

Impact of Behavioural Factors on Investment Decisions: Evidence from Individual Investors in Colombo Stock Exchange

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Abstract

Traditional finance theory has presumed that investors are always rational in decision-making in the stock market and optimize their profit, focusing on the trade-off between risk and return. However, behavioral finance studies revealed that investors do not behave rationally since various cognitive illusions and emotions influence decision-making. The studies about behavioral finance in Sri Lanka are limited, and this study is expected to make a significant contribution to the development of the economy of Sri Lanka.

The primary objective of this study is to identify the impact of behavioral factors on investors' decision-making in the Colombo Stock Exchange, and the secondary objective is to identify the relationship between overconfidence, representativeness, availability bias, and anchoring bias effect for the investment decision making in CSE.

The all-local individual investors who are invested in CSE are the population, and out of them, 300 investors were selected representing the population. A structured questionnaire has been distributed to collect primary data, and those collected quantitative data will analyze through SPSS. The major variables of this study will be overconfidence, availability bias, and representativeness effect emphasized the significant positive relationship between investment decision making in CSE. However, the anchoring bias is insignificant with investment decision-making in CSE. The study will conclude that overconfidence, availability bias, and representativeness are the most prominent factors for CSE investors' investment decision-making. The results of this study can be used by various parties such as individual investors, investment advisors, financial institutions, stock market regulatory, and future researchers.

Key words: *Investment decisions, Behavioral factors, Individual Investors, Colombo Stock Exchange*