IMPACT OF EMOTIONAL INTELLIGENCE ON INVESTMENT DECISIONS OF INDIVIDUAL STOCK MARKET INVESTORS

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INTRODUCTION

Emotional intelligence is the human ability to understand a human's own emotions and manage them in positive ways for minimized stress. When investors make decisions, emotional intelligence is considered a tool to solve decision-making problems as they influence decisions. Psychological theories are the theories of explaining certain aspects of humans' thoughts, behaviours, and emotions. There are four types of psychological theories; cognitive theories, behavioural theories, personality theories, and social psychological theories. Behavioural finance is a critical component of psychological theory. Behavioural theory is the most closely related to the day-to-day life activities of humans. Emotional intelligence is a recent development in behavioural theory. Humans can make decisions by identifying and understanding their own emotions, which has helped minimize conflicts regarding the decision-making process. Investment decisions are the process of investors making decisions on how their funds are to be invested into different assets so that investors focus on the highest return. If investors do have no emotional intelligence, they can make get wrong decisions. In considering the international context, there are mixed findings on emotional intelligence with investment decisions and mixed results with emotional intelligence variables with investment decisions. Considering the Sri Lankan context, there has been a shortage of studies on the impact of emotional intelligence on individual investment decisions. However, there are several studies on emotional intelligence in other disciplines; academic performance, bank performance, organizational performance, and job performance. Thus, this study examines the impact of emotional intelligence on the investment decisions of individual stock market investors.

METHODOLOGY

This study was based on the quantitative research method. The structured questionnaire was used to collect data consisting of previous studies. Google form was sent to more than 350 individual investors who are invested Colombo Stock Exchange (CSE), and 200 responses were received. The respondent rate is 57% percent of respondents. This structured questionnaire is based on a five-point Likert scale. Firstly the researcher drafted the initial questionnaire. Then, a questionnaire was given to the two experts in the academic field for their opinion. Then the researchers revised the questionnaire based on that expert's views. Then, a pilot survey was performed with ten investors in the CSE, which was refined based on expert opinions and the finer points learned from a pilot survey.

Emotional intelligence is the independent variable, and the dependent variable is investment decisions in this study. Self-awareness, self-management, relationship management, and social awareness are the four measures of emotional intelligence. Herding, loss aversion, overconfidence, mental accounting, and investor sentiment are the measuring variables of investment decisions. The data was analyzed using reliability, validity, descriptive, correlation, and multiple regression analysis. The model of this study is as follows:

$$ID_{it} = \beta_0 + \beta_1 SA_{1it} + \beta_2 SM_{2it} + \beta_3 RM_{3it} + \beta_4 SoA_{4it}$$

ID: Investment decisions
SA: Self-awareness
SM: Self-management
RM: Relationship management
SoA: Social awareness

RESULTS AND DISCUSSION

Initially, the researchers did data screening and cleaning to identify mistakes. Then after, the researchers analyzed the collected data. According to reliability analysis, Cronbach's alpha value was recorded as more than 0.5 for all variables. Therefore, this research tool is accepted for further analysis. According to descriptive analysis, the mean values of all variables were recorded as more than 1.5. Further, normality and multicollinearity were ensured. According to correlation analysis, there is a strong positive relationship between self-awareness, self-management, relationship management, and social awareness with investment decisions. The hypotheses of the study were tested by using multiple regression analysis. Table 1 shows the regression analysis model summary test.

Table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	0.826[a]	0.682	0.675	0.209	0.000

a. Predictors: (Constant), Social awareness, Relationship management, Self-management, Self-awareness
b. Dependent Variable: Investment decisions

Table 2 Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.174	0.078		2.234	0.027
SA	0.303	0.064	0.307	4.726	0.000
SM	0.135	0.062	0.138	2.184	0.030
RM	0.146	0.055	0.151	2.653	0.009
SoA	0.316	0.051	0.360	6.202	0.000

Table 2 shows a significant impact of self-awareness on investment decisions ($P<0.05$).

Raheja and Dhiman (2016) and Asamoah et al. (2021) found a significant impact of self-awareness on investment decisions. However, Tanvir et al. (2016) found that there is an insignificant impact of self-awareness on the investment decisions of individual stock market investors.

Further, self-management significantly impacts investment decisions (*P*<0.05). Results indicated a significant impact of relationship management on investment decisions. However, Tanvir et al. (2016) found an insignificant impact of relationship management on investment decisions. Furthermore, social awareness significantly impacts investment decisions (*P*<0.05). According to Table 1, R square value, the researchers found a significant impact of emotional intelligence variables on investment decisions, showing a good prediction level.

CONCLUSION AND IMPLICATIONS

The study's main objective is to examine emotional intelligence's impact on investment decisions. Extant studies found mixed findings on emotional intelligence with investment decisions in an international context. Moreover, there is a shortage of studies on emotional intelligence with investment decisions in the Sri Lankan context. This study fulfilled the gap in the Sri Lankan context to some certain extent. The finding of this study revealed that there is a significant impact of emotional intelligence on investment decisions. According to the findings, the study delivers valuable insight for individual investors, the government, financial institutions, and policymakers. The financial advisor and issuing companies can identify the various emotions and investors' behaviours before offering any securities in the stock market. Individual investors can control their own emotions and improve them to obtain better investment returns in the future. Financial advisors need to understand each investor's emotions before analyzing the market. Therefore, this study delivers value for them. The purpose of this study is to examine the impact of emotional intelligence on the investment decisions of individual stock market investors. So, researchers could not examine the emotional intelligence of all individual investors in the Sri Lankan context. This study's scope is to examine emotional intelligence in the Sri Lankan context of investors. So, this study could not examine the investor's emotional intelligence in the international context. Emotions are a more powerful aspect of human life. Moreover, investors need to control their own emotions correctly. If the investors are based on only their self-beliefs, convictions, information, and emotional perceptions alone, they cannot make better investment decisions. Therefore, researchers recommended that investors get consulting services from financial and investment experts. Investors can make investment decisions without emotional bias if they have appropriately analyzed. It is recommended that investors improve their financial literacy.

Keywords: Colombo Stock Exchange, emotional intelligence, individual investors, investment decisions.

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