

The Impact of Overconfidence & Loss Aversion on Investment Decision Making of Individual Investors in Colombo Stock Exchange: The Moderating Role of Gender (Special Reference to Central Province)

W.M.A.K. Senevirathne¹, A.J.P Samarawickrama²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}
amashasene@gmail.com¹, aravindaj@kln.ac.lk²

Abstract

Introduction: Within the framework of Conventional Financial Theory, investors are traditionally perceived as rational decision-makers primarily driven by risk-return considerations. In contrast, Behavioral Finance challenges this notion, positing the presence of irrational investors influenced by a myriad of behavioral and psychological factors. This study seeks to explore the impact of two prevalent behavioral factors, Overconfidence and Loss Aversion, on the decision-making processes of individual investors within the Colombo Stock Exchange. Additionally, the moderating role of Gender in these behavioral dynamics is considered.

Methodology: Data for this investigation were collected through a self-administered questionnaire, and the research objectives were primarily analyzed using Correlation analysis and Ordinary Least Square (OLS) regression analysis. The study aims to understand how Overconfidence and Loss Aversion influence investment decision-making, with a specific focus on the moderating role of Gender.

Findings: The study findings reveal that Loss Aversion significantly affects the investment decisions of individuals, underscoring its notable impact. However, the influence of Overconfidence on investment decisions is deemed insignificant. Furthermore, the results suggest that Gender independently holds a significant influence on investment decisions and behavioral biases. Interestingly, when Gender is treated as a moderator, its impact on these variables is found to be statistically insignificant.

Conclusion: In conclusion, this study contributes to the growing field of Behavioral Finance by shedding light on the influence of Overconfidence and Loss Aversion on the investment decision-making of individual investors within the Colombo Stock Exchange. The significant impact of Loss Aversion underscores the importance of recognizing and understanding behavioral factors in financial decision-making. While Overconfidence appears to have limited influence in this context, the role of Gender in shaping investment decisions and behavioral biases is noteworthy, though its moderating effect is deemed insignificant.

Keywords: Behavioral Finance; Overconfidence; Loss Aversion; Investment Decision Making; Gender Differences