

The Impact of Cognitive and Emotional Behavioral Biases on Stock Investment Decision Making in CSE Sri Lanka: Evidence from Colombo District

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Abstract

Introduction: This research investigates the influence of cognitive and emotional behavioral biases on stock investment decision-making within the Colombo Stock Exchange (CSE). It explores the effects of disposition effect, anchoring, overconfidence, and herding behavior on the investment decisions of individual investors in the Colombo district. The primary objective is to analyze the relationship between these biases and their impact on stock investment choices.

Methodology: Primary data is gathered through a structured questionnaire that includes demographic factors, the dependent variable (investment decision), and independent variables (behavioral biases). The data is collected from a convenient sample size of individual investors in the Colombo district. Analysis of the results is conducted using the SPSS software.

Findings: The collected data yields reliable and significantly valid results. The study employs descriptive analysis, Pearson's correlation analysis, and linear regression analyses. The findings suggest a noteworthy impact of anchoring bias and herding behavior on investment decisions, with a comparatively lesser impact observed for disposition effect and overconfidence bias among individual investors in the Colombo district.

Conclusion: Based on these results, investors are advised to take into account the influence of anchoring and herding behavior for making effective investment decisions. This approach aims to optimize returns while minimizing risks when engaging in stock investment activities on the Colombo Stock Exchange.

Keywords: Disposition Effect; Anchoring; Overconfidence; Herding; Colombo Stock Exchange (CSE).