

The Influence of Behavioural Factors on Investment Decisions Making

B.P.G.H.S. Dharmasena^{1,*}, H.M.D.N. Somathilake² and P.M.D.S. Pathiraja³

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

*Corresponding author: hashinisavindya1@gmail.com

Abstract

The present study has investigated the impact of behavioural factors on investment decision making with reference to the investments in the Colombo Stock Exchange of Sri Lanka with herding, heuristic, prospect theory, and market factors. Traditional financial theories assume that the market is efficient; investors make rational decisions to maximize their profits. However recent studies relevant to the behaviour of individual investors have revealed that people do not act rationally instead, several factors influence their investment decisions in the stock market. Accordingly, the main objective of this study is to identify the behavioural factors that influence on the investment decision making of individual investors in stock market. Herding factors, prospect theory factors, heuristic theory factors, and market factors were considered as the independent variables while individual investment decisions employed as the dependent variable. The study begins with existing literature of behavioural finance, and based on that research hypotheses were developed. Data were collected through a questionnaire and the population of the study was registered investors in the Colombo Stock Exchange, of which 384 individual investors were selected as research sample by using convenient sampling techniques. Descriptive statistics and inferential statistics were used to analyse the data. Market factors are the most influential factors on individual investment decisions. However, by considering market factors market information does not have a significant impact on individual investment decision making. When considering the herding factors choice of stock to trade off other investors do not have a significant positive impact on individual investment decision making, in prospect theory factors regret aversion have a negative impact on individual investor decision making, from heuristic factors only representativeness have a significant positive impact on individual investment decision making in Colombo Stock Exchange. These findings emphasize the significance of theoretical and market factors towards strengthening the investment decision making processes and expect to have significant theoretical and practical implications.

Keywords: Herding factors, heuristic theory, investment decisions, market factors, prospect theory