Research Article

Behavioral Finance In Personal Investment: Analyzing The Role Of Psychological Factors In Decision-Making

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ARTICLE INFO	ABSTRACT
	To understand the relationships between behavioural financing and personal investment, this study conducted. The aim of this study is to analyse the role of psychological factors in personal investment decision-making. In this study, different primary psychological factors have been discussed. On the other hand, the impacts of cognitive biases on the personal investment also discussed that help in future aspects. In that case, primary research method used where total 68 financial advisors offered their valuable experiences about the behaviours finance. On the other hand, IBM SPSS tool used to analyse all the collected data. **Keywords:** Behavioural finance, Personal investment, psychological factors, Cognitive biases, Emotions and Social-cultural influences etc.

Introduction

Background of the study

In this 21st century, behavioural finance is an important aspect that refers to a particular area of study in the field of finance where different psychological factors influence the investment decision-making of an individual. In that case, people make their rational choice based on information that has been assumed by the traditional theory. However, emotions as well as cognitive biases and social factors influence the financial decision-making of an individual (Khan, 2020).

Figure 1: Concept of Behavioural Finance
(Source: Sattar et al. 2020)

Behavioural finance is a crucial area of study that offers information on the cognitive and emotional aspects that influence investment decisions. By understanding these factors, investors as well as financial advisors and policymakers can navigate the markets effectively and make better-informed decisions (Sattar et al. 2020).
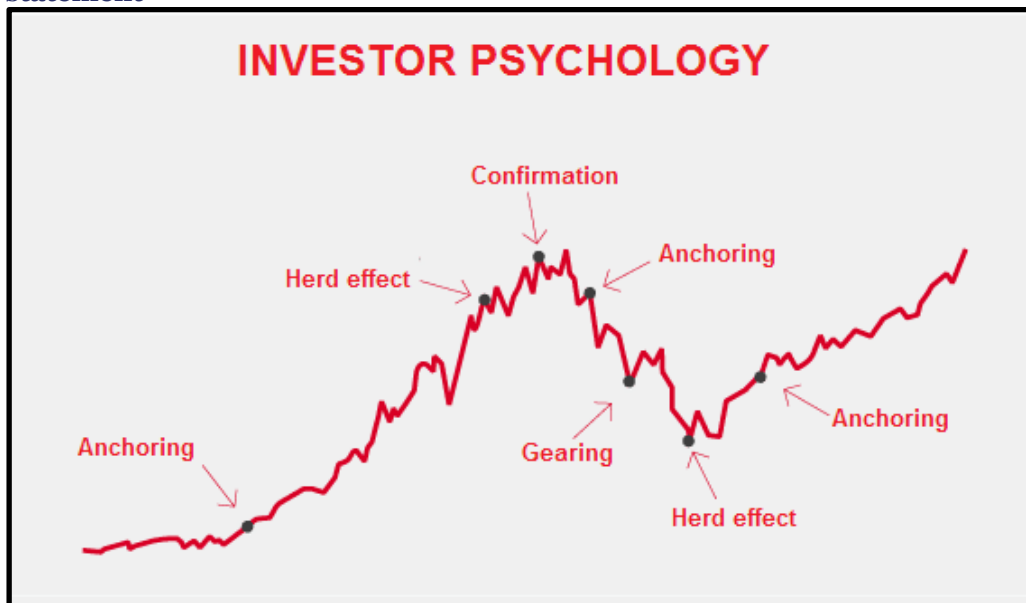
Problem statement

Figure 2: The influence of behavioural finance is reflected in several stages
(Source: centralcharts.com, 2020)

In the financial markets, the influence of behavioural finance is reflected in several stages that are related to Anchoring as well as Herd effect, gearing and confirmation. Here, psychological factors play an important role in investment decisions but there is a lack of knowledge about the specific mechanisms through which these factors affect individual investment strategies. Due to the lack of research in this field, financial experts cannot provide proper strategies to improve the decision-making of an individual.

Research aims and objectives

Research aim
The aim of this study is to analyse the role of psychological factors in personal investment decision-making.

Research objectives
RO1: To assess the critical psychological factors that play a pivotal role in shaping individuals' investment decisions.
RO2: To evaluate the impact of cognitive biases on the formulation and execution of personal investment strategies.
RO3: To examine the role of emotions in shaping risk perception and risk tolerance in personal finance.
RO4: To explore the influence of social and cultural factors on investment behaviour and decision-making.

Research questions
RQ1: What are the primary psychological factors that influence individuals' decision-making in personal investment?
RQ2: How do cognitive biases affect the formulation and execution of personal investment strategies?
RQ3: In what ways do emotions shape risk perception and risk tolerance in the context of personal finance?
RQ4: What is the influence of social and cultural factors on investment behaviour and decision-making at the individual level?

Significance of the study
Through the help of this study, people get information about the impact of psychological factors on financial decisions. In that case, this research also helps financial advisors to make effective investment strategies through the help of the proper training and complete knowledge in this field. On the other hand, Investors and financial professionals can improve their overall financial well-being by implementing all the information obtained by this study (Khan, 2020). Here, this study helps to understand how psychological factors influence the economic behaviour of an individual that create an impact on the financial decision-making process.

Literature Review

Primary Psychological Factors in Personal Investment Decision-Making

Figure 3: Psychological Factors Influencing Emotional Attachment to Investments
(Source: Dervishaj, 2021)

There are several psychological factors that influence Individuals' decision-making in personal investment. As per the study by Jain et al. (2023), overconfidence is one of the major factors that not only leads them to take excessive risks but also forces them to make optimistic predictions during investment. Similarly, loss aversion is another factor that impacts their risk tolerance as well as investment decisions. On the other hand, anchoring is another psychological factor where investors might anchor their decisions (Dervishaj, 2021). Similarly, herd behaviour influences investment decisions that bring panic.

Impact of Cognitive Biases on Formulation and Execution of Personal Investment Strategies

Figure 4: "Impact of Cognitive Biases on Formulation and Execution of Personal Investment Strategies"
(Source: Kartini & NAHDA, 2021)

Before investment, Investors always show their tendency to get more information that brings bias to their investment. In that case, dependent on available information instead of a complete search, investors faced issues in their investment. On the other hand, sometimes investors make decisions based on generalisations instead of objective analyses that affect their investment. Similarly, investors overvaluing assets can lead to less effective decision-making in investment (HALA et al. 2020). When investors prefer recent events instead of looking at long-term trends that hamper financial decision-making.

Role of Emotions in Shaping Risk Perception and Risk Tolerance
In the development of risk perception among investors, emotions like fear and greed play vital roles in avoiding risks for an individual during a greeting period. Due to the excessive optimism, investors can reduce the level of risks that reduce loss (Kartini & NAHDA, 2021). On the other hand, in the risk tolerance aspects, fear or guilt leads to conservative choices that not only help to avoid potential emotional distress but also reduce the potential risk during investment. Similarly, anxiety and stress also play vital roles in the impulsive decision-making process.

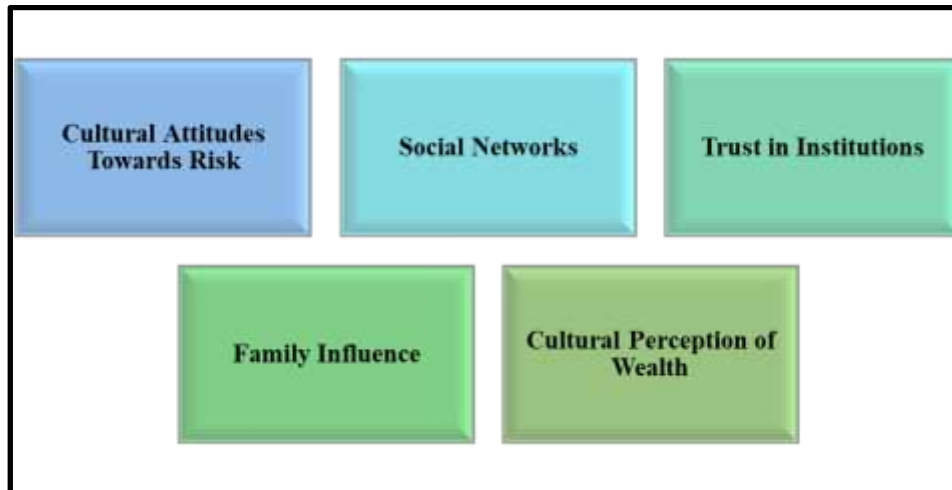**Influence of Social and Cultural Factors on Investment Behaviour and Decision-Making**

Figure 5: "Influence of Social and Cultural Factors on Investment Behaviour and Decision-Making"
(Source: Bhatia et al. 2022)

In the investment behaviour and decision-making process, cultural norms and values of an individual play a vital role that can bring risk-taking and influence investment decisions. Similarly, social networks also create impacts on investment choices where investors follow their social circle. In the investors' confidence, cultural trust in financial institutions and regulatory bodies plays an important role that influences their investment decisions (Bhatia et al. 2022). On the other hand, family dynamics and values bring wealth accumulation and investment as per changing generations. In that case, cultural views on wealth accumulation and spending help to fulfil the financial goals of an investor that not only can influence investment decisions associated with investment but also properly improve their investment strategies.

Methodology

In terms of methods, this study used primary research methods that helped to get a less biased outcome for this study. In terms of research philosophy, the positivist research philosophy used for this study helps to examine the evidence associated with psychological behaviour in investment decisions. On the other hand, to get pepper hypotheses, this study used a deductive approach. In terms of the data collection method, this study used primary data collection where an online survey would help to get all the important information for this study (Braun et al. 2021). In that case, a total of 68 respondents who are financial advisors gave their valuable contributions to this study. Here, the primary data analysis method was used where the SPSS tool was used.

Development of Hypotheses
H1: The significant influence of psychological factors on investment decision-making processes has been well-documented in the field of behavioural finance.
H2: Cognitive biases create negative impacts on the formulation and execution of personal investment strategies.
H3: Emotions have a significant impact on risk perception and tolerance in personal finance.

Findings
Demographic analysis
Age of the respondents

Age

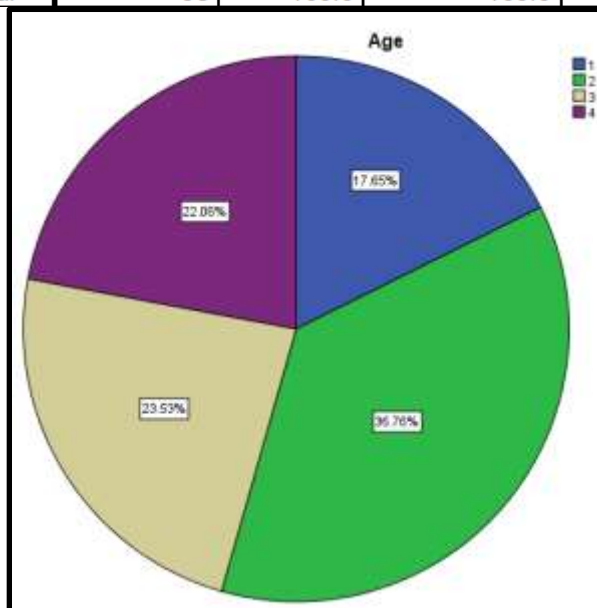|		Frequency	Percent	Valid Percent	Cumulative Percent
	1	12	17.6	17.6	17.6
	2	25	36.8	36.8	54.4
Valid	3	16	23.5	23.5	77.9
	4	15	22.1	22.1	100.0
	Total	68	100.0	100.0	

Figure 6: Age Distribution
(Source: SPSS)

The above graphical representation shows the age group of respondents who participated in this study. Out of 68 respondents, 12 respondents were aged 32 years to 35 years whereas 16 participants were between 41 and 46 years. On the other hand, 25 respondents have aged between 36 years to 41 years whereas 22.1 percent of respondents were aged 47 years to 55 years.

Gender of the respondents

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
	1	41	60.3	60.3	60.3
	2	21	30.9	30.9	91.2
Valid	3	6	8.8	8.8	100.0
	Total	68	100.0	100.0	
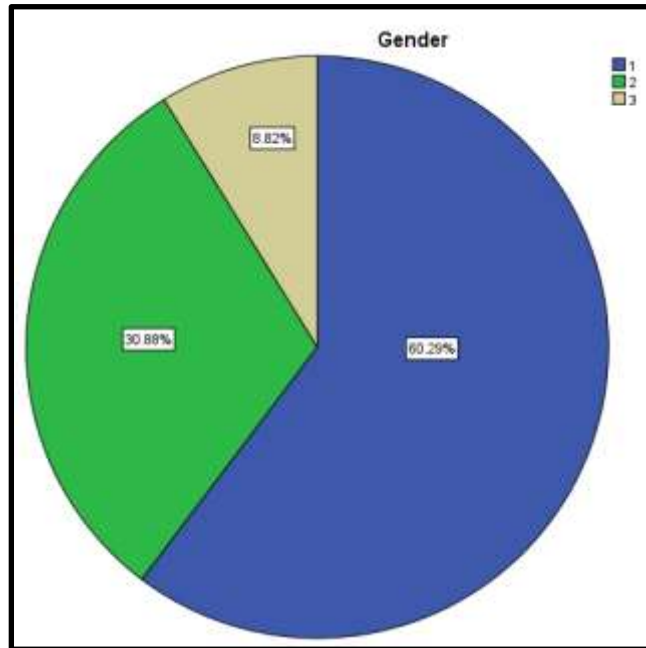
Figure 7: Gender Distribution
(Source: SPSS)

The above pie chart provides the gender of participants who offered valuable contributions to the data collection process. 60.29 percent of respondents are male whereas 21 female respondents also make a great contribution to this study. On the other hand, 6 respondents belong to another category.

Years of experience as an advisor

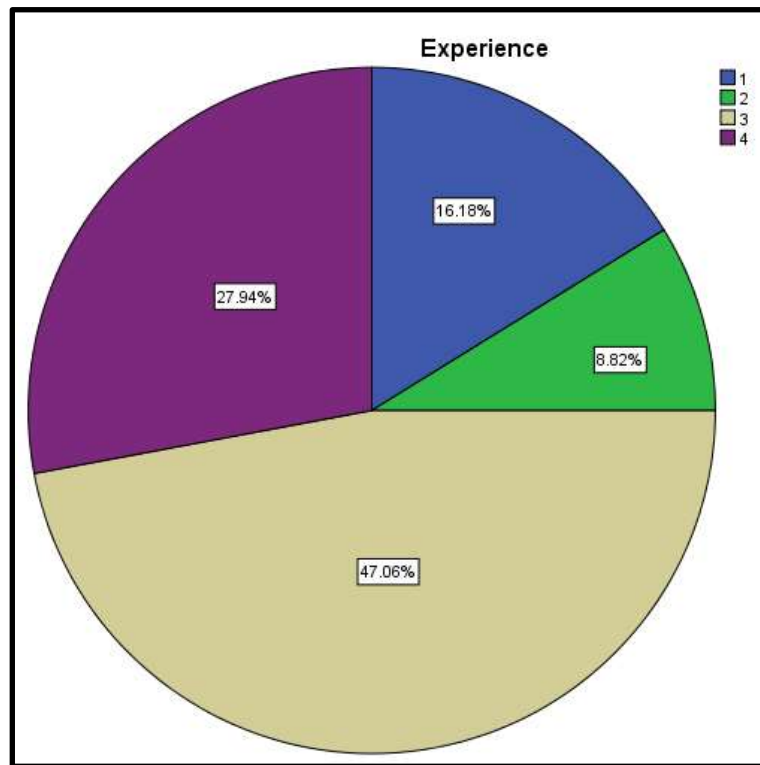| Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	11	16.2	16.2	16.2
	2	6	8.8	8.8	25.0
	3	32	47.1	47.1	72.1
	4	19	27.9	27.9	100.0
	Total	68	100.0	100.0	

Figure 8: Marketing Experiences of respondents
(Source: SPSS)

The above graphical representation provided experience level as a finance advisor. In that case, out of 68 participants, 32 participants had experiences of 9 to 12 years and provided their valuable experiences about the behaviours of finance. On the other hand, approximately, 28 percent of respondents have 13 to 15 years in this field.

Variable-related analysis
Descriptive test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DV	68	3.00	15.00	6.2941	3.59543	1.044	.291	.619	.574
IV1	68	3.00	15.00	6.6912	3.92944	.700	.291	-.610	.574
IV2	68	3.00	15.00	6.6912	3.83720	.681	.291	-.460	.574
Valid N (listwise)	68								

Table 1: Descriptive analysis
(Source: SPSS)

The above table provides information about the descriptive analysis that helps to understand the distribution of different variables in the dataset. In that case, the number of elements (N) is 68. On the other hand, the standard deviation value was 3.59 for DV whereas for IV1 and IV2, it was 3.92 and 3.83 respectively.
Validity Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.713
Bartlett's Test of Sphericity	Approx. Chi-Square	466.750
	df	3
	Sig.	.000

Table 2: Validity Test
(Source: SPSS)

The above table demonstrates the result for KMO and Bartlett's Test for the dataset that is associated with behavioural finance in personal investment. In that case, the KMO value is 0.713 which is appropriate. The reliable KMO value should be between 0 to 1 (Shrestha, 2021).

Linear Regression Analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.965[a]	.931	.929	.95684	.394

a. Predictors: (Constant), IV2, IV1

b. Dependent Variable: DV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	806.607	2	403.304	440.505	.000[b]
	Residual	59.511	65	.916		
	Total	866.118	67			

a. Dependent Variable: DV

b. Predictors: (Constant), IV2, IV1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.205	.237		.865	.390
	IV1	-.365	.280	-.399	-1.303	.197
	IV2	1.275	.287	1.361	4.446	.000

a. Dependent Variable: DV

Table 3: Linear Regression Test
(Source: SPSS)

The above table demonstrates the Linear regression model that helps to understand the relationship between dependent variable and independent variables. In the model summary, the R square value is 0.931 indicating that all the variables rely on dependent variables by 93 percent. On the other hand, the lower p-value not only signifies this entire model or dataset but also acts as a strong indicator for this model. In terms of the ANOVA test, the degree of freedom is 2. Here, the F value is 440.50 which signifies this model properly. On the other hand, a Coefficient test was also performed where the T value for the independent variable was 1.361 which signified a 0.00 scale. Similarly, this variable also makes proper predictions which signifies this model statistically.

Correlation test

Correlations

		DV	IV1	IV2
DV	Pearson Correlation	1	.954**	.964**
	Sig. (2-tailed)		.000	.000
	N	68	68	68
IV1	Pearson Correlation	.954**	1	.994**
	Sig. (2-tailed)	.000		.000
	N	68	68	68
IV2	Pearson Correlation	.964**	.994**	1
	Sig. (2-tailed)	.000	.000	
	N	68	68	68

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4: Pearson Correlation test
(Source: SPSS)

The above table demonstrates the direct as well as insect relationship between variables. In that case, positive value offers positive relationships in the Pearson Correlation Test. All the correlations signified at a level of 0.01. On the other hand, different types of emotions not only influence personal financing but also create impacts on the decision-making process during investment by the investors (Zaleskiewicz & Traczyk, 2020).

Discussion

The above findings provided information on influencing psychological factors such as cognitive biases as well as emotions, and social-cultural elements that create impacts on the decision-making of the personal investment for an investor. In that case, most people support that overconfidence as well as loss aversion and herd behaviour create positive as well as negative impacts on individual investment decisions. On the other hand, different types of cognitive biases also play a major role in investment decision-making where confirmation bias and recency bias reshape the decision of an investor (Esposito & Letizia, 2023). Similarly, the descriptive analysis helps to understand the distribution of the variables where all the positive values indicate that there is a great relationship has been observed between psychological factors and personal investment. On the other hand, proper KMO value also stated that a higher level of sample adequacy has been seen which helps to understand the reliability of data. Here, in terms of determination of behavioural investment, cultural norms, as well as social influences, offer great contributions (Banerji et al. 2023). In that case, all the information will help the financial advisor in the future to make proper strategies for reducing the negative impacts on behavioural aspects of the investment.

Conclusion

In the end, it can be concluded that this study examines the complex relationship of psychological, cognitive, emotional and sociocultural factors that influence personal investment decision-making. In that case, different kinds of psychological factors related to overconfidence as well as loss aversion and herd behaviour create impacts either positive or negative on individual investment choices. On the other hand, by understanding these factors, investors get competitive advantages in their investment where informed decisions help to reduce the amount of loss. In that case, this information also helps in the training and education purpose where financial advisors can prevent the financial burden of an individual. On the other hand, through this study, policymakers, as well as regulators, also provide proper intervention to the financial market which not only reduces behavioural biases but also brings more successful investment outcomes in the future.

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Appendices
Appendix 1: Survey questionnaire
1. What is your age?
32-35
36-41
41-46
47-55
2. What is your gender?
Male
Female
Others
3. How many years of experience do you have as a financial advisor?
3-5
6-8
9-12
13-15
4. Psychological factors such as overconfidence and loss aversion influence individual investment decisions

Strongly agree
Agree
Neutral
Disagree
Strongly Disagree

5. Specific psychological factors that statistically correlate with decision-making outcomes in personal finance
6. The prevalence of herd behaviour impacts the investment choices of individuals in the market
7. Confirmation bias affects the formulation of personal investment strategies
8. Correlation between the use of the availability heuristic and the execution of investment decisions
9. Recency bias influence the timing and sequencing of personal investment transactions
10. Emotions like fear and greed contribute to shifts in risk perception among individual investors
11. Specific emotional triggers that lead to impulsive decision-making in personal finance
12. The level of anxiety and stress experienced by investors correlate with their risk tolerance and aversion

Surveylink:https://docs.google.com/forms/d/e/1FAIpQLSdV9ZWeY59oW36aVS7BxXVhaSs8WN9cwwDdC uf-9uCIL6mKg/viewform?usp=sf_link