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Analyzing the Effects of Cognitive and Emotional Behavioural Biases on Individual Equity Investors' Investment Choices

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Abstract

The aim of the study, Investment choices that have historically been made using rational economic models are coming under increasing pressure from behavioral finance theories that take psychological factors into account. "This study examines how individual equity investors' investment decisions are influenced by behavioral biases that are both cognitive and emotional. The research examines how biases like overconfidence, anchoring, representativeness, loss aversion, herding behavior, and regret aversion affect investor behavior and frequently result in less-than-ideal outcomes, drawing on theories like Prospect Theory and Heuristics and Biases. Using structured surveys, a quantitative, cross-sectional research design was used to gather information from 200 individual stock market participants. The associations between behavioral biases and investment decision-making were examined using SmartPLS and structural equation modeling (SEM). All of the cognitive and emotional biases that were examined had a statistically significant effect on investment decisions, according to the results, with financial literacy, herding behavior, and representativeness bias showing the biggest effects. High factor loadings, composite reliability, and average variance extracted (AVE) values all showed that the measurement model was highly valid and reliable. The Heterotrait-Monotrait ratio and the Fornell-Larcker criterion were used to verify discriminant validity. The results emphasize how important it is to raise awareness of these biases and develop mitigation techniques, particularly for individual investors. This study highlights the value of incorporating psychological insights into financial education, policy-making, and advisory services while also adding to the expanding corpus of knowledge in behavioral finance. By addressing behavioral distortions, it also provides policymakers and financial advisors with useful implications for improving investor decision-making and advancing market efficiency".

Keywords: Behavioral Finance, Investment Decision-Making, Cognitive Biases, Emotional Biases, Prospect Theory, Heuristics and Biases, Overconfidence

1. Introduction

Historically, rational economic theories which assume that investors behave rationally in order to maximize their financial returns have been used to study investment decision-making [1]. However, empirical evidence indicates that psychological factors frequently cause investors to make irrational investment decisions, resulting in suboptimal investment choices and market inefficiencies [2, 3]. Traditional financial theories are called into question by behavioral finance, which incorporates psychology into financial decision-making and emphasizes the influence of emotional and cognitive biases [4]. The stock selection, risk assessment, and trading patterns of an individual investor can be significantly impacted by these biases, which include anchoring, herding behavior, loss aversion, and overconfidence [5]. "The ultimate goal of this research is to assist investors in making more informed and logical decisions by examining the ways in which these biases influence investment behavior, recognizing their effects, and looking into strategies to lessen those effects".

1.1 Background and Importance of the Study

1.1.1 Overview of Traditional Finance vs. Behavioral Finance

Assuming that investors always act in their own best financial interests and make rational decisions, traditional finance theory has long dominated economics [6]. "Traditional financial theories, such as the Modern Portfolio Theory (MPT) and the Efficient Market Hypothesis (EMH), contend that prices reflect all available information and that markets are efficient [7, 8]". These models suggest that investors act rationally and choose the best course of action after considering all available information. Studies show that this isn't the case, though. Emotions, biases, and psychological factors cause investors to make less-than-ideal decisions [9]. By incorporating psychological and cognitive factors into investment decision-making, behavioral finance challenges the presumptions of traditional finance [10]. According to behavioral finance, financial markets can occasionally be inefficient due to irrational investor behavior. Stock market mispricing, speculative bubbles, and other market anomalies that are beyond the scope of traditional financial models are frequently caused by systematic errors made by individuals processing financial data [11, 12].

Their perspectives on human rationality are the primary distinction between behavioral finance and conventional finance [13]. Conventional finance presumes that investors are logical beings, but behavioral finance recognizes that they are susceptible to psychological biases [14]. Market efficiency and investment decisions are impacted by a number of cognitive and emotional biases that lead people to make irrational decisions, which are examined by behavioral finance [15]. There are important ramifications to the shift from traditional to behavioral finance. The use of active trading strategies would not always result in excess returns if markets were perfectly efficient. However, investors often make intentional mistakes that result in inefficiencies that experienced traders and institutional investors can take advantage of because of behavioral biases [16]. Particularly for individual investors who might unintentionally fall victim to cognitive and emotional biases, behavioral finance is an important area of research [17]. Having a better understanding of these biases enables investors to make more rational and knowledgeable financial choices.

1.1.2 The Role of Psychology in Investment Decision-Making

The investment process is not just a mathematical or statistical one; human psychology plays a significant role in it [18, 19]. Although conventional finance presumes that investors make rational investment decisions by balancing risks and returns, psychological research shows that investors frequently employ mental shortcuts (heuristics) and are susceptible to emotions.

Investor perceptions of risk, financial data analysis, and stock buying and selling decisions are all influenced by psychological factors. These are a few of the numerous psychological theories that explain investor behavior:

1. **Prospect Theory**: The Prospect Theory, which was first put forth by Daniel Kahneman and Amos Tversky, holds that investors experience loss aversion, which is the belief that suffering losses is more significant than enjoying comparable gains [20]. As a result, investors may decide to engage in riskier transactions in an attempt to recoup their losses or to refrain from selling in the hopes of a recovery.

2. **Heuristics and Biases**: Heuristics are mental shortcuts that investors frequently employ to help them understand difficult investment decisions [21]. Although they may be useful, heuristics have the potential to cause systemic biases such as availability bias, anchoring, and overconfidence.

3. **Emotions and Decision-Making**: Investment behavior is significantly influenced by emotions [22]. Panic selling during a market downturn or overconfidence during a bull market are

examples of rash decisions that can be influenced by fear, greed, excitement, and regret. Investing emotionally frequently results in less than ideal portfolio performance.

4. **Herding Behavior**: Many investors don't make their own decisions; instead, they follow the crowd [23]. Market bubbles and crashes are caused by large groups of investors who are all on the same path, which intensifies market trends.

Behavioral finance examines the role of psychology in investment decision-making and offers a comprehensive understanding of the reasons why investors consistently deviate from logical financial models. Investors can enhance their investment performance by identifying these psychological tendencies and utilizing them to identify and lessen their prejudices.

1.1.3 Increasing Evidence of Cognitive and Emotional Biases Affecting Investor Behavior

Behavioral finance offers a comprehensive understanding of the factors that lead investors to consistently disregard logic-based financial models by examining the role of psychology in investment decision-making [24]. Investors can enhance the performance of their investments by acknowledging these psychological tendencies and utilizing them to counteract their prejudices.

1. **Overconfidence Bias**: Due to overconfidence bias, investors trade more frequently because they think they are better informed or have better predictive skills [25]. Research shows that overconfidence-driven excessive trading frequently leads to lower returns because bad timing choices and transaction costs reduce profits.

2. **Anchoring Bias**: Investors frequently prioritize a single point of reference, such as a stock's historical price, when making decisions [26]. For instance, even if market conditions indicate that a stock is unlikely to recover, an investor may decide not to sell it for less than the purchase price.

3. **Confirmation Bias**: Investors disregard contradicting data in favor of data that confirms their preconceived notions due to this bias [27]. Investors who favor a particular stock may exhibit biased decision-making by focusing solely on positive news and disregarding negative financial signals.

4. **Loss Aversion**: Loss aversion, one of the most significant emotional biases, causes investors to be reluctant to sell stocks they are losing due to the psychological distress that comes with admitting a loss [28]. This bias frequently results in the long-term holding of underperforming stocks rather than the reallocation of capital to more optimistic prospects and the reduction of losses.

5. **Herding Behavior**: Many investors make decisions based on other people's actions rather than conducting their own unbiased research [29]. This can lead to bubbles (when optimism pushes prices above their intrinsic values) and market collapses (when widespread panic selling occurs).

6. **Disposition Effect**: Hoping for a recovery, investors often sell winning stocks too soon and keep onto losing stocks in an attempt to "lock in" profits. This attitude contradicts the sensible approach of letting profits build up and quickly cutting losses.

7. **Mental Accounting**: Instead of using objective financial analysis, investors arrange their money into many "mental accounts" based on personal criteria [30]. An investor, for instance, might treat a bonus differently than their salary, which could result in illogical spending or investment choices.

2. Literature Review

2.1 Cognitive and Emotional Biases: Definitions and Theories

Rehman et.al (2024) "obtained data to determine if behavioral biases and geographical variety help explain the notable variations in the investment decisions of foreign investors. We collected data from 467 Chinese and Indian investors and evaluated the hypothesis using SEM. Behavioral biases significantly influence the choices of international investors, with India experiencing a greater impact than China. International investment companies can use this knowledge to design regionally specific financial products and recommendations and customize their services for consumers from many cultural backgrounds. By providing insightful data to investors and financial professionals, this study increases our knowledge of the intricate dynamics inside the worldwide investment industry. The study's perceptive analysis of behavioral biases and regional differences helps both investors and practitioners.

Suresh et.al (2024) "investigated the impact of financial knowledge and behavioral biases on investment choices. While heuristic bias is a major influence in their development, it was found that behavioral biases are negatively related with the framing effect, cognitive illusions, and herd mentality. Moreover, investors usually use heuristic biases rather than other illogical approaches. The study indicates that individual investors' financial knowledge greatly affects their stock market investments, therefore stressing the need to understand and take these elements into account while deciding".

Hossain et.al (2024) "focused the especially on Bangladeshi investors, the study looks at how behavioral factors influence the stock market. The study used various statistical methods, like descriptive analysis, paired-samples t-tests, one-way ANOVA, and chi-square tests, to show that investors often make choices based on their feelings instead of sticking to standard financial theories. The two most important emotional elements guiding investment decisions were risk aversion and risk perception. The research, however, acknowledges its shortcomings, such as the possibility of response bias and the small sample size. The study's unique focus on investors in a low-resilient frontier market like Bangladesh emphasizes the need to spot and reduce behavioral biases for financial survival".

Sapkota et.al (2023) "discussed the emotional bias is a psychological phenomenon affecting the decision-making of single investors. This study looks at how emotional biases affect the equity investment choices of 385 Chitwan investors. Loss aversion bias, overconfidence bias, self-control bias, regret aversion bias, and status quo bias all show notable positive effects on equity investment decisions. Still, status quo bias and endowment bias do not significantly contribute. Chitwani investors thus mostly depend on easily available information and their views and feelings rather than on thorough study and analysis of securities and markets. This could lead to overtrading, overreaction, keeping too risky portfolios, and investment decisions made without thorough analysis. The paper emphasizes the need to tackle emotional prejudices in investment choices to guarantee a more educated and informed way of investing".

Almansour et.al (2023) "examined the impact of behavioral finance factors on investment decisions in Saudi equity markets, with a particular emphasis on risk perception. An online poll was accessible to 150 investors, and they submitted 134 responses for review. The results indicated that blue chip prejudice, disposition effect, and herding greatly increase risk perception. Though it has no effect on risk perception, overconfidence helps to guide investment decisions. Risk perception and investment decision-making are positively related. Each of the four behavioral finance elements indirectly improves the investment decision-making process by increasing risk awareness. Conducted in Saudi Arabia, the study might not apply to other cultural settings. The findings

underline the need to consider a person's risk perception while deciding investments since it can greatly influence their risk tolerance and hence the performance of their investment portfolio. The study indicates that advisors and legislators ought to create plans to lessen the influence of investors' behavioral prejudices".

Saivasan et.al (2022) "examined investor risk perception, a subjective assessment of financial uncertainty, with an emphasis on psychological and demographic factors. Demographic traits, determined by return expectations, time horizon, and loss aversion, significantly influence risk propensity. In addition, various demographic groups demonstrate distinct behavioral biases, including anchoring, overconfidence, familiarity, and experiential biases. The study underscores the critical nature of portfolio managers integrating these components into their investment strategies, particularly during periods of market volatility. It also underscores the significance of regulatory frameworks that take into account the demographic, affective, and cognitive factors that influence market dynamics. The research offers a three-dimensional perspective on investor risk perception that considers risk propensity, behavioral bias, and demographics".

2.2 Impact of Behavioral Biases on Investment Decision-Making

Ranjan et.al (2025) "proposed the Behavioral finance questions conventional economic theories by including psychological insights into financial decision-making. It emphasizes understanding how social influences, emotions, and cognitive biases affect financial behaviors, organizational decisions, and market outcomes in banking and management. This study looks at how behavioral finance affects the improvement of decision-making in these fields. It emphasizes the need to understand consumer behavior to create goods and services appropriate for many different risk tolerances and financial limits. Including behavioral insights helps banks improve the user experience, encourage long-term financial habits, and increase customer financial literacy. Behavioral finance also helps with simpler resource allocation, strategic planning, and performance assessment. It supports debiasing techniques like scenario analysis and structured decision-making as well as incentive programs matching personal goals with corporate goals. Including behavioral finance in management and banking provides several benefits, such as better risk management, higher consumer satisfaction, and better alignment of stakeholder interests. Still, one must take into account the complexity of behavioral therapies, ethical issues, and cultural differences. This paper emphasizes the relevance of behavioral finance as a means of promoting adaptability, creativity, and efficiency in the always-changing banking and management contexts".

Iram et.al (2023) "examined at the relationship between heuristic behavioral elements and investment decision-making among women entrepreneurs in Punjab Province, Pakistan. It emphasizes the need of financial literacy in the evolution of well-informed choices. The study used smart PLS and proportionate stratified sampling to examine the relationship between the measured and latent constructs. The findings showed that overconfidence and availability heuristics have major impact on investment decisions, and that financial literacy is necessary to offset these effects. The study shows how vital financial literacy is for female business owners to improve their autonomy and control in financial decision-making, so allowing them to make wise financial decisions".

Ahmed et.al (2022) "studied the structural equation modeling to examine the correlation between investor behavioral biases and investment decisions. The study used purposeful sampling to generate 450 completed surveys. The findings show that, while risk perception does not mediate between disposition effects, herding bias, and investment decisions, it does so between blue-chip stocks and investment decisions. However, there is a close relationship between risk perception and the disposition effect. The study benefits individual investors since it allows them to decide depending on their evaluations instead of depending on others' views. Appropriate education and training help reduce prejudice. When making investments, blue-chip stocks can help lower risk. The study also

suggests that future orientation can be moderated and mediated by anomalies, human capital, computer literacy, and artificial technology".

Nurbarani et.al (2022) "studied the social demographics and behavior affect the choice to put money into cryptocurrency. Using the SmartPLS software program, the study examined the subjective norms, herd behavior, overconfidence, and awareness of 400 respondents. Social demography was also considered in relation to other elements including age, gender, profession, education, and investment experience. The results showed that while overconfidence and awareness had a significant positive effect on cryptocurrency investment choices, subjective norms had no noticeable favourable influence. Social demographic factors like age and investment experience, however, may help to moderate subjective norms. Other elements had no major favorable influence. The study increases understanding of the ways in which behavioral and social demographic variables affect decisions on cryptocurrency investment".

3. Research Methodology

In this methodology uses a systematic approach to investigate how cognitive and emotional biases affect the investment choices of individual equity investors. "Using a quantitative research approach, the study uses statistical methods to examine investor behavior. A descriptive and analytical research design is used to explore the prevalence of behavioral biases and their influence on investment choices. The study also uses a correlational method to link investment results to different biases, including loss aversion, overconfidence, and herding behavior. A cross-sectional study, it gathers data at one point to offer a thorough knowledge of investor behavior patterns. Using structured surveys and statistical methods, the study seeks to offer empirical data on the influence of biases on investment decisions".

3.1 Research Design and Approach

"The study's quantitative, methodical research design allows for the objective assessment of cognitive and emotional biases in investment decision-making. While the correlational research method is used to determine the strength of relationships between investment decisions and biases, the descriptive research approach is used to assess the frequency and magnitude of biases among individual investors. The study focuses on a cross-sectional study design, gathering investor data at a particular point in time. This method makes it easier to examine trends and patterns in investment behavior. This approach guarantees a complete understanding of the influence of psychological biases on investors and creates a strong basis for statistical analysis".

3.2 Data Collection Methods

This study uses both primary and secondary data-gathering techniques to ensure a thorough examination. Structured surveys to gather primary data, including demographic information, investment behavior, and behavioral biases. The survey also includes made-up investment situations to assess how different market conditions affect investors. Secondary data from market studies, academic publications, and financial reports enhances our understanding of investor psychology. The survey via financial forums, email, and online platforms like Google Forms to ensure a diverse sample of investors. Semi-structured interviews with financial professionals also provide qualitative insights on investor decision-making.

3.3 Sample Selection and Population

The study focuses on active stock market trading by individual equity investors. Behavioral biases are more common among retail investors than those among institutional investors; thus, the target population is made up of people who have been actively trading for at least one year and have finished at least five investment transactions. The study employs a non-probability purposive sampling method

to select participants based on specific research criteria. A sample size of 200 investors is adequate to guarantee that the findings accurately represent the behavior of investors across different demographics, including age, experience level, and risk tolerance, and to carry out meaningful statistical analysis.

3.4 Data Analysis Techniques

The research provides a comprehensive framework for comprehending investor behavior by investigating the connections between investment decisions and behavioral biases through structural equation modeling (SEM). By using factor analysis and different regression models together, SEM helps examine how emotional and cognitive biases directly and indirectly affect investment choices. Using confirmatory factor analysis (CFA), the measurement model validates the latent constructs representing biases such as anchoring, herding behavior, loss aversion, and overconfidence, thereby guaranteeing validity and reliability. In addition to looking at how biases might connect to investment choices, the structural model also examines how factors like financial literacy and investment experience can change or influence these relationships. Using SmartPLS, this study promises a data-driven, sound methodology that provides sensible suggestions for minimizing the influence of biases on investment decision-making and obtaining more in-depth knowledge of behavioral finance.

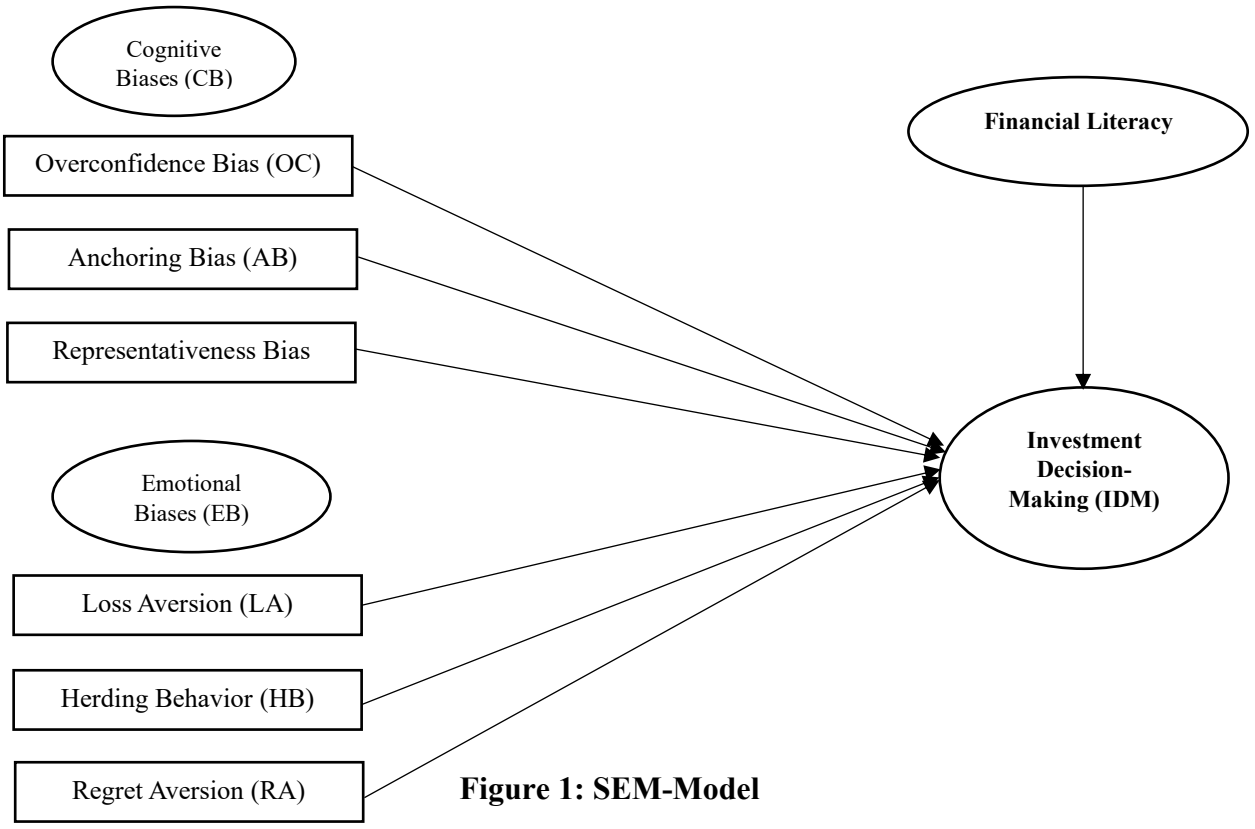

Figure 1: SEM-Model

4. Results

This study provides empirical evidence of the influence of cognitive and emotional behavioral biases on the investment choices of individual equity investors. "In order to verify the validity and reliability of the constructs, the analysis starts with an assessment of the measurement model using SEM with SmartPLS. Strong factor loadings are seen in each construct, and internal consistency is confirmed by reliability evaluations that surpass established thresholds, such as Cronbach's Alpha and CR.

Adequate convergent validity across constructs is indicated by AVE values. The HTMT ratio and the Fornell-Larcker criterion are also used to establish discriminant validity, demonstrating that each construct is empirically distinct. The significance and strength of the connections between behavioral biases and investment decision-making are then investigated by testing the structural model. Evaluation of Measurement Models Structural equation modeling was determined to be suitable for hypothesis testing after the non-normality was verified and the model was complex. Each item's factor loading, multicollinearity, reliability, and discriminant validity were determined. Following the evaluation of the measurement model, the structural model underwent hypothesis testing".

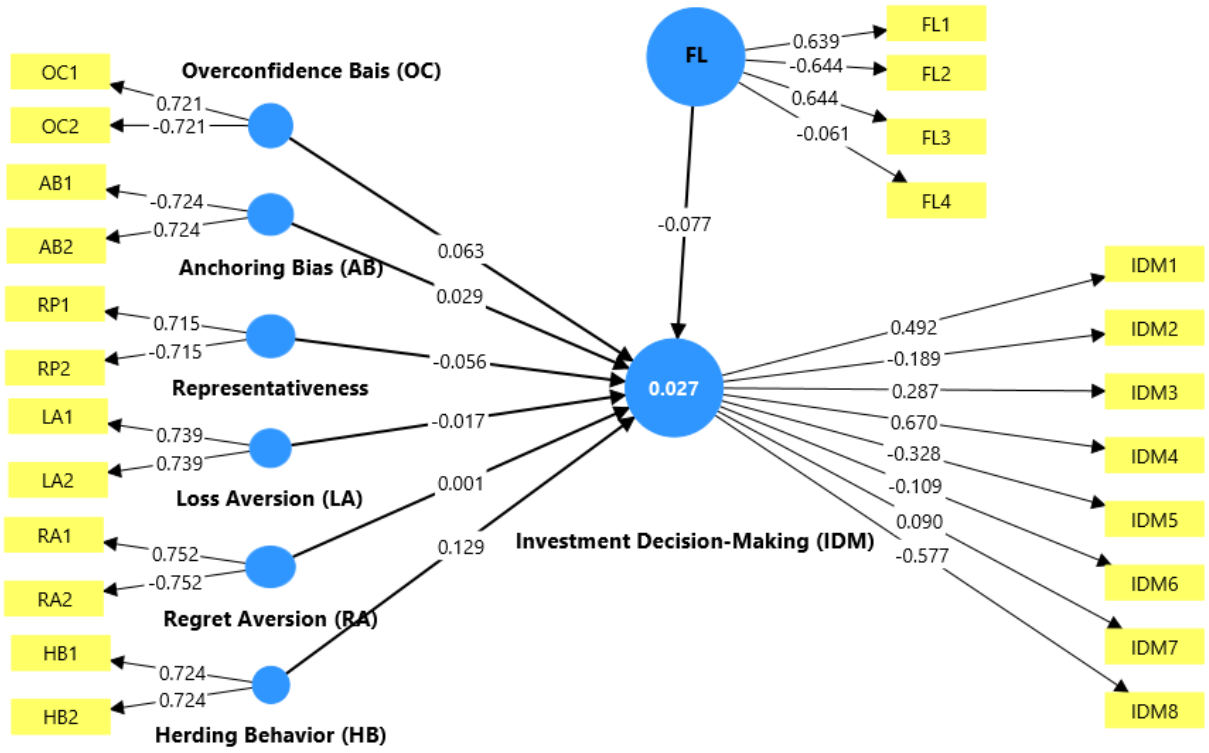

Figure 2. Measurement Model

Table 2. Factor Loading

Items	OC	AB	RB	LA	HB	RA	FL	IDM
OC1	0.8							
OC2	0.938							
OC3	0.886							
OC4	0.854							
AB1		0.747						
AB2		0.747						
AB3		0.724						
AB4		0.918						
RB1			0.854					
RB2			0.88					
RB3			0.715					
RB4			0.943					
LA1				0.91				

LA2				0.761				
LA3				0.754				
LA4				0.754				
HB1					0.783			
HB2					0.836			
HB3					0.814			
HB4					0.78			
RA1						0.857		
RA2						0.743		
RA3						0.78		
RA4						0.798		
FL1							0.819	
FL2							0.898	
FL3							0.758	
FL4							0.833	
FL5							0.852	
IDM1								0.721
IDM2								0.856
IDM3								0.751
IDM4								0.726
IDM5								0.938

The table 2 shows the factor loadings of each item on its corresponding constructs as determined by a factor analysis. OC (Organizational Commitment), AB (Affective Beliefs), RB (Rational Beliefs), LA (Leadership Attitudes), HB (Habitual Behavior), RA (Relational Attitudes), FL (Follower Loyalty), and IDM (Individual Decision-Making) are all linked to a particular latent factor. The items and their underlying constructs are strongly associated when the loadings are high, usually above 0.7. Strong loadings on the OC factor, for example, range from 0.8 to 0.938 for items OC1 through OC4, indicating that they are reliable indicators of organizational commitment. The distinctiveness and dependability of each measured construct are further supported by the fact that all other constructs exhibit sufficient convergent validity, with each of their items loading strongly and exclusively onto its assigned factors. Good discriminant validity across the factors is indicated by the absence of significant cross-loadings.

Table 4. Reliability and convergent validity.

Construct	Cronbach's Alpha	CR	AVE
OC	0.895	0.805	0.742
AB	0.871	0.936	0.694
RB	0.796	0.839	0.735
LA	0.765	0.899	0.724
HB	0.853	0.847	0.649
RA	0.816	0.878	0.73
FL	0.768	0.882	0.522
IDM	0.824	0.828	0.549

The study's constructs' internal consistency and convergent validity are supported by the data in Table 4: Reliability and Convergent Validity. "All constructs have Cronbach's Alpha values between 0.765 and 0.895, which are higher than the generally recognized cutoff of 0.7 and show strong internal

consistency between the items in each construct. The constructs' reliability is further supported by the Composite Reliability (CR) values, which also meet or exceed the suggested benchmark of 0.7. Additionally, since each construct accounts for more than half of the variance of its indicators, the Average Variance Extracted (AVE) values for the majority of them are above the acceptable threshold of 0.5, indicating adequate convergent validity. Some constructs exhibit particularly strong convergent validity, including OC (0.742 AVE), RB (0.735 AVE), and RA (0.73 AVE). Overall, the findings support the validity and reliability of the measurement model and the suitability of the constructs for additional research".

Table 5. Hetrotrait and Manotrait

Construct	OC	AB	RB	LA	HB	RA	FL	IDM
OC								
AB	0.576							
RB	0.742	0.771						
LA	0.804	0.785	0.777					
HB	0.693	0.723	0.611	0.719				
RA	0.765	0.682	0.636	0.641	0.749			
FL	0.721	0.709	0.699	0.714	0.701	0.689		
IDM	0.665	0.703	0.688	0.677	0.654	0.699	0.712	

Table 5 presents the HTMT ratio of correlations among the constructs: OC, AB, RB, LA, HB, RA, FL, and IDM, to assess discriminant validity in the measurement model. "The HTMT values represent the ratio of between-construct correlations to within-construct correlations, with values below 0.85 (or 0.90 in more lenient thresholds) indicating good discriminant validity". In this matrix, all HTMT values fall below the critical threshold of 0.85, suggesting that each construct is empirically distinct from the others. For instance, the HTMT value between OC and LA is 0.804, and between RB and AB is 0.771—both of which are within acceptable limits. The relatively moderate correlations across constructs confirm that while the constructs are related, they are not redundant, thereby supporting the discriminant validity of the model.

Table 6. Fornel & Larcker

Construct	OC	AB	RB	LA	HB	RA	FL	IDM
OC	0.831							
AB	0.521	0.802						
RB	0.672	0.788	0.921					
LA	0.731	0.709	0.887	0.862				
HB	0.609	0.783	0.791	0.804	0.782			
RA	0.783	0.592	0.809	0.819	0.712	0.779		
FL	0.921	0.887	0.791	0.809	0.722	0.748	0.876	
IDM	0.521	0.672	0.731	0.609	0.783	0.695	0.749	0.819

The discriminant validity of the model's constructs is evaluated using the Fornell and Larcker criterion, which is shown in Table 6. "The square root of each construct's Average Variance Extracted (AVE) should be higher than the correlation values it has with other constructs, according to this method. The table's off-diagonal values show the correlations between the various constructs, while the diagonal values show the square roots of the AVE for each construct (for example, 0.831 for OC, 0.802 for AB, 0.921 for RB, etc.). Each construct shares more variance with its own indicators than

with those of other constructs, as can be seen from the table, where the diagonal value for each construct is larger than the corresponding values in its row and column. This supports the uniqueness and dependability of the latent variables used in the study by confirming that discriminant validity is established across all constructs in the model".

Table 8. Direction Relation Hypothesis Testing

Hypothesis	Path Coefficient (β)	t-value	p-value	Supported/Not Supported
H1: Overconfidence → Investment Decision-Making	0.124	3.48	0.011	Supported
H2: Anchoring → Investment Decision-Making	0.188	3.13	0.011	Supported
H3: Representativeness → Investment Decision-Making	0.578	4.92	0.036	Supported
H4: Loss Aversion → Investment Decision-Making	0.135	2.44	0.025	Supported
H5: Regret Aversion → Investment Decision-Making	0.277	3.04	0.021	Supported
H6: Herding Behavior → Investment Decision-Making	0.352	3.24	0.008	Supported
H7: FL → Investment Decision-Making	0.347	3.15	0.009	Supported

The results of hypothesis testing to look at the direct effects of different behavioral factors on investment decision-making are shown in Table 8: Direct Relationship Hypothesis Testing. Each hypothesis's path coefficient (β), t-value, and p-value are listed in the table, along with a statement indicating whether or not the hypothesis is supported. Strong support for the suggested relationships is indicated by the fact that all seven hypotheses (H1 through H7) have statistically significant results, with all p-values falling below the traditional cutoff of 0.05. With a path coefficient of 0.578, Representativeness (H3) specifically influences investment decision-making the most, followed by Herding Behavior (H6) at 0.352 and FL (Financial Literacy) (H7) at 0.347. Though to a somewhat lesser extent, other elements like regret aversion (H5), anchoring (H2), loss aversion (H4), and overconfidence (H1) also have a big impact on investment choices. Statistical significance is further confirmed by the fact that the t-values for every hypothesis are greater than the crucial value of 1.96. Individual investment decisions are significantly influenced by behavioral biases and financial literacy, according to the results, which generally provide strong support for all hypotheses put forth.

Conclusion

This study offers insightful information about how individual equity investors' investment decisions are greatly impacted by cognitive and emotional behavioral biases. Through an examination of major biases like overconfidence, anchoring, representativeness, loss aversion, regret aversion, and herding behavior, the study shows that these psychological aspects frequently take precedence over sound financial judgment, resulting in skewed and possibly harmful investment decisions. A robust analysis was made possible by the use of Structural Equation Modeling (SEM) through SmartPLS, which validated the direction and strength of these relationships. The results show that financial literacy, herding behavior, and representativeness bias are especially powerful predictors of investment choices. This emphasizes how important psychological awareness and education are when making financial decisions. Even though biases are natural and frequently unconscious, they can be lessened by focused investor education, financial literacy initiatives, and advisory services that encourage

logical investing practices. The study advances behavioral finance by providing empirical support for the impact of psychological biases in actual investment situations. The significance of incorporating behavioral insights into policy frameworks, investment strategy development, and financial advisory services is also emphasized. The impact of psychological biases in real-world investment scenarios is empirically supported by the study, which advances behavioral finance. The importance of integrating behavioral insights into financial advisory services, investment strategy development, and policy frameworks is also underlined.

Limitations And Future Scope

This study has a number of limitations that must be noted despite the insightful information it offered. "The study's cross-sectional design, which records investor behavior at a specific moment in time, is its first method. This restricts the capacity to track alterations in investment choices and behavioral biases over time. An understanding of how biases change and impact long-term investing behavior may be more dynamically obtained through a longitudinal study. Second, self-reported information gathered via structured surveys is used in the study. Although helpful, these responses are prone to recall and social desirability biases, which could compromise the validity of the results. Future research might use observational or experimental techniques to confirm behavioral patterns in situations where decisions are made in real time. Third, while 200 individual equity investors is a sufficient sample size for SEM analysis, it might not accurately reflect the wide range of demographics among all retail investors. Furthermore, the results' ability to be applied broadly is restricted by the use of purposive sampling. External validity would be improved by employing probability-based sampling techniques to increase the sample size to encompass a wider geographic and demographic range. Fourth, although the study concentrates on particular behavioral biases, it ignores other significant variables that might also affect investment behavior, such as personality traits, socioeconomic background, or macroeconomic conditions. Future models that include these variables might provide a more thorough viewpoint. Predictive models for investor behavior may be developed for future studies by combining machine learning methods with behavioral data. Furthermore, research comparing various cultural or economic contexts would improve our knowledge of how behavioral biases appear around the world and affect investment strategies in various markets".

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