The Impact of Behavioral Biases on Individual Investors' Investment Decisions at the Colombo Stock Exchange

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Over the past few decades, finance theories have evolved from standard theories to behavioral theories. Standard finance theories indicate the rationality of the investors, while behavioral finance explains the irrationality of the investors in financial markets. It indicates that investors are affected by different psychological biases that drive them towards irrational decisions and effect desired goals and returns of the investments. The decisions made by investors are very much important for the better performance of the market as well as the economic growth of the country. Thus, behavioral finance has become a great interest for economists, academics and practitioners because, they can identify behavioral biases affect investors and assist with taking necessary actions to prevent from taking partial investment decisions. In this light, the main objective of this study is exploring the impact of behavioral biases on individual investors' decisions. Overconfidence, representativeness, availability bias, regret aversion and loss aversion were considered as independent variables, whereas, individual investors' decisions as dependent variable. The study selected 100 individual investors registered in Colombo Stock Exchange by using convenience sampling method and a questionnaire was used to collect the data. The data were analyzed through descriptive statistics, correlation coefficient and regression analysis in order to test the hypotheses. The results of the study statistically confirmed that representativeness, loss aversion and regret aversion have a significant impact on investment decisions, whereas overconfidence and availability bias have no significant impact. This study suggests that the investors are induced by these behavioral biases, which direct them towards irrational investment decisions.

Keywords: Behavioral finance, behavioral biases, investment decisions