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Cognitive Biases in Investing: A Study on Behavioural Biases of Retail Investors for Smart Investment Decisions

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Abstract: The psychology-based behavioural finance theories strive to comprehend the impact of emotions and cognitive errors on the behaviours of individual retail investors. This paper critically analyses the impacts of behavioural finance bias on savings and investment financial decision of the retail investors of Odisha. It studies the demographic characteristics of retail investors and explores the connections between investment decisions and behavioral finance biases. A variety of behavioural biases and their effects on investment decisions are the primary foci of this research. The ideas are proposed based on the current theories in behavioural finance. These theories are tested using survey data, obtained from the individual retail investors of Odisha. Confirmatory Factor Analysis (CFA), Structural Equation Modeling (SEM), Cronbach's Alpha, Kaiser-Meyer-Olkin's (KMO) measure, and descriptive statistics are utilized. Herding, Market, Heuristic Bias (Availability Bias, Overconfidence), Prospect (loss aversion, regret aversion, and mental accounting), and finally, investment choice are the seven behavioural elements that impact the choices made by retail investors in Odisha.

Keywords: Behavioural Finance, Investment Decision-Making, Retail Investors, Behavioural Biases, Structural Equation Modelling

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