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Role of Behavioral Finance in Investment Decisions

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Abstract

Behavioral finance challenges the traditional idea of rational investors by exploring how psychological factors and cognitive biases affect investment decisions. This research investigates the ways in which emotions, heuristics, and behavioral biases such as overconfidence, loss aversion, herd behavior, and anchoring influence investors' risk perceptions and choices. The research highlights how these biases lead to suboptimal investment results, inefficiencies in the market, and irrational decision-making.
In this study, a qualitative descriptive-explanatory methodology was employed. Reputable academic publications, books, and articles provided the data, which was analyzed using a qualitative interpretivist methodology. By analyzing a collection of current research, the paper emphasizes the importance of behavioral finance in understanding real investor behavior. By using behavioral insights, investors and financial experts may make better choices, effectively manage risks, and enhance long-term investment success.
Keywords: Behavioral Finance, Investment Decisions, Financial Literacy, Loss Aversion

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Introduction

Conventional economic theories have generally presumed that financial industry investors behave rationally, taking into account all pertinent information while making decisions that will optimize their earnings. But the truth is far more nuanced. The idea that people only act rationally has been called into question by the rise of behavioral finance, which has pointed out the significant influence of psychological elements on investing decision-making. The goal of behavioral finance study is to comprehend how social, emotional, and cognitive biases impact financial decisions. It investigates the ways in which human behavior deviates from the logical decision-making process that conventional finance theory suggests. The field of behavioral finance aims to clarify the different illogical patterns that influence investing choices by fusing ideas from psychology and economics.

The decision to invest in the stock market requires more information and thought than decisions made in other financial sectors. One of the main reasons for this is because the individual is not connected to the business where the stock is purchased and cannot directly affect the investment decisions that affect the share price. People usually choose to invest in high-productivity scenarios. But as everyone knows, in order to achieve high production and increase productivity, the right risks must be made.

Significance of the Study

By examining behavioral factors including biases, emotions, and cognitive limitations, the study helps explain why investors occasionally make poor or irrational judgments. Beyond traditional financial theories, the study of behavioral elements influencing investment decisions provides a deeper understanding of how psychological and emotional factors affect investor behavior. The presumptions of classical finance, which maintain that investors act rationally and possess thorough knowledge, are often challenged by real-world investment decisions. This study can help investors since it increases their self-awareness and helps them recognize personal biases that could influence their decisions. With this information, investors may manage risks effectively, adopt more disciplined strategies, and enhance long-term investing performance. Understanding behavioral effects enables financial advisers and portfolio managers to provide better customer profiles, customized investment advice, and enhanced communication. It also supports regulators and legislators in developing investor education programs and regulatory frameworks which encourage cautious and knowledgeable investing practices. Understanding behavioral factors can result to improved decision-making, enhanced market efficiency, and improved financial well-being for both individuals and institutions.

Objectives of the Study

This study's key aim is to explore how behavioral factors affect people's investment choices. The study specially seeks to recognize the major psychological and emotional elements that impact investors' decisions and choices.

Problem Statement

Conventional financial models adopt the supposition that investors are rational and base their choices only on the evidence at hand, risk-return calculations, and market efficacy. However, due to psychological, emotional, and cognitive influences, investors frequently display illogical behavior in actual financial markets. Investors often make judgments that depart from logical expectations due to biases like overconfidence, herd mentality, loss aversion, fear, and greed. This can lead to bad investment selections, excessive risk-taking,

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or missed opportunities. Even while behavioral finance is becoming more well recognized, many investors are still ignorant of how these behavioral aspects influence their decision-making. Financial losses, market volatility, and ineffective resource allocation can all be caused by this ignorance.

Research Questions

The study will answer the questions:

1-What are different behavioral finance factors?

2-How these behavioral finance factors influence investment decisions?

Research Methodology

Qualitative descriptive-explanatory methodology has been used in this study .The data has been obtained from reputable academic journals, books, and papers has been examined using an interpretivist methodology(Ahmed, et al. 2025; Jamil and Azhar 2024).

Literature Review

Behavioral Finance and Traditional Finance

Behavioral finance emerged as a new area in the 1990s, appearing in business periodicals, academic journals, and even local newspapers. However, the roots of behavioral finance date back more than 150 years. The behavioral finance school began with a number of original works published in the 1800s and early 1900s. MacKay's Extraordinary Popular Delusions and the Madness of Crowds, which was first published in 1841, provides a timeline of the numerous panics and schemes that have occurred throughout history. This study demonstrates the relevance of group behavior to modern financial markets. Bon's classic work, The Crowd: A Study Of The Popular Mind, investigates the function of "crowds" (sometimes called crowd psychology) and collective behavior in relation to behavioral finance, social psychology, sociology, and history. One of the first works to directly apply psychology to the stock market was Selden's 1912 book Psychology of the Stock Market. The emotional and psychological factors influencing traders and investors in the financial markets are covered in this classic. Applying psychology and sociology to the field of finance is based on these three works as well as a number of others. It is clear that the search for the ideal balance between traditional finance, behavioral finance, behavioral economics, psychology, and sociology is still ongoing because there is a wealth of literature today that includes terms like "psychology of investing" and "psychology of finance"(Ricciardi and Simon 2000). Behavior and psychology influences Individual investors and portfolio managers about the financial decision-making process with regard to risk assessment and framing(Statman 1995).

The study of how psychological factors impact people's and organizations' financial behaviors is known as behavioral finance. In contrast to traditional financial theories that presume rational decision-making, behavioral finance emphasizes how emotions, cognitive errors, and social factors influence actual financial decisions. Understanding the behavioral aspects of financial decisions is crucial due to the growing complexity of financial markets and the widespread availability of credit and investment platforms(Ziwei and Nizamdinova 2025). Long-standing theories in the field of finance have typically assumed that investors behave like rational agents, making decisions based on all available information and continuously attempting to maximize their utility. Important concepts like the Efficient Market Hypothesis and Modern Portfolio Theory are based on this notion of rationality. However, real-world investor behavior frequently deviates substantially from these well-ordered presumptions, as demonstrated by past financial crises and persistent market oddities. Psychological and emotional aspects often have an impact on financial decisions in ways that traditional models just cannot explain. As a result, behavioral finance has grown to be an important topic that studies how social dynamics, emotions, and cognitive biases influence investment decisions by combining knowledge from psychology, sociology, and finance. Instead of constantly acting logically, investors frequently rely on heuristics—mental shortcuts that, while occasionally useful, can lead to persistent errors. Mental accounting, loss aversion, herd mentality, overconfidence, and anchoring are common biases that impede rational financial decision-making and produce inferior outcomes. The core principles of conventional financial theories are being challenged by behavioral finance, which has become a prominent field of study. Behavioral finance examines the psychological mechanisms and cognitive biases that consistently influences investor behavior and consequently market outcomes, in contrast to the Efficient Market Hypothesis which assumes rational actors and perfect information. According to research, people have an uneven perception of wins and losses, frequently displaying risk aversion when faced with gains and risk-seeking inclinations when faced with losses. The consistent rationality assumed by traditional utility theory contrasts sharply with this behavior(Kahneman, et al. 1979). Behavioral finance considers the biases and heuristics of investors' short-term investment decisions, including expectancy theory and psychoanalytic theory(Fotaki, et al. 2012). In behavioral finance financial market inefficiency is examined in light of psychological theories and viewpoints(Birău 2012).

One important tool for manifesting an economy's macro and micro levels is investor decision making. Ventures are essential to the economy's growth(Chakraborty, et al. 2023). Traditional finance assumes that the stock exchange has always been good for the economy and that its incidentals have always taken into account all pertinent data. Furthermore, conventional finance advises investors to base their portfolio development on these logical presumptions and to typically be analytical in the market(Ahmad, et al. 2020). The volatility and vulnerability of monetary markets lead to significant fluctuations in revenue. Because they are human and their behavior has been studied for a long time, financial patrons do not always get the best outcomes(Yüksel and Temizel 2020). Important cognitive biases that affect investors have been identified by a substantial amount of later research. Models created show that how investors mood can cause markets to overreact or underreact(Barberis, et al. 1998).

Rational decision-making is further complicated by emotional factors. The idea of "risk as feelings" was first presented by Loewenstein et al. (2001), who emphasized that feelings like fear, greed, and regret can impede logical investment decisions, especially during times of increased market volatility(Loewenstein, et al. 2001). (Shefrin 2000) introduced the Behavioral Portfolio Theory, which suggests that investors are not only driven by the maximization of expected returns but also by psychological needs, such as avoiding regret or preserving a sense of control. The principles of Modern Portfolio Theory stand in contrast to this stance. The applications of behavioral finance are becoming more and more obvious. These days, behavioral insights are used by financial advisors and investment platforms to help clients avoid frequently occurring errors. Thaler and Sunstein (2008) introduced the concept of "nudging" and showed how little adjustments to the design of financial products or decision environments can produce markedly better results for investors (Thaler and Sunstein 2009). According to a number of studies, behavioral features like the herding effect, heuristics, and market variables have a noteworthy impact on how individual investors make decisions in the Pakistani stock market(Mahmood, et al. 2016; Nayak and Kumar 2020; Yasir 2016).

It has been found that many people struggle to distinguish between fraudulent scams and safe investment options. This lack of confidence and uncertainty discourages the public from investing in capital markets. Essentially, people have a prejudice that associates "investing" with "risk of being scammed" because of past Ponzi scheme experiences or a general lack of knowledge about stock investments. This behavioral barrier (mistrust bias) helps to explain the low level of participation in the local stock market and other formal investment channels(Gulnaz 2021). In the field of behavioral finance, decision-making is a multifaceted process. In addition to market volatility and opportunities for profit maximization, investor behavior is influenced by a number of psychological and behavioral biases (Puaschunder 2017). Behavioral finance studies how an investor's social, psychological, and cognitive characteristics influence their financial choices(Schindler 2007). Therefore, by recognizing their behavioral biases, investors can enhance their decision-making, financial performance, and risk tolerance(Agarwal, et al. 2016).

The impact of behavioral factors on investors' investment decisions was emphasized in the literature. Several researchers investigated the impact of behavioral factors on investors' decision-making behavior, including heuristics, prospects, herding, and overconfidence (Asad, et al. 2018; Blake, et al. 2017; Shukla, et al. 2020).

Elements of Behavior Affecting Investment Decisions

1-Overconfidence and Investment Decisions

In the field of behavioral finance, overconfidence is a psychological trait that has a substantial impact on one venture choice, which could be one or more venture selections(Joo 2017). In the field of behavioral finance, overconfidence is a psychological trait which greatly influences one's investment decisions(Haseeb, et al. 2019). Overconfidence is therefore encouraging for forecasters to estimate the venture efficiency of speculators who follow market fluctuations(ul Abdin, et al. 2017). Overconfidence bias, which shows that investors often overestimate their capacity for prediction, resulting in excessive trading and, ironically, lower results(Odean 1998).

Investment decision-making factors must be highly compatible with investors' perceptions in order to make decisions about investments during periods of market volatility(Kumar and Babu 2018). Investors with an over confident mindset have decided to make their own investing judgments and come to the conclusion that other people's actions may be influenced by circumstances, emotions, and visions. Their overconfident behavior genuinely supports their belief that other people's decisions and suggestions are irrational and aesthetically pleasing(Rachmatullah and Ha 2019). Extreme self-assurance is a significant feature of the overconfidence bias, which significantly effects financial choices(Ghelichi, et al. 2016). When making communications, overconfident people normally disregard the instructions of other accurate opportunists in favor of their acquaintance and experience(Alquraan, et al. 2016). Overconfidence and investment decisions are clearly correlated, mostly due to the activities of overconfident investors(Javed, et al. 2017). It's imperative to note that this association has a disadvantage in that overconfident investors may misplace money because of their psychological predispositions rather than making rational choices(Boda and Sunitha 2018). These investors normally believe they are constantly making the right judgments and have unwavering confidence in their selections(Bakar and Yi 2016).

Overconfident investors make their own choices because they think that other people's choices are obstructed by feelings, situations, and perceptions. They see other results and suggestions from others as illogical and objectionable since their overconfidence supports their opinions. Accepting risk as a necessary component of their financial plan, overconfident traders often pay no attention to risk levels and involve in extreme trading driven by their unchanging confidence, which may not essentially have unfavorable consequences. However, critics oppose that lasting overconfidence may result in more trading activity, which could moderate market efficiency(Rachmatullah and Ha 2019). An overstated sense of certainty is a sign of overconfidence, which causes investors to both miscalculate and underestimate their projections. While rational investors typically want to maximize returns while avoiding risk, high-confidence investors are more likely to take chances(Kartini and Nugraha 2015).

2-Herding and Investment Decisions

Herding tendencies are defined as investors that purposefully imitate the behavior of their peers. These investors constantly copy other people's trading and investment strategies (Kamil and Abidin 2017). When investors lack the knowledge necessary to make wise decisions regarding trading assets, herding behavior frequently results(Lee, et al. 2021). One way to conceptualize investment risk is as a deviation from the expected profit(Riyadi 2016).

One of the behavioral finance theories that economists employ to explain this investment behavior is herd behavior(Kashif, et al. 2021). Different scientists have suggested various classification schemes for the herd effect. There are two types of internal mechanisms: the actual herd effect and the fake herd effect. Additionally, there are two types of logical behavior: Both the irrational and rational herd effects(Huangwei, et al. 2013). Emotionally volatile investors find it challenging to act logically. This demonstrates the inefficiency of stock markets. Herding behavior among investors has been explained by a number of ideas. Herding behavior was more noticeable at times of significant stock price volatility, according to several suggested studies in the literature(Shiller 2003).

Herding occurs in the stock market when a number of investors simultaneously replicate the actions of other speculators due to limited exposure and data. Humans have an aptitude to share, watch, and imitate the actions of others in the financial market during periods of instability. When herding is present, investors make illogical investment decisions(Yu, et al. 2018). When making financing decisions, financiers want to respect other people's ideas and visions. Consequently it is referred to as "herding behavior" when investors change their minds and they are influenced by the decisions of others in same or different context. The effects of herding behavior are very subtle when the market is acting uncomfortably, such as during the phase of market anomalies, future price increases, and buzzes(Mertzanis and Allam 2018). Because they find it more comfortable, the masses that exhibit herd behavior choose to follow the lead of others. As a result, investment decisions made by an individual investor or an institutional investor will influence the herd's illogical attitude and mood(Wang and Nuangjamnong 2022).

Researchers suggested a different method to analyze the asymmetric risk-return connection in the stock market while accounting for the existence of herding behavior in order to look at the impact of herding bias on financer decisions. The study's conclusions showed that the herding phenomenon was responsible for a reverse feedback loop seen in Asian financial markets(Bekiros, et al. 2017). Institutional investors have a greater herd effect than individual investors, which tends to favorably affect individual investing choices(Wang and Nuangjamnong 2022). Positive outcome commercials, which buy winners and sell losers, and herding, which is the simultaneous imitation of other fund managers' investment decisions, are important aspects of the financial markets. Investment decisions are influenced by behavioral phenomena such as following the herd and giving in to the "fear of missing out". These inclinations may cause people to make illogical conclusions based on limited information(Chhapra, et al. 2018).

3- Heuristics and Investment Decisions

Heuristics influence investors' choices, and behavioral finance typically has a big influence. It has been found that biases and intuitive methods predominate when making investing judgments(Ogunlusi and Obademi 2021; Parveen, et al. 2020). The authors added that investors are not financially informed to prevent psychological influences harming them, and the Pakistani stock market is underdeveloped. Both irrational and non-rational investors drive markets, and behavioral biases are a significant factor in how investors make decisions(Hung and Toan 2023).

4-Risk Tolerance, Loss Aversion and Investment Decisions

Research highlights the fact that risk is a factor that worries a variety of people, including investors. Different investors have different levels of risk tolerance; some choose low-risk investments, while others are open to taking on high-risk ones. Perception is a person's viewpoint or interpretation of a circumstance. Risk, on the other hand, is a possible adverse outcome that results from uncertainty(Tandio and Widanaputra 2016).

One important aspect of the experiential implications of loss aversion is the phenomenon of resolution of separation or emphasis on misconception. It describes the propensity of a single choice to control the whole circumstance (Lackes, et al. 2020). According to the theory of loss aversion, people are more likely to take on greater risk in order to prevent a loss than to get a gain(Chaudhary 2013). The search results clearly and succinctly demonstrate that uncertainty avoidance significantly influences the decision to enter the stock market at the national level via affecting loss aversion(Rieger 2022). According to the study, the most significant psychological element influencing stock market participants is loss aversion. People have a tendency to be more loss averse than content with comparable benefits(Xu 2023).

Loss aversion behavior is unacceptable while making financial decisions. It makes one genuinely disagree with what investors want—higher risk and lesser rewards. Investors must take risks in order to reduce losses and boost profits(Areiqat, et al. 2019). Reduced equity investment and vice versa increase the perception of risk(Bhattacharjee, et al. 2021).It is well known that loss aversion marks many features of decision-making, including financial decisions. This phenomenon can lead to a psychological situation known as "investor paralysis"(Kumar and Babu 2018). Loss aversion financiers rank evading losses over chasing gains, which is consistent with the idea of loss aversion from prospect theory. People may also pay additional consideration to gains and losses because they tend to undervalue how rapidly they can modify to such changes. This collective characteristic of being more sensitive to damages than profits and regularly reconsidering the results is consistent with the concept of loss aversion (Khan 2017). In the world of investing, variables like motivation and risk awareness are thought to have a substantial impact.

Nonconformities from predictable results are often associated with risk(Frans and Handoyo 2020). Investors' perception of hazard and past profitability have a substantial influence on their choices and the incidence of their commercial activity(Ainia and Lutfi 2019). Investors' views of risk confidently effect financing decisions; that is, if an investor recognizes a high level of risk, they will often reconsider their speculative choices(Wibowo, et al. 2023).

Considering that stock market financiers are risk-averse and rational, loss aversion plays a important influence in influencing financing choices(Mumtaz, et al. 2018). When the profit or return from their historical stock purchase surpasses their determined target, investors typically become risk adverse; conversely, when their previous level of output has resulted in a loss, they may take a more risk-seeking stance(Javed, et al. 2017).Previous research suggests that investors with a stronger propensity for risk-taking behavior likely to engage in more transactions and may earn larger profits, suggesting that loss aversion has a negative influence(Khan 2017). According to the study, investors who have a loss aversion bias are more likely to make unreasonable investing choices. As a result, we distinguish between two categories of investors: those who are impacted by loss aversion bias and steer clear of needless risks in order to protect capital from loss, leading to favorable results; and those who are unaffected by this bias and encounter unfavorable effects on financing decisions(Butt, et al. 2023).

The probability of becoming wealthier is increased by taking appropriate financial risks. However, people frequently mistakenly believe that risk is too dangerous, which prevents them from making choices that would be in their best interests. Making poor decisions and possibly losing money are the results of concentrating on a financial endeavor's hazards rather than its possible benefits (Bucciol, et al. 2021). After a significant shock, investors react to the previous returns by limiting their risk-taking(Papadovasilaki, et al. 2018). When allocating their stock holdings, people give tail events like financial crashes more weight(Cardak, et al. 2019). Emotions generated by market crashes are likely to have a lasting impact on decisions(Ring and Schmidt 2019)

5-Financial Literacy and Investment Decisions

While not a perfect defense against prejudices, greater financial literacy is linked to better financial decisions. According to a recent study, people's financial literacy levels and the effectiveness of their investment decision-making are significantly positively correlated. In their survey of adults, those with higher financial literacy were more likely to make wise investment choices, while those with lower literacy frequently made poor or nonexistent choices(Bayakhmetova, et al. 2023).

Even among knowledgeable people, biases can still exist. For example, some knowledge may actually increase overconfidence; an intermediate level of knowledge may encourage people to believe they know more than they actually do. Overconfidence was somewhat correlated with investor sophistication, according to a study cited in a behavioral finance review. This advocates that as people gain further information, they should exercise carefulness to evade becoming overconfident in their capabilities(Gerth, et al. 2021). Financial literacy plays a vigorous part in helping financiers make knowledgeable speculative decisions and steer clear of irrational market behavior. Various studies have shown that having a firm knowledge of financial models can reduce the effect of cognitive biases on investing decisions and increase the effectiveness of financial education initiatives(Agnew and Harrison 2015). Also, research shows that an individual's level of financial literacy may modify the association between significant elements and financing decision-making(Rasool and Ullah 2020). When seen as a intermediary between investors' overconfidence and their choice-making processes, financial literacy has a critical beneficial moderating outcome. Additionally, their results confirmed that the adding of financial literacy as a moderator has a positive impact on investor choices and self-serving bias while also having a moderating effect on the effects of the illusion of power on investors' decisions (Quddoos, et al. 2020). The relationship between investors' choices and their inclination to take up risky investment endeavors is moderated by financial literacy(Dinç Aydemir and Aren 2017). An extensive study that concentrated on middle-class people living in developing countries aimed to investigate how financial literacy affected investment practices. The results showed that those who are financially literate typically invest a larger percentage of their money in assets rather than traditional savings accounts. Additionally, these financially literate people have a greater inclination to use credit cards. On the other hand, it was shown that financial literacy promotes improved ability to make wise financial decisions(Grohmann 2018).

6-Anchoring Bias and Investment Decisions

When making judgments, investors have a propensity to depend too much on preexisting concepts or knowledge and disregard new information, particularly when it contradicts their prior beliefs. This is known as anchoring bias(Owusu and Laryea 2023). The term anchoring describes the judgment an investor makes based on the first information they are given, or anchoring on a particular characteristic or piece of information. Tversky and Kahneman first proposed the anchoring bias in 1981. Investors often take a while to adjust to new knowledge, or their value scale is fixed or anchored by recent observations (Zaiane 2015). When a product's worth is revealed to a person beforehand, it influences their evaluation of an unknown, comparable product, which will then be close to the value that was taken into consideration before to the estimation(Kahneman 2011).

Discussion

Behavioral finance is the relationship between psychology and the financial performance and actions of "practitioners". He advises these investors to be conscious of both their own "investment mistakes" and the "errors of judgment" of their peers because one investor's mistakes can become another investor's profits (Shefrin 2000).

Making an investment decision involves selecting a specific option from a variety of options. Additionally, it is an activity that comes after thorough assessment of each option(Jariwala 2015). Previous research demonstrated that investors may make irrational or rational investment decisions(Wong and Cheung 1999). While rational investors base their decisions on the examination of market statistics, irrational investors base their decisions on a variety of behavioral and psychological biases(Janssen, et al. 2006). When making investment decisions, rational investors use both technical and fundamental analysis. Finding the value, which is equivalent to a stock's current price, and determining how to handle a particular stock are the ultimate goals of using fundamental analysis. While technical analysis evaluates stocks by looking at statistical data produced by market activity, such as historical stock prices and volume, fundamental analysis also depends on macroeconomic and firm-specific factors. Technical analysis primarily relies on historical stock performance to project future stock investment returns(Fisher and Statman 1997). Analysis typically relies on stock price movement, and investors take this into account to predict future stock price movements (Janssen, et al. 2006). One of the most important factors in determining investment decisions is financial behavior(Mouna and Anis 2017). Additionally, investors need to cope with asymmetric financial information, which influences how they make decisions(de Goeij, et al. 2018).

Researchers investigated how risk perception and investment decision-making are affected by four behavioral finance factors: overconfidence, disposition effect, blue chip prejudice, and herding behavior. According to the results, an individual's perception of risk and investment decision-making process are significantly influenced by these behavioral finance elements(Almansour, et al. 2023). It has been revealed that investing decisions are significantly impacted by investor attitude(Quang, et al. 2023). Practices that exploit consumer behavior have been identified in the consumer lending market. Anchoring and salience, for instance were used to market some loan products in Kazakhstan with "teaser" low installments or bundled offers. This involved quoting a low weekly payment to make it seem affordable (anchoring on a small number) while concealing the true cost in fine print. Additionally, the report highlights the necessity of "behavioral supervision," which suggests that regulators should keep an eye on and stop business practices that take advantage of biases. It draws attention to the fact that Kazakhstani consumers, like many others, may be prone to present bias—taking out expensive short-term loans without considering the long-term effects—and overestimating their capacity for repayment, which can result in excessive debt(Karybay and Zhussupov 2024).

Individual investors' investment behavior has gained notoriety in scholarly circles. In the current era stock exchange investment judgments have rapidly improved(Calvet, et al. 2017). The rise in stock market earnings can be attributed to a number of factors. The extraordinary profit from the stock market's assets is the main cause for investment. Investing in finance gives investors the opportunity to make money and turn a profit. Another reason for this is that investors could instantly convert their stock exchange tools into cash because to the large convertible assets of financial instruments. Investors have access to a variety of financial instruments, and choosing an asset based on their investing goals is another contributing factor(Akhtar and Das 2019). Many financiers fail to make reasonable financing decisions because they overlook their enterprise objectives (Sabir, et al. 2019). Due to their incapacity to coordinate with expected earnings and adventurous behavior, the majority are deceived and mislead regarding their venture goals and fail to achieve their asset targets(Hoffmann and Post 2017).

The majority of people make investing decisions based mostly on their own expertise and intuition rather than taking money into account. When making investment decisions, they consider the risks involved and believe that the investment may result in a loss rather than a profit. Individual investors were under a lot of pressure to make investment-related decisions, and they would experience more anguish following a loss than joy following a gain. Compared to the joyful emotions and celebrations following a victory, an individual experiences twice as much panic(Fisher and Dellinger 2015).

Conclusion

Investment decisions are greatly influenced by behavioral factors, which frequently cause investors to stray from strictly objective and rational judgment. People's perceptions of risk, information evaluation, and investment choices are greatly influenced by psychological factors such emotional biases, loss aversion, herd mentality, overconfidence, and mental accounting. Particularly in times of uncertainty or market volatility, these characteristics may lead to systematic errors, market inefficiencies, and less-than-ideal

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investment results. Therefore, it is crucial for investors, financial advisors, and legislators to understand the effects of behavioral biases. Investors can reduce the detrimental effects of behavioral influences and make more long-term, sensible, and sustainable investment decisions by raising awareness, enhancing financial literacy, and implementing disciplined decision-making techniques.

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