



BEHAVIORAL BIASES IN INVESTMENT DECISION-MAKING: A SYSTEMATIC REVIEW

Rashmi Rakesh

Research Scholar, Department of Business Management, Integral University, Lucknow.

Dr. Firoz Hussain

Assistant Professor, Department of Business Management, Integral University, Lucknow.

Prof. Syed Shahid Mazhar

Professor, Department of Business Management, Integral University, Lucknow.

ABSTRACT

Behavioural finance has become a significant area of study that contests the premises of conventional financial theories, which predominantly rely on rational decision-making. Contrary to the belief that investors consistently behave rationally, increasing evidence indicates that psychological factors and cognitive biases profoundly affect investment choices.

The review paper employs qualitative research methods which are based on a detailed examination of academic sources. The research study uses an extensive collection of academic materials which includes scholarly articles and research papers from various international journals and databases. The selection process emphasized literature that provides insight into investor behavior in equity markets, particularly under the influence of cognitive and emotional biases. The review process uses the PRISMA framework to establish transparent routes which allow researchers to validate their results. The research study shows that behavioral factors affect investor decision-making which results in investors choosing paths which differ from the rational approaches which traditional finance theories propose. The investment decision-making process suffers from these biases which include overconfidence and loss aversion and herd behavior and mental accounting. The negative results of these actions lead to consequences which impact multiple areas including personal wealth growth and corporate financial success and capital market operational efficiency. The study results demonstrate how essential it is to combine behavioral insights with financial models and investor education programs.

The paper investigates the research which studies how people make decisions about their investments. The research study conducts analysis to recognize standard patterns and theoretical



frameworks and empirical findings which show how psychological factors affect investor behavior thereby disproving traditional financial theories. The review paper employs qualitative research methods which are based on a detailed examination of academic sources. The research study uses an extensive collection of academic materials which includes scholarly articles and research papers from various international journals and databases. The selection process emphasized literature that provides insight into investor behavior in equity markets, particularly under the influence of cognitive and emotional biases. The review process uses the PRISMA framework to establish transparent routes which allow researchers to validate their results. The research study shows that behavioral factors affect investor decision-making which results in investors choosing paths which differ from the rational approaches which traditional finance theories propose. The investment decision-making process suffers from these biases which include overconfidence and loss aversion and herd behavior and mental accounting. The negative results of these actions lead to consequences which impact multiple areas including personal wealth growth and corporate financial success and capital market operational efficiency. The study results demonstrate how essential it is to combine behavioral insights with financial models and investor education programs.

Keywords- Investment decisions, Behavioral finance, Investor psychology, Equity market, Behavioral bias

1. INTRODUCTION

Capital markets have fundamentally energized the transformation of savings into investments in both developed and developing nations. In India, retail individual investors have been increasingly participating in the capital market over the past few decades. Reforms in the Indian financial system, such as screen-based trading, dematerialization of shares, and corporate governance measures, have mitigated the risks involved in trading. This has encouraged Foreign Institutional Investors, Individual Retail Investors, and Domestic Institutional Investors to adopt the highest standards of transparency and efficiency in these markets. The investment choices made by companies and countries will determine their operational capacity and ability to survive and their capacity to function as an economy. The Efficient Market Hypothesis (EMH) and other traditional financial theories assume that investors behave rationally while markets function efficiently and market prices show all existing information. The EMH is based on three fundamental principles which state that investors behave rationally while they evaluate all accessible information to make



investment choices and they always act to achieve their personal best interests. However, the globalization of financial markets has increased the complexity of investment choices for retail investors by providing a wide array of market and investment options. This complexity has led to a growing recognition that investors do not always behave rationally.

The study of behavioral finance exists to explain financial anomalies through the combination of psychological research and established financial theories. The study investigates how people make judgments because their cognitive and emotional processes lead them to commit systematic errors. The review paper investigates how investment behavior is influenced by multiple factors, including demographic elements, economic conditions, psychological traits, social relationships, and organizational structures, and it specifically focuses on behavioral biases that lead to irrational decision-making.

2. LITERATURE REVIEW

The existing literature on behavioral finance provides a robust foundation for understanding how psychological factors shape investment decisions. Research from multiple geographic regions over the past 30 years shows that the classical finance model fails to reflect reality. The theoretical foundations of behavioral finance require various essential elements to function. Heuristics Theory suggests that investors often use mental shortcuts, which they consider to be "rules of thumb," when they need to make choices in situations that involve complicated or unpredictable elements. The efficient nature of these heuristics creates a systematic pattern of mistakes. The main elements of the system include representativeness, which judges people by their stereotypes, anchoring, which makes people depend on their first received information, availability, which makes people believe that they can recall events more easily than they actually can, and overconfidence, which makes people believe that they possess greater skills than they actually have.

Kahneman and Tversky developed Prospect Theory as a strong replacement for expected utility theory. The study explains how people decide between two alternatives when they see two choices that have different outcomes that involve specific probabilities. The study shows how people understand money differently based on its source and purpose. The study describes how people make financial choices when they want to avoid future regret.



The behavioral market theory suggests that investor emotions and cognitive mistakes lead to market irregularities. Investors display two main response patterns, and they use historical data to forecast future outcomes while they disregard essential facts in favor of popular stocks. Investors tend to follow group behavior according to herding theory, which causes them to stop their independent analysis and rely on what they think everybody else understands.

2.1 AIMS AND OBJECTIVES

This research is aimed at systematically exploring behavioral biases within the realm of investment decision-making by integrating existing academic literature.

- The study offers an organized and complete exploration of investor psychology by examining its different aspects, which include causative factors and resulting outcomes and their associated theoretical frameworks.
- The study evaluates existing knowledge about the subject matter by creating a framework that shows existing knowledge patterns and research requirements, and policy-making needs.
- The study established its main research goal through specific research objectives, which guided the research process.
- The research aims to identify the main behavioral biases which include overconfidence and loss aversion and herding that affect investment decision processes.
- The research study investigates how demographic and economic and social factors impact investor behavior.
- The research study investigates different theoretical frameworks which include Heuristics and Prospect and Market and Herding Theories to understand the reasons behind investor irrationality.
- The research study investigates how financial literacy and awareness help people control their behavior problems through their financial knowledge.

3. METHODOLOGY

This research utilizes a systematic literature review (SLR) methodology to investigate behavioral biases in investment decision-making. This method allows for a structured and transparent synthesis of existing research by systematically identifying, assessing, and integrating pertinent



studies. The review process requires researchers to create a qualitative synthesis based on their examination of academic literature from multiple databases and other research sources. The review process requires researchers to follow PRISMA framework guidelines because this approach establishes complete research requirements and enables other researchers to repeat their work. The study selection process for the research project is demonstrated through the sequential steps which are visually presented in Figure 1: PRISMA Flow Diagram of Study Selection Process.

Source: Adapted from Page et al. (2021). The PRISMA 2020 statement: an updated guideline for reporting systematic reviews. BMJ, 372, n71.

(Description: The diagram shows the flow of information through the different phases of the systematic review. It maps out the number of records identified, included, and excluded, with reasons for exclusions.)

3.1 RESEARCH QUESTIONS

The research questions will serve as the foundation, which this study will use to achieve its research goals.

RQ#	Research Questions
RQ1	What are the primary behavioral biases and psychological factors responsible for influencing investor decision-making?
RQ2	Which financial outcomes do these biases affect and how do they reduce capital market efficiency for individual investors?
RQ3	What demographic and social factors influence an investor's tendency to fall victim to behavioral biases?
RQ4	How do financial literacy programs together with awareness programs function to reduce cognitive and emotional biasing effects?
RQ5	What are the major research gaps in the literature on behavioral finance that require further exploration?



3.2 INCLUSION AND EXCLUSION CRITERIA

The researchers established precise standards to choose which studies to review because they needed to maintain both study quality and relevance.

Inclusion Criteria:

1. The research encompasses articles published primarily from 2000 to 2024 which capture both initial developments and latest trends in behavioral finance.
2. Studies focusing on behavioral finance, investment decisions, investor psychology, and equity markets were included.
3. This review emphasizes peer-reviewed journal articles, conference proceedings, and doctoral dissertations.
4. Only studies from recognized databases and reputable publishers were considered.
5. To maintain consistency and clarity, only English-language studies were selected.

Exclusion Criteria:

1. Studies not directly associated with behavioural finance, investment behaviour, or cognitive biases were removed.
2. Duplicate studies and overlapping publications were not included in the screening process.
3. Non-academic sources, such as blogs, opinion pieces, and unverified online content, were disregarded.
4. Studies without full-text access or with incomplete methodological details were excluded.

• 4. RESULTS AND ANALYSIS

- The systematic literature review shows that multiple factors impact investment decision-making processes. The factors can be divided into five main groups which include demographic factors economic factors psychological factors social factors and organizational factors. The analysis combines research results from multiple studies which took place in various countries to create a comprehensive understanding of how investors behave worldwide.



- **4.1 CATEGORIZATION OF INFLUENCING FACTORS**

- Literature sources show that multiple factors affect investment decision-making processes. Figure 2 presents a conceptual framework which displays the relationship between the different categories and their interconnections.

Figure 2: Conceptual Framework of Factors Influencing Investment Decisions

- The author developed this framework using Aruna and Rajashekar 2016 as his source material together with literature synthesis. The diagram presents five primary categories, which include Demographic factors Economic factors Psychological factors Social factors, and Organizational factors. The arrows show how each factor directly impacts Investment Decisions while Psychological factors (biases) act as intermediaries for other factors to produce their effects.
- **Demographic Factors:** Age, gender, income, education, and occupation play a significant role. A study by Trehan 2022 discovered that men have more investment experience than women do in stock market trading according to his research findings. Bhuyan et al.
- **Demographic Factors:** Age, gender, income, education, and occupation play a significant role. For instance, a study by Trehan (2022) found gender differences in investment experience, with male respondents showing more experience in the stock market than females. Bhuyan et al. (2021) found no association between most demographic variables and awareness, except for gender.
- **Economic Factors:** Economic Factors: Investors assess these macroeconomic elements, which include interest rates and inflation and government policies to determine their investment prospects.
- **Psychological Factors:** this category includes the core behavioural biases, which include overconfidence and loss aversion and herding and mental accounting. Studies by Thodkar & Kumar (2022), Cao et al. (2021) confirm that heuristic, prospect, and herding biases have a significant and positive impact on investment decisions.
- **Social Factors:** Family, peer pressure, media, and social norms influence investor behaviour. The herding effect, as highlighted by Ahmed & Noreen (2021), is a prime example of social influence.
- **Organisational Factors:** Job security and pay scale and retirement benefits together with the working environment all create an impact on a person's financial resources and investment decision-making process because they influence risk tolerance.



4.2 BEHAVIORAL BIASES AND THEORETICAL FRAMEWORKS

The psychological factors identified in the literature can be further understood through the lens of established behavioural finance theories. The diagram in Figure 3 shows the main behavioural biases which correspond with different theoretical frameworks.

Figure 3: Key Behavioural Biases and Underlying Theories

Source: Compiled by the author based on Kahneman & Tversky (1979), Thaler (1985), and literature synthesis.

(Description: The diagram lists key biases such as Overconfidence, Anchoring, Loss Aversion, Mental Accounting, Herding, etc., and maps them to the corresponding theories: Heuristics, Prospect Theory, Herding Theory.)

4.3 KEY FINDINGS FROM LITERATURE

The review of 15 key studies from various countries (India, Pakistan, Colombia, Sri Lanka, and Vietnam) reveals consistent patterns regarding the influence of behavioural biases. A summary of key studies is presented below:

Author(s) & Year	Origin	Key Findings
Trehan (2022)	India	Gender differences exist in investment decisions; male respondents had more stock market experience.
Tiwari & Tiwari (2022)	India	Financial advisors can use factors influencing investment behavior to better motivate and guide investors.
Thodkar & Kumar (2022)	India	Behavioral factors (prospect, heuristic, herding) have a significant positive impact on stock market investment decisions.
Suman (2022)	India	Investors show interest in diverse financial options and trust SEBI as the regulatory authority for investor protection.



Srivastava (2022)	India	A Structural Equation Model (SEM) was validated to study the interdependent and multiple dependencies in retail investor decision-making.
Prasath & Dwivedi (2022)	India	Investors in Coimbatore have low awareness of corporate actions like buybacks and stock splits; need for more investor education.
Sharma et al. (2021)	India	Investment decisions are based on multiple parameters; investors need to analyze market sentiments and fundamentals.
Kothari & Baxi (2021)	India	Investors are risk-averse and cautious; they remained stable during market highs and lows of COVID-19, avoiding panic buying or selling.
Bhuyan et al. (2021)	India	Retail investors are moderately aware of equity investments; awareness is not associated with demographic factors except gender.
Sabir et al. (2021)	Pakistan	Financial literacy moderates the relationship between investment behavior and intention; religiosity also plays a role.
Garay & Pulga (2021)	Colombia	Retail investors underperformed during a period of market decline, highlighting challenges for individual investors in emerging markets.
Cao et al. (2021)	Vietnam	Herding, prospect, heuristic, and market factors directly affect investment decision-making.
Ahmed & Noreen (2021)	India	Behavioral determinants (market variables, herding, heuristics) have a significant and strong impact on investment decisions.
Rajeshwaran (2020)	Sri Lanka	Heuristic variables had a positive relation with investment performance; other variables (herding, market, prospect) were also influential.



5. DISCUSSION

The research findings from this systematic review demonstrate that people make investment choices through a combination of rational analysis and their psychological and social influences.

The evidence

strongly supports the central tenets of behavioral finance, which posit that cognitive biases lead to systematic deviations from the models of classical finance.

The analysis shows that people use heuristics like overconfidence and representativeness to make complex decisions easier because these methods create simpler paths to decision-making but introduce errors during the process. The results show similar patterns across research studies conducted in India, Vietnam, and Sri Lanka (Thodkar & Kumar, 2022; Cao et al., 2021; Rajeshwaran, 2020). The research conducted by Kothari & Baxi (2021) showed that people behave cautiously when facing risks because they want to avoid experiencing losses from prospect theory. The research shows that herding behavior, which is a social factor, operates as a constant pattern because investors in developing economies depend on others for their investment choices (Ahmed & Noreen, 2021; Cao et al., 2021). The review also highlights the importance of contextual factors. The study demonstrates that financial literacy functions as a factor which influences how people move from their intentions to their actual financial conduct in Pakistan (Sabir et al., 2021), while Indians commonly demonstrate a lack of knowledge about financial products (Prasath & Dwivedi, 2022; Bhuyan et al., 2021). The evidence shows that investor education programs function as essential tools which help reduce the harmful effects of biases.

The entire discussion requires an approach which combines different methods for solving the problem. Financial models need to include behavioral insights while regulatory agencies should concentrate on creating programs which protect and educate investors. The field of study has progressed from discovering biases to studying their interactions with various demographic and economic and social factors which produce actual market results.



6. CONCLUSION AND POLICY IMPLICATIONS

6.1 CONCLUSION

This research offers an extensive overview of the current literature concerning behavioral biases in investment decision-making. Utilizing a systematic review methodology, it integrates various viewpoints to deliver a comprehensive understanding of the origins, effects, and theoretical frameworks related to investor psychology. The research shows that investment decision-making processes become difficult because institutional factors and human behavior patterns and macroeconomic conditions create multiple obstacles.

The main elements which affect decision-making include cognitive errors which involve overconfidence and herding behavior and emotional responses which include loss aversion and regret. The analysis shows that these biases create serious negative consequences which extend their impact to both the banking industry and entire economic systems.

The study shows that individual investor decisions create problems which prevent proper capital investment because their choices result in both market anomalies and personal investment losses. The evidence shows that investor irrationality persists as a fundamental problem which affects all investors. Behavioral finance has become more popular according to current trends, but there still remain substantial research deficiencies especially regarding emerging market economies. (Sabir et al., 2021).

In conclusion, the study asserts that addressing the challenges posed by behavioral biases necessitates a multifaceted approach that combines robust institutional practices, responsible investor behavior, effective regulatory oversight, and comprehensive investor education.

6.2 POLICY IMPLICATIONS

The Financial literacy initiatives need strengthening because they serve as the foundation to develop investor discipline while increasing understanding of difficult financial products. (Goyal & Kumar, 2021; Prasath & Dwivedi, 2022).

Regulatory bodies like SEBI must continue to refine policies which ensure transparency and accountability while safeguarding investor interests. The high trust in SEBI which Suman (2022)



documented creates a strong base for future development. Regulations which require organizations to disclose risks transparently while providing standardized information that is easily understood will help decrease the information gap which leads to behavioral biases..

Financial institutions and advisors need to include behavioral insights into their advisory work. Client bias understanding helps advisors provide better guidance which prevents investors from making common mistakes such as panic selling and over-trading (Kothari & Baxi, 2021; Tiwari & Tiwari, 2022).

7. FUTURE RESEARCH DIRECTIONS

The research creates paths which lead to future investigation work. The study requires additional empirical testing which should use methods that study actual trading behavior and market effects instead of survey-based research. The following specific directions are proposed:

1. **Focus on Emerging Economies:** Existing research studies face a research gap because they concentrate their analysis on developed economies. The research study must conduct extensive research to understand how retail investors in emerging markets such as India make their investment choices based on their behavioral biases in non-metropolitan areas.
2. **Macro-Level Analysis:** Future research should focus on "behavioral-finance-macro" using secondary data to examine how overall investor sentiment and biases affect market volatility and liquidity and stability.
3. **Methodological Diversity:** Questionnaires deliver essential data, yet upcoming research needs to use experimental methods together with neuro-finance techniques and big data analysis from trading platforms to create unbiased assessment methods of investor conduct.
4. **Long-Term Impact:** Research needs to be conducted for evaluating how investor education together with technological solutions such as robo-advisors will operate after extended periods of time.
5. **Comparative Analyses:** Cross-country studies help us understand how different cultural and regulatory and economic systems lead to different behavioral biases and their resulting effects.



REFERENCES

1. Ahmed, Z., & Noreen, U. (2021). Role of behavioral determinants for investment decision making. *Asia-Pacific Social Science Review*, *21*(2), 48–62.
2. Aruna, P., & Rajashekar, H. (2016). Factors influencing investment decisions of retail investors—A descriptive study. *International Journal of Business and Management Invention*, *5*(12), 6–9.
3. Bhuyan, R., Singh, P., & Roy, M. (2021). Level of awareness regarding equity investment of retail investors: Evidence from India. *International Journal of Accounting & Business Finance*, *7*(1), 37–53.
4. Cao, M. M., Nguyen, N. T., & Phan, A. H. (2021). Behavioral factors on individual investors' decision making and investment performance: A survey from the Vietnam stock market. *Journal of Asian Finance, Economics and Business*, *8*(3), 845–853.
5. Garay, U., & Pulga, F. (2021). The performance of retail investors, trading intensity and time in the market: Evidence from an emerging stock market. *Heliyon*, *7*, e07055.
6. Goyal, K., & Kumar, S. (2021). Financial literacy: A systematic review and bibliometric analysis. *International Journal of Consumer Studies*, *45*(1), 80–105.
7. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*(2), 263–291.
8. Kothari, A., & Baxi, P. (2021). Understanding the psyche of retail investors in India and their reactions towards market highs and lows while making investment decisions during the times of COVID-19. *Pacific Business Review (International)*, *14*(2), 54–60.
9. Odean, T. (1998). Volume, volatility, price, and profit when all traders are above average. *Journal of Finance*, *53*(6), 1887–1934.
10. Page, M. J., McKenzie, J. E., Bossuyt, P. M., et al. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. *BMJ*, *372*, n71.
11. Prasath, G. A., & Dwivedi, N. (2022). A study on the investors' awareness in the equity market with special reference to Coimbatore city. *International Journal of Creative Research Thoughts (IJCRT)*, *10*(8), 935–948.
12. Rajeshwaran, N. (2020). The impact of behavioural factors on investment decision making and performance of CSE investors in Eastern Province of Sri Lanka. *Sri Lanka Journal of Economic Research*, *8*(1), 27–51.



13. Sabir, S. A., Bashir, M., & Hussain, S. (2021). Investment behaviour of individual investors of Pakistan stock market with moderating role of financial literacy. *Journal of Contemporary Issues in Business and Government*, *27*(2), 1155–1165.
14. Sharma, S., Sharma, R., & Singh, M. (2021). Factors influencing investment decision: A study of individual equity investors. *Ilkogretim Online - Elementary Education Online*, *20*(1), 6832–6842.
15. Srivastava, S. (2022). *Decision making of retail investor with investment in equity in Indian capital market* [Doctoral dissertation, Birla Institute of Technology, Mesra].
16. Suman, A. (2022). A study on evaluation of investment in various securities by retail investors. *Journal of Emerging Technologies and Innovative Research (JETIR)*, *9*(4), 307–332.
17. Thaler, R. H. (1985). Mental accounting and consumer choice. *Marketing Science*, *4*(3), 199–214.
18. Thodkar, P. P., & Kumar, B. S. (2022). Influence of behavioural factors on stock market investment decision in India. *Journal of Tianjin University Science and Technology*, *55*(5), 356–370.
19. Tiwari, I., & Tiwari, S. B. (2022). A review paper on factors affecting investor's investment decisions. *ENVISION – International Journal of Commerce and Management*, *16*, 90–99.
20. Trehan, B. (2022). *The effect of behavioural biases on investors' decisions: Gender analysis* [Doctoral dissertation, Amity University, Noida].
21. Yadav, A., Kumar, R., & Sharma, M. (2021). A study of individual's behavior in investment of equity. *International Journal of Creative Research Thoughts (IJCRT)*, *9*(4), 3084–3098.