

The Impact of Psychological and Behavioral Factors on Investment Decisions: Evidence from Individual Investors in Colombo Stock Exchange

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Behavioral Finance is a newer field of study that attempts to explain irrational behavior of investors which traditional financial theory fails to explain. This study aims to identify the psychological and behavioral factors that affect the investment decisions; to assess the impact of the identified factors on the investment decisions and finally to evaluate the extent to which these factors can explain the investment decisions of individual investors in the Colombo Stock Exchange (CSE). Snowball sampling technique was used to identify respondents for the study and the sample consisted of 74 respondents. A questionnaire was used to collect data from the identified respondents. Factor analysis, multiple regression analysis and case study descriptions were used to analyze and interpret the data. Findings of this study proved that prospect factors have significant negative and market factors have a significant positive influence on investment decisions of CSE investors. Hence it can be concluded individual investor decisions are affected by irrational biases and investors should attempt to avoid these biases to generate higher returns in their portfolios and investment advisors should consider the influence of these factors on their client's investment decisions for the purpose of enhancing their wealth.

Keywords: *Behavioral Factors, Colombo Stock Exchange, Investment Decisions, Irrational Behavior, Psychological Factors*

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