

Factors Affecting Individual Investment Behavior: A Study of Individual Investors in Colombo Stock Exchange

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Abstract

Both conventional finance theories and economic theories have been built on the assumption that investors are to be rational in making decisions. However, with the development of behavioral Finance theories which are based on psychology, attempts have been made to understand how the emotions and biases of human can influence investor behavior. Many studies have been conducted in different capital markets all around the world. However, there are limited studies about individual investor behavior in Sri Lankan capital market. This study expected to fill the gap of determining the factors and their level of influence over individual investor's decision in Colombo stock exchange (CSE) by testing the factors used in other empirical researches in other countries. Primary objective of the study is to explore the variable that can be influenced on behavior of individual investors in CSE. Furthermore, the level of influence of these variables over the behavior of individual investors in CSE is also studied based on five main factors namely, self-image/firm image, accounting information, neutral information, advocate recommendation and personal financial needs. The study begins with the existing theories and studies in behavioral finance, based on which, the main variables are identified. A structured questionnaire has been used in the study covering all identified variables. Data is collected using convenient and snow ball sampling of 200 individual investors in CSE. Data will be analysed through factors analysis. Findings of this study will be useful for individual investors to make decisions, for fund managers and research firms to provide their recommendations to clients.

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