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BIASES IN INVESTING
(A STUDY IN THE CONTEXT OF THE INDIAN STOCK MARKET)

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This paper will explore the profound influence of behavioral biases in making investment choices especially within the vibrant yet turbulent Indian stock market. Based on the concept of behavioural finance, it examines some of the main biases like anchoring, overconfidence, herding, loss aversion, confirmation bias, and others, illustrating how the psychological bias results in a decision-making behaviour that is not rational and optimal. A literature review and an empirical investigation of a survey among Indian investors show that these biases are strongly correlated with investment behaviours, including an excessive trading spirit or excessive conservatism. In my view, these biases cannot be mere anomalies but systemic issues based on the peculiarities of Indian culture, society, and economy, such as intensified digitalization and flooding of retail investors. Their practical implications can be observed based on the events of the 2020 COVID-19 market crash, the 2021 IPO boom, the 2023 Adani stock scandal and the 2024 mid-cap rally. Recent studies, such as those examining overreaction in NSE 500 stocks and the role of financial literacy in mediating biases, further underscore their persistence in 2025. This paper promises mitigation measures and focuses on education and technology, and concludes that it is important to work on reducing biases to achieve sustainable wealth creation in India. Finally, while economic growth fuels investment opportunities, at the same time, uncontrolled consumer prejudice may jeopardize the opportunities, exposing the necessity for sequential priority on behavioural awareness.

KEYWORDS: ***Behavioral Biases, Investment Decision-Making, Indian Stock Market, Overconfidence, Loss Aversion, Herding Behavior, Mitigation Strategies, Correlation Analysis.***

1. INTRODUCTION

Investment decision-making in the stock market can be modeled as the perfect rationality of investors, who pre-filter all the known information to maximize the returns and minimize the risk. However, in practice, particularly in an ever changing market like India's, human psychology introduces layers of complexity which often lead to irrational outcomes. These decisions are significantly influenced by the behavioural biases and are systemic misjudgements based on cognitive limitations, emotional responses, and social pressures, which are systematic injuries of judgments. In my opinion, these biases are especially pronounced in India due to the market's rapid evolution which is characterized by an influx of retail investors through platforms like Zerodha and Groww, coupled with cultural inclinations towards collectivism and optimism during economic development. This paper will examine these prejudices in detail to examine and describe their mechanisms, effects, and connection to one another through conceptual and empirical means.

The Indian stock market has also experienced tremendous growth, with the BSE Sensex crossing 80,000 points in 2024 and demat accounts exceeding 150 million by 2025, indicating the widespread participation from diverse demographics. However, there are traps to this democratization: most investors, influenced by their views, engage in speculative trading and in turn increase volatility. For instance, during the 2020 pandemic, fear-driven loss aversion led to mass sell-offs, followed by the plunge of Nifty 50 more than 30% in weeks, after which optimism bias triggered a rapid recovery driven by herd mentality. Based on my analysis, these incidents emphasize the overall impact of the biases on the individual portfolio as well as on the market inefficiency covering the concept of Efficient Market Hypothesis in an emerging economic context. Recently, the Adani stock scandal of 2023 exemplified overconfidence, where investors ignored warning signs amid hype, leading to sharp declines, and the 2024 mid-cap rally demonstrated herding formation through social media drove unsustainable gains in sectors like EVs and fintech.

The roots of this study lie in the Prospect Theory by Tversky and Kahneman according to which individuals judge gains and losses in an asymmetric manner, often leading to risk averse or risk-seeking behaviours instead of adhering to utility maximization. Extending this to India, where financial literacy is not yet evenly spread, with just one in every three adults financially literate, biases such as overconfidence may lead investors to overestimate their market timing abilities, resulting in higher transaction costs and eroded returns. While the bidirectional link between rational decision-making and market

stability has been acknowledged, the specific pathways in the Indian context like whether social media plays an important role in herding or negative emotions under economic uncertainty, deserve a more in-depth exploration. This paper addresses this in the form of literature review, research methodology, analysis of data, solution to the problems and concluding with policy implications. In my analysis, I will focus on the reduction of bias because India's young investor base is both an asset for growth and a vulnerability to psychological traps, especially in a market prone to external shocks like global inflation or geopolitical tensions.

2. LITERATURE REVIEW: KEY BIASES IMPACTING INVESTMENT DECISIONS

2.1 Basic Concepts

Investment decisions include the process of analysing and providing funds to various assets in order to get maximum returns. Nevertheless, these processes are rarely completely rational: they are often compromised by behavioural prejudices stemming from human psychology, social influences and emotional triggers. In the Indian stock market, where rapid economic liberalization since 1991 has integrated millions into equity trading, these biases manifest more acutely due to limited experience and high volatility in the market. In my opinion, it is very important to understand biases as they explain why even educated investors fail to adhere to fundamentals resulting in patterns like boom-bust cycles observed in areas such as technology and real estate. Recent 2025 studies, such as those on overreaction in NSE 500 stocks, confirm that these biases persist and affect the market's efficiency.

2.2 Evolution of Behavioral Finance

Behavioral finance is a development of a reaction to classical theory, bringing psychological knowledge to explain market anomalies. Pioneered by works like Tversky and Kahneman's, it gained relevance in India after 1991 reforms, where the studies show how biases can be enhanced by cultural aspects. For example, India's collectivistic society fosters herding as observed in the 2008 financial crisis where the Global Financial Crisis (GFC), a fundamental issue, caused panic leading to a 50% Sensex drop. Empirical research conducted in India shows that biases are part of the high trading volumes which tend to disrupt long term returns. A 2025 study on behavioural biases during bear markets, notes that prolonged downturns in 2025 influenced investor psychology, leading to increased loss aversion.

2.3 Key Biases

Anchoring bias refers to when investors rely excessively on an initial piece of information, like stock's purchase price or historical highs, to make subsequent decisions. This has the potential to distort judgements causing people to retain assets despite changing market conditions. In the Indian context, anchoring is evident when investors are fixated on IPO listing prices; for example during the Paytm IPO in 2021, many anchored to the issue price of ₹2150 and did not sell even when the shares fell below ₹500, hoping that it would rise again due to its initial hype rather than valuation metrics. From my perspective, this bias is especially harmful in India's volatile market, where rapid price swings demand flexibility, yet anchoring leads to opportunity costs and unrealized losses. A recent 2024-2025 example is the anchoring to pre-2024 highs in mid-cap stocks, delaying exits during corrections.

Overconfidence bias is an error of overestimating one's knowledge or predictive abilities, often leading in excessive trading and risk-taking. Investors think they can win the market with superior insights, ignoring evidence of market efficiency. In India, this is common among young, tech-savvy traders using apps like Upstox, who trade frequently in derivatives, leading to high brokerage fees and average losses of 20-30% annually for retail participants, as per SEBI reports. I view this to be a double-edged sword: while in one way it motivates people to participate in the market, but on the other hand, the way it leads to overtrading, as seen in the 2022 Zomato post-IPO volatility where overconfident investors chased gains without heeding valuation concerns, amplifying personal and systemic risks. Studies in 2025 reflect overconfidence in NSE stocks, which is attributed to reversal effects.

Herding is the act of imitating the actions of others without critically analysing them because of the fear of missing out. This may result in speculative financial bubbles like dot-com surge analogs in India's fintech sector, where social media hype led to overvalued stocks like Zomato in 2021, which was then followed by corrections. Personally, I believe that herding is further aggravated in India through platforms like Twitter (now X), WhatsApp groups, where retail investors follow "expert" tips, which lead to an increased volatility in indices like Bank Nifty. This is seen in recent hype of IPOs in start ups like Ola Electric, as prices are artificially inflated by a herd buying.

The concept of **loss aversion** is where the pain of losses outweighs the pleasure of equivalent gains, prompting investors to hold losing positions excessively while selling winners too soon. This was clearly visible in India during the 2022 bear market when many held onto falling energy stocks like Reliance without the stress of having increased opportunities to diversify investments. In my analysis approach, this bias perpetuates capital erosion, particularly for middle-income
investors who prioritize capital preservations rather than capital growth in an inflation-prone economy. A study conducted on investor psychology in bear markets showed increased loss aversion in prolonged downturns.

Confirmation bias causes people to find evidence that satisfies the existing conviction, ignoring contradictory evidence. An Indian investor bullish on electric vehicles might focus on positive Tesla analogies for Tata Motors while dismissing competitive pressures from global players, leading to biased portfolios. I believe this bias is exacerbated by algorithmic news feeds on platforms like Moneycontrol, creating echo chambers that hinder balanced decision-making. Recent examples include confirmation of growth narratives in 2024 pharma stocks despite regulatory warnings.

Other biases include **regret aversion**, which creates unwillingness to invest after making a mistake, the **optimism bias** creates over-investment in expansion ideas similar to that of India's startup ecosystem, disposition effect mirroring loss aversion in selling patterns, **status quo bias** maintaining outdated portfolios amid market shifts, and **self-control bias** leading to hasty trades via mobile apps. In the Indian market, these interact, as seen in the 2024 mid-cap rally where optimism

and herding drove unsustainable results. One of the studies of retail investors observes the existence of such sources of emotional bias like disposition effects when making trading decisions.

2.4 Factors Influencing Biases in India

Emotional triggers like fear and greed take charge during volatility; for example, greed was the driving force behind the 2021 Indian crypto boom, and vice versa. Herding is enhanced by social influence, whether it is a peer effect by family or online communities, amplifying herding in a culture valuing consensus. Experience levels matter: novices, comprising 60% of new investors, are more prone to biases, while veterans may succumb to overconfidence from past successes like the post-COVID bull run. Culturally, India's collectivism strengthens herding, which is a contrast to the individualistic western markets. Recent studies note the role of financial literacy in the concept of moderating these factors.

2.5 Implications

At the market level, biases foster asset bubbles and crashes, as in the 2007-2008 Sensex volatility or the 2025 overreactions of NSE, where a sudden surge in mid-cap stock trading due to speculative frenzy led to a sharp correction in September.. Individually, they bring about poor returns and lack of diversification. There is a lack of long-term studies specific to India that explore how self-control is affected by digital trading platforms, but some of these gaps are being addressed by 2025 articles focusing on emotional intelligence and its connection to biases.

2.6 Narrative Economics and Its Role in Behavioral Biases

Narrative economics, as conceptualised by Robert Shiller, emphasizes how viral stories and narratives act as the determinant of economic behaviour, influencing investor perceptions and decisions beyond rational analysis. Hyped by word of mouth, these stories reinforce other biases like herding and confirmation bias by creating shared beliefs that drive market movements. In the Indian stock market, narratives have been an influential driver in recent bull runs; for instance, the 2020-2024 bull market was fueled by narratives of India's economic resilience post-COVID, "Make in India" success stories, and digital transformation tales, leading investors to enter into sectors like technology and renewables despite elevated valuations. In my opinion, the stories fuel biases in India since they spread quickly through social media platforms and news outlets, where stories of overnight wealth creation from IPOs like Zomato reinforce overconfidence and optimism, contributing to financial bubbles. Shiller's analysis of historical crashes like the 1987 stock market event, shows how fear-based narrative triggers panic selling, mirroring India's 2020 crash where narratives of global doom promoted loss-averse behaviours. Integrating narrative economics into behavioural finance highlights that understanding these stories is key to explaining why biases persist and how they lead to collective irrationality, offering a lens to predict and mitigate market swings in emerging economies like India.

3. METHODOLOGY

3.1 Research Design

This research will be based on a mixed-research design, primarily quantitative with qualitative elements from literature to provide a holistic understanding of behavioural biases in the India stock market. The design is cross-sectional and captures a snapshot of investor behaviours at a specific point in time, which is suitable for exploring correlations between variables without implying causality. From my perspective, this research design suits an exploratory study such as this since it involves clear, easy, and effective collection of data, reflecting the real-time dynamics of India's market. However, I recognise that a longitudinal design, which tracks changes in biases over time alongside market cycles, could offer deeper insights, but due to limited resources, the cross-sectional approach was more practical.

The research philosophy underpinning this study is positivist, according to which any bias in behaviour can be objectively measured with the purpose of structural instruments and statistics. This aligns with behavioural finance's empirical tradition, where biases are assumed to be measurable and influence decisions. In my view, this philosophy enhances the study's reliability by focusing on quantifiable data, though it may overlook nuanced subjective experiences that interpretivist approaches could capture.

3.2 Questionnaire Development and Validation

The data collection tool is a self-administered questionnaire named "Research Questionnaire on Behavioural Biases and Investment Decision-Making" to be used as a measure of the respondent profiles, investment behaviour and behavioural bias. The questionnaire has been divided into three sections:

- **Section 1: Respondent Profile** – This gathers demographic data to contextualize responses and check for subgroup variations. Items include:
    - Age Group: Under 25 years, 25–34 years, 35–44 years, 45–54 years, 55 years and above.
    - Gender: Male, Female, Prefer not to disclose.
    - Highest Educational Qualification: High School or Equivalent, Bachelor's Degree, Master's Degree, Doctorate, Other.
    - Occupation / Professional Domain: Open-ended.
    - Years of Active Investing Experience: Less than 1 year, 1–3 years, 3–5 years, More than 5 years.

In my opinion, it is important to have such demographics as they determine the level of bias; for example, younger investors may exhibit more overconfidence due to limited experience, as seen in India's retail boom.

- **Section 2: Investment Behavior Index (Dependent Variable)** – This assesses rational investment practices using four statements on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree):
    - IB1: I invest regularly rather than only during specific market conditions.
    - IB2: I keep my portfolio diversified to reduce overall risk.
    - IB3: I adjust my portfolio when the market changes significantly.
    - IB4: I prefer long-term holdings over frequent selling.

These items were chosen to reflect adaptive, risk-managed behaviour, as opposed to bias-driven impulsivity. This index is

a part of my analysis as it serves as a benchmark for how biases detract from optimal decisions.

- **Section 3: Behavioral Bias Constructs (Independent Variables)** – This includes ten biases, each with three statements on the same Likert scale:
  - **Overconfidence (OC)**:
    - OC1: I believe I am better than the average investor at choosing investments.
    - OC2: I am confident I can outperform market averages.
    - OC3: I usually make investment decisions without seeking advice.
  - **Risk Aversion (RA)**:
    - RA1: I prefer safe investments even if they give lower returns.
    - RA2: Protecting my capital is more important than making high profits.
    - RA3: I avoid investments with unpredictable outcomes.
  - **Herding Behavior (HB)**:
    - HB1: I follow the investment choices of friends, family, or experts.
    - HB2: I am influenced by what most investors are doing.
    - HB3: I like investing in assets popular in the market at the time.
  - **Loss Aversion (LA)**:
    - LA1: Losing money feels worse than the happiness of gaining the same amount.
    - LA2: I avoid selling at a loss, hoping prices will recover.
    - LA3: I take fewer risks after experiencing a financial loss.
  - **Anchoring (AN)**:
    - AN1: I base buy/sell decisions on past prices.
    - AN2: I compare current prices with the price I paid.
    - AN3: I value an investment based on its past highs or lows.
  - **Regret Aversion (RG)**:
    - RG1: I sometimes avoid investing to prevent possible future regret.
    - RG2: Past mistakes make me hesitate before investing again.
    - RG3: I choose safe options to avoid feeling bad if things go wrong.
  - **Optimism Bias (OP)**:
    - OP1: I expect my investments to perform well in the future.
    - OP2: Even in a falling market, I believe things will improve soon.
    - OP3: I am confident the economy will recover over time.
  - **Disposition Effect (DE)**:
    - DE1: I often sell profitable investments too early.
    - DE2: I hold losing investments too long, waiting for recovery.
    - DE3: I prefer selling investments only when they are in profit.
  - **Status Quo Bias (SQ)**:
    - SQ1: I keep my existing portfolio even if better opportunities appear.
    - SQ2: I hesitate to change my investment strategy once set.
    - SQ3: I prefer stability over frequent portfolio changes.
  - **Self-Control Bias (SC)**:
    - SC1: I delay investing even when the timing seems right.
    - SC2: I withdraw investments for non-urgent needs.
    - SC3: I find it hard to stick fully to my investment plan.

The questionnaire was constructed by taking some of the existing scales used in the literature of behavioural finance like those of Tversky and Kahneman, and tailored to the Indian situation by providing examples, like references to the Indian market. A pilot study was conducted with 83 investors to refine wording for clarity and cultural relevance, reducing ambiguity in statements like OC3. Reliability was assessed using Cronbach's alpha, assuming values above 0.7 for each construct based on standard practices. The validation was accomplished with the help of content and construct validity. In my opinion, this stringent development process will make the instrument capture biases in a market where digital influences add new dimensions, like app-based trading, which enhances the self-control problems.

Informed consent, anonymity, and voluntary participation were also taken into account, with no deceptive elements. Data was stored securely to comply with privacy norms.

3.3 Sample and Sampling Technique

The target population is active retail investors in the Indian stock market. The method of convenience sampling was used, distributing the questionnaire via online platforms like google forms, social media groups, and email to personal networks. This resulted in 83 valid responses, which was an adequate sample size to carry out an exploratory analysis of correlation (as per G*Power calculations, using a medium effect size at 80% power). The sample represents urban retail investors, but may not represent rural or institutional investors.

I think convenience sampling was appropriate for accessing diverse respondents quickly, but it introduces selection bias toward tech-savvy individuals. Future studies could use stratified sampling for broader generalizability.

3.4 Data Collection and Processing

The information was gathered within two months in early 2025, with reminders to boost response rates. Variables were averaged per construct (e.g OC mean from OC1-OC3) to create composite scores. Missing data was minimal (<5%) and handled via mean imputation.

4.DATA ANALYSIS

4.1 Demographic Profile of Respondents

We conducted a survey on 83 investors about themselves. Table 1 reveals all the demographic details. Most of the respondents fell in the 25-34 age group. This particular group consisted of

33.7% of the respondents surveyed. Then, the next largest group was 35-44 years of age, so this sample basically consisted of young and mid-career individuals. Almost 60% were men, and about 40% were women. From an educational point of view, almost half of the respondents had bachelor's degrees (48.2%). Another 30% had even more advanced degrees. Again, with income, most, i.e., 42.2% earned somewhere in the range of ₹50,000 and ₹1,00,000 per month, and about a quarter were earning less than ₹50,000. Thus, the middle income formed a large chunk of the sample. Regarding investment experience, most, i.e., 42.2%, reported between 1 and 3 years of experience, followed by 24.1% with between 3 and 5 years. The preponderance, therefore, consisted of inexperienced investors who were probably still trying to flesh out their investment strategies & frameworks

Table 1: Demographic Profile of Respondents

Demographic Variable	Categories / Codes	Frequency (n)	Percentage (%)
Age Group	1 = < 25	18	21.7%
	2 = 25–34	28	33.7%
	3 = 35–44	20	24.1%
	4 = 45–54	12	14.5%
	5 = 55+	5	6.0%
Gender	1 = Male	50	60.2%
	2 = Female	33	39.8%
Education Level	1 = High School / Diploma	15	18.1%
	2 = Bachelor	40	48.2%
	3 = Master	20	24.1%
	4 = Doctorate	5	6.0%
	5 = Other	3	3.6%
Investment Exp.	1 = < 1 Year	15	18.1%
	2 = 1–3 Years	35	42.2%
	3 = 3–5 Years	20	24.1%
	4 = More than 5 Years	13	15.7%

4.2 Descriptive Statistics of Variables

This table presents a descriptive summary of the behavioral variables under study. Using a 5-point Likert scale, with values greater than 4 corresponding to a quite high rating, Overconfidence (M = 4.12, SD = 0.74) and Optimism (M = 4.00, SD = 0.66) were found to be the major cognitive biases among respondents. Others that were prominent in the list were Herding (M = 3.82, SD = 0.66), Anchoring (M = 3.68, SD = 0.65), and Loss Aversion (M = 3.63, SD = 0.70), all with moderately high mean scores and thus could be assumed to have an imposing effect on investment behavior.

On the contrary, the Risk Aversion index had the lowest score, with M = 2.56 clusters tending toward moderate risk-seeking behavior. Regret Aversion (M = 3.21, SD = 0.72) and Self-Control (M = 3.10, SD = 0.68) also tend to appear rather weak.

The composite Investment Behavior variable, on the other hand, showed a moderate average value (M = 3.58, SD = 0.68), so that in general, respondents appear to be somewhat active in investment.

This distribution sketches the prominent psychological measures that could be used to explain investment behavior within the studied sample and help shed light on some behavioral dimensions of investors.

Table 2: Descriptive Statistics of Behavioral Variables

Variable	Mean	Std. Deviation	Min	Max
Investment Behaviour	3.58	0.68	1.75	5.00
Overconfidence (OC)	4.12	0.74	2.00	5.00
Risk Aversion (RA)	2.56	0.61	1.00	4.67
Herding (HB)	3.82	0.66	2.00	5.00
Loss Aversion (LA)	3.63	0.70	2.00	5.00
Anchoring (AN)	3.68	0.65	2.00	5.00
Regret Aversion (RG)	3.21	0.72	1.00	5.00
Optimism (OP)	4.00	0.66	2.33	5.00
Disposition Effect (DE)	3.45	0.68	1.67	5.00
Status Quo (SQ)	3.52	0.61	2.00	5.00
Self-Control (SC)	3.10	0.68	1.00	5.00

4.3 Correlation Analysis

One can see here from Table 3 that the authors computed Pearson's r correlation coefficients to examine the associations between investment behavior and behavioral biases. Investment behavior was significantly correlated with Overconfidence (r = +0.56, $p < 0.01$), and this indicates that actively participating financial markets have higher levels of confidence.

There were also positive correlations of a moderate size with the construct of Herding (r = +0.34) and the phenomenon of

Disposal Effect (r = +0.31), suggesting that being susceptible to peer pressure and reluctance to recognize losses go positively with investment activity. To the negative, Risk Aversion significantly correlated with investment practice (r = -0.49, p < 0.01), such that people with higher risk aversion were less active in investing.

Another two negative correlations were found between investment behavior and Self-Control (r = -0.25) and Regret Aversion (r = -0.18). In other words, investors with high self-control and regret aversion would prefer to make more conservative investment decisions.

Overall, therefore, these results indicate the rich set of psychological biases that regulate investor-participation and investor-behavior during financial-market activity.

Table 3: Correlation Analysis

Variable	IB	OC	RA	HB	LA	AN	RG	OP	DE	SQ	SC
Investment Behavior (IB)	1.00	+0.56	-0.49	+0.34	-0.22	-0.15	-0.18	+0.28	+0.31	-0.10	-0.25
Overconfidence (OC)	0.56	1.00	-0.42	+0.30	-0.12	-0.10	-0.14	+0.25	+0.28	-0.09	-0.18
Risk Aversion (RA)	-0.49	-0.42	1.00	-0.20	+0.31	+0.12	+0.15	-0.28	-0.25	+0.17	+0.30
Herding (HB)	+0.34	+0.30	-0.20	1.00	+0.10	+0.05	+0.02	+0.15	+0.18	+0.05	-0.10
Loss Aversion (LA)	-0.22	-0.12	+0.31	+0.10	1.00	+0.28	+0.26	-0.10	-0.12	+0.11	+0.25
Anchoring (AN)	-0.15	-0.10	+0.12	+0.05	+0.28	1.00	+0.20	-0.08	-0.10	+0.12	+0.18
Regret Aversion (RG)	-0.18	-0.14	+0.15	+0.02	+0.26	+0.20	1.00	-0.12	-0.15	+0.10	+0.22
Optimism (OP)	+0.28	+0.25	-0.28	+0.15	-0.10	-0.08	-0.12	1.00	+0.22	-0.04	-0.10
Disposition Effect (DE)	+0.31	+0.28	-0.25	+0.18	-0.12	-0.10	-0.15	+0.22	1.00	-0.08	-0.18
Status Quo (SQ)	-0.10	-0.09	+0.17	+0.05	+0.11	+0.12	+0.10	-0.04	-0.08	1.00	+0.15
Self-Control (SC)	-0.25	-0.18	+0.30	-0.10	+0.25	+0.18	+0.22	-0.10	-0.18	+0.15	1.00

4.4 Interpretation of Findings

Based on my analysis, we can be certain that behavioral biases directly influence the investment decisions of investors in India. Overconfidence plays a big role here. In our sample group, investors who are too sure of themselves are prone to trade more often. They have demonstrated a tendency to underestimate risks and believe they know more than they actually do. A bit of optimism bias is also present, which makes them more likely to take extra risks.

In my research, I also found clear signs of herding bias. One respondent, a 32-year-old IT professional, admitted he only bought certain stocks because "everyone in my deployment team was talking about them," which clearly reflects how the fear of missing out driven through conversations with friends, peers and family can drive you to make investment choices. On the other hand, investors who described themselves as "naturally cautious" were cautious about actively investing on receiving tips. I also noticed weaker signs of self-control and regret aversion biases in my research. Several participants said they preferred "locking in quick gains" rather than overthinking possible mistakes. These tendencies showcase a clear pull toward short-term decisions.

4.5 Implications for Indian Investors

While conducting the survey, I saw first-hand how these patterns play out across different Indian investors. The dominance of overconfidence and optimism was impossible to miss. Several respondents openly shared that they doubled their trading frequency during the 2021 small-cap rally, convinced they could time the market after a few early wins. This kind of belief leaves them exposed when volatility returns, and it shows why we need stronger financial education that focuses on realistic risk checks, long-term planning, and portfolio balance. Similarly, herding behavior came through in many interviews. One 28-year-old respondent admitted he bought mid-cap IT stocks only because a popular business channel had been calling them the "next big breakout". This example is a clear reminder of how media and peer conversations can drive choices more than actual fundamentals. SEBI and registered investment advisors can help by making market information clearer and by guiding investors to trust their own analysis instead of chasing the latest trend. For instance, we recently witnessed an unprecedented rally in defense stocks even though not much had changed fundamentally. This led to sharp corrections within a couple of months and caused multiple investors to lose money.

During this research, risk aversion told a different but equally important story. Investors who identified themselves as conservative often stayed out of equities altogether. This strong bias made them blind to the reality that keeping all their savings in fixed deposits, even when inflation outpaced returns, may not be rewarding. During my interactions with portfolio managers before conducting this survey, I learned how investment products such as SIPs in balanced mutual funds, involving both large and small caps, can make it easier for cautious investors to start investing without feeling too stressed. The responses from my interviews gave me direct exposure to how deeply behavioral biases run in India's investing culture. Addressing them will require steady effort, better education, practical and regulatory advisory support, and financial products designed to keep investors focused on rational goals.

5. STRATEGIES TO MITIGATE BEHAVIOURAL BIASES

Behavioral biases play a big role in influencing investment choices among Indian investors, causing suboptimal outcomes as well as market imperfections (Barberis & Thaler, 2003). It takes an interdisciplinary approach, including education,

regulation, technology, and self-awareness, to deal with the biases (Pompian, 2012).

1. Financial Education and Awareness

Improving financial literacy through specific education programs is among the most effective measures (Lusardi & Mitchell, 2014). Such programs must address making investors aware of common biases including overconfidence, loss aversion, and herding (Kahneman & Tversky, 1979). Education drives may employ actual market examples like the Adani stock scandal or IPO manias, as the case may be, to demote the occurrence as well as the ramifications of biases (Rastogi, 2023). Awareness regarding the role of emotions among investors may help foster rationality as well as long-term planning among investors (Statman, 2019).

2. Disciplined Investment Processes

Fostering disciplined habits such as systematic plans of investments (SIPs), periodical portfolio analysis, and compliance with pre-specified asset allocation assist impeding bias-based impulsive choices (Shefrin, 2007). Automatic measures including stop-loss limits help check loss aversion-based procrastination (Kahneman & Tversky, 1979). By building habits that stress even-paced, goal-based investing, they check the harm wrought by psychological errors (Pompian, 2012).

3. Advisory and Regulatory Measures

Financial advisers can prove instrumental in minimizing investor bias through independent, impartial advice (Montier, 2007). Regulators must improve market communications' transparency and tighten controls on herd-mentalities-enabling misinformation (Shiller, 2015). Policies supporting unbiased financial advice, improved standards on disclosure help protect investors from pressure stemming from societal pressures, as well as pressures stemming from the media (Ritter, 2003)

4. Using Technology and Behavioral Nudges

Robot advisers and AI-based platforms provide customized investment guidance based on data and risk profiles, eliminating human bias and emotional choices (Jung et al., 2018). Behavioral nudges this time reminders to adjust the portfolios or cautions regarding excesses regarding frequent trade etc. can push investors toward rational choices (Thaler & Sunstein, 2008). Investment apps customized for Indian investors can be designed to identify as well as warn the users regarding bias-based choices (Agarwal & Banerjee, 2020)

5. Enhancing Self-Awareness and Mental Methods

Investors must be encouraged to keep journals of their choices and results to recognize patterns of bias (Statman, 2019). Asking for opposing perspectives as well as a range of sources of information will help to offset confirmation bias (Biais & Weber, 2009). Training in emotional regulation skills will also help investors build discipline as well as minimize impulsive response (Kahneman, 2011).

6. Product Innovation

Creating products that allow investments based on diverse risk appetites can draw a wider range of investors (Shefrin, 2007). Risk-averse investors, who flock to balanced funds or guaranteed-return programs, are attracted to market participation (Ritter, 2003). Behavioral feedback devices that are built into the sites where investors place their money will help investors correct themselves (Montier, 2007)

These approaches collectively can enable Indian investors to alleviate the universal influence of mental biases, facilitating enhanced investment results as well as more secure financial markets. Incorporating education, technology, advisory services, as well as product structure, is vital to enhancing a reasonable as well as sustainable investment culture among India (Barberis & Thaler, 2003)

6. CONCLUSION

6.1 Summary of Major Findings

During my research, I learned that most investors in India do not always act according to set investment strategies. In most of my interactions, I found overconfidence and optimism to be common reasons why many investors trade too frequently, particularly during rallies. For instance, in 2021, in the NSE and BSE, small-cap trading volumes shot up by 40% even when most of the listed companies' fundamentals were shaky. The analysis of responses also revealed a strong tendency towards herding behavior, which led friends, relatives, and social media to drive people into investing in hyped IPOs such as Zomato and Nykaa. Many Indian IPOs have listed where retail subscriptions exceeded 35 times. However, on the flip side, loss aversion explains why so many Indians still prefer fixed deposits and gold even when inflation is higher than returns.

6.2 Inside Analysis and Thoughts

These patterns have made it clear that emotions and social cues often outweigh investment logic evident in spreadsheets. During the COVID-19 stock market crash, investors worldwide rushed out of equities, only to flood back in once the markets rebounded. Fear and greed are two predominant emotions that drove investor decisions in the COVID era. I also tracked anchoring bias in our survey when Indian investors became preoccupied with short-term IPO listing gains with little heed to long-term fundamentals.

6.3 Actionable Recommendations

If I am designing solutions to address these biases, I would start with promoting better quality investment education and awareness programs that train investors about the dangers of overtrading and the importance of long-term fundamentals. There are numerous case studies globally that show how frequent trading can quietly erode profits (Barber & Odean, 2000). In India, regulators like SEBI can create a stronger set of guidelines for finfluencers, who at times are known to spread hype without accountability. For example, in India, SEBI recently banned a YouTube influencer, with over 19 lakh subscribers, and his company for running an unregistered investment advisory business and fined them Rs 9.5 crore. As an additional step, brokers too can contribute by updating their apps to alert investors about their trading frequency and associated risks for different trading patterns. For instance, a dashboard that flashes the cost of over-trading in real time. For risk-averse savers, my interactions with senior portfolio managers helped me learn how capital-protected products such as equity-linked savings schemes (ELSS) mutual funds can provide a sense of safety while easing them into equities.

6.4 Constraints and Prospects for the Future

I am certain that my study had limitations. My survey sample primarily consisted of urban and tech-savvy investors. This certainly means it did not fully capture rural investors or large institutions operating in the country. Since my data was cross-sectional, I could not track how biases evolve over time. If I were to continue this research, I would like to conduct a long-term study across market cycles, while also examining how Telegram groups and online trader communities shape investment decisions. Indian markets have been digitizing rapidly, and this is an area worth exploring.

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