

# THE IMPACT OF BEHAVIOURAL FACTORS ON INDIVIDUAL INVESTORS' INVESTMENT DECISION-MAKING AT CSE: SPECIAL REFERENCE TO JAFFNA DISTRICT – SRI LANKA

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**Abstract:** Each and every person in the world has a different mindset about investing their money in different sources of investments. In this situation human mindset, the behavioural activities play an important part in the investment decision. This study going to examine one of the investment opportunities available for Jaffna District investors in the Colombo Stock Exchange (CSE). This study pursued to determine the impact levels of behavioural influences on the individual investor adoptions of securities at the Colombo Stock Exchange (CSE). It was directed by the main objective seeking to determine the impact level of behavioural factors on the individual investors' investment decisions at CSE special reference to the Jaffna district. To meet the objectives of the study, Behavioural factors are considered as the independent variable with the proxies of regret aversion, overconfidence, availability bias, past trends of the stock, market information, buying and selling of other investors, and individual investors' decision is the dependent variable. Primary data was collected using self-administrated questionnaires. It was based on the sample of 165 individuals selected through the CSE Jaffna district. The data analysis for this study was performed with the help of SPSS. This study used multiple regression and correlation analysis. There is one main hypothesis and six sub-hypotheses were considered for this study. It was tested at a 5% significant level. The findings revealed that the overconfidence, availability bias, and past trends of stock have insignificant impacts on the investment decision of individual investors at CSE in the Jaffna district. The regret aversion, market information, and buying and selling of other investors have a significant impact on the investment decisions of individual investors at CSE in the Jaffna district. The ultimate finding of the study was that there is an ascetically significant impact of investors' behavioral factors influence on individual investors' investment decisions at Jaffna District CSE Sri Lanka.

**Keywords:** *Investors Behavioral Factors, Investment Decision at CSE, Jaffna District Sri Lanka.*

## 1. Introduction

Teweles and Bradly (1998) specified that nowadays most of the investors prefer to invest in the stock market because of the long-term growth of capital, dividends, and a hedge against the inflationary erosion of purchasing power. The other reason is the stock market is more attractive than other types of investment is its liquidity and the investors want to be the owners of the firm, from that they get benefits when the company pays dividends and when the share prices increase. Luong and Ha, 2011 stated that behavioural finance theories, which are based on psychology attempt to understand how emotions and cognitive errors influence individual investors' behaviors. Menike,( 2006), Menike & Prabath(2014), Hettiarachchi, & Rajeshwaran, (2016) explained

that despite there being a lot of studies available pertaining to the stock market, particularly share price drive, and capital structure in Sri Lanka. A better understanding of behavioural processes and outcomes are important for financial planners. According, to Al-Tamimi, (2006) an understanding of how investors generally respond to market movements would help them in devising appropriate asset allocation strategies for clients.

The Securities Exchange Commission (SEC) is the regulatory body of the Sri Lankan stock market. Central Depositing System (CDS) accountants of the Sri Lankan share market. They hold the stocks in custody on behalf of companies and investors and they are responsible for clearing and settling transactions on the CSE. They do not maintain a physical stock of all the shares in Sri Lanka because all shares are held in electronic form. In stock transactions,

the stockbrokers are the middle parties they connect buyers and sellers of the stocks. noted that inflation, interest rates, and exchange rates are the most influential factors for investors to make investment decisions (Menike 2006). Sultana and Pardhasaradhi (2012) recognized that the following factors: individual eccentricity, wealth maximization, risk minimization, brand perception, social responsibility, financial expectation, bookkeeping information, government and media, economic expectation and advocate recommendation, affect the investors' decisions in India. Different academics indicated different prompting factors on investors' behaviour in different nations. Combining market phenomena with individual conduct, behavioural finance draws on insights from the domains of finance and psychology. Psychology plays a part in behavioural finance by explaining how individuals choose investments or make financial decisions. According to behavioural finance, human beings are biased and illogical, and this affects the judgments we make while making investments. As a result, there could be an opportunity for judgment errors. Numerous ideas of behavioural finance have been put forth. Prospect theory, heuristic theory, and herding theory are the most widely accepted theories.

Making decisions about investments is a difficult process that is a crucial step in the investing process. The process of selecting one option from a range of options is known as decision-making. After all options have been properly evaluated, an activity is conducted. Investors are involved in the decision to allocate funds to different investment options (e.g., fixed deposit, stock market, debenture, etc.), each of which has a unique set of characteristics. The investment decision process involves analysing multiple factors and taking multiple steps. As a result, choosing one or more investment options from a variety of investment possibilities is a difficult task for investors. When making investment selections, investors want to take the time horizon and the investment mix into account. Investments that result in significant losses due to poor investing selections should be stopped. They must improve if the decision-makers are to stay current and acquire knowledge from a variety of sectors in order to enable investors to complete the mission.

It is thought that two main variables influence decision-making: technical factors and personal resources or factors. Investors typically consider these two factors while making selections about stocks. Individual investors typically base their decisions on personal characteristics including age, income, education, and investment portfolio. Their investment choices are also based on intricate financial models at the same time. These models include risk-based pricing models such as the Capital Assets Pricing Model (CAPM), which are based on the predicted risk and return of an investment. Prior to the last twenty years, conventional finance theories—such as the Capital Asset Pricing Model and Modern Portfolio Theory were used to guide stock market investing decisions. Conventional models presuppose the rationality of both the investor and the market. Investors are subject to cognitive and psychological biases throughout the decision-making process because they obtain the most important knowledge, facts, and information and because they make their conclusions on the data rather than their emotions. The behavioural theorist Tversky (1990) asserts that psychological factors have an impact on investors' financial decisions, leading to decisions that are acceptable but not ideal. It is never appropriate to make decisions only based on one's

own resources and intricate models that ignore contextual considerations. Not only are situational elements expanded.

With regard to stock market investors, this study delves into the depths of human psychology to examine issues including overconfidence, availability bias, regret aversion, market knowledge, historical stock trends, and the effects of other investors' choices (buying and selling). The study discovered that most conventional finance models are incapable of explaining anomalies in stock market movements without taking into account the psychological and social factors that influence an investor's behaviour when making financial decisions as a result, the study stressed how crucial it is to comprehend investor conduct through knowledge and awareness of behavioural, psychological, and social factors that influence decisions to purchase or sell shares. Knowing how investors behave can help one comprehend and correctly forecast market changes in the future, allowing one to outperform the average return on investment or minimize the risk involved in making judgments about investments.

## 2. Literature Review

The literature review considered for this study in two ways. Those are the theoretical review, which consists what are the theories related to this study discussed, and the empirical literature, which has already been found by the earlier researchers discussed to identify the research gap of the study.

### 2.1 Theoretical Review

The field of behavioural finance is new since it takes into account how people behave in the financial sector. The foundation of this theory of behavioural finance is psychology, which is the study of how emotions and cognitive errors affect the actions of individual investors. Currently, behaviour finance is playing a bigger role in decision-making, which has a big impact on investors' performance. Psychology, the foundation of behavioural finance, argues that human decision-making is susceptible to a number of cognitive illusions (Ritter, 2003). These illusions are separated into two categories: those resulting from heuristic decision-making processes and those originating from mental frame adoption, which is categorized under the prospect theory (Waweru, 2008). Based on this, the herding and market theories are also discussed as follows.

#### Heuristic Theory

Heuristic methods, which illustrate people's propensity for making snap decisions, are methods of simplification that are applied to tackle difficult issues and restrict the amount of information that can be explained. Individual investors typically use the trial-and-error approach to make decisions, which results in the development of general guidelines. To make decisions about their investments, individual investors interpret complex information by applying rules of thumb. Although it is highly difficult to distinguish oneself from the emotional and cognitive errors involved in every action done by the investor, it is possible that investors have gathered the necessary information and have evaluated all of this in an impartial manner. It might result in good decisions in some circumstances, but it might also lead to bad and negative conclusions in many others.

#### Prospect Theory

Prospect theory and expected utility theory (EUT) are regarded as two distinct approaches to decision-making. Prospect theory is concerned with how an investor's value system affects their

subjective decision-making. The rational expectations of investors are the main focus of Expected Utility Theory (EUT) (Filbeck, Hatfield, and Horvath, 2005). It is argued that this hypothesis falls short of explaining why people are drawn to gambling and insurance. Individuals frequently overestimate the likelihood of particular events while responding differently to comparable circumstances based on the context of gains or losses (Kahmenan and Tversky, 1979). This theory explains a few mental states that influence people's decision-making, such as mental accounting, loss aversion, and regret aversion.

### Market Theory

According to Debondt and Thaler (1995), investors' actions can have an impact on the financial markets through behavioural finance. If behavioural finance viewpoints are accurate, investors may overreact or under-react to news or price changes; they may also extrapolate historical trends into the future; they may pay less attention to a stock's fundamentals; they may concentrate on well-liked stocks and seasonal price cycles. Investor decision-making in the stock market is influenced by these market characteristics. Price fluctuations, market information, historical stock patterns, customer preferences, overreaction to price movements, and the fundamentals of the underlying equities are among the market aspects that Waweru (2008) lists as having an effect on investors' decision-making. An over/under response to a price shift may result from modifications to market information, the underlying stock's fundamentals, and the stock price itself. It has been empirically demonstrated that these modifications significantly impact investors' decision-making processes.

### Herding Theory

In the financial market, the tendency of investors to emulate the behaviour of others is known as the herding effect. Because investors tend to rely more on collective knowledge than on individual information, practitioners typically give herding serious consideration. This can lead to a price deviation of assets from their underlying worth. Herding is a topic of interest for academic scholars as well since its effects on stock price fluctuations can affect the characteristics of risk and return models, which in turn affects the perspectives of asset pricing theories (Tan, Chiang, Mason, and Nelling, 2008). Investor herding behaviour can be influenced by a number of factors, including investment volume and overconfidence. Investors appear to be less interested in herding tendencies when their confidence levels are higher and they rely more on their personal information to make investment decisions.

## 2.2 Empirical Evidence

The following is an empirical review of the aforementioned hypotheses, which was carried out in both developed and developing nations. According to Onsomu (2014), there is no discernible overconfidence bias influencing investment decisions made by Nairobi Securities Exchange investors. Instead, they are influenced by disposition effect, availability bias, and representativeness bias. According to research by Abar, Hassan, Ahmad, and Iqbal (2014), most individual investors think they know everything there is to know about the market and are more confident in their abilities. Pourbijan, Setayesh, and Janani (2014) looked at 302 individual Tehran Stock Exchange investors and discovered a correlation between investors' overconfidence bias and their choice of investments. Waweru, Mwangi, and Parkinson

(2014) looked at the behavioural aspects that influence investment decisions in the Kenyan real estate market. They discovered biases in mental accounting, overconfidence, regret aversion, availability, and anchoring. The Ho Chi Minh Stock Market's individual investor behaviour was studied by Luu (2014). It was discovered that market characteristics had the greatest influence on investors' decision-making, while overconfidence, anchoring, herding, loss aversion, and regret aversion have only moderate effects.

According to Atif Kafayat (2014), when making logical decisions, investors in the Islamabad Stock Market were influenced by self-attribution bias, overconfidence, and over-optimism bias. According to the study, there is a negative correlation between all of the above characteristics and investors' decision-making. Tripathy (2014) investigated how psychological biases affect individual investors' cognitive decision-making process. According to the research, investors on the Bhubaneswar Stock Exchange make poor decisions because of psychological biases such as overconfidence, regret, anchoring, and loss aversion. Overconfidence and the illusion of control have a positive and significant impact on investors' decisions, according to Qudri and Shabbir's (2014) empirical review investigation into the impact of these factors on trading decisions at the Islamabad Stock Exchange.

In their 2013 study, Bashir, Javed, Ali, Meer, and Naseem examined the effects of behavioural biases on investors' financial decision-making, including overconfidence, confirmation, and illusion of control, loss aversion, mental accounting, status quo, and excessive optimism. They discovered that the overconfidence bias has a positive, substantial link and influence. Status quo, loss aversion, and mental accounting biases, on the other hand, have a strong correlation but no effect on investors' decision-making. In a 2013 study, Rekik & Boujelbene examined 300 investors in the Tunisian stock market and discovered that mental accounting, loss aversion, anchoring, herding, and representativeness all influenced the investors' choices. Overconfidence, however, has no bearing on financial choices.

## 2.3 Sri Lankan Studies

Tuan and Sampath (2020) analyzed the influence of behavioural finance factors and the moderating effects of contextual and demographic factors on individual investors' investment performance. When individual investors simultaneously follow other investors and keep track of their trading patterns, follow up to the current market information and past trends of stocks. So that they standard to gain greater financial returns. Finally, he concludes that individual investors should pay attention to stock broker's recommendations received and at the same time utilize existing knowledge more wisely and selectively because there could possibly be market manipulation in terms of fixing stock prices and stock brokers are likely to be biased towards cogent models

The influence of behavioural factors on household investors' investing decisions was studied by (Arumugam and Velnampy 2017). The impact of representativeness bias on household investors' investment decisions was discovered. When making investing judgments, they don't put in enough time or effort. Based on past experiences, they quickly make investing decisions. Individual investors' investment decisions are influenced by the overconfidence bias, and he discovered that household investors'

judgments are influenced by the availability prejudice. This indicates that he discovered that investors depend on information that is readily accessible, with their friends and family serving as their primary information sources. Furthermore, the investors choose well-known investment options when allocating their funds to prevent. The alternative result is that investors dread the negative outcomes of choosing the wrong investment (regret) and hence prioritize protecting their limited capital over gaining a profit. Additionally, they put the safety of their money before profit in order to avoid losses instead of boosting profits (loss aversion).

Gunathilaka (2014) investigated how retail investors in the Colombo stock exchange choose stocks based on their perceptions of the firm's worth, accounting data, advocate recommendations, and company perceptions. He came to the conclusion that an investor's choice of equity is influenced by their knowledge of the market, their desire for capital preservation and investment stability, their consideration of risk, and the stock's recent performance. He came to the conclusion that the advocate's viewpoint, family history, and religious convictions have no bearing on the choice.

Based on psychological research, Kengatharan (2014) examined the behavioural elements driving individual investors' decisions at CSE and developed the behavioural finance theory, which aims to explain how emotions and cognitive errors affect investor behaviour. Furthermore, an analysis was conducted on the correlation between these parameters and the performance of investments. The findings demonstrated that the following factors had a moderate influence on the decision-making of individual investors at CSE: herding (volume of stocks, buying and selling, and speed of herding), heuristics (overconfidence), prospect (loss aversion and regret aversion), and market (market knowledge and customer preference). One variable from herding (stock selection) has little influence on investors' judgments, whereas one variable from heuristics (anchoring) has a significant influence. Additionally, he discovered that the three other herding theory variables—the volume of trading stocks, buying and selling, and herding speed—had no effect on performance and that the choice of trading stocks had a negative and significant effect on investment performance. According to the heuristic theory, anchoring has a positive substantial influence on investment performance whereas overconfidence has a negative significant influence. Theoretically, regret and loss aversion have little bearing on the performance of investments under the outlook. According to market theory, client preferences and market intelligence have little bearing on the success of investments.

According to Aminda (2016), there is a straight link between the conduct of individual investors and their existence characteristics, risk tolerance, market factors, and demographic characteristics of the investor. Ultimately, the study's conclusions show that investors' cognitive, emotional, and herding aspects are greatly predisposed by their unique gender views, which include gender, material position, age, education, occupation, type of investing, and knowledge.

## 2.4 Research Gap

A wide range of theoretical and empirical reviews of studies are available in the literature regarding the effects of behavioural factors on individual investors' investment decisions at CSE. Numerous studies were carried out in the setting of Sri Lanka, with

a primary focus on individual investors. There's a probability that people's attitude when making investments varies in different parts of Sri Lanka. Since there are ethnic and cultural distinctions in Sri Lanka. The researcher discovered a research gap since, according to the literature evaluation, no single primary targeted district was examined in prior studies. As a result, the primary emphasis of this study is on the behaviour of individual investors in the Jaffna district when making investments at CSE. Future investors will find it helpful to adopt the common practices that support the reactions in order to receive higher profits.

## 3. Research Problem

Investor decisions on the stock market are difficult to make and play a crucial part in establishing market trends that have an impact on Sri Lanka's economy. Investigating the influence of behavioural elements on the investing decisions of individual investors at the CSE is crucial for comprehending and offering a fitting justification for their choices. Investors will find it helpful to comprehend common habits since this will enable them to generate higher returns. Additionally, this information will help to improve investor knowledge, which will improve forecast accuracy and suggestion quality. in order to raise the capital of the specific businesses, impact the wealth of the economy, and reflect the true worth and CSE of the stock price an additional issue is that prior research has not identified the variables that have a substantial impact on stock market investment decisions. By examining behavioural characteristics that influence stock market investing decisions, this study will complement previous research by examining stock market reference data from the Jaffna district.

### 3.1 Research Questions

- What are the behavioral factors influencing individual investment decisions at CSE?
- At which level of impact do the behavioral factors affect the investment decisions at the CSE?

### 3.2 Objectives of the Study

- To identify the possible behavioral factors influencing the investment decisions of individual Investors at CSE.
- To identify the impact levels of behavioral factors on investment decisions at the CSE.

## 4. Significance of the Study

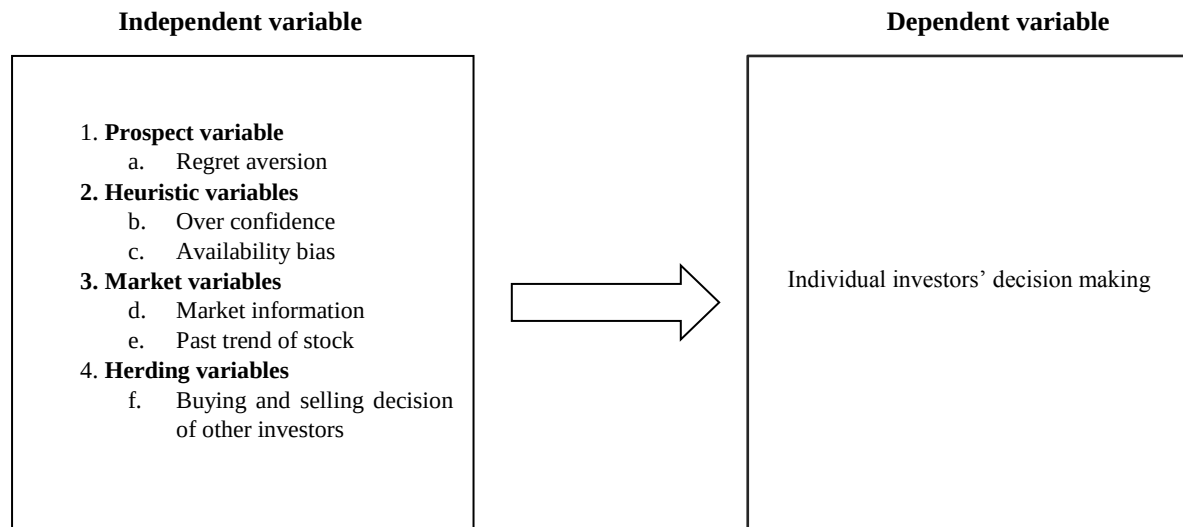
The Jaffna district in Sri Lanka is one of the districts with a variety of ethnic groups and numerous cultural practices (Muslim and Tamil), almost identical to other districts in the country. An overview of behavioural finance in the Jaffna district in comparison to other districts will be given by this study. Prior research has concentrated on private investors throughout Sri Lanka. Consequently, financial choices are more important now than they were in the past. The purpose of this study is to look into how behavioural factors affect the choices made about investments in the Jaffna district. Furthermore, no research has been done in the Jaffna district, so investigating the understudied area would greatly advance the body of literature already in existence.

In addition to giving investors a solid foundation for security organizations' predictions of future stock market trends and increasingly more trustworthy consultant information, this research is a good source of information about stock investment behaviour that they can review and analyse before making appropriate investment decisions. Furthermore, because behavioural finance

has limited applicability for less established security markets, this study aims to confirm that it is more appropriate to employ

classical theories for all types of stock markets.

## 5. Conceptualization



**Figure 1: Conceptual Framework**

Source: Developed by Researcher

In this research, the behavioural factors are the independent variable. The behavioural factors that impact the investor's decisions are divided into four groups such as heuristics (Overconfidence and Availability Bias), prospect (Regret Aversion), market (Market Information and past trends of stock), and herding effect (Buying and selling decisions of other investors), And the individual investors' investment decision is the dependent variable in this study.

## 6. Hypotheses

- |                       |                                                                                                                         |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>H1</b>             | There is a significant impact of behavioural factors on investment decision making of individual investors at CSE.      |
| <b>H1<sub>a</sub></b> | The regret aversion has the impact on the investment decision of the individual investors at CSE                        |
| <b>H1<sub>b</sub></b> | The overconfidence has the impact on the investment decision of the individual investors at CSE                         |
| <b>H1<sub>c</sub></b> | The availability bias has the impact on the investment decision of the individual investors at CSE                      |
| <b>H1<sub>d</sub></b> | The market information has the impact on the investment decision of the individual investors at CSE                     |
| <b>H1<sub>e</sub></b> | The past trends of stock have the impact on the investment decision of the individual investors at CSE                  |
| <b>H1<sub>f</sub></b> | The buying and selling of other investors have the impact on the investment decision of the individual investors at CSE |

## 7. Research Design

The deduction approach is the best option for this research, which examines the behavioural elements impacting investors' decision-making. In order to obtain the theoretical and conceptual framework as well as the empirical results of earlier studies, this study begins with a review of behavioural finance theories in general and in the context of the stock market. After that, the questionnaire questions are created, and conclusions are drawn from them.

### 7.1 Data Collection

A questionnaire was used to collect all the data and information for this study from primary sources, specifically individual CSE investors in the Jaffna district. An overview of the elements influencing investors' decisions can be gained from the information gathered through surveys. The questionnaires are filled out by the sample individual investors themselves. There are two sections to the questionnaire: one for personal information and the other for behavioural characteristics that influence investment decisions. Gender, age, material status, educational background, occupation, yearly income, annual savings, stock market experience, investment at CSE, and previous year's investment at CSE are among the personal data. Fisher (2010) employed a five-point Likert scale to gauge respondents' thoughts and attitudes, which was then used to ask individual investors to assess the extent to which behavioural aspects influence their investing decisions. Strongly disagree, disagree, have no opinion, agree, and strongly agree are the five points on the scale, ranging from 1 to 5.

### 7.2 Population and Sample of the Study

The manager of the CSE Jaffna branch provides information about the Jaffna district of Sri Lanka. Approximately 1000 people are active investors, which is defined as those who trade at least four times a year. From this, population there were 165 sample investors selected based on random sampling method. Based on their investment activities with CSE. The majority of investors trade online, a practice known as "Online Trading." This study's sample consists of one hundred and sixty-five individual investors. As a result, those samples may be able to supply information to help the study achieve its goal.

### 7.3 Econometric Model

Researchers used multiple regression models to test the impact of independent variables on dependent variables and the model for this study is as follows,

$$DM = \alpha + \beta_1 RA + \beta_2 OC + \beta_3 AB + \beta_4 MI + \beta_5 PTS + \beta_6 BSD + \epsilon$$

Where,

|     |   |                                         |
|-----|---|-----------------------------------------|
| DM  | - | Decision-Making of Individual Investors |
| RA  | - | Regret Aversion                         |
| OC  | - | Over Confidence                         |
| AB  | - | Availability Bias                       |
| MI  | - | Market Information                      |
| PTS | - | Past Trend of Stocks                    |
| BSD | - | Buying and Selling of Other Investors   |

$\beta_1, \beta_2, \beta_3, \beta_4$  - Model Coefficients

$\alpha$  - Constant

$\epsilon$  - Error Term

## 8. Reliability Analysis

OC has a Cronbach's Alpha of 0.08, which is higher than 0.7. AB has a Cronbach's Alpha of 0.76, which is higher than 0.7. RA has a Cronbach's Alpha of 0.67, which is lower than 0.7. MI has a Cronbach's Alpha of 0.89, which is higher than 0.7. PST has a Cronbach's Alpha of 0.72, which is higher than 0.7. Less than 0.7 is the Cronbach's Alpha value of BSD, which is 0.68. DM has a Cronbach's Alpha of 0.74, which is higher than 0.7. A value of 0.7 or above on this coefficient, which ranges from 0 to 1, often denotes acceptable internal consistency reliability.

## 9. Data Presentation and Analysis

In the current study, the researcher has examined the characteristics of individual investors at CSE and the behavioural factors impacting their CSE decision-making. The researcher supplied 165 samples for this inquiry. Among these, answers to each questionnaire have been obtained. Every questionnaire response was used by the researcher, with no rejections. In the end, the researcher evaluated 165 samples, or 100% of the total. Data for this procedure was provided by 165 respondents, and it was subsequently categorized and analysed based on the following standards of Personal information and Research information. The sample of 165 investors at CSE represents the gender distribution pattern of individual investors. 42.4% of respondents are women and 57.6% of respondents are men in the sample. Based on the analysis, there are more male respondents than female respondents. The sample of 165 investors at CSE represents the age distribution pattern of individual investors. Twenty-seven percent of the respondents are under the age of thirty, twenty-seven percent are under the age of thirty-one, twenty-seven percent are under the age of forty-one, twenty-eight percent are under the age of forty-one—and twenty-two percent are under the age of fifty. Based on the data, the majority of responders are younger than. The data shows that compared to other age groups, the majority of responders are between the ages of 31 and 40. In this sample, 27.3% of respondents have only completed their high school education, 25.5% have completed a postgraduate degree, 22.4% have completed a graduate degree, and 24.8% have completed a professional certification. Based on the data, the majority of respondents do not meet the requirements for school finals. Of the sample, 44.8% of respondents are married and 55.2% of respondents are single. The data shows that a higher percentage of respondents are single than married. Within the sample, 21.8% of the respondents work for themselves, 30.3% are employed by the government, 21.2% work for commercial companies, and balances Of those surveyed, 26.7% are retired. The data indicates that the majority of responders work for the government. 21.2% of the sample's respondents' yearly income fell into the group of less than two lakhs, 25.5% of respondents' yearly income fell into the group of 200000–400000, 23% of respondents' yearly income fell into the group of Rs 400000–Rs 600000, and the remaining 30.3% of respondents' income fell into the category of income beyond 6 lakhs. The data shows that the majority of the respondents' yearly

income is the group. Twenty-six percent of the sample's respondents fell into the group of annual savings under Rs 25,000–Rs 50,000, thirty-one percent fell into the group of yearly savings under Rs 25,000–Rs 50,000, and the remaining twenty-six percent fell into the group of annual savings under Rs 25,000–Rs 100,000. Of the respondents' yearly savings, 26.7% fell into the category of more than Rs 100,000. The data shows that the category of Rs 25,000–Rs 50,000 accounts for the majority of the respondents' yearly savings. Within the sample, twenty.6% of the respondents said they had been trading stocks for less than a year, twenty-five percent said they had been trading for one to two years, fifteen percent said they had been trading for three to five years, and twenty-two percent said they had been trading for five to ten years. symmetry 17.6% of the sample. Based on the data, the majority of respondents traded stocks for a duration of one to two years. In the

sample, 17% of respondents invested less than Rs. 5,000, 26.1% invested between Rs. 5000 and Rs. 10,000, 17% invested between Rs. 10,000 and Rs. 20,000, and 21.2% invested between Rs. 20,000 and Rs. 50,000. and equilibrium Of those surveyed, 18.8% made investments above Rs 50,000. Based on the data, the majority of respondents made investments at CSE ranging from Rs 50,000 to Rs 10,000. 20% of the sample's respondents made investments at CSE under the group of Rs 50,00, 26.1% made investments at CSE under the group of Rs 5,000–Rs 10,000, and 12.7% made investments at CSE under the group of Rs 10,000–Rs 20,000 last year. 22.4% of the respondents' investments from the previous year at CSE fell into the Rs 20,000–50,000k bracket. Additionally, 18.8% of the respondents' investments at CSE were over Rs 50,000 in the previous year. Based on the data, the majority of respondents invested between Rs 5000 and Rs 10,000 at CSE last year.

**Table 1 Descriptive Statistics**

|                    | OC   | AB   | RA   | MI   | PST  | BSD  | DM   |
|--------------------|------|------|------|------|------|------|------|
| Mean               | 3.12 | 3.04 | 3.10 | 3.15 | 3.02 | 3.02 | 2.99 |
| Maximum            | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 4.67 | 4.13 |
| Minimum            | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.63 |
| Standard Deviation | .16  | .01  | 1.05 | 1.49 | 1.45 | .86  | .54  |
| Total N            | 165  | 165  | 165  | 165  | 165  | 165  | 165  |

*Source: Researcher's Findings*

The descriptive statistics for the behavioural factors—OC, AB, RA, MI, PST, and BSD—that influence individual investors' decision-making at CSE are shown in Table 1. DM is the dependent variable. The average value for OC is 3.12, with a standard deviation of 0.16. Five is the maximum value, and one is the smallest. Additionally, the variable AB has a range of 1 to 5, with an average value of 3.04 and a standard deviation of 0.01. The next variable is called RA, and its standard deviation is 1.05 and its average value is 3.10. The range of RA is 1 to 5. MI has a standard deviation of 1.49 and an average value of 3.15. One is the smallest value and five is the maximum value. The PST has a standard deviation of 1.45 and falls between 1 and 5. The PST has an average value of 3.02. With an average value of 3.02 and a

standard deviation of 0.86, the BSD ranges from 1 to 4.67. With an average of 2.99 and a standard deviation of 0.54, the DM falls between 1.63 and 4.13.

### Correlation Analysis

Statistical correlation is typically used to assess how strongly the variables in a given study are related to one another. The considerable association between the independent and dependent variables in this study—which expresses the significant relationship between the behavioural aspects of individual investors' effects on investment decision-making at CSE—which was explained by the researcher using correlation analysis.

**Table 2 Correlation Analysis**

|    | OC    | AB   | RA | MI | PST | BSD | DM |
|----|-------|------|----|----|-----|-----|----|
| OC | 1     |      |    |    |     |     |    |
| AB | .136  | 1    |    |    |     |     |    |
|    | .081  |      |    |    |     |     |    |
| RA | -.024 | .013 | 1  |    |     |     |    |
|    | .759  | .865 |    |    |     |     |    |

|     |       |        |       |       |       |       |   |
|-----|-------|--------|-------|-------|-------|-------|---|
| MI  | .158  | .045   | .020  | 1     |       |       |   |
|     | .042  | .570   | .803  |       |       |       |   |
| PST | .068  | .091   | .109  | .109  | 1     |       |   |
|     | .387  | .243   | .163  | .164  |       |       |   |
| BSD | -.098 | -0.009 | -0.85 | -.184 | -.070 | 1     |   |
|     | .209  | .279   | .018  | .369  |       |       |   |
| DM  | -.034 | .041   | .073  | -.084 | .041  | -0.02 | 1 |
|     | .668  | .597   | .035  | .028  | .601  | .020  |   |

Source: Researcher's Findings

Correlation analysis in Table 2 shows that there is a negative and insignificant relationship between the Overconfidence (OC) and Decision Making (DM) of individual investors at CSE Sri Lanka. The correlation between OC and DM is -0.034, with a p-value of 0.668. where the significant level is over the 0.05 threshold, with a p-value of 0.668. Availability Bias (AB) and Decision Making (DM) have a 0.041 association.

The association between the independent variables (OC, AB, RA, MI, PST, BSD) and the dependent variable (DM) is shown in Table 2 along with its strength. Additionally, the probability value was used to test whether or not the identified association was significant. Availability Bias (AB) and Decision Making (DM) of individual investors at CSE Sri Lanka appear to have a positive but negligible association, as indicated by the p-value of 0.597. if the significance level of 0.05 is exceeded by the p-value of 0.597. Individual investors at CSE Sri Lanka exhibit a positive and significant association between their Decision Making (DM) and Regret Aversion (RA), as indicated by the correlation of 0.073 with a p-value of 0.035. The p-value in this case is 0.035, indicating a significant threshold below 0.05. There is a negative but significant association between Market Information (MI) and Decision Making (DM), as indicated by the correlation between the two variables of -0.084 and  $p = 0.028$  where the significant level is less than 0.05, indicated by the p-value of 0.035. There is a negative but significant association between Market Information (MI) and Decision Making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is -0.084 with a p-value of 0.028. where the significant level is less than 0.05, indicated by the p-value of 0.035. The p-value in this case is 0.028, indicating a significant threshold below 0.05. There is a positive but negligible association between the Past Trend of Stocks (PTS) and Decision Making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is 0.041 with a p-value of 0.601. where the

significant level is over the 0.05 threshold, with a p-value of 0.601. The relationship between the buying and selling of other investors (BSD) and the decision-making (DM) of individual investors at CSE Sri Lanka is indicated by the correlation between the two, which is -0.002 with a p-value of 0.020. This suggests a negative but significant relationship. in which the p-value is 0.020, indicating There is a negative but significant relationship between the buying and selling of other investors (BSD) and the decision-making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is -0.002 with a p-value of 0.020. when the significance threshold is less than 0.05 (p-value = 0.020).

### Regression Analysis

The researcher conducted a regression analysis to ascertain whether the decision-making process at CSE is influenced by the behavioural variables of individual investors.

**Table 3 Model Summary of Behavioural Factors DM**

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | .130a | .047     | -.020             | .54673                     |

Source: Researcher's Findings

Table 3 Explains that the R Square score of 0.047 indicates that variations in the independent variables (OC, AB, RA, MI, PTS, and BSD, respectively) may account for 4.7% of the observed variability. Other factors that are not included in the model account for the remaining 95.3% of the variance in the decision-making process.

**Table 4 Model Summary of Behavioural Factors DM**

| Model      | Sum of Squares | df  | Mean Square | F     | Sig.  |
|------------|----------------|-----|-------------|-------|-------|
| Regression | .815           | 6   | .136        | 1.455 | .141b |
| 1 Residual | 47.229         | 158 | .299        |       |       |
| Total      | 48.044         | 164 |             |       |       |

Source: Researcher's Findings

Table 4 indicates that the Behavioural Factors of Individual Investors and Decision Making (DM) analysis of variance. It displays a significant value of 0.141, above the 5% threshold of significance. As a result, behavioural considerations have little influence over individual investors' investing decisions at the CSE in Sri Lanka.

**Table 5 Coefficients of predictors of DM**

| Model      | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig  |
|------------|-----------------------------|------------|---------------------------|-------|------|
|            | B                           | Std. Error | Beta                      |       |      |
| (Constant) | 2.931                       | .300       |                           | 9.779 | .000 |
| OC         | -.014                       | .041       | -.028                     | .343  | .732 |
| AB         | .024                        | .043       | .045                      | .557  | .578 |
| RA         | .035                        | .041       | .068                      | .886  | .039 |
| MI         | -.033                       | .030       | -.090                     | 1.100 | .027 |
| PST        | .015                        | .030       | .040                      | .502  | .616 |
| BSD        | -.007                       | .051       | -.012                     | -.146 | .018 |

Source: Researcher's Findings

In Table 5 Six indicators, including OC, AB, RA, MI, PTS, and BSD, make up the independent variable, and DM is the dependent variable. Regression analysis was created by the researcher based on these variables for this investigation. The multiple regression models' predictor equation looked like this. The dependent variable is DM, and the independent variable is made up of six indicators: OC, AB, RA, MI, PTS, and BSD. For this examination, the researcher developed a regression analysis based on these factors. The predictor equation for the multiple regression models looked like this. Less than 0.05, or 0.039, is the significant value of RA. Behavioural considerations thus have a major influence on the investing decisions made by individual investors at the CSE in Sri Lanka. At less than 0.05, MI has a significant value of 0.027. Behavioural considerations thus have a major influence on the investing decisions made by individual investors at the CSE in Sri Lanka. With a BSD of 0.018, the significant value is less than 0.05. Behavioural considerations thus have a major influence on the investing decisions made by individual investors at the CSE in Sri Lanka.

Finally, the researcher created the basic equation, which shows consistent results in the B value.

$$DM = \alpha + \beta_1 RA + \beta_2 OC + \beta_3 AB + \beta_4 MI + \beta_5 PTS + \beta_6 BSD + \varepsilon$$

Apply the "β" value in the equation will be,

$$DM = 2.931 + 0.035 RA - 0.014 OC + 0.024 AB - 0.033 MI + 0.015 PTS - 0.007 BSD + \varepsilon$$

## 10. Hypotheses Testing

The findings of the hypothesis are displayed below. Hypothesis testing is focused on pre-formulated hypotheses, as stated in the conceptual framework.

### H1: There is a significant impact of behavioural factors on the investment decision-making of individual investors at CSE.

H1 is rejected because the p-value based on the ANOVA table is 0.141, which is more than at 5% significant level. Therefore, there is an insignificant impact of behavioural factors on the investment decision-making of individual investors at CSE in Sri Lanka. Investor behaviour wherein investors base their investment decisions on stereotypes. When making an investment decision, investors are likely to concentrate on a single aspect, according to Irshad et al. (2016). Investor behaviour has a positive and significant impact on investment decisions, according to earlier research from Ikram (2016), Parveen & Siddiqui (2017), Subramaniam & Velnampy (2017), Pandey & Jessica (2018), Rasheed et al. (2018), Raut & Kumar (2018), Sashikala & Chitramani (2018), Keswani et al. (2019), and Siraji (2019). Representativeness, according to Shah et al. (2018) and Xue et al. (2015), is important and unfavourable. The investor becomes irrational and makes a poor investment choice as a result of representativeness. Moreover, Abidin et al. (2017), Ngoc (2014), and Jahanzeb & Rehman (2012) contend that representativeness has little bearing on investment decisions.

### H1a: The Regret Aversion has the impact on the investment decision of the individual investors at CSE

H1a is accepted because the value of Regret Aversion is 0.039, which is less than at 5% significant level. Therefore, the Regret Aversion has a significant impact on the investment decision of the individual investors at CSE.

### H1b: The Overconfidence has the impact on the investment decision of the individual investors at CSE

H1b is rejected because Regret Aversion's p-value is 0.039, which is less than significant at the 5% level. As a result, the decision made by individual investors at CSE regarding their investments is greatly influenced by regret aversion. Investors are happy with their choice because they are aware of the risks and potential

rewards. The earlier research by Jahanzeb & Rehman (2012) and Kengatharan & Kengatharan (2014) is not supported by these findings.

**H1c: The Availability Bias has an impact on the investment decision of the individual investors at CSE.**

H1c is rejected because Availability Bias has a p-value of 0.578, over the 5% significant level. As a result, availability bias has no bearing on the choices made by individual investors at CSE. According to Abdin et al. (2017), Ikram (2016), Kengatharan & Kengatharan (2014), Jahanzeb & Rehman (2012), and Ikram (2016), availability bias has little influence on investment decisions.

**H1d: The Market Information has an impact on the investment decision of the individual investors at CSE**

H1d is accepted because Market Information's p-value is 0.027, meaning it is not significant at the 5% level. As a result, market information has a big influence on individual investors' investing decisions at CSE.

**H1e: The Past Trends of Stock have an impact on the investment decision of the individual investors at CSE.**

H1e is rejected because Past Trends of Stock has a p-value of 0.616, over the 5% significant level. As a result, the past stock trends have little bearing on the choices made by individual investors at CSE. Investors when making investments rely on the information obtained initially and tend not to sell, according to

previous studies from Rekik & Boujelbene (2013), Kengatharan & Kengatharan (2014), Matsumoto et al. (2013), Ngoc (2014), Lowies et al. (2016), Mahmood et al. (2016), Parveen & Siddiqui (2017), Subramaniam & Velampy (2017), Boda & Sunitha (2018), Pandey & Jessica (2018), Raut & Kumar (2018), Sashikala & Chitramani (2018), Keswani et al. (2019), and Siraji (2019). when the cost is reduced. Shah et al. (2018) contend, however, that historical stock trends have led investors to concentrate on the preliminary data and hinder their ability to make logical decisions. Additionally, it is argued by Jahanzeb & Rehman (2012), Xue et al. (2015), Abdin et al. (2017), and Wali & Rehman (2019) that historical stock patterns have little bearing on investing choices.

**H1f: The Buying and Selling of Other Investors have an impact on the investment decision of the individual investors at CSE.**

H1f is accepted because the p-value of Buying and Selling of Other Investors is 0.018, which is less than at 5% significant level. Therefore, there is a significant impact of the Buying and Selling of Other Investors on the investment decision of the individual investors at CSE. when the price is lowered. However, Shah et al. (2018) argue that past stock movements have caused investors to focus on the preliminary data, impairing their capacity for reasoned decision-making. Furthermore, Jahanzeb & Rehman (2012), Xue et al. (2015), Abdin et al. (2017), and Wali & Rehman (2019) contend that past stock patterns don't really matter when making investment decisions.

**Table 6 Summary of the Hypotheses Tested**

| No  | P Value | Tool       | Results  |
|-----|---------|------------|----------|
| H1  | 0.141   | 0.141>0.05 | Rejected |
| H1a | 0.039   | 0.039<0.05 | Accepted |
| H1b | 0.732   | 0.732>0.05 | Rejected |
| H1c | 0.578   | 0.578>0.05 | Rejected |
| H1d | 0.027   | 0.027<0.05 | Accepted |
| H1e | 0.616   | 0.616>0.05 | Rejected |
| H1f | 0.018   | 0.018<0.05 | Accepted |

Source: Researcher's Findings

## 11. Discussion of Findings

The goal of the study was to determine how behavioural factors affected the choices made by individual investors at CSE Sri Lanka. According to the study's first findings, variations in the independent variables—overconfidence, availability bias, regret aversion, market information, past stock trend, and buying and selling by other investors—can account for 4.7% of the observed variability. Other factors that are not included in the model account for the remaining 95.3% of the variance in the decision-making process. At the 5% significant level, behavioural characteristics have no discernible effect on the investment decisions made by individual investors at the CSE in Sri Lanka.

At CSE, individual investors' investment decisions are positively and significantly impacted by regret aversion, as evidenced by the  $\beta$  value of 0.035 and P value of 0.039. With a  $\beta$  value of -0.014 and a P value of 0.732, overconfidence has a negative and negligible effect on individual investors' investing decisions at CSE. At CSE, Availability Bias has a positive but negligible effect on individual investors' investing decisions; its  $\beta$  value is 0.024 and its P value is 0.578. With a  $\beta$  value of -0.033 and a P value of 0.027, market information has a negative but significant impact on individual investors' investment decisions at CSE. With a  $\beta$  value of 0.015 and a P value of 0.616, the Past Trends of Stock at CSE have a positive but negligible effect on individual investors' investing decisions. With a  $\beta$  value of -0.007 and a P value of 0.018, the

buying and selling of other investors has a negative but significant impact on individual individuals' investing decisions at CSE. The results of the hypothesis test indicate that the factors of overconfidence, availability bias, and past stock trends have no bearing on the decisions made by individual investors at CSE. Individual investors at CSE make important investment decisions based on a variety of factors, including market information, regret aversion, buying and selling of other investors, and so forth.

Additionally, the study looked at how individual investors' decision-making at CSE Sri Lanka was influenced by behavioural characteristics. There is a negative and negligible association between the Overconfidence (OC) and Decision Making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is -0.034 with a p-value of 0.668, where the significant level is over the 0.05 threshold, with a p-value of 0.668. With a p-value of 0.597, the correlation between Availability Bias (AB) and Decision Making (DM) is 0.041, suggesting a positive but negligible association between the two variables among individual investors at CSE Sri Lanka.

Additionally, the study looked at how individual investors' decision-making at CSE Sri Lanka was influenced by behavioural characteristics. There is a negative and negligible association between the Overconfidence (OC) and Decision Making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is -0.034 with a p-value of 0.668, where the significant level is over the 0.05 threshold, with a p-value of 0.668. With a p-value of 0.597, the correlation between Availability Bias (AB) and Decision Making (DM) is 0.041, suggesting a positive but negligible association between the two variables for individual investors at CSE Sri Lanka where the significant level is less than 0.05, indicated by the p-value of 0.028. There appears to be a positive but negligible association between individual investors' Decision Making (DM) at CSE Sri Lanka and the Past Trend of Stocks (PTS), as indicated by the correlation of 0.041 with a p-value of 0.601, where the significant level is greater than 0.05, as indicated by the p-value of 0.601. There is a negative but significant relationship between the buying and selling of other investors (BSD) and the decision-making (DM) of individual investors at CSE Sri Lanka, according to the correlation between the two variables, which is -0.002 with a p-value of 0.020, where the significant level is less than 0.05, indicated by the p-value of 0.020.

## 12. Conclusion of the Study

In summary, the study sought to determine the influence of behavioural elements on the decision-making process of individual investors at CSE Sri Lanka, as well as the correlation between behavioural factors and decision-making at CSE Sri Lanka. To determine the influence of behavioural characteristics on individual investors' decision-making at CSE Sri Lanka, a multiple linear regression model was employed in the study. The study was conducted using statistical methods such as regression analysis, correlation analysis, and the SPSS computer programme to explore the research problem and draw conclusions.

Overall, the research indicates that behavioural factors have little effect on individual investors' investing decision-making at the CSE in Sri Lanka at the 5% significant level. At CSE, individual investors' investment decisions are positively and significantly impacted by regret aversion, as evidenced by the  $\beta$  value of 0.035

and P value of 0.039. With a  $\beta$  value of -0.014 and a P value of 0.732, overconfidence has a negative and negligible effect on individual investors' investing decisions at CSE. At CSE, Availability Bias has a positive but negligible effect on individual investors' investing decisions; its  $\beta$  value is 0.024 and P value is 0.578. With a  $\beta$  value of -0.033 and a P value of 0.027, market information has a negative but significant impact on individual investors' investment decisions at CSE. With a  $\beta$  value of 0.015 and a P value of 0.616, the Past Trends of Stock at CSE have a positive but negligible effect on individual investors' investing decisions. Individual individuals' investment decisions at CSE are significantly impacted negatively by the buying and selling of other investors; the P value is 0.018 and the  $\beta$  value is -0.007. With a  $\beta$  value of -0.033 and a P value of 0.027, market information has a negative but significant impact on individual investors' investment decisions at CSE. With a  $\beta$  value of 0.015 and a P value of 0.616, the Past Trends of Stock at CSE have a positive but negligible effect on individual investors' investing decisions. Individual individuals' investment decisions at CSE are significantly impacted negatively by the buying and selling of other investors; the P value is 0.018 and the  $\beta$  value is -0.007.

Additionally, the study looked at how individual investors' decision-making at CSE Sri Lanka was influenced by behavioural characteristics. According to the study, there is a weak and unfavorable correlation between individual investors at CSE Sri Lanka's Overconfidence (OC) and Decision Making (DM), with a p-value of 0.668 and a R value of -0.034. At CSE Sri Lanka, individual investors' Decision Making (DM) and Availability Bias (AB) have a positive but negligible relationship (p-value of 0.597 and R-value of 0.041). At CSE Sri Lanka, individual investors' decision-making (DM) and regret aversion (RA) have a positive and substantial relationship (p-value = 0.035, R-value = 0.073). At CSE Sri Lanka, there is a strong but negative correlation between individual investors' Decision-making (DM) and Market Information (MI); the p-value is 0.028 and the R-value is -0.084. At CSE Sri Lanka, there is a positive but negligible correlation between individual investors' Decision-making (DM) and the Past Trend of Stocks (PTS); the p-value is 0.601 and the R-value is 0.041. At CSE Sri Lanka, there is a strong but negative correlation between individual investors' Decision-making (DM) and the Buying and Selling of Other Investors (BSD); the p-value is 0.020 and the R-value is -0.002.

These results indicate that the overconfidence, availability bias, and past stock trends will not significantly affect the way that decisions are made about investments are made. When making investment selections at CSE Sri Lanka, individual investors are informed about market information, buy and sell of other investors, and regret aversion.

## 13. Recommendations

This study improved users' or readers' comprehension of how behavioural aspects currently affect individual investors' decision-making at CSE Sri Lanka. The aforementioned findings, which this study confirms and which were thoroughly covered in the discussions make the following recommendations. Overall, at CSE Sri Lanka, individual investors' decision-making is positively correlated with regret aversion, market information, and buying and selling of other investors, and negatively correlated with overconfidence, availability bias, and past stock trends. Investors

are advised to carefully evaluate the relationship between market information and price movement, as well as the significance of technical analysis in forecasting. It is advised that individual investors select reputable investing partners to use as references for their capital. Investors ought to create discussion boards so that they can help one another locate trustworthy stock market information. A large group of investors can reduce risk and improve the likelihood of successful investment outcomes. Before enabling the decisions of investors to purchase and sell stocks, investors should thoroughly analyses their own investment options. When making decisions regarding purchasing and selling stocks, investors should keep in mind that they should avoid selling shares that have lost value and quickly sell shares that have gained value. Investors at CSE Sri Lanka can make better investment decisions and achieve better results by comprehending how these independent variables impact their decision-making.

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