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Behavioral Biases in Investment Decision Making: A Review

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In traditional finance theory, the investors are expected to be rational decision makers going along with the expected utility theory. Behavioral finance, in contrary to this, heavily criticize this rational perspective and they argue that the investors tend to deviate from rationality whenever making investment decisions. Several behavioral biases that may occur in investment decision making have been studied and empirically tested over the history. This paper attempts to review the literature related to some behavioral biases based on the different studies done in different contexts. The focused biases are overconfidence, disposition effect, herding and home bias. The studies have been done focusing on the multiple causes associated with those biases. The studies have proven that the demographic factors such as gender, wealth, experience and age have a direct impact on overconfidence. Disposition effect is found to be influenced by the demographic factors such as income, occupation, education, wealth, and gender and the tax considerations of the investor. The desire to be with the group, reputational and remuneration concerns were found to be affecting herd behavior. The Investment Barriers, Transaction Costs, Information Asymmetry, Inflation Herding, and Non-Tradable Assets are found to be the causes of home bias.

Keywords: *Behavioral Biases, Overconfidence, Disposition Effect, Herding, Home Bias*

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