Factors Affecting Individual Investment Decisions Making; Evidence from the Colombo Stock Exchange

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Abstract

This study examines the factors that affect the stock market investment decisions made by individuals. The impact of the four independent factors, herding, overconfidence, accounting information, and firm image on the dependent variable which is investment decision making is investigated in this study. The prospect theory and heuristic theory are used as the theoretical framework to assist in better understanding how herding, overconfidence, accounting information, and the image of the company affect stock investment decisions among individual investors. The study employs a mixed-method approach, utilizing both questionnaires and interviews to gather data from a sample of 384 individual investors in the CSE. The population encompasses a diverse group of investors, considering factors such as age and education levels. The study's quantitative descriptive methodology focuses on investors who have made investments in the Colombo Stock Exchange (CSE). The 372 valid responses gathered from the survey questionnaire and interviews underwent statistical analysis. Descriptive statistics, Spearman's rank correlation, and the ordinal logistic regression analysis were used to analyze data. Herding, accounting information, and overconfidence have significant impacts on individual investment decision making while the firm image has no significant impact on individual investment decision-making. The results of Spearman's rank correlation indicate herding has a positive relationship with individual investment decision-making while overconfidence, accounting information, and firm image have a negative relationship with individual investment decisions. The findings support the hypotheses about accounting information, and herding effect, but reject the hypothesis regarding overconfidence and firm image according to the ordinal logistic regression analysis. According to the study's findings, investors need to understand how the herding effect, accounting information, and overconfidence affect their ability to make sound decisions in the stock market. Investors try to avoid losses and consider the returns of the company when making investment decisions as per the study. Investors believe that their decisions about various aspects of stock investing are influenced by the opinions of other investors. Investors show confidence in the value of the stocks in their portfolio and, most of the time, are willing to consider other investors' opinions when deciding which stocks to buy and sell. Dividends are crucial in stock investment decisions, with investors prioritizing a firm's reputation and community involvement. Ethics and political affiliations have less impact. The study's conclusion discusses theoretical and practical implications, and recommends further research.

Keywords: Investment Decision Making, Herding Effect, Overconfidence, Accounting Information, Colombo Stock Exchange