

Impact of Behavioral Factors on Individual Investor's Decisions in Colombo Stock Exchange

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With the emerge of behavioral Finance theories based on psychology which attempts to understand how the emotions and biases of human can influence investor behavior in decision making process. Behavioral Finance theories suggested that the investors are not been rational in making decisions as assumed in conventional finance theories. Many studies have been conducted different capital markets in developed and developing countries. However, there is a dearth of studies about individual investor behavior in Sri Lankan capital market.

The purpose of this study is to identify factors influencing on individual investor's decision in Colombo Stock Exchange (CSE). To achieve this aim, the study attempts to test four main factors as independent variables namely heuristic factors, prospect factors, market factors and herding effect. The study identifies and test these factors through a structured questionnaire based on five-point Likert Scale and collect the data using sample of 210 individual investors. The findings indicate that a positive significant impact of heuristic factors, prospect factors, market factors and herding effect on individual investor decisions in CSE. Furthermore, the results also illustrate that herding effect indicate a highest positive significant impact on individual investor decisions. This implies that the individual investors in CSE are irrational very often and exhibit bias in making investment decisions. Findings of this study will be useful for individual investors, portfolio managers, financial planners and advisers, investment bankers and corporate executives to make sound investment decisions. Based on the findings of the study, the policy makers and regulators should make individual investors aware to follow rational behavior in making investment decisions in CSE in order to obtain the expected returns.

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