

The Impact of Behavioural Factors on Individual Investment Decisions of Equity Investors: Reference to Kurunegala Area

K.G.D.R. Gamage^{1,*}, D.D.K. Sugathadasa² and J.M.N. Wijekumara³

^{1,2,3}Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka, Mihintale, Sri Lanka

*Corresponding author: ravihari524@gmail.com

Abstract

Market anomalies and irrational behaviour has caused investors' changes in the stock market and this has directed an investigation of the impact of various behavioural biases and factors affecting investment decisions. Owing to the dearth of studies in this area in the context of Sri Lanka, the present study aimed to investigate the impact of behavioural factors on individual investment decisions of equity investors at the Colombo Stock Exchange in the Kurunegala area. The dependent variable has been selected as individual investment decision and the independent variables have been selected as representativeness, overconfidence, availability heuristic, and herding effect. Moreover, demographic factors have been used as control variables. Equity investors who have listed at the Colombo Stock Exchange in the Kurunegala area are the population of the study and the sample confined to 100 individuals who have been selected based on the convenient sampling method. The data were collected through a self-administrated questionnaire distributed among the respondents. The reliability of the structured questionnaire was tested by using the Cronbach's alpha test and calculated values were at a satisfactory level. Consequently, the collected data were analysed by using descriptive, correlation, and regression analysis. The results of the correlation analysis confirmed that all the selected behavioural factors positively and significantly related to individual investment decisions. The regression results indicated that there is a significant impact of the availability heuristic and herding effect on individual investment decisions. However, representativeness and overconfidence insignificantly impacted individual investment decisions. Moreover, the results confirmed that there is no impact of demographic factors on individual investment decisions of the study sample. The current findings will assist stockbrokers and regulators to initiate awareness programs to provide more reliable and updated information about the market situation for individual investors to improve their decision making.

Keywords: Availability heuristic, herding effect, investment decision making