BEHAVIORAL BIASES AND INVESTMENT DECISIONS OF INVESTORS

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ABSTRACT

Behavioral bias is a systematic deviation from rational decision-making procedures that might affect judgments and decisions in the expected directions. In the context of behavioral biases, investors may make decisions that deviate from what is considered optimal or rational based on traditional economic theory. These biases can affect all stages of the investment process, from the initial research and analysis to the execution and management of investment portfolios. Although heuristics can enhance decision-making efficiency, they may simultaneously introduce systematic biases and errors. Applying this theory to a less-studied area, such as Kurunegala, could reveal distinct biases or decision-making patterns shaped by the region's specific socio-economic, cultural, or environmental context. Therefore, this study overlooks the effect of behavioral biases on investment decisions, focusing on individual equity investors from the Kurunegala area. Drawing on heuristic theory, this study examines the impact of overconfidence biases, availability heuristics, anchoring biases, and gambler fallacy using a structured questionnaire distributed to 122 investors selected according to a convenient sampling method. The gathered data were analyzed by incorporating Cronbach's alpha, Pearson's correlation coefficient, regression analysis, and descriptive statistics using SPSS. The findings depict a positive impact of overconfidence biases, anchoring biases, and the gambler's fallacy on investment decisions. Moreover, overconfidence bias was determined to be the most influential variable in making investment decisions. Additionally, the findings indicate a negative impact of the availability heuristic on investment decisions. Consequently, the implications of this study highlight the relevance of investor education and reliable market information for enhancing decision-making quality and mitigating behavioral biases.

***Keywords*:** Availability heuristic, anchoring bias, gambler fallacy, overconfidence bias, investment decisions