

## **RELATIONSHIP BETWEEN INVESTOR RATIONALITY AND DECISION MAKING: EVIDENCE FROM CSE**

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### **Abstract**

The innovation of the financial industry has seen an increase in financial products. Individual investor-based investing activities have also become common in the Sri Lankan financial industry. Thus, financial managers prioritize clarifying individual investors' investment behaviors and incorporating them into investment decision-making. The main purpose of this study is to investigate the relationship between rational decision-making and behavioral biases among individual investors in Sri Lanka. This study mainly investigates the relationship between behavioral biases and rational decision-making by examining two behavioral biases, which are relative differences between self-attribution bias and overconfidence bias by various demographic factors. The behavioral biases have either been identified in previous studies, or their effects on individual investors have been examined. However, no prior attempt has been made to examine the connection between behavioral biases and the capacity for rational decision-making, particularly in the context of Sri Lanka. Data has been collected using a structured questionnaire, and 500 investors in Colombo Stock Exchange have responded from October to November 2022. SPSS Statistics software has been used to test the relationship between rational decision-making and behavioral biases. Findings show that individual investors have both rational and irrational behaviours. The findings of this study are more significant for the new and current investors, policymakers, investment advisors, and bankers especially because of the current economic situation in the country.

**Keywords:** *Investor rationality, decision-making, relationship, behavioral bias, active investors, overconfidence, self-attribution, demographical factors*