotional influences.This report examines how people make investing choices. The research examines the origins of judgment and decision-making, along with the associated biases. Do individuals choose for more rational investing options or those influenced by psychological biases . This paper examines the difficulty modern individual investors face in applying the well-established principles of traditional finance theories to their decision-making processes, potentially due to psychological barriers or cognitive heuristics. Numerous individual investors prioritize their heuristics above established orthodox ideas, maybe stemming from self-assurance or excessive faith in their heuristics. Investment choices are sometimes driven by the investor's intuition, which may be irrational and may result in losses. Behavioral finance seeks to connect human psychology with financial principles. Nonetheless, it remains in its nascent phase in India, although is rapidly gaining traction. This research will examine the trigger points in the investor decision-making process and seek to comprehend the inconsistencies within neo-classical theories.

Keywords: Investor Psychology, Heuristics, Behavioural finance, Investments, Cognitive biases

1. *Introduction:*

Behavioural Finance is the branch of finance that examines the influence of human psychology on investing choices. Although we anticipate that individuals would behave rationally in financial matters, in reality, emotions often prevail over rationality. The

investor's emotions significantly influence investing choices more than the logical behavior indicated by Traditional Finance Theories. Our prior experiences or observations of others' experiences cultivate a heuristic that prompts us to trust our instincts over quantitative computations (Prof. U. Devrshi et al., July 2019). Investors are driven by a myriad of emotions, which often overshadow rational thought in decision-making processes; the realm of investment and finance is no different. Behavioral finance is an emerging field, however its significance is undeniable. It elucidates the rationale for investors' lack of self-control, which leads them to behave contrary to their own best interests and to make judgments influenced by personal prejudices and experiences rather than empirical evidence. It was presumed that the established theories would facilitate investment decisions for investors; nevertheless, they overlooked the emotional intelligence of the investors. Emotions such as greed, fear, and rage are seen as significant factors in investing decisions (Sewell, M April 2010). According to conventional financial theories, individuals are seen as rational; but, in behavioral finance, they are perceived as irrational. As investors, we must comprehend the factors that influence our decisions to invest in certain companies, commodities, or routes over other market possibilities. Typically, the risk-return ratio should serve as the primary factor; yet, in several instances, we choose investments with lower yields or higher risks over more sensible alternatives. The most illustrative example is the investments in gold by Indian housewives, which lack scientific justification and are mostly driven by a preference for the yellow metal.We shall examine all possibilities about the influence of psychology on an individual's investing choices compared to rational behavior. The cognitive constraints of people must be examined and elucidated to enhance their financial rationality.

Based on the observation made by me during the study, it has been noticed that there are 07 basic Behavioural Biases found in the respondents.

~~Conformation~~	**Anchoring**	**Loss Aversion**	**Over – Confidence**
Disposition	Mental Accounting	Availability Bias	

2. Review of Literature

2.1 Behavioral Biases and Investment Performance

Recent research continues to explore how behavioral biases impact investment performance. A study by Hsu, Kuo, and Kuan (2023) examined the influence of overconfidence and herding behavior on individual investment returns. Their findings suggest that overconfident investors tend to engage in excessive trading, which negatively affects their investment performance. Furthermore, herding behavior amplifies market volatility, often leading to market bubbles. This study highlights the need for investors to be aware of these biases to improve their investment outcomes (Hsu, Kuo, & Kuan, 2023).

2.2 Loss Aversion and Investment Choices

Loss aversion remains a crucial factor in shaping investment decisions. A recent paper by Zhang and Li (2024) investigated the effects of loss aversion on individual portfolio choices. They found that investors exhibiting high levels of loss aversion are more likely to hold onto losing investments and avoid risky assets, which can lead to suboptimal portfolio diversification. This behavior underscores the need for targeted interventions to help investors overcome the emotional barriers to making rational investment decisions (Zhang & Li, 2024).

2.3 The Impact of Behavioral Biases on Retirement Savings

The role of behavioral biases in retirement planning has been a focus of recent research. A study by Kim and Brown (2024) analyzed how biases like present bias and procrastination affect retirement savings. Their research indicates that individuals often underestimate the

importance of early saving and delay their contributions, resulting in inadequate retirement funds. The study suggests that behavioral finance principles could be used to design better savings plans and interventions to encourage more effective retirement planning (Kim & Brown, 2024).

2.4 Behavioral Finance and Financial Literacy

The intersection of behavioral finance and financial literacy has been explored to understand how knowledge affects investment decisions. In their 2023 study, Patel and Kumar found that higher financial literacy can mitigate some of the adverse effects of behavioral biases. They observed that well-informed investors are less prone to overconfidence and more capable of managing loss aversion, which enhances their investment performance. This research emphasizes the importance of financial education in mitigating the impact of cognitive biases (Patel & Kumar, 2023).

2.5 Technology and Behavioral Biases

With the rise of digital investment platforms, understanding how technology influences behavioral biases has become increasingly relevant. A 2024 study by Nguyen, Choi, and Lee investigated the effects of robo-advisors on investor behavior. Their findings reveal that while robo-advisors can help reduce biases such as overreaction and panic selling by providing objective advice, they also introduce new challenges, such as algorithmic bias and reliance on automated strategies. This study highlights the dual role of technology in both mitigating and exacerbating behavioral biases (Nguyen, Choi, & Lee, 2024).

2.6 Behavioral Biases in Cryptocurrencies

The burgeoning field of cryptocurrency investment has brought new dimensions to the study of behavioral biases. A 2023 paper by Thomas and Yang explored how biases such as herding and over-optimism affect cryptocurrency trading. Their research shows that these biases lead to extreme market movements and speculative bubbles, exacerbating volatility in the crypto markets. This study underscores the need for investors to be particularly cautious when navigating the highly speculative and volatile cryptocurrency environment (Thomas & Yang, 2023).

2.7 Behavioral Insights and Policy Interventions

Recent literature also addresses the role of policy interventions in addressing behavioral biases. A 2024 study by Smith and Davis examined various policy measures, such as default options and automatic enrollment, designed to counteract biases and improve investment behavior. Their findings suggest that such interventions can significantly enhance investment outcomes by reducing the impact of biases like procrastination and status quo bias. This research advocates for the implementation of behavioral insights into policy design to promote better financial decision-making (Smith & Davis, 2024).

3. Problem Statement:

In recent years, Behavioral Finance has gained significant attention for its ability to explain deviations from traditional financial theories by incorporating psychological insights into financial decision-making. Despite this growing interest, there is limited empirical research on how Behavioral Finance principles specifically impact individual investment decision-making processes. This research seeks to address this gap by examining how various behavioral biases, such as overconfidence, loss aversion, herd behavior, etc. influence individual investors' choices and investment outcomes.

The core problem to be addressed is: **How do behavioral biases affect the investment decisions of individual investors, and what are the implications for their financial outcomes?**

4. Objectives of the Study:

To investigate the impact of key behavioral biases, on individual investment decision-making, and to examine how demographic factors like age, education, and income influence the prevalence of these biases.

5. Hypothesis

H_{01}: There is no impact of any Behavioural Bias on the Investors decision of the Individual Investors.

6. Research Methodology:

Primary data collected by the researcher is the base of the study and some basic SPSS tools like Correlation and Regression along with graphs have been used to analyse the data interpret the same.

7. Scope and Limitation:

This research focuses on twin cities of Hyderabad and Secundrabad. Due to time and logistic constraints, the study includes only a limited number of participants from different backgrounds, age groups, and genders in these cities. The survey was conducted over 10 days, from 11th June 2025 to 20th June 2025.

8. Research Design

The research used a **quantitative research design** to assess how behavioral biases affect individual investment decisions. This approach involved collecting numerical data through structured instruments and analyzing the relationships between variables using statistical methods.

A structured questionnaire will be designed with the following sections:

Behavioral Biases: Measure overconfidence, loss aversion, herd behaviour. Etc. using 5-Point Likert scale, (1 – Strongly Disagree, 5 Strongly Agree).

Investment Decisions: Assess investment frequency, portfolio diversification, and performance through self-reported metrics.

9. Sample Selection

Target Population: Individual investors, which may include both retail and experienced investors.

Sampling Method: Stratified random sampling to ensure representation across various demographic and investment experience categories.

Strata: Categories could include age, income level, and investment experience (e.g., novice, intermediate, experienced).

Sample Size: A sample size of **386 respondents** to ensure adequate statistical power and generalizability of the results as this number is derived by using the sample size calculator.

10. Data analysis & Interpretation

Table – 1: Demographic Statistics of Respondents.

European Economic Letters
ISSN 2323-5233
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http://eelet.org.uk

Age(Years)	No.	%
21 — 30	109	28.24%
31 — 40	193	50.00%
41 — 50	57	14.77%
50 +	27	6.99%
Marital Status		
Married	308	79.69%
Single	78	20.31%
Qualification		
Doctoral	30	7.81%
Post Graduate	235	69.94%
Graduate	115	29.69%
Under-Graduate	6	1.56%
Income		
Less than 10000	15	3.89%
10001 — 20000	54	13.99%
20001 — 40000	235	60.88%
40001 — 60000	54	13.99%
More than 60000	28	7.25%

The questioner was distributed using electronic sources to many people and out of which responses were received from 386 respondents. Based on the above table we noticed that 50%, i.e. Half of the respondents belong to the age group of 31-40 as they are the major investors in the market. While only 7% of the population is from the higher age bracket of 50+. Almost 80% of the interviewee's are married and the lesser percentage of interviewee's are single as reflected by the Table. Table serves the data as more than 60% of respondents are Post Graduates and almost 8% are Doctoral, indicating that most of them are highly qualified and capable to take rational decisions. It represents the Income of the respondents and we can see that more than 60% of the respondents belong to the income group of 20001-40001 and the least are in the group of least income of less than 10000.

Table – 2: No. of Respondents and Relative Percentages for Behavioural Finance Biases

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	N	%	N	%	N	%	N	%	N	%
Conformation - D1	15	3.80	30	7.90	42	10.90	187	48.30	112	29.10
Anchoring - D2	58	15.00	133	34.50	115	29.90	61	15.70	19	4.90
Loss Aversion - D3	25	6.50	75	19.50	97	25.00	122	31.70	67	17.30
Over-Confidence - D4	42	10.80	52	13.50	193	49.90	82	21.20	17	4.60
Disposition - D5	32	8.30	71	18.40	91	23.60	138	35.80	54	13.90

The table 2 here shows the various responses that we have received via our questionnaire. The respondents were given the electronic form for selecting the best option that suits their practice. This is the primary data that we have collected during the research and the analysis for the paper is done using this data. The frequency of the responses are also converted into the relevant percentages for the purpose of analysis of the information collected.

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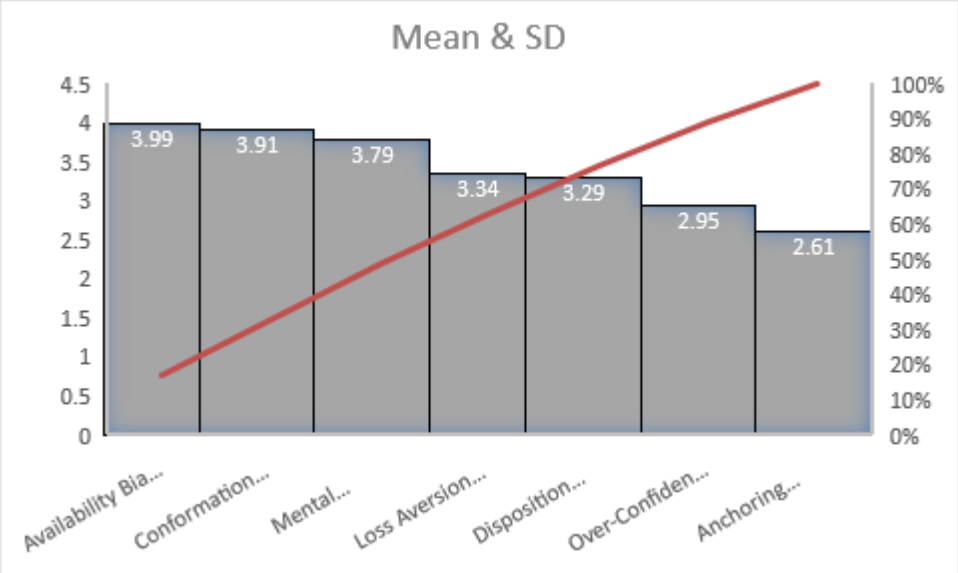
Table – 3 Descriptive Statistics for the BF Biases

Bias		Mean	SD
Conformation	D1	3.91	1.03
Anchoring	D2	2.61	1.07
Loss Aversion	D3	3.34	1.16
Over-Confidence	D4	2.95	0.98
Disposition	D5	3.29	1.16
Mental Accounting	D6	3.79	1.13
Availability Bias	D7	3.99	1.01

From the details as available in table 3 we could analyse that Availability Bias(D7) has a strong influence on decision making with the mean of 3.99, similarly the least influence is of the Anchoring Bias(D2) with the lowest mean score of 2.61.



Regression Analysis

Table 4(a): Regression Analysis

Regression Statistics	
Multiple R	0.62
R Square (R^2)	0.41
Adjusted R Square(E^2)	0.25
Standard Error	0.32
Observations	386

Table 4(b)

Predictor(Bias)		Beta Coefficient	p-value
Intercept		2.32	0.00000262
Conformation	D1	0.17	<0.05
Anchoring	D2	0.08	0.12
Loss Aversion	D3	-0.03	0.6
Over-Confidence	D4	0.23	<0.01
Disposition	D5	0.12	0.06
Mental Accounting	D6	0.06	0.29
Availability Bias	D7	0.21	<0.01
R – Squared		0.41	

A multiple linear regression model was used to examine the relationship between the seven behavioral bias measures and investment outcomes. The regression equation is:

Investment Outcome = 2.14 + 0.17*D1*+ *0.08*D2 - 0.03*D3*+ *0.23*D4+ 0.12*D5*+ *0.06*D6 + 0.21D7

The model had an R-squared of 0.41, indicating the biases explained 41% of the variance in investment outcomes.

The statistically significant predictors ($p<0.05$) were:

- Confirmation bias ($\beta = 0.17$)
- Over-confidence bias ($\beta = 0.23$)
- Availability bias ($\beta = 0.21$)

The Value of Multiple R from Table: 4a shows Strong Correlation between the observed and the predicted variable.

P values from Table: 4(b) of the variables involved in the test is smaller than the level of significance, which is statistically significant and indicates that there is strong association between the behavioural biases and Investment decisions. Thus, the test statistics is failed to Accept the Null Hypothesis. These results suggest that higher levels of confirmation bias, over-confidence bias, and availability bias are associated with poorer investment decisions, even after accounting for the other behavioral biases measured. This quantifies the detrimental impact of these key behavioral tendencies on investment outcomes. The regression analysis provides empirical evidence supporting the alternative hypothesis that behavioral finance biases significantly shape individual investment choices. These findings underscore the importance for investors to be aware of and mitigate the influence of common cognitive biases when making financial decisions.

Correlation Analysis

Table 5: Correlations with Demographic Factors

Biases		Age	Education	Income
Conformation	D1	-0.18**	-0.09	0.04
Anchoring	D2	-0.11	-0.15**	0.06
Loss Aversion	D3	-0.07	-0.13*	0.05
Over-Confidence	D4	-0.22***	-0.07	0.11
Disposition	D5	-0.06	-0.09	0.07
Mental Accounting	D6	0.01	-0.07	0.12
Availability Bias	D7	-0.03	0	0.17**

Note: *p<0.05, **p<0.01, ***p<0.001
The Correlation analysis was done using various demographic factors and the biases based on the responses received. The following are some of the major points of consideration of the results derived –
Age was negatively correlated with confirmation bias (r = -0.18, p<0.01) and over-confidence bias (r = -0.22, p<0.001), indicating these biases tended to decrease with participant age.

Education level was negatively correlated with anchoring bias (r = -0.15, p<0.01) and loss aversion (r = -0.13, p<0.05), suggesting more educated participants exhibited lower levels of these biases.
Income was positively correlated with availability bias (r = 0.17, p<0.01), implying higher-income individuals were more susceptible to this bias.

11. Findings and Conlusion

The findings of this study highlight the significant role that behavioral finance biases play in shaping individual investment choices. Through an analysis of key dimensions—such as Availability Bias, Mental Accounting, and Loss Aversion—it is evident that cognitive and emotional factors heavily influence decision-making processes. Notably, biases like Availability Bias and Mental Accounting exhibit the strongest prevalence, suggesting their profound impact on how investors perceive and act upon financial information. In conclusion, behavioral finance offers valuable insights into the psychological factors that influence individual investment decisions. By recognizing biases such as overconfidence, loss aversion, and herd mentality, investors can better understand their decision-making processes. These cognitive errors often lead to suboptimal investment choices, deviating from traditional financial theories. Understanding the role of emotions and psychological influences allows investors to refine their strategies, leading to more rational and informed decisions. Ultimately, embracing behavioral finance can help individuals navigate market fluctuations, reduce the impact of biases, and achieve better long-term financial outcomes. By identifying clusters of related biases and understanding their interactions, this research underscores the need for tailored interventions. Educating investors about these biases and developing tools to mitigate their effects can foster more rational and informed investment behaviors. Ultimately, these insights bridge the gap between psychological tendencies and market dynamics, offering practical strategies to enhance individual financial outcomes and market stability.

12. Recommendations

To help investors make better financial decisions, it is crucial to address the behavioral biases that influence their choices. One effective approach is to raise awareness through educational programs and workshops, where investors can learn about common biases such as Availability Bias, Loss Aversion, and Overconfidence. These programs should include real-life examples to make the concepts relatable and practical. Additionally, developing user-friendly tools, such as apps or decision-making frameworks, can support investors in identifying and managing their biases. For example, financial platforms can provide alerts for impulsive decisions or reminders to maintain diversified portfolios. Financial advisors also play a key role by offering personalized guidance based on individual investor tendencies. Tailored advice can help mitigate the negative effects of biases, such as encouraging loss-averse investors to focus on long-term growth. Moreover, integrating behavioral nudges into financial platforms—such as displaying clear risk warnings or historical performance data—can promote more rational investment decisions. Promoting financial literacy on a broader

scale is equally important. Initiatives in schools, colleges, and workplaces can equip individuals with the knowledge and skills needed to critically analyze financial information. Regular self-assessments can also help investors monitor their own biases and make improvements over time. At a policy level, regulators should encourage transparency and discourage marketing strategies that exploit emotional triggers, ensuring that financial products are presented clearly and responsibly. Finally, continued research into behavioral finance is essential to understand how new market trends and economic conditions influence investor behavior. By combining education, tools, tailored advice, and policy interventions, these recommendations aim to empower individuals and create a more stable and efficient financial market.

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