

The Impact of Cognitive and Emotional Behavioral Biases on Stock Investment Decision Making in CSE Sri Lanka: Evidence from Gampaha District

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Abstract

Introduction: Understanding the cognitive and emotional biases that influence investment decisions is crucial, especially in the context of the Colombo Stock Exchange (CSE), which plays a critical role in determining market trends and impacting Sri Lanka's overall economy.

Methodology: This study employs a structured questionnaire. The behavioral biases considered in this study are Disposition Effect, Anchoring Bias, Overconfidence, and Herding Behavior and they are measured through a structured questionnaire with a 5-point Likert scale. The population comprises individual investors in Gampaha, with a sample size of 105 chosen through convenient sampling.

Findings: The model suggests that herding behavior, disposition effect, and anchoring bias have a more pronounced influence as behavioral biases, while overconfidence has a relatively lesser impact on the investment decision-making of individual investors at the Colombo Stock Exchange.

Conclusion: This study reveals a substantial impact of behavioral biases on investment decisions at the Colombo Stock Exchange.

Keywords: Behavioral Finance, Disposition Effect, Anchoring, Overconfidence, Herding