



# Impact of Emotional Biases on Investment Decision Making Among Retail Investors: An Experiential Analysis in Ahmedabad Region

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## Abstract

The study is taking and examining about the how emotional biases are impact of decision making of retail investors decision making in the Ahmedabad region. The study, which has its roots in behavioral finance, focuses on four emotional biases in particular: sentiment-driven trading, fear of loss, regret aversion, and overreaction to market news. A descriptive and correlation research design is used for the study and data was collected through the structured questionnaire. The 300 data were collected for the study. Regression analysis showed that, despite the theoretical importance of emotional factors in financial behavior, these biases only explained 2.5% of the variance in investment decisions, making them weak and statistically insignificant. The results show that emotional biases alone have little predictive power and that informational, psychological, and context-specific factors might be more important in directing retail investors. In order to improve rational financial decision-making, the study's conclusion highlights the necessity of a more comprehensive, integrated approach in future research and policy-making.

**Keywords:** Behavioural Finance, Emotional Bias, Investment Decision Making

## Introduction

### Evolution of Investment Decision-Making: From Rationality to Behavioral Finance:

Conventional theories of finance, such as the Modern Portfolio management Theory (Markowitz, 1952) and the Efficient Market Hypothesis theory (Fama, 1970), make the assumption, investors are logical beings who aim to maximise utility by impartially analysing all available data. Nevertheless, a number of real-world occurrences, including bubbles, collapses, herd mentality, and irrational exuberance, have demonstrated that financial markets frequently depart from these norms.

Because of this discrepancy, behavioural finance emerged, combining economics and psychology to explain how and why investors stray from reason. The impact of emotional biases—irrational choices or reactions

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brought on by emotional states that affect investor behaviour and market outcomes—is one of the main tenets of behavioural finance (Thaler, 1999; Shefrin, 2000).

### **Emotional Bias: Definition and Relevance:**

Emotional biases originate from ingrained emotions like fear, regret, enthusiasm, or anxiety rather than from mistakes in information processing. Emotional biases are more innate and enduring than cognitive biases, which are frequently remedied with more data or analysis. As a result, financial decision-making can become chronically illogical (Pompian, 2006).

Four major emotional biases are the subject of this study:

**Regret Aversion:** Investors who exhibit regret aversion refrain from making snap decisions, like selling a failing stock or making a new investment, out of concern that they would later come to regret their choice. This frequently results in people retaining losing positions for longer periods of time or failing to take advantage of new chances (Zeelenberg & Pieters, 2007).

**Fear of Loss (Loss Aversion):** Loss aversion, which has its roots in Prospect Theory (Kahneman & Tversky, 1979), postulates that people feel the suffering of loss more intensely than they do the joy of a similar gain. Due to this bias, investors become too risk adverse, which may result in panic selling during market downturns or less-than-ideal asset allocation.

**Overreaction to Market News:** Investors frequently overreact emotionally to current market events or news, particularly negative news, without fully evaluating the long-term ramifications. Market volatility, needless trading, and asset mispricing can result from such actions (De Bondt & Thaler, 1985).

**Sentiment-Driven Trading:** This describes trading choices that are made based more on feelings or market mood—such as euphoria, anxiety, or optimism—than on dispassionate analysis. Herd behaviour and momentum-based investing are frequently the outcome of this, which is influenced by peer behaviour, social networks, and the media (Baker & Wurgler, 2006).

### **Investment Decision-making Dimensions:**

These emotional prejudices don't work alone. They influence important investing behaviours like:

1. Risk-taking Behaviour
2. Assets Allocation
3. Frequency of Trading
4. Time orientation: Long-term versus Short-term focus

## **Literature review**

**(Kumar Tripathy, 2014)** This study makes the case that individual investors stand to gain the most from comprehension of the research's findings since it aims to raise awareness of the many human biases and the significant expenses they place on their portfolios. This study looks at how individual investors behave when making investments. It is also investigated how investment behaviour affects investment choices. According to research, the majority of individual investors in the twin towns of Cuttack and Bhubaneswar

are susceptible to a number of psychological biases, the most prevalent of which are These cognitive biases—loss aversion, overconfidence, regret aversion, and anchoring—have a big impact on how investors make financial decisions, which in turn affects the market.

**(Khilar & Singh, 2020)** The research paper is taking about how emotional biases are affect the investor's decision making in the Indian stock market. For the study the biases, used overconfidence, loss aversion, home bias, and the endowment effect, have been attempted to be explained in this study. These biases serve as guidelines that decision makers might take into account while making judgements pertaining to investments. In addition to the body of knowledge in behavioural finance, this paper assists investors in recognising their own biases and taking corrective action to lessen them while making investing decisions.

**(Sahai, 2020)** Understanding and examining the cognitive and emotional tendencies that investors experience when making speculative decisions that lead to them making poor decisions, suffering significant losses, and allowing untrustworthy behaviour to override their venture choices is the main goal of this research paper. A survey concerning financial specialist preferences and social predispositions was used to collect the data. The investigation produced a number of conclusions, the most important of which is that investors seeking protection in the Indian market are characterised by pomposity regarding their endeavours and the state and situation of the money-related market in the near future. In the Indian market, investors will typically base their venture decisions on readily available information rather than relying on in-depth investigation and analysis.

**(Armansyah, 2022)** This study focusses on behavioural biases such information processing biases, emotional biases, and herd instinct biases in capital market investment decisions in an effort to close a knowledge gap in behavioural finance. The data of 205 Indonesian capital market investors who are securities company members was assessed using PLS-SEM (Partial Least Square-Structural Equation Modelling). The information demonstrates that while endowment bias had no bearing on investor investment decisions, overconfidence, herding prejudice, confirmation bias, and regency bias do.

**(Novianggie & Asandimitra, 2019)** With financial literacy acting as a moderating variable the aim of the study is to identify how behavioural biases especially cognitive biases, and emotional biases which affect investment decision. Multiple regression analysis, a comprehensive questionnaire, and limited interviews were employed to gather data from 212 college students at Investment Gallery Surabaya. The research conclude that the biases are influenced the decision making. However, regret and disposition effect have little manner on the choice to invest. Financial literacy is an independent variable rather than a moderating one. Herding bias and overconfidence in the investing decision cannot be moderated by financial literacy.

**(Seo & Feldman Barrett, 2008)** This study investigates the relationship between decision-making performance and affective experience. In a stock trading simulation, 101 stock investors made daily investment collections for 20 conventional business days while rating their emotions on an online website. We

exposed that people who felt more strongly performed better when making decisions, defying the common perception that emotions are often detrimental to decision-making. Furthermore, people who were more adept in recognising and differentiating between their present emotions performed better when making decisions because they were able to manage whatever biases those emotions could have caused.

**(Kumar & Chaurasia, 2024)** The purpose of using a meta-analysis methodology, the study aims to examine the connection among investment decisions and emotional biases that are regret aversion bias, overconfidence bias, and loss aversion bias. After analysing 31 empirical research, this study discovered a strong positive link between investing decisions and emotional biases, including overconfidence bias ( $r = 0.346$ ), regret aversion bias ( $r = 0.401$ ), and loss aversion prejudice ( $r = 0.492$ ). 31 online research journals that displayed notable differences were included in the review; these could have been impacted by different methodological, demographic, or other reasons.

**(Malik et al., 2024)** This study is to explain cognitive and emotional biases impact the investment decisions made by ordinary investors who trade on the Pakistan Stock Exchange (PSX). The results show that retail investors' investment decisions on the PSX are negatively impacted by biases, such as regret aversion bias ( $\beta = -0.494$ ,  $p < .000$ ), availability bias ( $\beta = -0.223$ ,  $p < .000$ ), and representativeness bias ( $\beta = -0.185$ ,  $p < .05$ ), with risk perception mediating these relationships ( $\beta = 0.302$ ,  $p < .000$ ). This study offers unique insights into the mediating role of risk perception, a setting that is frequently ignored in studies centred on established markets. It is advised for stock exchange investors and policymakers in collectivist cultures and least developed economies.

**(Atif Sattar et al., 2020)** The objective of the study is to examine the influence of behavioural biases on uncertain investments decision-making. Making decisions for dependent variable investments is a multifaceted process that never involves relying solely on one's own resources. According to empirical findings, heuristic behaviours had a greater effect on investment decision-making than predictions and character traits. This study's uniqueness makes it highly beneficial for financial institutions and investors to make choices based on psychosomatic considerations.

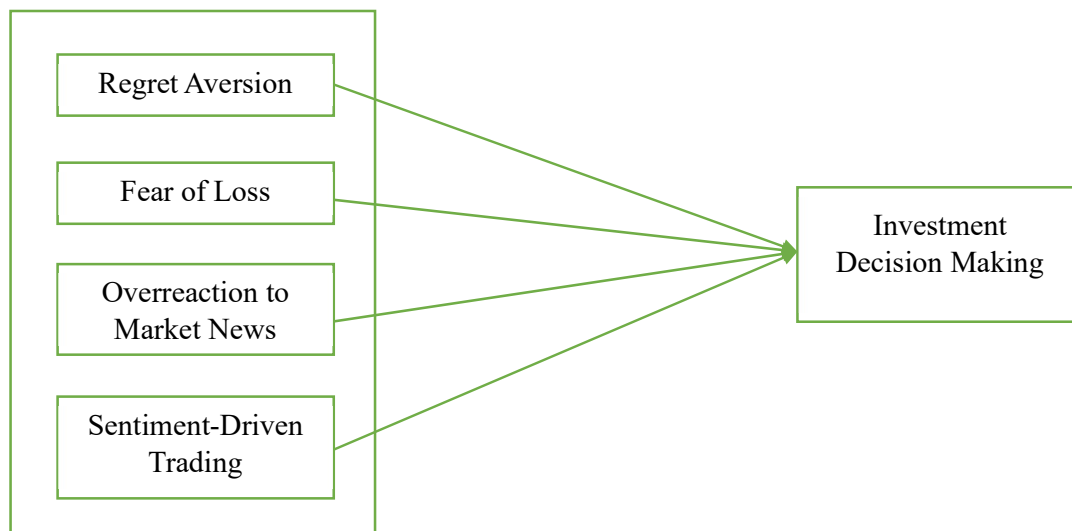
**(Tansuchat & Thaicharo, 2025)** This study explores the psychological preconceptions that are having some major effect on investment decisions and preferences. The main goal is to analyse and comprehend the specific psychological elements that influence each investor's decision. It also looks at how financial knowledge and risk perception influence these investment choices. The goal of the research is to give financial advisers the knowledge they need to improve client service by successfully addressing these biases by recognising and comprehending these psychological factors. These elements have a significant role in influencing how investors interpret data and make financial decisions, highlighting the value of education and well-informed risk assessment in investing strategies.

## Research Gap

There is a noticeable lack of empirical research on retail investors in Ahmedabad, a region with distinct cultural, demographic, and economic characteristics, despite a wealth of studies conducted in different regions looking at the effect of emotional preconceptions on investment decisions. Previous research rarely uses mixed-method approaches, which could offer more profound understandings of the ways in which emotional biases interact with risk perception, financial literacy, and local investment culture. This disparity highlights the necessity of a region-specific analysis in order to facilitate more focused interventions by advisers, legislators, and financial educators with the goal of reducing bias-driven investment choices in Ahmedabad's retail investor environment.

## Research framework

Independent Variable: Emotional Bias, Dependent Variable: Investment Decision Making



Source: Author

## Objective of the study:

1. To study the presence and extent of emotional biases among retail investors.
2. To analyse how emotional biases influence retail investors' decision-making processes.
3. To identify which emotional biases most significantly impact investment decisions.
4. To provide insights into improving retail investors' rational decision-making in financial markets.

## Hypothesis of the study

**H1:** There is a no significant impact of emotional biases on investment decision-making.

H1a: There is no significant impact of regret aversion on investment decision making of retail investors.

H1b: There is no significant relation of fear of loss on investment decision making of retail investors.

H1c: There is no significant impact of overreaction to market news on investment decision making of retail investors.

H1d: There is no significant impact of sentiment-driven trading on investment decision making of retail investors.

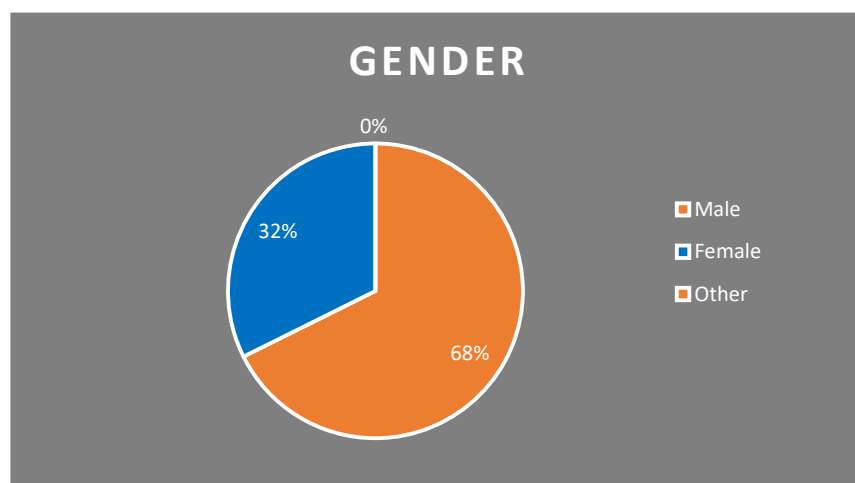
## Research Methodology

- 1. Research Type:** The current study is focusing on a descriptive and correlational research design. The descriptive part helps in understanding the extent and nature of emotional biases and investment behaviors among retail investors, while the correlational aspect investigate the impact of emotional biases on investment decision making.
- 2. Area of the study:** The research is conducted in Ahmedabad region focusing on individual retail investors.
- 3. Sampling Method:** The study use non-probability purposive sampling method, to select participants who are actively involved in retail investment.
- 4. Data Collection:** A structured questionnaire was used to gather the study's data. Prior to data collection, participants were contacted, their informed consent was acquired, and the responses' anonymity was rigorously upheld. The entire process was conducted in accordance with ethical norms.
- 5. Target Population:** Retail investors residing in Ahmedabad, including salaried individual, business professionals, and self-employed individuals who invest in financial instruments.
- 6. Sample Size:** The sample size is 300 retail investors.
- 7. Statistical Tool use:** This includes the graphical presentation and inferential analysis such including Regression Analysis.

## Limitation of the study

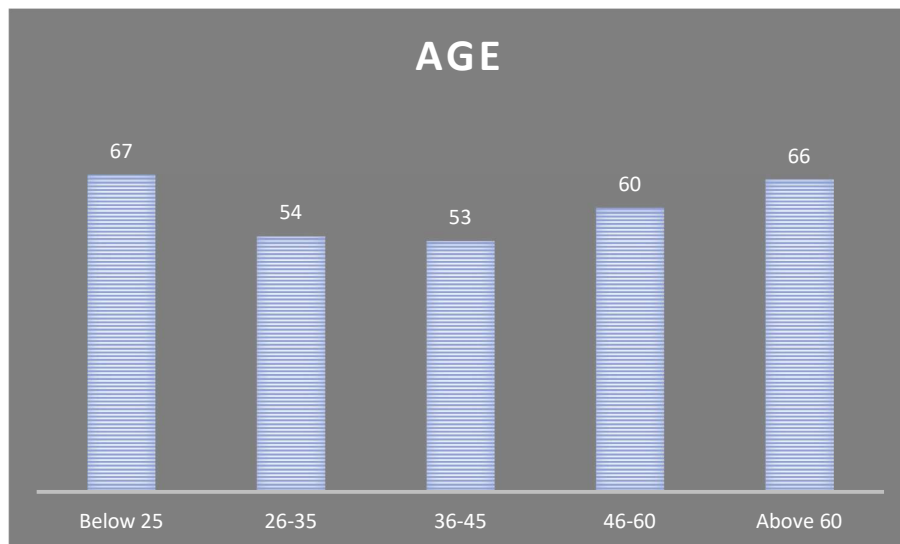
1. The study is limited to Ahmedabad city only. The output may differ if the other area covered.
2. The research size is limited to 300 respondents.

## Data Analysis and Hypothesis Testing



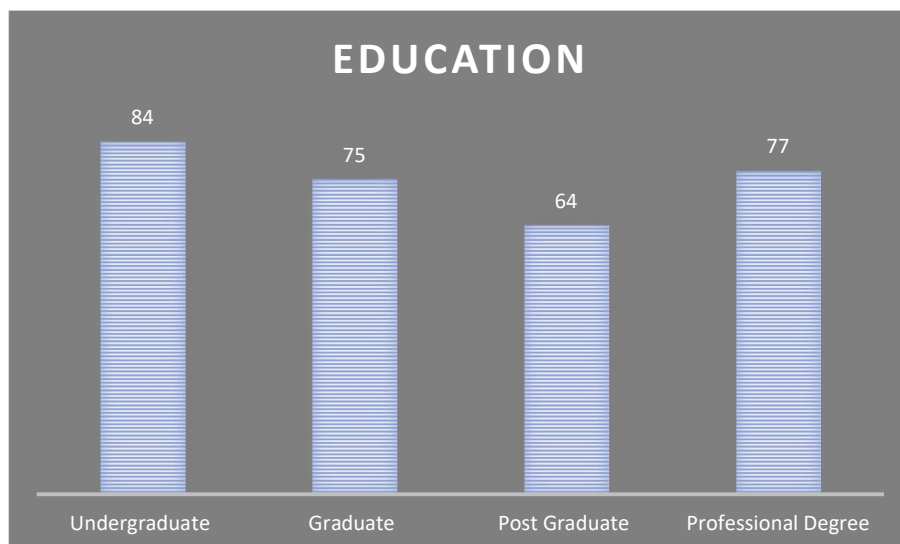
### Source: Primary Data

From the total respondents of 300, 68% respondents (203 respondents) are male and 32% respondents (97 respondents) are female.



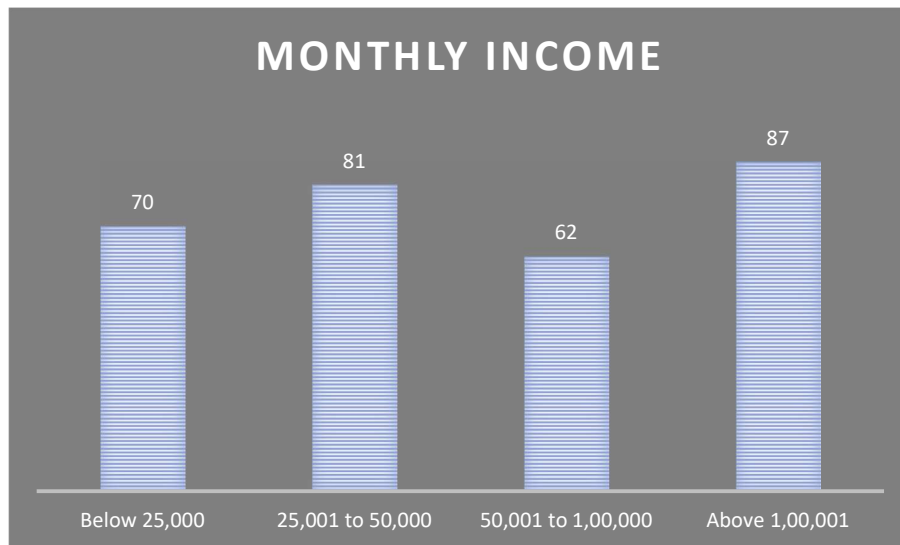
### Source: Primary Data

The above diagram represent that out of total respondents 67 respondents are below the age of 25, 66 respondents are the age group of 60, 54 respondents are from the age group of 26 to 35, 53 respondents are between the age group of 36-45, and 60 respondents are from the age group of 46-60.



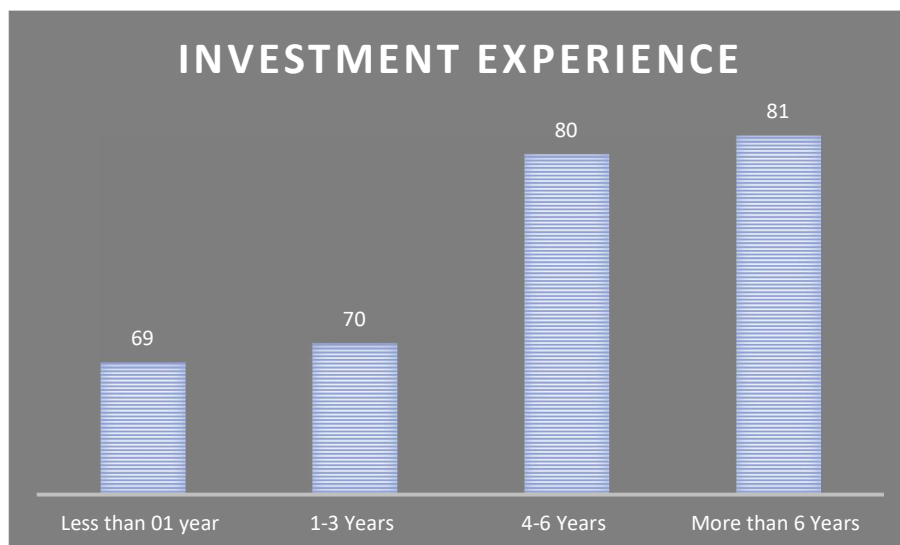
### Source: Primary Data

The above diagram represents that 84 accused are undergraduate, 77 respondents are having professional degree, 75 respondents are graduate and 64 respondents are post graduate.



**Source: Primary Source**

The above diagram says that, there are 87 respondents who taking an income of more than 1,00,001, 81 respondents having a income from 25,001 to 50,000, 70 respondents are having a income level of below than 25,000 and 62 respondents are having a income of 50,001 to 1,00,000.



**Source: Primary Data**

The above diagram says that, there are 81 respondents are having an investment experience of more than 6 years, 80 respondents are having 4-6 years' experience, 70 respondents are having 1-3 years of experience, and 69 respondents are having less than 01 year of experience.



### H1: There is a no significant impact of emotional biases on investment decision-making.

Model Summary <sup>e</sup>										
Model	R	R Square	Adjusted R Square	Standard Error of the estimate	Change Statistics					Durbin Watson
					R square Change	F Change	Df1	Df2'	Significant of F Change	
1	.035 <sup>a</sup>	.001	-.002	.63163	.001	.359	1	298	.549	
2	.110 <sup>b</sup>	.012	.006	.62921	.011	3.294	1	297	.071	
3	.117 <sup>c</sup>	.014	.004	.62979	.002	.453	1	296	.501	
4	.159 <sup>d</sup>	.025	.012	.62710	.012	3.550	1	295	.061	1.938
a. Predictors: (Continuous), OverallAR b. Predictors: (Continuous), OverallAR, OverallFL c. Predictors: (Continuous), OverallAR, OverallFL, OverallOMN d. Predictors: (Continuous), OverallAR, OverallFL, OverallOMN, OverallST e. Dependent Variable: OverallIDM										

### Source: Primary Data

According to the regression analysis, respondents' investment decisions are weakly and statistically insignificantly impacted by the behavioral biases of sentiment-driven trading, fear of loss, overreaction to market news, and regret aversion. None of the F-change statistics achieve significance ( $p > 0.05$ ), and the final model (Model 4) only explains 2.5% of the variance in investment decisions ( $R^2 = 0.025$ ). The R Square values for all four models are still extremely low. With a Durbin-Watson value of 1.938, autocorrelation is not a significant problem. All things considered, even though adding more variables slightly increases explanatory power, the models indicate that these emotional biases by themselves are not very good indicators of how this sample will behave when making investment decisions.

### Finding

1. The vast majority of those surveyed are under 25 years old.
2. There are more male respondents than female respondents overall.
3. The majority of those surveyed have an undergraduate degree.
4. Eighty-one respondents said they had been investing for more than six years.
5. Emotional biases do not significantly influence investment decision-making, according to the results of hypothesis testing.

### Practical implication

This study's findings are valuable for financial advisors, policymakers, and educators who work with retail investors in Ahmedabad. The study gives advisors the ability to create behavioural treatments and tailored advice that lessen illogical investment decisions. The findings will be helpful to policymakers to advance the different awareness campaigns and investor protection policies tailored to a given region's unique behavioural patterns. These insights can be incorporated by financial educators and institutions into training programs to

increase risk awareness and financial literacy, which will eventually promote logical and well-informed investment behaviour. Furthermore, the region-focused evidence supports the creation of strategies suited to various investor profiles and cultural contexts by providing a comparative viewpoint for upcoming national and international studies.

## Conclusion

Although theoretically significant, this study demonstrates that emotional biases had little statistical impact on the retail investment choices made by the Ahmedabad sample. The results highlight the significance of context-specific factors in investor behavior research and cast doubt on the generalizability of behavioral finance assumptions. Even though sentiment, fear, and regret are emotional factors, they don't seem to have enough predictive power on their own to influence investment choices. Therefore, comprehending and promoting logical retail investment behaviors requires a more comprehensive, integrated approach that takes into account contextual, informational, and psychological factors. Financial educators, advisors, and legislators can use the information acquired to create more specialized investor awareness campaigns and systems that assist in decision-making.

## Originality of the study

This study is unique in that it focusses on Ahmedabad's retail investors, a market that hasn't gotten much empirical attention in the literature on behavioural finance. While studies on emotional biases have been conducted globally by researchers like Malik et al. (2024) in Pakistan, Novianggie and Asandimitra (2019) in Surabaya, and Armansyah (2022) in the Indonesian capital market, Indian research on the subject is still limited and focused on other areas. For example, Sahai (2020) and Kumar & Tripathy (2014) looked at investors in Cuttack and Bhubaneswar. But not enough research has been done on Ahmedabad, which has distinct cultural, demographic, and economic traits. Furthermore, the work contributes significantly to behavioural finance and investor education both academically and practically by highlighting the most significant biases and offering doable suggestions to improve rational decision-making.

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