Analyzing the Impact of Behavioral Biases on Stock Investment Decision Making: Evidence from Sri Lanka Individual Investors at CSE

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Abstract

The objective of this study is to analyze the impact & relative importance of several prominent behavioral finance variables covered by the behavioral financial literature (overconfidence, loss aversion, risk perception, and herding) on stock investment decision-making at the Colombo Stock Exchange (CSE). This study's significance stems from the fact that local studies focusing on behavioral finance are rare, and thus the researchers believe that such research will raise awareness in this domain. A total of 303 active individual investors who actively traded on the Colombo Stock Exchange during the research period were included in the study. Following authorization of the questionnaire's reliability and validity, data were collected using a Likert scale questionnaire and analyzed using descriptive statistical tests, factor analysis, correlation analysis, multiclonality test, and paired sample T-test using SPSS software. The findings revealed that behavioral finance observed variables have an impact on the Colombo Stock Exchange, as represented by four behavioral factors influencing individual investors' investment decisions: overconfidence, loss aversion, risk perception, and herding. According to the findings, the variables Risk perception and Loss aversion had the highest impact and relative significance on the individual investor's investment decision-making at CSE. The study made recommendations for CSE investors to use scientific bases when making stock investment decisions, as well as need further research on the impact of behavioral finance on the several types of risks and yields at CSE.

Keywords: Behavioral Finance, Risk Perception, Loss Aversion**,** Investment Decision Making, Colombo Stock Exchange.