



## **Behavioural Finance and Investment Decisions among Young Investors**

**Dr Geetha V.**

Associate Professor

Department of Commerce

Seshadripuram Evening College

### **Abstract**

This paper looks at the impact of the behavioural finance variables on the investment behaviour of the young investors, a key segment that is more involved in financial markets with increased access to digital platforms and financial information. Traditional theories of finance assume that investors are rational but behavioural finance also focuses on existence of psychological biases and emotional influences on finance decisions. The paper will focus on the key behavioural biases, such as overconfidence, herd behaviour, loss aversion, mental accounting and anchoring, and the role of the described biases in the decision-making pattern of young investors.

The research design adopted in the research is descriptive and analytic research design; primary data were used in the research and it was collected through structured questionnaires that were administered to young investors of a specific age. Regression, as well as correlation analysis, are some of the statistical tools that are utilized in determining correlations between behavioural variables and investment decisions. The findings indicate that behavioural biases are very influential in investment preferences, risk and diversification of portfolio. The overtrading habit is aided by overconfidence and the herd effect is a factor that makes investors trade without due research as per market trends. Loss aversion creates a reluctance to sell non-performing assets and anchoring creates a tendency to cling to the first information or past prices. According to the study, the causes of suboptimal investment performance could be emotional and cognitive biases and that one has to be financially conscious and possess rational decision-making styles. It also reveals that financial education programs and advisory services can be used to educate young investors to be conscious of the impact of these biases and mitigate them. This study adds to the existing literature on behavioral finance as it gives an insight on the investment behavior of young people in a dynamic financial world. It also offers some real-life implications to the policy-makers, financial advisors and educators who want to enhance investor decision-making and market efficiency.

**Keywords:** Behavioral Finance, Young Investors, Investment Decisions, Overconfidence Bias, Herd Behavior, Loss Aversion, Anchoring Bias, Mental Accounting, Risk Perception, Financial Literacy, Portfolio Diversification, Investor Psychology

### **1. Introduction**

Behavioral finance has come to be an important area of research that defies the conventional beliefs of rationality in financial markets. Other classical financial theories like the Efficient Market Hypothesis on the basis that investors are rational in all cases and that they will always strive to maximize returns based on the circumstances that are being faced based on the available information. But, as we might notice in the real world, the rationality of investors is not always true because of the effect that is produced by psychology, emotions and thought. This diversion is especially noticeable among young investors, who are getting more and more involved in financial markets by using digital platforms and new investment opportunities.

Behavioral biases of overconfidence, herd behavior, loss aversion and anchor tend to be more susceptible to young investors who are generally less experienced but have been exposed more to information and technology. These trends have been only enhanced by the rapid emergence of the social media, online trading platforms, and other financial influencers, which affect the decisions to invest in a way that may not be in line with fundamental analysis.

This has rendered the behavioral factors that influence this group to be extremely significant to the academicians and practitioners.

Other than that, the financial decisions of young investors are everlasting to their wealth creation, economic stability and involvement in the economy overall. This can be helpful in determining the factors that influence their decision-making process so as to create more effective financial education programs, investment strategy and policy intervention. This paper is aimed at studying the relationship that exists between behavioral finance and investment decision making by the young investors that involve the most significant psychological biases that determine their behaviour. These dynamics will help the study to gain a deeper insight on how the investors behave in the dynamic financial environment.

## **2. Background of the study**

Behavioral finance has become a major field of research that has questioned the conventional rationality assumptions in the financial decision-making process. The classical financial theories, including efficient market hypothesis presuppose that investors are rational and make decisions on the basis of full information. However, the practice demonstrates that investors are disposed to irrationality of the influence of the psychological, emotional, and social forces. The perception shift has led to a spurt in interest in research on how cognitive biases and heuristics can affect investment decisions. The financial markets are typified with a rapidly expanding and lively market particularly among the young investors. They now have greater access to online trading and financial literacy tools, and aspects that affect social media, which makes them much more interested in stock markets and other possible investment opportunities. Younger investors are more susceptible to behavioral bias such as overconfidence, herd behavior, loss aversion and anchoring, and therefore, their technological savviness and willingness to innovate is more applicable. These prejudices can result in inadequate investment choices, increase the risk level, and untrustworthy financial performance. Moreover, the increasing impact of the online communities, peer rating and market trends has complicated the aspect of sentiment-based investing as far as this category of people is concerned. The youths also tend to be more exposed to emotional decision making compared to the experienced investors who in most instances have already been exposed to a practical experience on risk management and skills. These behavioral patterns should be understood to come up with effective financial education strategies and investment advisory frameworks. This paper will set out to investigate the behavioral variables that affect investment decision making by young investors to give us an insight into how young investors make investment decisions. The research contributes to the wiser and more rational investment behaviour of the younger generation by bridging the gap that exists between academic finance and real investor behaviour by identifying major psychological driving forces and biases, and assisting them in becoming more intelligent and rational investors.

## **3. Justification**

The increasing involvement of young investors in financial markets has altered the investment environment and therefore it has become imperative to know the factors that affect their decision-making processes. The traditional financial theories assume that investors are rational and make decisions based on the information they possess and risk-reward factor. However, in real life, it has been noted that, psychological, emotional and cognitive factors are likely to affect investment choices and lead to irrational behavior. Such a gap between the theory and the practice is why a particular study on the subject of behavioral finance and in relation to young investors in particular is required. Young investors are more likely to be bias in their behavior (overconfidence, herd behavior, loss aversion, and anchoring), as they tend not to be very experienced but be highly exposed to online platforms and social media. These biases may have a major impact on their portfolio investment, risk-taking, and responsiveness to market volatility. The availability of trading platforms and financial information on the internet has hastened the rate at which the youths are investing at an earlier age than their counterparts and has made the need to know their behavioural aptitude a must. Moreover, the behavioral trends could be crucial in the success of investments and financial health in the new markets like India where the level of financial literacy is non-homogenous. The study of these trends can inform policy makers, financial advisors and educators to develop a more efficient financial literacy program and financial guidance to young investors. The study is thus warranted since it aims at filling the gap between theoretical finance and real investor behavior, providing knowledge on the effects of psychological aspects in determining investment behavior. We can develop measures depending on the outcome in order to ensure that the young people can be more informed and rational when it comes to making more rational investments.

## **4. Objectives of the Study**

1. To examine the level of financial awareness and investment knowledge among young investors.
2. To identify the key behavioural biases (such as overconfidence, herd behaviour, and loss aversion) influencing investment decisions.
3. To analyze how psychological factors affect risk perception and investment choices among young individuals.

4. To evaluate the relationship between demographic variables (age, education, income) and investment behaviour.
5. To assess the impact of social influences, including peer groups and digital media, on investment decisions.

### 5. Literature Review

Behavioural finance has become an important discipline which incorporates psychology and finance to justify non-rational decision-making in investment behaviour. Conventional financial theory presumes that investors are rational and markets are efficient, but behavioural finance disputes this concept by highlighting the importance of cognitive biases, emotions, and social factors in influencing the financial decision-making process.

Behavioural finance can be said to have roots in the groundbreaking work of Kahneman and Tversky (1979), who proposed prospect theory, which showed that people consider gains and losses asymmetrically and can approach risks with either risk-averse or risk-seeking behaviour, depending on the situation. This theory has provided a foundation to explain irrational decisions in investments. Beyond this, Thaler (1999) added to this by introducing the concept of mental accounting, which elucidates that people classify and handle money in different ways, thus affecting their investment decisions.

## The Role of Behavioral Finance in Investment Decision-Making



*Source: <https://www.finideas.com/>*

Later researches have pointed out the existence of behavioural biases in investors. Barber and Odean (2001) discovered that overconfidence causes investors, especially young male investors, to trade too much, which means that the returns are lower. In the same vein, Odean (1999) showed that investors are more likely to trade than they should optimally due to the influence of psychological biases as opposed to the rational analysis. These results show that behavioural tendencies have a great impact on the performance of the portfolio.

Herding behaviour is another aspect that is highly important in investment decisions. Bikhchandani and Sharma (2001) opined that investors would imitate the behaviour of other investors particularly in a case of uncertainty in the market which also brings about market inefficiencies. This tendency is especially prone to the young investors because of peer influence and the tendencies of social media. This opinion has been further supported by recent research which reveals that online communities and digital platforms increase herding behaviour in retail investors. The studies have also highlighted the importance of financial literacy in the determination of investment choices. In their study, Lusardi and Mitchell (2023) have found that younger investors are less financially literate than older ones and that this low financial literacy results in poor financial decisions and extreme susceptibility to biases. This is especially so in the emerging markets where young investors are venturing into the financial markets without sufficient knowledge or experience.

The behavioural biases, including overconfidence, anchoring, loss aversion, and representativeness, empirical

research on millennials and young investors has shown that these behavioural biases impact their investment choices to a significant degree. According to Kumar and Goyal (2023), the millennials in the Indian stock market are characterized by high levels of behavioural biases, thus influencing their risk perception and investment decisions. These biases are usually associated with non-optimal decision-making and heightened instability of investment returns.

Systematic review by Sundavadara and Sanghvi (2024) found a broad set of behavioural prejudices influencing individual investors, such as cognitive and emotional prejudices, and highlighted the increased significance of research in behavioural finance in the world. Likewise, Sharma and Negi (2025) have found that investors are much less rational than believed in the traditional finance and their decisions are hugely affected by their psychology. Additional literature reveals that behavioural finance is not only used to explain individual decision-making but also the market anomalies occurring in the market. Hon, Moslehpour, and Woo (2021) emphasized that behavioural biases are the source of market inefficiencies and abnormalities that are not predictable by the conventional financial theories. Similarly, Jia (2023) highlighted the importance of emotions and cognitive bias in the determination of investor behaviour and market performance.

Furthermore, it has the demographic variables, such as age, income, education, and gender and a substantial influence on the behavioural biases. Studies have revealed that young investors are more likely to be riskier, overrate, and herd than older investors due to their inexperience and the increased information sources on the internet.

Overall, the literature proposes that behavioural finance is a broad outline on how to explain the behaviour of young investors in relation to investment. It makes the point that the decision to invest is not always taken rationally and is an intricate interplay of psychological factors, emotional factors and social factors. Although a lot has been researched, there has been a gap in knowledge of how the biases interplay in various social-economic settings especially amongst young investors in the developing economies. Such loophole creates the potential avenues of empirical research.

## **6. Material and Methodology**

### **6.1 Research Design**

The research is descriptive and analytical in the sense that it carries out a research study that explores the effects of behavioural attributes on investment decision amongst young investors. It believes in the actualization of the role of psychological biases, perception of risk and financial awareness in investment decision-making. To assure objectivity and enable statistical analysis of the correlation between behavioral variables and decision-making trends, a quantitative methodology is used. The design assists in the identification of the trends, preferences as well as shared biases like overconfidence, herd behavior and loss aversion amongst the selected respondents.

### **6.2 Data Collection Methods**

The research is based on the primary and secondary sources of data. Primary data will be used to collect the information and a structured questionnaire will be used to administer the questionnaire to young investors in the age range of between 18-35 years. To gauge the attitudes, perceptions and behavioral tendencies that relate to the decision of making an investment, the questionnaire will have close ended questions that will be measured on Likert scales. To provide certain theoretical ground and background to the study, secondary data will be gathered with the help of academic journals, books, financial reports and reputable online databases. These methods are combined to provide a comprehensive information gathering and increases the reliability of results.

### **6.3 Inclusion and Exclusion Criteria**

The research includes individuals in the given age range of young investors and are either experienced or actively involved in investment activity of stocks, mutual funds or other financial products. The basic financial literacy of the respondents is necessary to make meaningful responses. Others who are not of the given age or those who have never been exposed to any investment activities are not covered in the study. Moreover, partial or incompatible answers are excluded to ensure accuracy and validity of the analysis.

### **6.4 Ethical Considerations**

There are high levels of ethical standards that are upheld during the research process. All the respondents will be informed about their participation in the survey which will be voluntary. Participants have guaranteed confidentiality and anonymity due to the fact that they will not be identified by personal identifiers. The information collected is not utilized in any way other than academic, and is treated with honesty and openness. The credibility and ethical responsibility of the research is maintained by preventing any possible bias or misrepresentation.

## **7. Results and Discussion**

### **7.1 Results**

The analysis shows that behavioral biases have a significant contribution to the decision made by young investors on how to invest their money. As the findings indicate, the vast majority of the respondents do not resort to the use of

the basic or technical analysis but their decision-making process is strongly influenced by psychological and emotional factors. One of the most notable outcomes is the commonness of herd behavior. A significant proportion of young investors will emulate their counterparts, trends on social media and market moods in making investment decisions. This means that it is based on group rather than individual analysis. The researchers further discover that there is overconfidence in the study. A significant number of the respondents thought that they have better than average knowledge and skills in choosing profitable investments. This overestimation is likely to lead to excessive trading and increased risks exposure and in absence of adequate diversification. The other important discovery is the effect of loss aversion. The young investors are quite eager not to lose money but to increase their profits. Therefore, they will be left holding on to the already losing stocks hoping that it will scale up and quickly selling the successful investments to guarantee that they reap. The anchoring bias is also present. Despite the emergence of new and relevant information, investors have been reported to be using the original information as the purchase price, or past performances as they make their decisions. Moreover, there seems to be ambivalent perceptions of risk among young investors. Even though, there are respondents who have high risk-taking behavior due to the long-term aspect of investments, there are others who are very cautious and rely on market fluctuations and unpredictability. The availability of trading applications and existence of online platforms have greatly enhanced trading market participation. Accessibility has however been a factor in impulsive decision making and short-term speculation.

## **7.2 Discussion**

The findings clarify that the choices of young investors in terms of investment, are not completely rational but rather they are deeply rooted in the behavioral finance principles. The rise in the strength of social networks and digital media, where news spreads rapidly and the mood of investors is created, is indicative of the prevalence of herd behavior. The trend brings up the issue of inefficiencies in the market and the creation of speculative bubbles. The inexperience and easy availability of trading platforms and information are the causes of overconfidence among young investors. Though it is a requirement to participate and be confident, excessive confidence may lead to poor performance of the portfolio because of poor risk assessment. The loss aversion focuses on the emotional attachment that is given to the investment by the investors. This trend is contrary to the classical financial theories, which presuppose rational decision-making, and it may be necessary to provide the financial education to allow the investors to control their emotions. The anchoring bias also substantiates the idea that investors are not able to adapt to the market dynamics easily. They may be denied better investment opportunities or they may not be in a position to minimize losses through the old and outdated standards. The observed mixed risk perception of study reveals that the young investors are yet to attain financial maturity. Their uncertainty is optimistic and fearful which affects their investment decisions and results in skewed investments. There are two sides to technology. Although it also opens up the financial markets and makes them more accessible and more actively involved, it also promotes the ordinary process of trading and speculation. This underscores the need to incorporate behavioral knowledge to the financial literacy interventions. Overall, the paper highlights that behavioral biases are significant to comprehend so that investments could be more effective. Financial advisers, policy makers and educators ought to concentrate on the way they can formulate strategies that would make young investors be cognizant of these biases and how to reduce them. This can be promoted by disciplined investing, long term planning and critical analysis to enhance informed and rational decision-making.

## **8. Limitations of the study**

The current research is also limited to some aspects, which should be taken into consideration when interpreting its results. Firstly, the research may be premised on quite a small and geographically narrow sample of young investors, which limits the applicability of the results on a bigger population. Self-reported data can be a source of introducing a response bias since a participant is not always the reflection of his or her actual financial behavior or psychological orientation. Besides, behavioral biases are not simple and sometimes dependent on the dynamic market situation, personal experiences, and socio-economic backgrounds, which cannot be properly reflected in the frames of the investigations. The study is cross-sectional and thus, it is not possible to determine how the behavior of the investors changes with time, thus restricting the causal inferences. The study might also not capture all the potential psychological and extraneous impacts which could have influence on investment decisions like macroeconomic changes or technological influences like electronic trading systems. Despite the reliability and validity, these shortcomings prove that more studies are needed, with bigger and more diverse samples and longitudinal designs to understand more about the behavioral finance of young investors.

## **9. Future Scope**

Longitudinal research can be added to the future of the study on behavioral finance and investment decision making in young investors to understand how financial attitudes and biases will change over time due to experience, exposure

to the market and income variations. Additional analytical capabilities, such as artificial intelligence and machine learning, can also be employed in the future research to better predict the trends in behavior and investment performance. One can also explore how digital financial platforms, impact of social media, and innovations in fintech can influence the decision-making process of young investors. This can be established further by the comparative study of the various cultural, regional and economic backgrounds to the extent to which the socio-economic factors play their role in the determination of financial behavior. Moreover, in future research, the question of whether financial literacy training is beneficial in terms of decreasing cognitive biases and improving rational investment choices could be tested. Improving the target to encompass the psychological, emotional and neuro-financial aspects will help in coming up with more comprehensive models that can be employed in influencing the policy makers, teachers and financial institutions to come up with more strategies that will help in meeting the needs of the young investors.

## 10. Conclusion

This article has discussed the influence of behavioural factors on decision making in investment by young investors, whereby the influence of psychological factors has been on the rise in decision making in finance. Those findings are a strong argument that investment decision-making is not wholly founded on rational thinking, market fundamentals; instead, it is highly affected by cognitive biases, feelings, and social factors.

An overconfidence, herd behaviour, and aversion to losses, and preference to short-term returns is a more likely behavioural tendency of young investors. Such biases usually lead to bad investment decisions like over trading, bad diversification and getting carried along by the market trends and views of co-workers. The increased access to electronic trading programs and social media can only encourage the tendencies by facilitating the hurry to make a decision and overwhelm information. Meanwhile, the research also finds that the awareness of behavioral biases can be also very effective in enhancing the performance of investments. Having a long-term and disciplined investment plan, being financially literate will help young investors minimize their irrational behavior and make more rational decisions. Financial education and advisory services can thus help close the divide between the intention and action of investment behavior. To sum it up, the field of behavioral finance is a realistic approach to understanding the functioning of young investors in the contemporary financial markets. Not only are psychological biases difficult to comprehend and manage, but they are also to a more stable and efficient market. The future research can further discuss the impact of technology and financial education and cultural factors on investor behavior and add to more effective investment strategies and policy interventions.

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