International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 • Website: www.ijfmr.com • Email: editor@ijfmr.com

A Descriptive Study of Behavioural Factors and Investment Decisions among Salaried Individuals

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Abstract

Behavioural finance has emerged as an important area of financial research by recognising that investment decisions are influenced not only by financial information and expected returns but also by psychological, cognitive and emotional factors. Traditional financial theories generally assume that investors behave rationally; however, extensive behavioural-finance literature demonstrates that investors may deviate systematically from rational decision-making. The present study provides a descriptive review of the major behavioural factors associated with investment decisions among salaried individuals. Particular attention is given to overconfidence, herding behaviour, anchoring, availability bias, loss aversion and mental accounting. The study is based exclusively on secondary data collected from peer-reviewed journal articles, systematic literature reviews, scholarly databases and published research. Relevant literature was reviewed to identify recurring behavioural patterns, investment preferences and demographic characteristics associated with investor behaviour. The review indicates that overconfidence, herding, loss aversion and availability-related tendencies are among the frequently discussed behavioural influences, although their significance varies across investor groups and contexts. Recent systematic reviews also indicate that behavioural biases are associated with demographic characteristics such as age, gender, financial literacy, income and investment experience. The study concludes that understanding behavioural tendencies is essential for improving investment awareness and encouraging more informed financial decision-making among salaried individuals.

Keywords: Behavioural Finance, Behavioural Biases, Investment Decisions, Salaried Individuals, Overconfidence, Herding Behaviour, Anchoring, Availability Bias, Loss Aversion, Mental Accounting.

Introduction

Investment decisions represent an important aspect of personal financial management. Individuals allocate their savings among various investment avenues with the expectation of achieving financial security, wealth accumulation and future financial goals. Conventional financial theories generally assume that investors are rational, possess adequate information and make decisions by evaluating risk and expected return objectively. However, actual investment behaviour frequently deviates from these assumptions. Investors may be influenced by emotions, cognitive limitations, social interactions, previous experiences and the way financial information is presented. These deviations from conventional rationality form the basis of behavioural finance.

Behavioural finance combines concepts from finance, economics and psychology to explain how individuals actually make financial decisions. The field gained substantial theoretical importance through Prospect Theory developed by Kahneman and Tversky, which demonstrated that individuals evaluate gains and losses differently and may attach greater psychological importance to losses than to equivalent gains. Consequently, investors may make decisions that cannot be completely explained by traditional models based on expected utility and rational choice.

Behavioural biases can broadly be understood as systematic tendencies that influence the way individuals perceive information and make decisions. Overconfidence occurs when investors overestimate their knowledge, ability or accuracy of judgement. Such investors may rely heavily on their own analysis and underestimate investment risks. Herding behaviour occurs when investors imitate the decisions of other investors rather than independently evaluating information. Herding can become particularly relevant during periods of market uncertainty, rapid price movements or heightened investor sentiment.

Anchoring bias refers to the tendency to rely heavily on an initial value or reference point while evaluating subsequent information. An investor may, for example, continue to judge a security according to its previous price even when new information has emerged. Availability bias occurs when easily accessible, recent or memorable information receives disproportionate attention. In the contemporary financial environment, investors are exposed continuously to financial news, online investment platforms and social-media discussions, increasing the importance of information availability in financial decision-making.

Another major behavioural factor is loss aversion. Investors may experience the psychological impact of losing money more strongly than the satisfaction associated with an equivalent gain. This can influence decisions concerning risk-taking, selling securities and holding poorly performing investments. Mental accounting refers to the tendency of individuals to divide money into separate mental categories according to its source or intended purpose. Research among Indian equity investors has documented relationships among mental accounting, anchoring, availability, loss aversion and overconfidence, demonstrating that behavioural biases can also occur in interconnected patterns.

The relevance of behavioural finance is particularly important in the context of salaried individuals. Salaried individuals generally receive regular income and make financial decisions relating to savings, insurance, investments, children's education, housing, retirement and wealth creation. Their investment decisions may be influenced by their level of financial literacy, risk tolerance, investment experience and exposure to financial information. Social factors such as family preferences, recommendations from colleagues and advice from financial professionals may also influence their decisions.

Indian research provides considerable evidence regarding behavioural investment patterns. Prosad, Kapoor and Sengupta's study of Indian investors established the importance of behavioural biases in the Indian investment environment. Other studies have documented overconfidence, anchoring, mental accounting, availability, loss aversion and herding among Indian investors. A study of 436 secondary-equity investors in Chennai, for instance, found significant relationships among several behavioural biases, including mental accounting, anchoring, availability, loss aversion and overconfidence.

The behavioural-finance literature has also expanded from individual empirical studies towards systematic reviews. A recent systematic review of 134 Scopus-indexed articles identified behavioural biases and other factors influencing retail investors' decisions and highlighted the importance of financial literacy. Another systematic review of 57 empirical studies found that overconfidence and herding were among the most frequently studied biases and that behavioural tendencies varied according to gender, age, financial literacy, income and investment experience.

Recent Indian evidence continues to reinforce the importance of behavioural factors. A 2026 study examining Indian stock-market investors reviewed behavioural biases including overconfidence, representativeness, anchoring, availability, mental accounting, regret aversion and loss aversion. Another recent Indian study examined behavioural biases and investment decision-making while considering financial literacy and investor experience as moderating variables.

Thus, behavioural finance provides a useful framework for describing the psychological dimensions of investment decision-making. The present study adopts a secondary-data descriptive approach to consolidate existing evidence relating to behavioural factors and investment decisions, with particular attention to salaried individuals. Rather than attempting to establish causal relationships through primary survey data, the study synthesises findings from existing academic literature to provide a comprehensive understanding of the behavioural dimensions of investment decision-making.

Review of Literature

Kahneman and Tversky (1979)

Kahneman and Tversky's Prospect Theory represents one of the foundational contributions to behavioural decision-making. Their work demonstrated that individuals evaluate outcomes relative to reference points and do not necessarily make choices according to traditional expected-utility assumptions. The theory established the importance of loss aversion and asymmetric evaluation of gains and losses. Its implications are particularly relevant to investment decisions because investors may react more strongly to financial losses than to equivalent gains.

Mangala and Sharma (2014)

Mangala and Sharma provided a comprehensive mapping of theory and evidence relating to investors' behavioural biases. Their review explained behavioural finance as an area concerned with investor psychology, behavioural biases and personal characteristics such as personality, attitude, risk tolerance and demographics. The study also considered external factors including accounting information, market conditions and brand image. The authors concluded that behavioural biases influence both current and future investment decisions.

Prosad, Kapoor and Sengupta (2015)

Prosad, Kapoor and Sengupta examined behavioural biases among Indian investors in the Delhi-NCR region. Their research contributed empirical evidence demonstrating that Indian investors exhibit behavioural tendencies that can affect investment decisions. The study is important for understanding the Indian behavioural-finance environment and for recognising that investor sophistication and demographic characteristics may contribute to differences in behavioural tendencies.

Isidore and Christie (2018)

Isidore and Christie examined behavioural biases among 436 secondary equity investors in Chennai. The study considered mental accounting, anchoring, gambler's fallacy, availability, loss aversion, regret aversion, representativeness and overconfidence. Significant relationships were observed among several of these biases. The findings suggest that behavioural tendencies may not operate independently and that individual investors may simultaneously display multiple biases.

Evaluation of Behavioural Biases (2019)

A study published in the *Review of Behavioral Finance* used fuzzy analytic hierarchy process to rank behavioural biases affecting individual equity investors in Punjab. The study considered overconfidence, representativeness, anchoring, availability, regret aversion, loss aversion, mental accounting and herding. Herding, loss aversion and overconfidence emerged as the three most influential criteria. The research provides particularly strong support for considering multiple behavioural factors together.

Kumar, Baker and Goyal (2019)

Kumar, Baker and Goyal examined the relationship between personality traits and behavioural biases among 515 Indian stock investors. Their study considered overconfidence, disposition effect, anchoring, representativeness, mental accounting, emotional bias and herding. The findings demonstrated significant associations between selected personality characteristics and behavioural biases, indicating that psychological characteristics may contribute to differences in investment behaviour.

Behaviour Biases and Investment Decision: Theoretical and Research Framework (2021)

A comprehensive literature review examined behavioural biases and their role in investment decision-making over several decades. The review analysed research according to publication year, country, research method, data type, statistical technique and behavioural biases. It identified six dominant biases for further research and highlighted the continuing research gap in developing economies, particularly India.

Aggarwal (2021)

Aggarwal examined behavioural biases among Indian retail investors and identified a broad set of cognitive and emotional biases, including disposition effect, herding, loss aversion, mental accounting, regret aversion, framing, anchoring, availability and overconfidence. The study reinforces the view that Indian investors are exposed to multiple behavioural tendencies rather than a single dominant bias.

Adil, Singh and Ansari (2022)

Adil, Singh and Ansari examined the relationship between financial literacy, behavioural biases and investment decisions. Their work is particularly relevant because financial literacy represents an important factor in understanding how investors process information and respond to psychological biases. The study supports the argument that behavioural investment decisions should be examined alongside investors' financial knowledge and awareness.

Systematic Review of Behavioural Biases (2023)

A systematic review of behavioural-bias measurement highlighted the absence of a universally accepted measurement framework for individual investors. The review identified numerous behavioural biases and showed that overconfidence, herding, anchoring and loss aversion are among the frequently studied dimensions. This demonstrates the complexity of behavioural finance and supports the need to focus on clearly defined and theoretically grounded constructs.

Chaturvedi et al. (2024)

Chaturvedi and colleagues examined behavioural biases in investment decisions among individual stock-market investors in India. Their study considered representativeness, anchoring, herding, overconfidence and loss aversion. The study adds to the evidence that behavioural biases remain important in the Indian investment environment.

Rai (2024)

Rai examined loss aversion, overconfidence, herding behaviour, anchoring and representativeness bias among Indian stock-market investors. The study also considered socio-demographic variables such as age, gender, education and investment experience. The findings indicated that loss aversion was positively associated with age, while anchoring showed an inverse relationship with age, suggesting that behavioural tendencies can vary across investor characteristics.

Singh, Bharti and Maurya (2025)

Singh, Bharti and Maurya conducted a comprehensive systematic review of retail-investor decision-making using PRISMA methodology. Their review covered 134 Scopus-indexed articles published between 2007 and 2025, with 47 articles subjected to systematic review. The study consolidated behavioural biases and other factors affecting investment decisions and highlighted financial literacy as an important consideration.

Sharma and Negi (2025)

Sharma and Negi conducted a systematic literature review of behavioural biases affecting individual investors. Their review covered biases including loss aversion, overconfidence, mental accounting, representativeness, regret aversion and herding. The study reinforces the continued importance of behavioural finance in explaining deviations from rational investment behaviour.

Reddy et al. (2026)

Reddy and colleagues examined behavioural biases and investment decision-making in the Indian stock market, with particular emphasis on the moderating roles of financial literacy and investor experience. The study provides recent evidence that behavioural factors need to be considered together with investor characteristics. It is particularly relevant for understanding how financial knowledge and investment experience may influence behavioural decision-making.

Sanyal et al. (2026)

Sanyal and colleagues examined behavioural biases and retail investment decisions in India with particular emphasis on financial literacy and financial awareness. The study demonstrates the continuing relevance of behavioural biases in the Indian investment environment and highlights financial literacy and awareness as important contextual factors.

Research Gap

The review of secondary literature reveals the following gaps:

Much of the existing literature focuses on retail, equity or stock-market investors, while salaried individuals as a distinct investor group receive comparatively less attention.

Existing studies report different behavioural patterns across investor groups and contexts. For example, herding and overconfidence are frequently reported, while other studies identify availability, mental accounting or loss aversion as more prominent.

Behavioural factors are often investigated individually or in small groups. There is scope for a consolidated descriptive examination of overconfidence, herding, anchoring, availability, loss aversion and mental accounting.

Demographic characteristics such as age, gender, income, financial literacy and investment experience appear to influence behavioural tendencies, but the evidence remains fragmented across studies.

Much of the literature is based on primary surveys conducted in specific geographical locations. A secondary-data synthesis can provide a broader picture by integrating findings across different studies, populations and contexts.

Research Objectives

- **Objective**
  To describe the major behavioural factors—overconfidence, herding behaviour, anchoring, availability bias, loss aversion and mental accounting—associated with investment decisions among salaried individuals based on existing scholarly literature.
- **Objective**
  To describe the major investment decision patterns and demographic/investment-related characteristics associated with behavioural investment decisions among salaried individuals based on secondary evidence.

Research Methodology

Component	Methodology
Research Approach	Qualitative-descriptive / literature-based
Research Design	Descriptive research
Data Type	Secondary data only
Sources	Scopus-indexed literature, Google Scholar, publisher databases, ResearchGate and academic repositories
Study Material	Journal articles, systematic reviews and scholarly research papers
Period Covered	Primarily 1979–2026
Selection Focus	Behavioural finance, investment decisions, salaried/individual investors
Key Variables	Overconfidence, Herding, Anchoring, Availability, Loss Aversion, Mental Accounting
Analysis Method	Descriptive thematic synthesis and comparative literature analysis

Secondary-data approach

The study does not collect responses from individuals. Instead, findings reported in existing scholarly studies are compared and synthesised to identify recurring behavioural patterns and investment-decision characteristics.

Analysis and Interpretation

Since this is a secondary-data descriptive study, the analysis is based on themes emerging from the reviewed literature rather than statistical analysis of newly collected respondents.

Behavioural Factors Identified in the Literature

Behavioural Factor	General Pattern in Literature	Descriptive Interpretation
Overconfidence	Frequently reported	Investors may overestimate knowledge and prediction ability

Behavioural Factor	General Pattern in Literature	Descriptive Interpretation
Herding	Frequently reported	Investors may follow peers and market trends
Anchoring	Frequently reported	Investors may rely on historical/reference values
Availability Bias	Increasingly relevant	Easily accessible/recent information may receive greater weight
Loss Aversion	Strongly established	Losses may be psychologically more influential than equivalent gains
Mental Accounting	Frequently documented	Investors may treat money differently according to its perceived purpose

The literature therefore indicates that investment behaviour is multidimensional rather than being explained by a single behavioural bias. Indian evidence has documented relationships among several biases, while recent systematic reviews confirm that overconfidence and herding are among the most frequently studied behavioural tendencies.

Overconfidence

The reviewed literature suggests that overconfidence is one of the most frequently discussed behavioural biases. Overconfident investors may overestimate their ability to interpret financial information and predict market movements. Such behaviour can lead to excessive reliance on personal judgement and potentially greater trading activity.

Herding Behaviour

Herding represents the social dimension of investment decision-making. Investors may follow the actions of colleagues, friends, family members or other market participants. The literature frequently identifies herding as an important behavioural tendency, and the Punjab study ranked it as the most influential behavioural criterion among those evaluated.

Anchoring and Availability

Anchoring and availability are particularly relevant to the modern information environment. Investors may rely on historical prices or other reference points while making decisions, while recent news and easily accessible information can influence perceptions of investment opportunities. These biases demonstrate that the manner and accessibility of information can influence financial decision-making.

Loss Aversion and Mental Accounting

Loss aversion can cause investors to become excessively cautious or reluctant to realise losses. Mental accounting can lead investors to treat different portions of their wealth differently depending on their perceived source or purpose. Both factors have been repeatedly identified in Indian behavioural-finance research.

Demographic Characteristics

Recent literature indicates that behavioural tendencies are not distributed uniformly across investors. Age, gender, income, financial literacy and investment experience have been associated with differences in behavioural patterns. A recent systematic review of 57 empirical studies found that behavioural tendencies varied according to demographic and investor characteristics.

Findings

Based on the synthesis of secondary literature, the study identifies the following major findings:

Behavioural biases are an important component of investment decision-making.

Overconfidence and herding are among the most frequently examined behavioural factors in the literature.

Loss aversion is a fundamental behavioural tendency explaining why investors may react more strongly to losses than equivalent gains.

Anchoring and availability bias demonstrate the importance of information processing and reference points in investment decisions.

Mental accounting influences how investors categorise and evaluate their financial resources.

Investors may display multiple behavioural biases simultaneously rather than being affected by only one bias.

Behavioural patterns can vary according to age, gender, income, financial literacy and investment experience.

Indian studies demonstrate that behavioural finance is highly relevant to the country's growing individual-investor population.

Recent research increasingly emphasises financial literacy and financial awareness as factors associated with behavioural investment decisions.

The literature suggests that salaried individuals represent an important population for behavioural-finance research because regular income and financial goals interact with psychological decision-making.

Suggestions

1. Strengthen behavioural-finance education

Financial-literacy programmes should explain common behavioural biases so that investors can recognise their own decision-making tendencies.

2. Promote independent investment decisions

Investors should avoid blindly following colleagues, friends, social-media trends or market sentiment.

3. Encourage evidence-based investing

Investors should evaluate reliable financial information rather than giving excessive importance to recent or easily available information.

4. Increase awareness of loss aversion

Investors should understand that emotional discomfort from losses can result in irrational holding or selling decisions.

5. Encourage diversification

Diversification can help investors manage risk and reduce excessive dependence on a single investment avenue.

6. Strengthen financial literacy

Financial literacy should cover not only investment products and returns but also psychological biases and decision-making processes.

7. Use professional financial advice

Financial advisers should consider the behavioural characteristics of clients while designing investment strategies.

8. Encourage long-term financial planning
Salaried individuals should align investment decisions with long-term financial goals such as retirement, children's education and wealth creation.

Conclusion

Behavioural finance provides a valuable framework for understanding investment decisions by recognising that investors are influenced by psychological, cognitive, emotional and social factors. The present descriptive study, based exclusively on secondary data, synthesises existing research relating to six important behavioural factors: overconfidence, herding behaviour, anchoring, availability bias, loss aversion and mental accounting.

The reviewed literature demonstrates that behavioural biases are widespread among individual investors and that their prominence varies across populations and circumstances. Overconfidence and herding are among the most frequently studied biases, while loss aversion, anchoring, availability and mental accounting also play important roles in explaining investment behaviour.

The evidence further indicates that behavioural investment decisions cannot be understood independently of investor characteristics. Age, gender, income, financial literacy and investment experience may influence the manifestation of behavioural biases. Recent Indian studies increasingly incorporate these characteristics into behavioural-finance frameworks, demonstrating the evolving nature of the field.

For salaried individuals, behavioural awareness is particularly important because investment decisions are closely connected with regular income, savings, household obligations and long-term financial security. Improving financial literacy while simultaneously addressing behavioural biases can therefore contribute to more informed and disciplined investment decisions.

Overall, the study concludes that investment decisions are not determined solely by financial calculations. Psychological and behavioural factors form an important part of the investment decision-making process. Future research can extend the present secondary-data analysis through primary empirical studies specifically examining salaried individuals across different demographic and geographical contexts.

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