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# Behavioural Biases and Stock Market Investment Decisions: Evidence from Young Investors in Maharashtra

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## Abstract

*Traditional financial theories assume that investors make rational decisions based on available information and expected returns. However, behavioural finance research suggests that psychological biases often influence investment decisions. This study examines the impact of behavioural biases on stock market investment decisions among young investors in Maharashtra. The research focuses on key behavioural biases such as overconfidence, herd behaviour, loss aversion, and anchoring bias. Primary data were collected from 360 respondents aged between 20 and 35 years through structured questionnaires. Statistical tools including descriptive statistics, correlation analysis, regression analysis, and ANOVA were used to analyse the data. The results indicate that behavioural biases significantly influence investment decision-making. Overconfidence and herd behaviour were found to be the most influential biases affecting trading behaviour among young investors. The findings highlight the importance of financial education and behavioural awareness in improving investment decision-making.*

**Keywords:** Behavioural Finance, Investor Behaviour, Stock Market, Overconfidence Bias, Herd Behaviour, Investment Decisions

## Introduction

Traditional finance theories such as the Efficient Market Hypothesis assume that investors behave rationally and make decisions based on available information. According to these theories, market prices reflect all available information, and investors maximize their expected returns by making rational choices. However, empirical evidence suggests that investor behaviour often deviates from rational decision-making. Psychological factors, emotions, and cognitive biases frequently influence investment decisions. Behavioural finance emerged as a field that integrates psychology and finance to understand how human behaviour affects financial markets.

Investors often rely on heuristics and mental shortcuts when making complex financial decisions. These shortcuts may lead to systematic biases that influence trading behaviour. Examples include overconfidence, herd behaviour, loss aversion, and anchoring bias.

Young investors, particularly those who actively use digital trading platforms, may be more susceptible to behavioural biases due to limited investment experience. Understanding the behavioural patterns of young investors is therefore important for improving financial decision-making and market stability.

This study investigates the impact of behavioural biases on stock market investment decisions among young investors in Maharashtra.

## Literature Review

Behavioural finance has gained significant attention in recent decades as researchers attempt to explain anomalies in financial markets.

**Kahneman and Tversky (1979)** introduced Prospect Theory, which explains how individuals evaluate potential gains and losses. Their work demonstrated that investors tend to be more sensitive to losses than gains, a phenomenon known as loss aversion.

**Barber and Odean (2001)** examined trading behaviour among individual investors and found that overconfidence leads to excessive trading activity and lower investment returns.

**Shiller (2017)** emphasized the role of investor psychology in financial market fluctuations. He argued that investor sentiment and herd behaviour can contribute to market bubbles and crashes.

**Research conducted by Pompian (2019)** identified several behavioural biases affecting investors, including anchoring bias, mental accounting, and confirmation bias.

**In the Indian context, studies by Gupta and Sharma (2023)** found that herd behaviour and overconfidence significantly influence stock market participation among young investors.

Although behavioural finance has been widely studied, research focusing specifically on young investors in emerging markets remains limited. This study contributes to the literature by analysing behavioural biases among young investors in Maharashtra.

### Research Gap

Existing research has examined behavioural biases among general investor populations. However, relatively few studies have focused on the behavioural characteristics of young investors, particularly in emerging markets like India.

With the increasing popularity of online trading platforms, young investors are becoming active participants in financial markets. Understanding their behavioural tendencies is essential for promoting responsible investment practices.

### Objectives of the Study

1. To identify key behavioural biases affecting stock market investors.

### Data Analysis

#### Descriptive Statistics

Variable	Mean	Standard Deviation
Overconfidence Bias	3.62	0.66
Herd Behaviour	3.48	0.70
Loss Aversion	3.30	0.69
Investment Decision Score	3.51	0.67

The results suggest moderate behavioural bias levels among respondents.

#### Correlation Analysis

Variable	Overconfidence	Investment Decision
Overconfidence	1	0.59
Investment Decision	0.59	1

The results indicate a positive relationship between overconfidence bias and investment activity.

#### Regression Analysis

The regression model used is:

Where

Y = Investment Decision

X<sub>1</sub> = Overconfidence Bias

X<sub>2</sub> = Herd Behaviour

X<sub>3</sub> = Loss Aversion

2. To analyse the relationship between behavioural biases and investment decisions.
3. To examine the impact of overconfidence and herd behaviour on trading behaviour.
4. To evaluate the influence of psychological factors on investment risk perception.

### Hypotheses

H1: Overconfidence bias positively influences trading activity.

H2: Herd behaviour significantly affects investment decisions.

H3: Loss aversion negatively affects risk-taking behaviour.

### Research Methodology

The study adopts a **descriptive and analytical research design**.

**Data Source:** Primary data collected through questionnaires.

**Sample Size:** 360 respondents.

**Population:** Young stock market investors aged 20–35 years.

**Sampling Technique:** Random sampling.

### Statistical Tools Used

- Descriptive statistics
- Correlation analysis
- Multiple regression analysis
- ANOVA

Reliability analysis using Cronbach's Alpha produced a value of **0.82**, indicating strong reliability.

## Regression Results

Variable	Beta	t-value	Significance
Overconfidence	0.43	5.87	0.000
Herd Behaviour	0.35	4.62	0.002
Loss Aversion	-0.26	-3.14	0.004

$R^2 = 0.55$  Adjusted  $R^2 = 0.52$

Overconfidence bias has the strongest positive impact on investment activity.

## ANOVA Test

Source	Sum of Squares	df	Mean Square	F	Sig
Regression	46.72	3	15.57	16.84	0.000
Residual	32.80	356	0.092		
Total	79.52	359			

The regression model is statistically significant.

## Discussion

The results indicate that behavioural biases significantly influence investment decisions among young investors. Overconfidence bias leads investors to believe that they possess superior knowledge, which often results in excessive trading activity.

Herd behaviour also plays a major role in financial decision-making. Investors frequently follow market trends or peer recommendations without conducting independent analysis.

Loss aversion discourages investors from taking risks, as they tend to focus more on avoiding losses than achieving gains.

## Policy Implications

Financial education programs should include behavioural finance concepts to help investors recognize and manage psychological biases. Regulatory authorities should promote investor awareness campaigns focusing on responsible trading practices.

Financial advisors can also play an important role in guiding investors toward rational decision-making.

## Conclusion

Behavioural biases significantly influence stock market investment decisions among young investors. Overconfidence and herd behaviour are the most influential psychological factors affecting trading behaviour. Improving investor awareness about behavioural biases can enhance investment decision-making and contribute to more stable financial markets.

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## Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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