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RESEARCH ARTICLE

# The Impact of Behavioural Finance on Investment Decision-Making: A Study of Selected Investment Banks in India

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**ABSTRACT:**

This study examines the impact of behavioural finance on investment decision-making among retail investors associated with selected investment banks in India. Moving beyond traditional rational finance frameworks, the research focuses on two primary psychological dimensions: heuristics and prospect theory. Primary data were gathered through a structured questionnaire from a sample of 184 active investors using a convenience sampling technique. The data were analyzed using Pearson correlation and multiple linear regression analysis. The empirical results demonstrate that both heuristics and prospect theory have a statistically significant negative relationship with effective investment decision-making. Specifically, a heavy reliance on cognitive mental shortcuts and prospect-related illusions (such as loss aversion and anchoring) significantly reduces the overall rationality and quality of investment choices. Comparatively, heuristics exert a substantially stronger negative influence on decision-making performance than prospect theory. The findings suggest that financial institutions and policymakers must design targeted advisor frameworks and behavioral financial education initiatives to minimize systematic biases and enhance market efficiency.

**Keywords**:

Behavioural Finance, Heuristics, Prospect Theory, Investment Decision-making, Retail Investors, Indian Financial Markets.

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## 1. Background of the Study

Investment decision-making has long been a central area of research in finance due to its significant influence on wealth creation, capital allocation, and economic growth. Traditional financial theories such as Modern Portfolio Theory (MPT) proposed by Markowitz (1952), the Capital Asset Pricing Model (CAPM) developed by Sharpe (1964), and the Efficient Market Hypothesis (EMH) advanced by Fama (1970) assume that investors are rational individuals who make decisions based on complete information and logical analysis. These theories suggest that financial markets efficiently incorporate all available information into asset prices, making it difficult for investors to consistently earn abnormal returns through prediction or market timing.

However, numerous market anomalies, speculative bubbles, financial crises, and inconsistent investor behavior observed across global financial markets have challenged the assumptions of traditional finance. Researchers have increasingly recognized that investors do not always act rationally and are often influenced by psychological, emotional, and cognitive factors when making financial decisions (Kahneman & Tversky, 1979; Shefrin, 2000; Barberis & Thaler, 2003). This realization led to the emergence of behavioural finance, a field that integrates insights from psychology and finance to explain how human behavior affects investment decisions and market outcomes.

Behavioural finance argues that investors are subject to systematic biases that influence their judgment and decision-making processes. These biases often result in deviations from rational behavior and can lead to suboptimal investment choices. According to Kahneman and Tversky (1979), individuals evaluate gains and losses differently, exhibiting a tendency to be more sensitive to losses than equivalent gains. This phenomenon, known as loss aversion, forms the foundation of Prospect Theory, one of the most influential theories in behavioural finance. Prospect Theory suggests that investors frequently make decisions based on perceived gains and losses rather than objective outcomes, leading to irrational investment behavior.

Another major component of behavioural finance is heuristics, which refers to the mental shortcuts individuals use when making complex decisions under uncertainty (Tversky & Kahneman, 1974). While heuristics simplify decision-making, they can also introduce biases such as overconfidence, anchoring, representativeness, availability bias, and herding behavior. Investors often rely on past experiences, recent market trends, or social influences rather than conducting comprehensive financial analysis, resulting in decisions that may not maximize returns (Ritter, 2003; Fuller, 2000; Shefrin, 2000).

The relevance of behavioural finance has become increasingly evident in emerging economies such as India, where participation in financial markets has expanded substantially over the past decade. Rapid technological advancements, widespread internet access, the growth of online trading platforms, increasing financial literacy, and regulatory initiatives have encouraged a growing number of retail investors to participate in equity and mutual fund markets. The Indian stock market has witnessed unprecedented growth in investor participation, particularly following the digitalization of investment services and the expansion of financial inclusion initiatives. Despite increased access to information, many investors continue to exhibit behavioural biases that influence their investment decisions.

The Indian investment landscape presents a unique environment for studying behavioural finance. Investors in India are often influenced by social networks, financial media, expert opinions, and market sentiment when making investment decisions. Herding behavior is frequently observed during periods of market volatility, where investors follow the actions of others rather than relying on independent analysis. Similarly, overconfidence may lead investors to overestimate their ability to predict market movements, while anchoring may cause them to rely excessively on historical stock prices when making investment decisions (Anthony & Joseph, 2017; Raut et al., 2018; Prosad et al., 2019).

Several empirical studies have documented the existence of behavioural biases among Indian investors. Anthony and Joseph (2017) found that overconfidence and regret aversion significantly influence investment decisions among investors in Kerala. Raut, Das, and Mishra (2018) reported that herding, anchoring, representativeness, and overconfidence significantly affect stock market

trading behavior among Indian investors. Similarly, Prosad et al. (2019) identified the presence of overconfidence and disposition effects in the Indian equity market, highlighting the role of psychological biases in shaping investment outcomes. These findings suggest that investor behavior in India cannot be fully explained by traditional financial theories alone.

Furthermore, investment banks and brokerage institutions play a critical role in guiding investors through increasingly complex financial markets. Understanding the behavioural tendencies of investors can assist these institutions in developing effective advisory services, risk management strategies, and investor education programs. By identifying the behavioural factors that influence investment decisions, financial institutions can help investors avoid costly mistakes and improve the quality of their investment choices.

Although behavioural finance has attracted growing scholarly attention, there remains a need for further empirical investigation within the Indian context. Existing studies have often focused on specific behavioural biases or limited geographic regions. Moreover, the rapidly evolving nature of India's financial markets necessitates continuous examination of how psychological factors influence investor decision-making. Therefore, this study seeks to examine the impact of behavioural finance, particularly heuristics and prospect theory, on investment decision-making among investors associated with selected investment banks in India. The findings are expected to contribute to the existing literature on behavioural finance and provide valuable insights for investors, financial advisors, investment banks, and policymakers seeking to enhance investment decision quality and market efficiency.

## 2. Literature Review

### 2.1 Behavioural Finance

Behavioural finance emerged as a response to the limitations of traditional financial theories, which assume that investors are rational decision-makers who always seek to maximize utility. Traditional theories such as the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) posit that market participants process all available information efficiently and make decisions based on objective analysis (Fama, 1970; Markowitz, 1952). However, empirical evidence has consistently demonstrated that investors often behave irrationally and are influenced by psychological and emotional factors that lead to deviations from rational decision-making (Kahneman & Tversky, 1979; Shefrin, 2000).

Behavioural finance integrates principles from psychology, economics, and finance to explain how cognitive biases and emotional responses affect financial decision-making. According to Shefrin (2000), behavioural finance examines the influence of psychological factors on investors and financial markets. Similarly, Barberis and Thaler (2003) describe behavioural finance as a framework that seeks to explain market anomalies and investor behaviour that cannot be adequately explained by traditional financial theories. The field argues that investors are not always rational and that their decisions are often influenced by mental shortcuts, emotions, and social pressures.

The development of behavioural finance gained significant momentum following the pioneering work of Kahneman and Tversky (1979), whose Prospect Theory challenged the traditional assumption of rational choice under uncertainty. Since then, behavioural finance has become one of the most influential areas of financial research, offering explanations for phenomena such as market bubbles, excessive trading, overreaction to information, and herding behaviour (Ritter, 2003; Barberis & Thaler, 2003).

### 2.2 Heuristics Theory

Heuristics refer to mental shortcuts or rules of thumb that individuals use to simplify complex decision-making processes under conditions of uncertainty (Tversky & Kahneman, 1974). Although heuristics help individuals make decisions quickly, they may also result in systematic biases and judgmental errors. In investment settings, heuristic-driven decisions often cause investors to rely on intuition and past experiences rather than objective financial analysis. One of the most common heuristic biases is anchoring, where investors rely excessively on a specific reference point, such as a past stock price,

when making investment decisions (Fuller, 2000). Another important heuristic bias is availability bias, which occurs when investors place greater emphasis on information that is easily recalled or recently encountered. Representativeness bias causes investors to assume that recent trends will continue into the future, leading to unrealistic expectations about investment performance (Ritter, 2003).

Overconfidence bias is another significant heuristic factor affecting investment decisions. Overconfident investors tend to overestimate their knowledge, forecasting ability, and control over investment outcomes, often leading to excessive trading and increased portfolio risk (Shefrin, 2000). Additionally, herding behaviour occurs when investors imitate the actions of other market participants rather than relying on their own analysis, contributing to market inefficiencies and speculative bubbles (Hong, 2005).

Previous studies have consistently reported a significant relationship between heuristic biases and investment decision-making. Kengatharan and Kengatharan (2014) found that heuristic factors significantly influence investment decisions among investors in the Colombo Stock Exchange. Similarly, Raut et al. (2018) reported that anchoring, representativeness, and overconfidence significantly affect the trading behaviour of Indian investors. Anthony and Joseph (2017) also found that overconfidence bias substantially influences investment decisions among investors in Kerala.

## 2.3 Prospect Theory

Prospect Theory, developed by Kahneman and Tversky (1979), is one of the most influential theories within behavioural finance. The theory challenges the traditional expected utility framework by proposing that individuals evaluate gains and losses differently. According to Prospect Theory, people tend to be risk-averse when dealing with gains but risk-seeking when attempting to avoid losses.

A fundamental principle of Prospect Theory is loss aversion, which suggests that losses are psychologically more painful than equivalent gains are pleasurable (Kahneman & Tversky, 1979). As a result, investors may hold losing investments for extended periods in the hope of recovering their losses while selling profitable investments prematurely to secure gains. This behaviour often leads to suboptimal investment outcomes.

Another important component of Prospect Theory is regret aversion, which occurs when investors avoid making decisions that may later result in regret. Investors often postpone selling poorly performing assets because doing so would require admitting that an earlier investment decision was incorrect (Singh, 2012). Mental accounting is another prospect-related bias where investors treat different categories of money separately rather than considering their overall financial position (Thaler, 1985).

Empirical evidence supports the influence of Prospect Theory on investment behaviour. Alquraan et al. (2016) found that loss aversion significantly affects stock investment decisions among investors. Kisaka (2015) reported that loss aversion and regret aversion significantly influence stock market investment decisions. Similarly, Prosad et al. (2019) found strong evidence of disposition effects and overconfidence among Indian equity investors, indicating the presence of prospect-related biases in financial decision-making.

## 2.4 Investment Decision-Making

Investment decision-making refers to the process through which investors allocate resources among various financial assets with the objective of achieving specific financial goals. Traditional finance theories assume that investors make decisions based on risk-return considerations and available information. However, behavioural finance suggests that investment decisions are often influenced by psychological and emotional factors rather than purely rational analysis (Jagongo & Mutswenje, 2014).

The decision-making process involves evaluating available investment opportunities, assessing risks, forecasting returns, and selecting the most suitable investment alternatives. According to Anthony and Joseph (2017), investment decision-making is fundamentally a cognitive process that requires investors to process large amounts of information under uncertainty. In practice, however, investors frequently rely on heuristics and emotional responses, leading to biased judgments and irrational investment behaviour.

Research indicates that behavioural biases can significantly affect portfolio selection, asset allocation, trading frequency, and overall investment performance. Investors who are influenced by cognitive biases may misinterpret information, underestimate risks, and make decisions that reduce long-term returns (Shefrin, 2000; Barberis & Thaler, 2003).

### 2.5 Empirical Review

Numerous studies have examined the relationship between behavioural finance and investment decision-making across different countries and financial markets. Babajide and Adetiloye (2012) investigated behavioural biases among Nigerian investors and found evidence of behavioural influences on investment decisions, although the relationship was relatively weak. Alalade et al. (2014) similarly reported that behavioural biases affect stock market returns and investor behaviour in Nigeria.

Kengatharan and Kengatharan (2014) found that heuristic and prospect-related factors significantly influence investment decisions among investors in Sri Lanka. Bashir et al. (2013) reported that overconfidence, excessive optimism, and confirmation bias significantly affect investor decision-making.

Within the Indian context, Anthony and Joseph (2017) found that overconfidence and regret aversion were among the most influential behavioural factors affecting investment decisions among investors in Kerala. Raut et al. (2018) employed Structural Equation Modelling (SEM) and found that herding behaviour, anchoring, representativeness, information cascades, and overconfidence significantly influence stock market trading behaviour among Indian investors. Prosad et al. (2019) identified overconfidence and disposition effects as prominent behavioural biases in the Indian equity market.

Despite the growing body of literature on behavioural finance, there remains a need for further research examining the combined effects of heuristics and prospect theory on investment decision-making within the Indian investment banking sector. As investor participation continues to expand in India, understanding the behavioural determinants of investment decisions becomes increasingly important for investors, financial advisors, investment banks, and policymakers.

## 3. Objectives of the Study

The main objective of this study is to examine the impact of behavioural finance on investment decision-making among investors of selected investment banks in India.
Specifically, the study seeks to:

1. Examine the impact of heuristics on investment decision-making among investors of selected investment banks in India.
2. Examine the impact of prospect theory on investment decision-making among investors of selected investment banks in India.
3. Determine the relationship between heuristics and investment decision-making among investors of selected investment banks in India.
4. Determine the relationship between prospect theory and investment decision-making among investors of selected investment banks in India.

## 4. Theoretical Framework

The theoretical foundation of this study is based on two major theories of behavioural finance, namely Heuristics Theory and Prospect Theory. These theories explain how psychological and cognitive factors influence investors' decision-making processes. Unlike traditional finance theories, which assume that investors are rational and always make optimal decisions, behavioural finance recognizes that investors are often influenced by biases, emotions, and mental shortcuts when making investment decisions.

### 4.1 Heuristics Theory

Heuristics are cognitive shortcuts or rules of thumb that individuals use to simplify complex decision-making processes, particularly under conditions of uncertainty (Tversky & Kahneman, 1974). While heuristics can facilitate quicker decision-making, they may also lead to systematic biases and errors in judgment. In the context of investment decision-making, investors frequently

rely on heuristics instead of conducting comprehensive analyses of available information. According to Ritter (2003), heuristic-driven decision-making can result in suboptimal investment choices because investors often depend on intuition and past experiences rather than objective evaluation. Heuristics become particularly relevant in financial markets where investors are required to process large amounts of information within limited timeframes.

Several forms of heuristic biases influence investment behaviour. One such bias is anchoring, where investors rely excessively on a particular reference point, such as a previous stock price, when making investment decisions. Even when new information becomes available, investors may remain attached to the original reference point, resulting in inaccurate judgments (Fuller, 2000).

Another common heuristic bias is availability bias, which occurs when investors make decisions based on information that is easily recalled or recently encountered. Investors tend to assign greater importance to recent market events or readily available information, even when such information may not accurately represent future market conditions (Tversky & Kahneman, 1974).

Representativeness bias arises when investors assume that recent trends or patterns will continue into the future. For example, investors may believe that a stock that has performed well in the recent past will continue to generate superior returns, despite the absence of supporting evidence (Ritter, 2003).

Overconfidence bias is another important heuristic factor. Overconfident investors tend to overestimate their knowledge, forecasting ability, and control over investment outcomes. Such investors often engage in excessive trading and assume greater risks, believing that they possess superior investment skills (Shefrin, 2000).

Similarly, herding behaviour occurs when investors imitate the actions of other investors rather than relying on their own independent analysis. This behaviour can contribute to asset price bubbles and market inefficiencies because investment decisions are driven by collective sentiment rather than fundamental information (Hong, 2005).

The Heuristics Theory is relevant to this study because investors associated with investment banks in India may rely on cognitive shortcuts when evaluating investment opportunities. These shortcuts can significantly influence the quality of investment decisions and ultimately affect investment outcomes.

### 4.2 Prospect Theory

Prospect Theory was developed by Kahneman and Tversky (1979) as an alternative to the traditional expected utility theory. The theory explains how individuals make decisions under conditions of risk and uncertainty. Prospect Theory argues that individuals evaluate gains and losses relative to a reference point rather than based on absolute outcomes.

A central concept of Prospect Theory is loss aversion, which suggests that individuals experience the pain of losses more intensely than the pleasure derived from equivalent gains. Kahneman and Tversky (1979) observed that losses are psychologically more significant than gains of the same magnitude. Consequently, investors often make decisions aimed at avoiding losses rather than maximizing gains.

Loss aversion can lead investors to hold losing investments for extended periods in the hope that prices will recover, while simultaneously selling profitable investments too early to secure gains. Such behaviour can adversely affect portfolio performance and investment returns (Benartzi & Thaler, 1995).

Another important component of Prospect Theory is regret aversion. Regret aversion refers to the tendency of investors to avoid actions that may lead to future regret. Investors may postpone selling underperforming securities because doing so would require admitting that a previous investment decision was incorrect. Likewise, they may avoid investing in unfamiliar assets due to fear of future losses (Singh, 2012).

Mental accounting is also associated with Prospect Theory. According to Thaler (1985), individuals often categorize money into separate mental accounts and make decisions differently depending on the source or intended use of the funds. Investors may therefore treat identical financial outcomes differently based on subjective perceptions rather than objective financial

considerations.

Prospect Theory further suggests that individuals become risk-averse when faced with potential gains but risk-seeking when attempting to avoid losses. This behavioural tendency explains many investment decisions that appear irrational from the perspective of traditional finance theories (Kahneman & Tversky, 1979).

The relevance of Prospect Theory to this study lies in its ability to explain how investors in India respond to gains, losses, uncertainty, and risk. Understanding these behavioural tendencies is essential for explaining investment decision-making in modern financial markets.

### 4.3 Theoretical Foundation of the Study

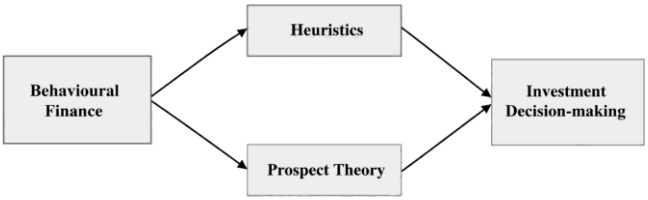
This study is anchored on both Heuristics Theory and Prospect Theory because they represent the two major pillars of behavioural finance. Heuristics Theory explains how investors use cognitive shortcuts when processing information and making investment decisions, while Prospect Theory explains how investors evaluate gains and losses under conditions of uncertainty.

Together, these theories provide a comprehensive framework for understanding the psychological factors that influence investment decision-making among investors of selected investment banks in India. The study therefore examines the extent to which heuristics and prospect theory affect investors' decision-making behaviour and overall investment outcomes.

### 4.4 Conceptual Model

Behavioural finance explains how psychological and cognitive factors influence investor behaviour. Drawing from Heuristics Theory and Prospect Theory, this study conceptualizes behavioural finance as comprising two dimensions, namely heuristics and prospect theory. These dimensions are expected to influence investment decision-making among investors of selected investment banks in India. The conceptual framework of the study is presented in Figure 1.

**Figure 1**
*Conceptual Framework of the Study*




### 4.5 Research Hypotheses

Based on the conceptual framework, the following hypotheses were formulated:

- **H01:** Heuristics have no significant influence on investment decision-making among investors of selected investment banks in India.
- **H02:** Prospect theory has no significant influence on investment decision-making among investors of selected investment banks in India.

## 5. Methodology

### 5.1 Research Design and Data Collection

This study adopted a descriptive survey research design to examine the impact of behavioural finance on investment decision-making among investors of selected investment banks in India. Primary data were collected through a structured questionnaire administered to investors associated with HDFC Securities, ICICI Securities, Kotak Securities, and Axis Securities. The questionnaire consisted of items measuring heuristics, prospect theory, and investment decision-making using a five-point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1).

### 5.2 Population, Sample and Sampling Technique

The population of the study comprised investors of selected investment banks in India. A sample of 200 respondents was selected using the convenience sampling technique, consistent with the methodology adopted by Ogunlusi and Obademi (2021). The technique enabled the

researcher to obtain responses from accessible investors actively participating in investment activities.

### 5.3 Validity and Reliability of the Instrument

The questionnaire items were adapted from previous behavioural finance studies and reviewed by experts in finance and research methodology to ensure content validity. A pilot study was conducted to assess reliability, and Cronbach's Alpha coefficient was used to determine internal consistency. A reliability coefficient of 0.70 or above was considered acceptable (Nunnally, 1978).

### 5.4 Model Specification

To examine the impact of behavioural finance on investment decision-making, the study employed the following regression model:

$$IDM = \beta_0 + \beta_1 HR + \beta_2 PT + \varepsilon$$

Where:

- IDM = Investment Decision-Making
- HR = Heuristics
- PT = Prospect Theory
- $\beta_0$ = Constant
- $\beta_1$–$\beta_2$ = Regression coefficients
- $\varepsilon$ = Error term

### 5.5 Method of Data Analysis

Data were analyzed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize the data. Pearson Product Moment Correlation was employed to examine the relationships among the variables, while Multiple Regression Analysis was used to determine the effect of heuristics and prospect theory on investment decision-making. All hypotheses were tested at a 5% level of significance.

## 6. Analysis

This study examined the impact of behavioural finance on investment decision-making among investors of selected investment banks in India. A total of 200 questionnaires were distributed to investors using the convenience sampling technique. Out of the 200 questionnaires administered, 184 were successfully retrieved and found suitable for analysis, representing a response rate of 92.0 per cent. The retrieved questionnaires were analyzed using frequency distributions, percentages, Pearson correlation analysis, and multiple regression analysis with the aid of the Statistical Package for Social Sciences (SPSS) version 26.

### 6.1 Demographic Classification of Respondents

Table 1 presents the demographic characteristics of the respondents. The results indicate that 56.5 per cent of the respondents were male, while 43.5 per cent were female, suggesting a reasonable representation of both genders in the study. With respect to age, the majority of the respondents (36.4%) were between 30 and 39 years, indicating that individuals within this economically active age group constitute a significant proportion of investors. Respondents aged 50 years and above accounted for 23.9 per cent of the sample, demonstrating that older individuals also actively participate in investment activities.

Regarding marital status, 55.4 per cent of the respondents were married, while 38.6 per cent were single. The remaining respondents belonged to other categories such as divorced or widowed. In terms of educational qualification, 39.1 per cent of the respondents possessed postgraduate qualifications such as MBA, M.Com, or Master's degrees, while 27.2 per cent held professional certifications or other specialized qualifications. This finding indicates that the majority of the respondents were well educated and capable of understanding investment-related information.

Furthermore, 61.4 per cent of the respondents reported having adequate financial knowledge and investment experience, while the remaining respondents either possessed limited financial knowledge or were uncertain about their level of financial expertise. This suggests that most respondents were sufficiently informed to provide reliable responses regarding behavioural finance and investment decision-making.

Table 1. Demographic Characteristics of the Respondents

| Variable | Items | Frequency | Percentage |
|---|---|---|---|
| **Gender** | Male | 104 | 56.5 |
| | Female | 80 | 43.5 |
| | **Total** | **184** | **100.0** |
| **Age** | Below 21 years | 16 | 8.7 |
| | 21–29 years | 31 | 16.8 |
| | 30–39 years | 67 | 36.4 |
| | 40–49 years | 26 | 14.1 |
| | 50 years and above | 44 | 23.9 |
| | **Total** | **184** | **100.0** |
| **Marital Status** | Single | 71 | 38.6 |
| | Married | 102 | 55.4 |
| | Divorced/Widowed | 11 | 6.0 |
| | **Total** | **184** | **100.0** |
| **Educational Qualification** | Higher Secondary | 14 | 7.6 |
| | Diploma | 17 | 9.2 |
| | Graduate Degree | 31 | 16.8 |
| | MBA/M.Com/Master's | 72 | 39.1 |
| | Professional/Other Qualifications | 50 | 27.2 |
| | **Total** | **184** | **100.0** |
| **Do you have sufficient financial management knowledge?** | Yes | 113 | 61.4 |
| | No | 28 | 15.2 |
| | Not Sure | 43 | 23.4 |
| | **Total** | **184** | **100.0** |
| **Do you have work experience in the field of finance?** | Yes | 94 | 51.1 |
| | No | 73 | 39.7 |
| | Not Sure | 17 | 9.2 |
| | **Total** | **184** | **100.0** |

## 6.2 Heuristics

Table 2 presents the responses of investors regarding heuristic factors that influence investment decision-making. The results indicate varying opinions across the statements; however, a larger proportion of respondents selected Strongly Agree and Agree for most items. This suggests that heuristic biases play a significant role in shaping investment decisions among investors of selected investment banks in India. The findings imply that investors often rely on past experiences, personal judgment, target prices, advertising, and confidence in their own abilities when making investment decisions, rather than relying solely on objective financial analysis. Overall, the responses indicate the presence of heuristic tendencies among the respondents, supporting the relevance of behavioural finance in explaining investment behaviour.

Table 2. Heuristics

| S/N | Statement | SA (%) | A (%) | UN (%) | D (%) | SD (%) |
|---|---|---|---|---|---|---|
| 1 | My past investment experience influences my current investment decisions. | 78 (42.4) | 46 (25.0) | 28 (15.2) | 16 (8.7) | 16 (8.7) |
| 2 | Thinking hard and for a long time about something gives me little satisfaction. | 32 (17.4) | 48 (26.1) | 44 (23.9) | 30 (16.3) | 30 (16.3) |
| 3 | I sell my investment only if it reaches a certain target price. | 48 (26.1) | 46 (25.0) | 42 (22.8) | 18 (9.8) | 30 (16.3) |
| 4 | My decision to hold a losing stock is influenced by positive news and information about the stock. | 47 (25.5) | 48 (26.1) | 30 (16.3) | 28 (15.2) | 31 (16.9) |
| 5 | I may buy mutual funds or other investments if they are heavily advertised. | 31 (16.8) | 77 (41.8) | 16 (8.7) | 29 (15.8) | 31 (16.9) |
| 6 | If I roll a die and continuously get a 1, I feel the next roll will not be a 1. | 29 (15.8) | 47 (25.5) | 31 (16.8) | 31 (16.8) | 46 (25.0) |
| 7 | If I am asked to choose between 90% fat-free | 31 (16.8) | 62 (33.7) | 30 (16.3) | 30 (16.3) | 31 (16.8) |

| | | | | | | |
|---|---|---|---|---|---|---|
| | food and food containing 10% fat, I would rather choose the first option. | | | | | |
| 8 | I strongly believe in my ability to always choose the best stocks and funds. | 46 (25.0) | 63 (34.2) | 30 (16.3) | 15 (8.2) | 30 (16.3) |

## 6.3 Prospect Theory

Table 3 presents investors' responses regarding prospect theory factors influencing investment decision-making. The results show that most respondents agreed or strongly agreed with the statements, indicating that their decisions are influenced by behavioural biases related to gains and losses. The findings highlight the presence of loss aversion, regret aversion, and risk-related behavioural patterns, confirming that prospect theory significantly influences investment behaviour.

Table 3. Prospect Theory

| S/N | Statement | SA (%) | A (%) | UN (%) | D (%) | SD (%) |
|---|---|---|---|---|---|---|
| 1 | I intend to sell my investments immediately once they return to the acquisition price. | 18 (9.8) | 62 (33.7) | 43 (23.4) | 31 (16.8) | 30 (16.3) |
| 2 | Assume I bought a movie ticket for ₹200. When getting to the theatre I realize I have lost the ticket. I will definitely buy another since I have extra money to do so. | 16 (8.7) | 61 (33.2) | 31 (16.8) | 46 (25.0) | 30 (16.3) |
| 3 | I prefer to hold on to a profitable investment due to the fear of not participating in the future gain of the stock. | 47 (25.5) | 48 (26.1) | 31 (16.8) | 28 (15.2) | 30 (16.3) |

## 6.4 Investment Decision-Making

Table 4 presents the responses relating to investment decision-making among investors of selected investment banks in India. The results indicate that the majority of respondents strongly agreed or agreed with most of the statements. This suggests that respondents generally perceive their investment decisions as effective in generating favorable outcomes, increasing cash flows, and contributing to their financial objectives. However, responses to the statement regarding the safety of stock investments were relatively mixed, reflecting differing perceptions of investment risk among investors. Overall, the findings indicate that the respondents exhibit a positive level of investment decision-making, suggesting confidence in their investment choices and portfolio performance.

Table 4. Investment Decision

| S/N | Statements | SA (%) | A (%) | UN (%) | D (%) | SD (%) |
|---|---|---|---|---|---|---|
| 1 | My investments generally produce better results than expected. | 66 (35.9) | 58 (31.5) | 11 (6.0) | 29 (15.8) | 20 (10.8) |
| 2 | My investments in stocks have demonstrated increased cash flow growth during the past five years. | 81 (44.0) | 52 (28.3) | 6 (3.3) | 20 (10.9) | 25 (13.5) |
| 3 | My investments in stocks have lower risk compared to the market in general. | 84 (45.7) | 40 (21.7) | 15 (8.2) | 20 (10.9) | 25 (13.5) |
| 4 | My investments in stocks provide a high degree of safety. | 42 (22.8) | 34 (18.5) | 25 (13.6) | 34 (18.5) | 49 (26.6) |
| 5 | My investment proceeds are utilized in ways that contribute positively to society. | 47 (25.5) | 56 (30.4) | 21 (11.4) | 30 (16.3) | 30 (16.3) |

### 6.5 Correlation Matrix

The correlation coefficient was employed to determine the relationship between the variables examined in the study. Correlation analysis measures both the strength and direction of the relationship between the independent variables and the dependent variable. In this study, the analysis focused on the relationships between heuristics, prospect theory, and investment decision-making among investors of selected investment banks in India.

As shown in Table 5, heuristics and investment decision-making are strongly and negatively correlated ($r = -0.706$, $p = 0.000$). This finding suggests that an increase in heuristic biases is associated with a decline in the quality of investment decision-making. In other words, investors who are less influenced by heuristic tendencies are likely to make more rational and effective investment decisions.

Similarly, prospect theory and investment decision-making exhibit a strong negative relationship ($r = -0.621$, $p = 0.000$). This indicates that behavioural tendencies associated with prospect theory, such as loss aversion and regret aversion, may adversely affect investment decisions. Therefore, investors who are able to minimize these behavioural biases are more likely to make sound investment choices.

Furthermore, heuristics and prospect theory are positively correlated ($r = 0.754$, $p = 0.000$), indicating that investors who exhibit heuristic biases are also likely to display prospect theory-related behavioural tendencies. Overall, the results provide evidence of significant relationships among the study variables and support the relevance of behavioural finance in explaining investment decision-making behaviour among investors in India.

Table 5. Correlation Matrix

| Variables | Investment Decision | Heuristics | Prospect Theory |
|---|---|---|---|
| **Investment Decision** | 1 | **−0.706*** | **−0.621*** |
| Sig. (2-tailed) | — | 0.000 | 0.000 |
| N | 184 | 184 | 184 |
| **Heuristics** | **−0.706*** | 1 | **0.754*** |
| Sig. (2-tailed) | 0.000 | — | 0.000 |
| N | 184 | 184 | 184 |
| **Prospect Theory** | **−0.621*** | **0.754*** | 1 |
| Sig. (2-tailed) | 0.000 | 0.000 | — |
| N | 184 | 184 | 184 |

Note:
Correlation is significant at the 0.01 level (2-tailed).

### 6.6 Interpretation of Multiple Regression Results

A multiple linear regression analysis was conducted to examine the influence of heuristics and prospect theory on investment decision-making among investors of selected investment banks in India. The regression model was found to be statistically significant, $F(2, 181) = 93.741$, $p < 0.001$ (see Table 7), indicating that the independent variables jointly predict investment decision-making.

Table 6. Model Summary

| Model | R | $R^2$ | Adjusted $R^2$ | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.716[a] | 0.513 | 0.508 | 1.37142 |

Note: Predictors: (Constant), Prospect Theory, Heuristics.

Table 7. ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 351.842 | 2 | 175.921 | 93.741 | 0.000[b] |
| Residual | 333.158 | 181 | 1.841 | | |
| Total | 685.000 | 183 | | | |

Note:
Dependent Variable: Investment Decision-Making.
[b] Predictors: (Constant), Prospect Theory, Heuristics.

The model produced an $R^2$ value of 0.513 (see Table 6), implying that approximately 51.3% of the variation in investment decision-making is explained by heuristics and prospect theory, while

the remaining 48.7% is attributable to other factors not included in the model.

The estimated regression equation is:

$$IDM = 14.772 - 0.149(HR) - 0.108(PT)$$

where:

- **IDM** = Investment Decision-Making
- **HR** = Heuristics
- **PT** = Prospect Theory

The negative coefficients indicate that increases in heuristic and prospect theory biases are associated with lower levels of effective investment decision-making. Specifically, investment decision-making increases by approximately 0.149 units for every unit reduction in heuristic bias, while a one-unit reduction in prospect theory bias leads to an approximate 0.108 unit increase in investment decision-making.

The findings suggest that both heuristics and prospect theory are significant predictors of investment decision-making among investors of selected investment banks in India, supporting the relevance of behavioural finance in explaining investment behaviour.

### 6.6 Test of Hypotheses

According to the table, heuristics and investment decision are significantly negatively related with B = -0.159, p = 0.000. Likewise, the relationship between prospect theory and investment decision is negative and significant based on B = -0.106, p = 0.034.

Table 8. Coefficients

| Model | Unstandardized Coefficients (B) | Std. Error | Standardized Coefficients (β) | t | Sig. |
|---|---|---|---|---|---|
| **(Constant)** | 14.851 | 0.372 | — | 39.419 | 0.000 |
| **Heuristics** | -0.159 | 0.026 | -0.589 | -7.230 | 0.000 |
| **Prospect Theory** | -0.106 | 0.059 | -0.176 | -2.100 | 0.034 |

Note: Dependent Variable: Investment Decision-Making (IDM).

## 7. Discussion

The primary objective of this study was to examine the impact of behavioural finance on investment decision-making among investors associated with selected investment banks in India. The empirical results obtained from the multiple regression analysis reveal that both heuristics and prospect theory act as significant negative predictors of investment decision-making.

The first hypothesis (H01) examined the impact of heuristics on investment decision-making. The regression analysis revealed a highly significant negative relationship (B = -0.159, p = 0.000). This finding aligns with the works of Kengatharan and Kengatharan (2014) and Raut et al. (2018), who documented that heuristic factors heavily influence trading and investment behavior. When investors rely heavily on past experiences, overconfidence, or advertisements rather than objective financial metrics, the efficiency and rationality of their investment choices drop significantly. In the Indian context, cognitive shortcuts like anchoring onto historical stock prices or herding during market volatility frequently distort objective asset pricing, leading to suboptimal portfolio returns.

The second hypothesis (H02) evaluated the role of prospect theory. The results indicated a significant negative relationship (B = -0.106, p = 0.034). This corroborates previous findings by Kisaka (2015) and Prosad et al. (2019), which demonstrated the strong presence of prospect-related biases, such as loss aversion and regret aversion, in financial decision-making. Investors frequently exhibit an asymmetric reaction to gains and losses, often holding onto losing positions for too long in the hope of breaking even, while liquidating winning stocks prematurely to lock in quick profits.

Comparatively, the standardized coefficients (B = -0.589 for Heuristics and B = -0.176 for Prospect Theory) indicate that heuristics exert a substantially stronger negative impact on investment decision quality than prospect theory biases. This implies that structural rules of thumb and mental shortcuts are the primary drivers of flawed investment choices among retail banking investors in India.

## 8. Conclusion

This study concludes that investment decision-making among retail investors in India cannot be fully explained by traditional, rational financial models like the Efficient Market Hypothesis (EMH) or Modern Portfolio Theory (MPT). Instead, psychological and emotional biases play a defining role in shaping investment outcomes. Both heuristics and prospect theory dimensions contribute significantly to a decline in effective, rational investment choices.

While rapid digitalization, increased internet penetration, and widespread access to online trading platforms have democratized financial markets in India, they have not eliminated human cognitive limitations. Investors continue to substitute comprehensive financial analysis with mental shortcuts, social herding, and risk-seeking behavior to avoid the psychological pain of realized losses. Ultimately, minimizing these systematic behavioral biases is vital for improving the overall quality of investment decisions and fostering long-term capital wealth creation.

### 8.1 Recommendations and Practical Implications

- **For Investment Banks and Brokerage Institutions:** Financial firms (such as HDFC Securities, ICICI Securities, Kotak Securities, and Axis Securities) should design automated risk management dashboards that actively flag behavioral anomalies, such as overtrading or over-relying on single historical reference points. Advisory services must be structured to counteract herding behavior during volatile market cycles.
- **For Investors:** Retail investors must consciously transition from intuitive, heuristic-driven choices toward rule-based and objective fundamental analysis to avoid costly, bias-induced market mistakes.
- **For Policymakers and Regulators:** Regulatory bodies should implement targeted investor education initiatives focusing heavily on financial psychology, teaching market participants how to identify and neutralize cognitive biases like loss aversion and anchoring.

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