

# A Study on Impact of Psychological Factors on Stock Market Investment Decision Making

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## Abstract

The study explored the influence of numerous psychological factors on the investment decision making of stock market investors. The study used questionnaire for collecting primary data. The primary data have been analyzed using SPSS. The study reveals that there is significant influence of the psychological factors on investors' investment decision making. This study has enriched and improved financial management literature on investor behaviour, it has also empowered the investors to navigate the stock market and also make an informed and rational choice in the volatile and complex financial market.

**Keywords:** Herding behaviour, investment decision making, overconfidence, risk tolerance, stock market.

## I. INTRODUCTION

In the arena of financial markets, the decisions of investment in stocks are not only controlled by the rational analysis of market trends, economic fundamentals of market and company performance but also, it is often directed by a number of psychological factors that forms investor's behaviour. Human psychology plays a critical role in understanding and shaping the investment decisions by introducing the complex influencing psychological factors that are of chief importance for individual investors as well as the financial institutions attempting to direct the stock market.

The fundamental psychological factors that have been recognized to have an influence in investment decision are risk perception, overconfidence, herding behaviour, emotional influences, and cognitive biases. All these factors exercise their own influence on investor behaviour which can lead to deviation from rational decision-making. Understanding these psychological drivers can help investors to better predict their own biases and can make more informed and rational decisions while seeking to navigate the stock market.

This research probes into the role of psychology in framing the investor's decision-making behaviour. By examining and understanding the overconfidence bias, the cognitive biases that distort the perception of risk that influences investment choices and social influences, such as herding behaviour, that escalate the market fluctuations and can also lead to irrational decisions; this study aims explicate these psychological drivers behind investment choices.

While at the present time psychological influences and its importance on investment decisions recognized and widely acknowledged, the gap still persists in our understanding of how these various factors interact and influence the investment decisions. This research aims to bridge these gaps by applying an approach that considers the insights from psychology and financial market both.

This study provides a comprehensive understanding of the psychological factors that influence investment decisions. By unravelling the psychological justifications of investment behaviour through examining empirical evidence, intensive review of literature, this research seeks to empower the investors to navigate the stock market and make an informed and rational choice in the volatile and complex financial market.

## II. REVIEW OF LITERATURE

(Riaz, 2015) examined the role of various psychological factors which affect investment decision of Pakistani investors. The findings of the study and overall discussion concludes that the investor's behaviour depends on how the available information is being presented to them and how much they are prone to taking risk while making decisions; thus playing a significant role in determining the investment style of an investor.

(Nuangjamnong, 2022) studied the influence of herd behaviour, investor sentiment, overconfidence, and risk tolerance on the investment decision making of Chinese individual investors. According to their study the investor sentiment, overconfidence and risk tolerance have different degrees of impact on investment decisions. Herding also has something to do with investor sentiment. Finally, overconfidence also affects the risk tolerance of investors.

(Zaida Rizqi Zainul, 2021) compared herding behavior and risk tolerance between male and female investors. They found that there is a difference in risk tolerance and herding behaviour between male and female investors and whereas, there is no difference in overconfidence between male and female investors. Also, advances in information technology, education level, knowledge make gender differences no longer a limitation for investors to feel more confident and brave in making investment decisions.

(Suzaida Bakara, 2016) studied the impact of the psychological factors on investors' decision making in the Malaysian stock market. The findings show that overconfidence, conservatism and availability bias have significant impacts on the investors' decision making while herding behavior has no significant impact on the investors' decision making. It was also found that the psychological factors are dependent of individual's gender.

(Moueed, 2015) investigated the psychological and social factors, impact the investment decision making of the individual investors and how the Psychological and social factor jointly are related to investment decisions. The research findings of the study indicate that the psychological and social factors have a certain impact on the decision-making process of the individual investors trading in the stock market while making investment decisions and investors are more aware about the situations and factors that may influence their decision-making ability. There are some factors which affect males more than females like anger, fear, herding and stress. On the other hand, mood and social interaction affect female investor's decision making more than male investors.

(Deepak B Chaitanya, 2021 ) examined the determinants of investor's investment decision-making in Indian stock markets. According to the study Risk perception found to be significant in mediating the relationships between psychological factors such as anger, positive mood and stress towards stock market investment decisions. However, social media does not moderate the relationships between all the tested psychological factors and stock market investment decisions among Indian investors.

(Nadime Abiyyu Fathin, 2022) examined the psychological and social factors which are affecting investment decisions. The study shows that psychological factors and social factors have influence on investment decision making in Indonesia Stock Exchange's retail investors.

(Patel, 2023) highlighted the significance of cognitive biases like overconfidence, availability bias, and loss aversion in shaping investment choices. Moreover, cultural and socio-economic factors unique to India influence the manifestation and impact of these biases.

### **III. OBJECTIVE OF THE STUDY**

- To study the impact of various psychological factors on stock market investment decisions among male and female investors.

### **IV. HYPOTHESIS OF THE STUDY**

- $H_0$  – The impact of various psychological factors on stock market investment decisions among male and female investors are equal.
- $H_1$  – The impact of various psychological factors on stock market investment decisions among male and female investors are not equal.

### **V. RESEARCH METHODOLOGY**

The population of this research is investors. The type of sampling used for the study is simple random sampling. Data were collected using a questionnaire circulated online via Google forms to investors. Primary data was data obtained by researchers directly through questionnaires to find out information about psychological factors influencing investor decision making. A five-point likert scale was used in the questionnaire. SPSS have been used for analyzing the primary data.

### **VI. DATA ANALYSIS & INTERPRETATION**

Table 1 - Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	28	41.2	41.2	41.2
	Male	40	58.8	58.8	100.0

	Total	68	100.0	100.0	
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The above table shows that more than half of the respondents are male and 41.2% of respondents are female. 100% respondents provided a gender identity.

Table 2 - Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 - 30 years	49	72.1	72.1	72.1
	31 - 40 years	15	22.1	22.1	94.1
	41 - 50 years	4	5.9	5.9	100.0
	Total	68	100.0	100.0	

From the table, the cumulative percent column shows that 72.1% of respondents are aged between 20-30 years. When added the percentage of those who are aged between 31-40 years (22.1%), it indicates that 94.1% of respondents fall into one of the first two age categories.

Table 3 - Income					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Up to Rs 2,50,000	18	26.5	26.5	26.5
	Rs 2,50,001 - Rs 5,00,000	25	36.8	36.8	63.3
	Rs 5,00,001 - Rs 10,00,000	16	23.5	23.5	86.8
	Above Rs10,00,000	9	13.2	13.2	100
	Total	68	100.0	100.0	

The above table shows that close to one-fourth of the respondents have income of upto Rs 2,50,000. Majorly the respondents falls under the income category of Rs 2,50,001- Rs 5,00,000 which constitutes more than one-third of the total respondents.

Table 4

Group Statistics						
	Gender	N	Mean	Std. Deviation	Std. Error Mean	
I dare to make investment decisions when the information I get	1	40	1.68	.694	.110	
	2	28	2.00	1.018	.192	
When I invest, I am more concerned with the rate of return	1	40	2.38	1.079	.171	
	2	28	2.32	1.188	.225	
I prefer high risk investments with high returns	1	40	2.48	1.037	.164	
	2	28	3.00	1.247	.236	
I do not consider risk as a factor in investing	1	40	3.45	1.218	.193	
	2	28	3.39	1.397	.264	
I prefer investing in stocks over investing in other avenues	1	40	2.48	.987	.156	
	2	28	2.54	1.071	.202	
My investment in the capital market is greater than other invest	1	40	2.40	1.150	.182	
	2	28	2.54	1.319	.249	
I believe my investment plan will be successful	1	40	1.65	.662	.105	
	2	28	2.14	.803	.152	
I always believe that I will correctly predict stock price movement	1	40	2.83	1.083	.171	
	2	28	2.71	.937	.177	

I can identify stocks that will profit in the market in the future	1	40	2.43	1.035	.164
	2	28	2.61	1.066	.201
When I buy a stock and get a return I think it is because of my knowledge and financial ability	1	40	2.28	1.086	.172
	2	28	2.57	1.136	.215
I believe that the experience of investment losses are mainly due to external factors	1	40	2.45	1.197	.189
	2	28	2.57	1.200	.227
I trust more in the opinions of financial analysts friends and family members	1	40	2.80	1.137	.180
	2	28	2.54	1.138	.215
When I want to invest I depend on other peoples investment decisions	1	40	3.10	1.257	.199
	2	28	3.11	1.227	.232
When investing in stocks I follow the recommendations of friends, colleagues or close relatives	1	40	3.05	1.280	.202
	2	28	2.54	1.232	.233
I react quickly to changes in other investors' decisions	1	40	2.98	1.097	.174
	2	28	3.07	.979	.185
I prefer to buy shares if there are a lot of shares that have been ordered since the beginning of trading	1	40	2.88	1.042	.165
	2	28	2.68	1.090	.206
If in the last month the overall trading volume on the stock market was higher than usual, I would increase the amount of my stock market holdings	1	40	2.53	.960	.152
	2	28	2.54	.793	.150
I see that foreign investors have better investment performance	1	40	2.40	1.257	.199
	2	28	2.54	.999	.189

The above table shows that, the mean of various independent parameters is approximately similar for the male and female respondents.

Table 5

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
I dare to make investment decisions when the information I get	Equal variances assumed	.062	.804	-1.567	66	.122	-.325	.207	-.739	.089
	Equal variances not assumed			-1.467	44.169	.149	-.325	.222	-.771	.121
When I invest, I am more concerned with the rate of return	Equal variances assumed	.480	.491	.193	66	.847	.054	.277	-.500	.607
	Equal variances not assumed			.190	54.571	.850	.054	.282	-.512	.619
I prefer high risk investments with high returns	Equal variances assumed	.126	.724	-1.889	66	.063	-.525	.278	-1.080	.030
	Equal variances not assumed			-1.828	51.176	.073	-.525	.287	-1.101	.051
I do not consider risk as a factor in investing	Equal variances assumed	1.493	.226	.179	66	.858	.057	.319	-.580	.694
	Equal variances not assumed			.175	53.011	.862	.057	.327	-.598	.713

I prefer investing in stocks over investing in other avenues	Equal variances assumed	.004	.950	-.241	66	.810	-.061	.252	-.564	.442
	Equal variances not assumed			-.238	55.146	.813	-.061	.256	-.573	.451
My investment in the capital market is greater than other investments	Equal variances assumed	.554	.459	-.451	66	.654	-.136	.301	-.737	.465
	Equal variances not assumed			-.440	53.004	.662	-.136	.309	-.755	.483
I believe my investment plan will be successful	Equal variances assumed	.153	.697	-2.765	66	.007	-.493	.178	-.849	-.137
	Equal variances not assumed			-2.672	50.825	.010	-.493	.184	-.863	-.123
I always believe that I will correctly predict stock price movement	Equal variances assumed	.500	.482	.438	66	.663	.111	.253	-.394	.616
	Equal variances not assumed			.449	62.984	.655	.111	.246	-.382	.603
I can identify stocks that will profit in the market in the future	Equal variances assumed	.057	.812	-.706	66	.483	-.182	.258	-.698	.333
	Equal variances not assumed			-.702	57.160	.486	-.182	.260	-.702	.338
When I buy a stock and get a return, I think it is because of my knowledge and financial ability	Equal variances assumed	.053	.818	-1.087	66	.281	-.296	.273	-.841	.248
	Equal variances not assumed			-1.078	56.552	.285	-.296	.275	-.847	.254
I believe that the experience of investment losses are mainly due to external factors	Equal variances assumed	.004	.950	-.411	66	.682	-.121	.295	-.711	.468
	Equal variances not assumed			-.411	58.190	.682	-.121	.295	-.713	.470
I trust more in the opinions of financial analysts, friends and family members	Equal variances assumed	.001	.970	.943	66	.349	.264	.280	-.295	.824
	Equal variances not assumed			.943	58.227	.350	.264	.280	-.297	.825
When I want to invest, I depend on other people's investment decisions	Equal variances assumed	.183	.670	-.023	66	.981	-.007	.307	-.620	.605
	Equal variances not assumed			-.023	59.125	.981	-.007	.305	-.618	.604
When investing in stocks I	Equal variances assumed	.007	.934	1.656	66	.103	.514	.311	-.106	1.134

follow the recommendation of friends, colleagues or close relatives	Equal variances not assumed			1.667	59.651	.101	.514	.308	-.103	1.131
I react quickly to changes in other investors decisions	Equal variances assumed	.833	.365	-.373	66	.711	-.096	.259	-.613	.420
	Equal variances not assumed			-.380	62.130	.705	-.096	.254	-.603	.410
I prefer to buy shares if there are a lot of shares that have been ordered since the beginning of trading	Equal variances assumed	.251	.618	.750	66	.456	.196	.262	-.326	.719
	Equal variances not assumed			.744	56.564	.460	.196	.264	-.332	.725
If in the last month the overall trading volume on the stock market was higher than usual, I would increase the amount of my stock market holdings	Equal variances assumed	.355	.553	-.049	66	.961	-.011	.221	-.451	.430
	Equal variances not assumed			-.050	64.125	.960	-.011	.213	-.437	.415
I see that foreign investors have better investment performance	Equal variances assumed	1.302	.258	-.475	66	.636	-.136	.285	-.706	.434
	Equal variances not assumed			-.495	64.849	.622	-.136	.274	-.683	.412

From the above table, the various psychological factors are herding behaviour, overconfidence and risk tolerance. It can be interpreted that the various psychological factors have equal impact on the stock market investment decision on the male and female investors.

Since the p-value in the above table for all the psychological factors is more than the 5% of significance level, we accept the null hypothesis.

## **VII.CONCLUSION**

This study explores the impact of various psychological factors on stock market investment decisions among male and female investors. The decisions of investment in stocks are not only controlled by the rational analysis of market trends, economic fundamentals of market and company performance but also, it is often directed by a number of psychological factors that forms investor's behaviour. The psychological factors that are investigated in the study are overconfidence, herding behaviour, and risk tolerance.

The empirical data analysis reveals that psychological factors do influence investment decisions significantly.

The results show that there is no significant difference in the influence of these psychological factors between male and female investors. This further suggests that both genders are similarly affected by psychological factors such as overconfidence, risk tolerance, and herding behaviour when making investment decisions.

In conclusion, this study reveals that the psychological factors significantly influence the investment decision-making. The psychology of the investor respondents is playing a crucial role in decision-making with respect to investments in

stock market.

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