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Behavioral Finance: Navigating the Emotional Landscape of Investing

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ABSTRACT:

This paper explores the profound impact of human emotions on financial decision-making, shedding light on the intricate interplay between psychology and investment. In this comprehensive examination, we delve into the behavioral biases, cognitive heuristics, and emotional triggers that shape investment choices, often deviating from rational economic models. By understanding these psychological dynamics, investors, financial professionals, and policymakers can navigate the intricate landscape of investing more effectively. This abstract provides a glimpse into the book's exploration of behavioral finance, its insights, and its practical implications for enhancing investment strategies. The research presented here sheds light on the divergence from conventional economic rationality and offers a more profound comprehension of the reasons behind people's seemingly illogical financial actions. This paper provides investors, financial professionals, and policymakers with the necessary tools to identify, manage, and lessen the influence of emotions on financial results by traversing the emotional terrain of investment. Readers will be able to make more informed and emotionally intelligent financial decisions by gaining a better understanding of the dynamic dynamics influencing the investment landscape through a combination of theory, real-world examples, and practical solutions. For individuals who aim to achieve financial success by understanding the intricate relationship between psychology and finance, "Behavioural Finance: Navigating the Emotional Landscape of Investing" is a crucial resource.

Keywords: Behavioral Finance, Cognitive Heuristics, Investor Psychology, Financial Emotions, Rationality

1 Introduction

Conventional economic theories frequently presume that investors in the dynamic world of financial markets make logical judgments based on all the information at their disposal. But the truth is much more nuanced. Financial decisions are heavily influenced by human emotions, biases, and cognitive errors, which can result in actions that deviate from reason. The discipline of behavioural finance, which aims to comprehend and take into account the psychological aspects impacting investing decisions, was born out of this realisation. The article "Behavioural Finance: Navigating the Emotional Landscape of Investing" explores the complex relationship that exists between financial decision-making and human behaviour. Investors frequently stray from the logical decisions that conventional financial models anticipate because they are motivated by emotions like fear, greed, and overconfidence. By examining the psychological foundations of these variations, this study sheds information on the thought processes that influence investing outcomes. We will look at important ideas including prospect theory, mental accounting, and the influence of social factors on financial decisions as we begin this investigation of behavioural finance. We can learn more about the elements that lead to market anomalies,

bubbles, and crashes by comprehending how people interpret and react to information about the market. Additionally, this study aims to close the knowledge gap between theory and practice by providing useful advice to politicians, financial professionals, and investors. By examining the psychological foundations of these variations, this study sheds information on the thought processes that influence investing outcomes. We will look at important ideas including prospect theory, mental accounting, and the influence of social factors on financial decisions as we begin this investigation of behavioural finance. We can learn more about the elements that lead to market anomalies, bubbles, and crashes by comprehending how people interpret and react to information about the market. Additionally, this study aims to close the knowledge gap between theory and practice by providing useful advice to politicians, financial professionals, and investors.

2 Objectives Of The Study

- ❖ To understand the concepts of behavioral finance, with a focus on how human emotions influence financial decision-making.
- ❖ To Identify and Analyze Common Behavioral Biases that influence investment decisions.
- ❖ To know the Impact of Emotional Factors on Investment Decisions.

3 Review of Literature

In the article titled "Behavioural finance factors and investment decisions: A mediating role of risk perception," Almansour (2023) emphasises the significance of taking into account an individual's perception of risk when making investment decisions. This is because risk perception can have a substantial impact on an investor's willingness to take risks and, ultimately, on the performance of their investment portfolio. Investors must be aware of their behavioural biases, and advisors and legislators must devise plans to lessen their effects.

Individual investors have a variety of beliefs and preferences that influence their financial investing decisions, as Sahi, S. K. (2013) noted in the paper "An Exploratory Inquiry into the Psychological Biases in Financial Investment Behaviour." Rather than being mental defects, these biases show how the investor's thinking is constructed. Gaining insight into the psychology of individual investors would facilitate a deeper understanding of how these decisions are formed. This paper adds to the body of information regarding the purchasing behaviour of financial products by examining the perceptions and beliefs of financial consumers regarding their

financial investment biases, which has not been previously investigated.

The convergence of behavioural finance and stock market anomalies, highlighting the powerful role of psychological biases and cognitive factors in steering deviations from conventional financial paradigms, is explained by Bhanu, B. K. (2023) in the article "Behavioural finance and stock market anomalies: exploring psychological factors influencing investment decisions." This research explores key behavioural ideas that have a significant influence on investor decision-making processes, such as herding behaviour, overconfidence, and loss aversion.

4 Methodology

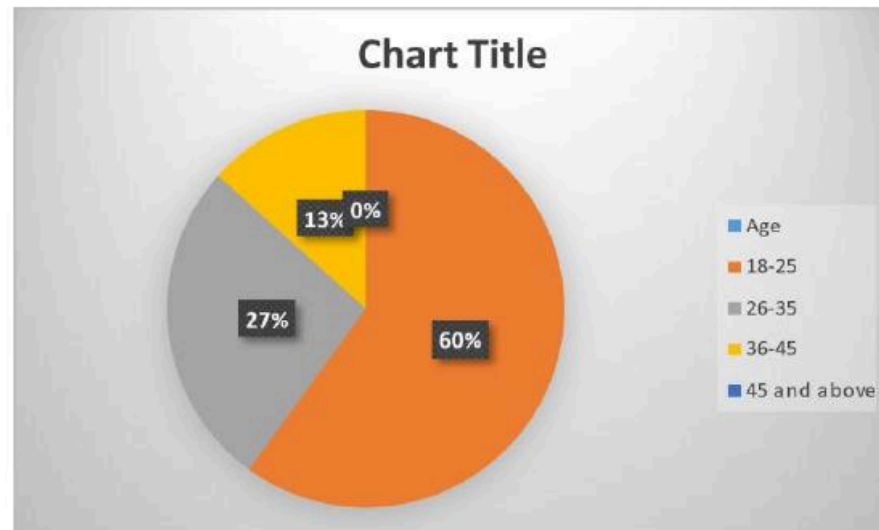
The present study has been conducted among 50 research participants from Mangalore city of India in order to understand the role of emotions played in financial decision. In the present study, a Primary survey data collection method has been used to collect data from the research participants. In accordance with Nayak, S. D. & Narayan (2019), the survey method can be accommodating in order to get adequate data from the research participants and the data collection process can be convenient. Google form has been used in the research to gather data from the participants and 15 questions were asked to the participants.

5 Analysis Of Results

The analysis and result of the present study is as follows:

❖ *Gender*

In the present research, a total number of 50 participants were taken into consideration to gather data on digital media marketing. In these circumstances, it can be seen participants were Male and female.



(Source: Google Survey)

❖ *Occupation*

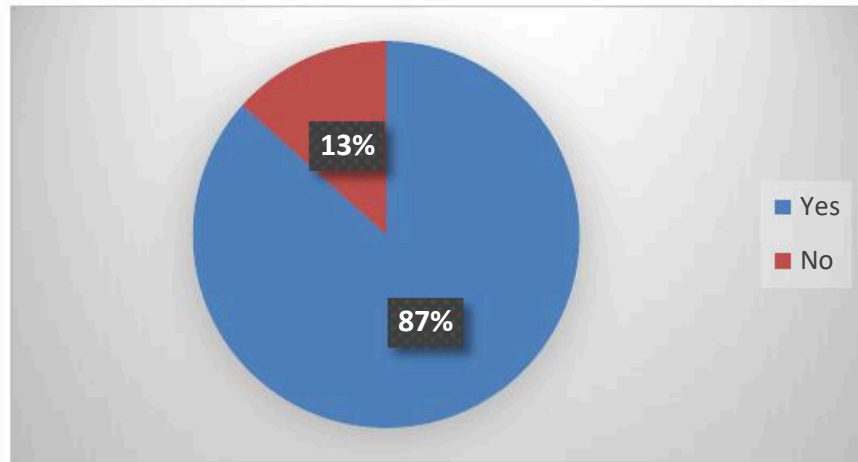
As per the data that has been collected from the participants, it can be said that there were participants from different job roles. Most of the participant are investors. However, it has become useful as participants were holding different positions and can get adequate information.



(Source: Google Survey)

❖ *Have you ever heard of behavioral biases in the context of finance and investment?*

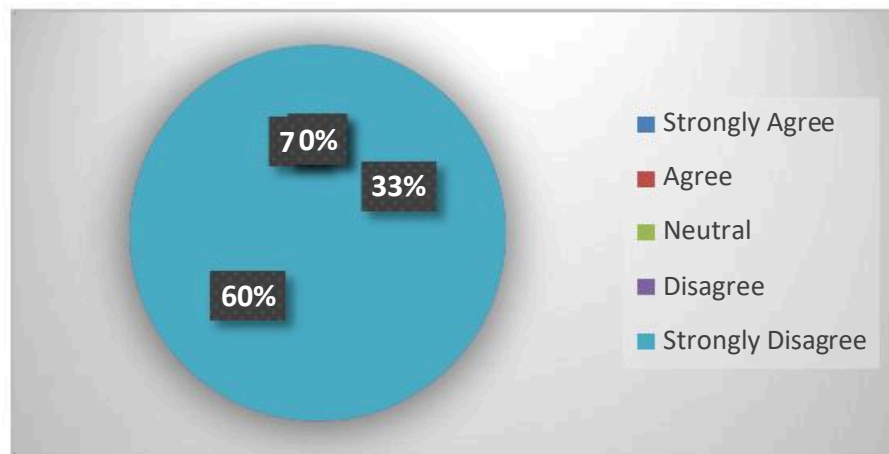
All the Participant were asked question about behavioral biases in context of finance and investment, It can be seen from the responses, that most of them(87% of the participants) believe in behavioral biases.



(Source: Google Survey)

❖ *Do you believe that emotions play a significant role in shaping investment choices?*

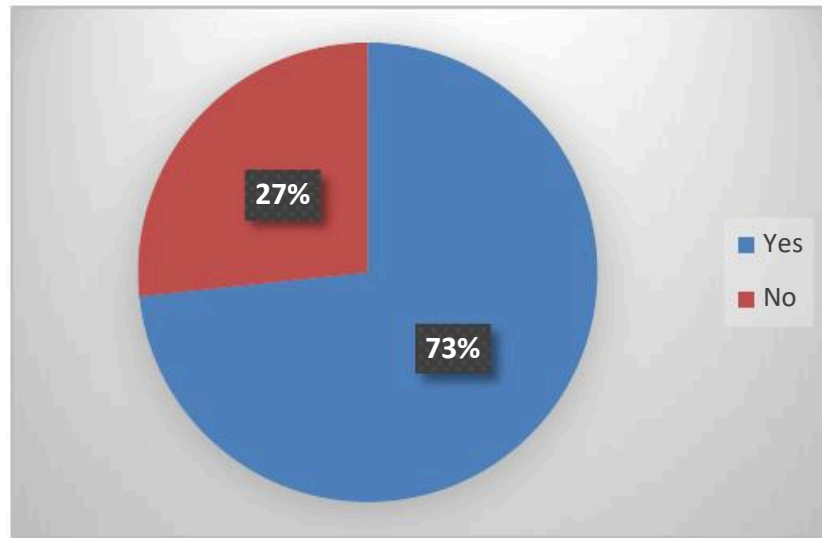
According to the responses of the research participant, most of the participants agree that emotions play a significant role in shaping investment choices.



(Source: Google Survey)

❖ *Are you aware of any practical strategies or tools to mitigate the impact of emotions on financial outcomes?*

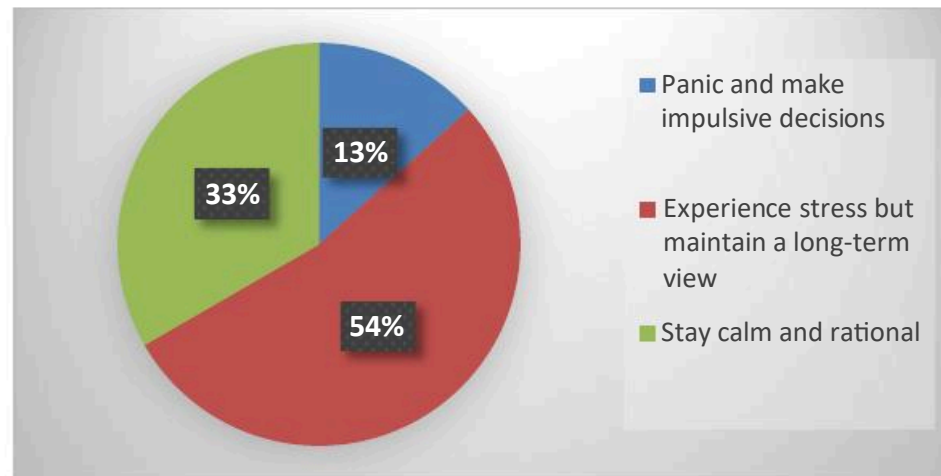
As per the information gathered from the participants of the research it can be seen that most of the participants are aware of the practical strategies to lessen the seriousness impact of emotions on financial outcomes



(Source: Google Survey)

❖ *How do you typically react emotionally to market fluctuations or unexpected financial news?*

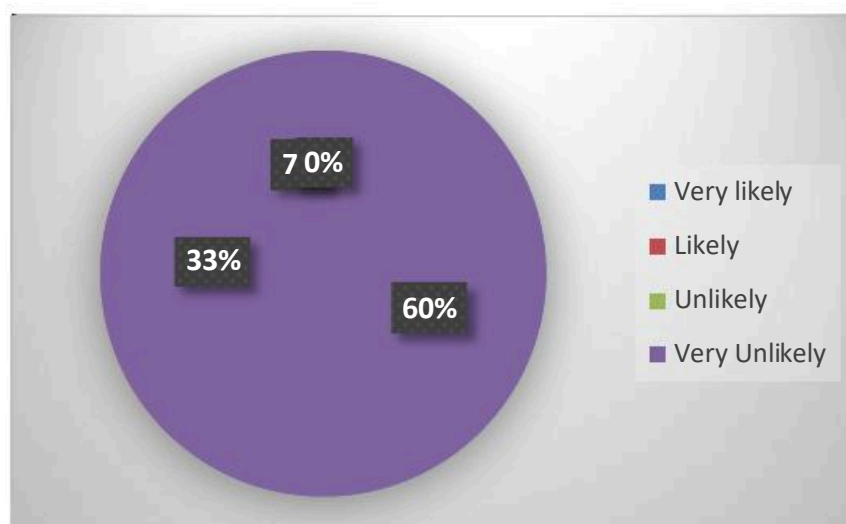
As per the information gathered from the participants of the research it can be seen that most of the participants experiences stress during fluctuation but maintains a long-term view.



(Source: Google Survey)

❖ *How likely are you to explore further research or education on the interplay between psychology and investment decisions?*

According to the responses of the research participants, it can be seen that most of the participants feel that they need to explore further research o education on the interplay between psychology and investment decisions.



(Source: Google Survey)

6. CONCLUSION

As a result, the study concludes that most participants think behavioural biases occur in investing and finance. They admit that feelings have a big influence on the choices they make. Participants exhibit a desire for more research and education in the fields of psychology and investing, are aware of techniques to reduce emotional impacts, and are able to remain focused on the long term even when faced with market changes. These results point to the necessity of ongoing education and awareness in this area and highlight the significance of addressing behavioural biases and emotions in financial decision-making. Essentially, it promotes a paradigm change in how we view and interact with financial decision-making. We take a step towards a more comprehensive and efficient approach to wealth management by acknowledging the reality of human psychology in the context of investing decisions. Further study in behavioural finance is expected to reveal

more aspects of the emotional terrain as time goes on, providing insightful knowledge that will help investors and

markets alike shape the financial environment going forward.

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