CHAPTER 3

A Study on Effect of Emotions on Investor Decision

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ABSTRACT

Investment choices mix both reasoning and feeling. Emotions such as fear, excitement, overconfidence, regret, and following trends frequently shape how people buy, hold, or sell financial products. The research uses a structured questionnaire to gather primary responses and analyses them to identify common emotional patterns and typical mistakes, such as selling too early or holding on to losing positions out of hope. The study also examines how emotional reactions relate to preferred investment types and the main objectives behind investing. Results show that emotional factors meaningfully influence decision paths across different demographic groups and often lead to short-term reactions rather than planned actions. Practical approaches used by respondents to manage emotions—like diversification, systematic investing, and set rules—are reviewed for effectiveness. The conclusion highlights that recognizing emotional triggers and adopting simple, disciplined strategies can improve investment outcomes and reduce impulsive behaviour. These insights can help investors, advisors, and educators craft clearer, emotion-aware guidance for better financial choices.

Keywords: Behavioural finance; Emotions; Investment decisions; Investor psychology.

1.0 Introduction

Investment decisions are commonly assumed to be the outcome of logical judgment and rational analysis. In reality, human emotions have a significant influence on how people approach financial decisions. Some of the emotions that influence investors to behave in ways that may not always be consistent with objective of investment investing, which include fear of loss, excitement for higher returns, regret over past choices and the tendency to follow others. These feelings affect behaviour such as panic selling during market downturns, over confidence in holding investments for too long or hesitating and missing out on opportunities. Understanding this emotional influence is important as evidence by growing number of retail investors, including young people, who entering the financial market. There are many options available to investors today, including stocks, mutual funds, fixed deposits, real estate cryptocurrencies and government bonds.

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In addition to financial knowledge, psychological factors also influence their preferences and behaviour. Emotional responses frequently cut across demographic categories such as age, income and occupation showing that bias is rarely absent from investment decisions. The framework for understanding these trends is provided by behavioural finance, which focuses on the influence of emotional and cognitive factor on decision, making the interaction of emotions influencing financial decisions include irrational trading, improper money allocation and holding unprofitable assets. At the same time, awareness of this tendencies helps in development of improved financial education and techniques to reduce impulsive behaviour. Therefore, encouraging more knowledgeable and balanced involvement in financial market require an understanding of the relationship between emotions and investment choices.

2.0 Review of Literature

Dierk's and Tiggelbeck (2021)- "Emotional finance: The impact of emotions on investment decisions." The study highlights that emotions like Fear, Overconfidence and Trust have influence investor behaviour, particularly under uncertainty. The author highlight role of herd behaviour which increases market volatility. They demonstrate how social influence and misplaced trust allowed a poor investment choices despite warning signs by using Wirecard case. The study concludes that cognitive biases and emotions work together to influence market dynamics beyond logical model.

SMU (2022) "Investor Psychology; How emotions can color our decisions." The impact of emotions like fear, greed, regret and overconfidence on financial decisions is examined in this paper. It explains that greed pushes investors to take more risk, fear leads to panic selling. The study also discusses behavioural biases that cause investors to deviate from rational investigations such as loss aversion, herding and anchoring. To reduce emotional mistakes, the author advise systematic financial planning and education.

Polisetti (2025) "The impact of behavioural finance on investments and the decision-making process." The study examines psychological biases that affect investment decisions, focusing on confirmation bias, herd mentality, overconfidence and loss aversion. It highlights how feelings like greed and fear, motivate actions like over investing in booming market or panic selling. The study employs behavioural theories such as prospect theory and illustrate its practical implications with instances like 2008 financial crisis. It emphasizes that understanding behavioural aspect is crucial in order to make wise decision.

3.0 Following are Factors Selected for Study

- Preferred investment type.
- Primary objective of investing.

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- Emotional factors fear, greed, overconfidence, regret, herd behaviour, etc.
- Anxious, Excited.

4.0 Objectives of the Study

- To identify various factors affecting investment decision.
- To identify common mistakes investor's do due to there behaviour (Emotion).
- To study how all emotional factors impact investment choices.
- To analyse how demographic factors influence investment decision.

5.0 Hypothesis

H1: Emotional Factors influences investment decisions.
H2: Demographic Factors influences investment decisions.

6.0 Research Methodology

- *Research design:* To investigate how emotions impact retail investors investment choices, the study employs a descriptive research design.
- *Population:* Everybody who makes investments in stock, mutual fund, fixed deposits, real estate and cryptocurrencies etc.
- *Sampling unit:* Retail investors who make their own investment decisions such as working professionals and students.
- *Sampling method:* Simple random sampling was used to guarantee that each investor had an equal chance of being chosen.
- *Sample size:* 106 respondents were selected for the study via online survey distribution.

Primary data was gathered through a structured questionnaire that ask about demographics and emotion related factors like fear, overconfidence, regret, greed and herd behaviour. Multiple choice and ranking based formats were used to record investors responses. Secondary data come from research papers journals and articles on investors psychology and behavioural finance.

Reliability & validity Test: this is conducted to measure the reliability & internal consistency of the scale. Result of reliability tests shows the internal consistency based on collected data.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.759	0.760	9

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The reliability and validity test results are Cronbach's alpha score; it is 0.759 which is greater than 0.7 that shows a very high level of internal consistency in the data. Thus it is concluded that this questionnaire is accepted for further research and statistical analysis with a satisfactory level of reliability.

Table 2: Demographic Profile of Respondent

Variables	Description	Frequency	Percentage
Gender	Male	77	72.64%
	Female	29	27.36%
	Total	**106**	**100%**
Age	18-25	68	64.15%
	26-35	15	14.15%
	36-45	17	16.04%
	46-60	5	4.72%
	60+	1	0.94%
	Total	**106**	**100.00%**
Qualification	Other	12	11.32%
	Post Graduate	42	39.62%
	Under Graduate	52	49.06%
	Total	**106**	**100.00%**
Occupation	Govt. Employee	6	5.66%
	Pvt. Employee	24	22.64%
	Self Employed	22	20.75%
	Student	54	50.94%
	Total	**106**	**100.00%**
Income	Below 2,00,000	48	45.28%
	2,00,000 to 5,00,000	25	23.58%
	5,00,000 to 10,00,000	19	17.92%
	Above 10,00,000	14	13.21%
	Total	**106**	**100.00%**

- *Preferred investment type of respondents:* The result, indicate investors preference for market linked returns by revealing that mutual funds (68.87%) and stocks/equity (65.09%) are the post popular investment options. Real estate (42.45%) and fixed deposits (37.74%) are moderately popular, reflecting a balance between growth and safety. On the other hand, the least preferred securities are government bonds (22.64%) and cryptocurrencies (12.26%), suggest there is little interest in low-yield or highly volatile securities. Overall, the results highlight a growing preference for equities and mutual funds, supported by moderate reliance on traditional investments.

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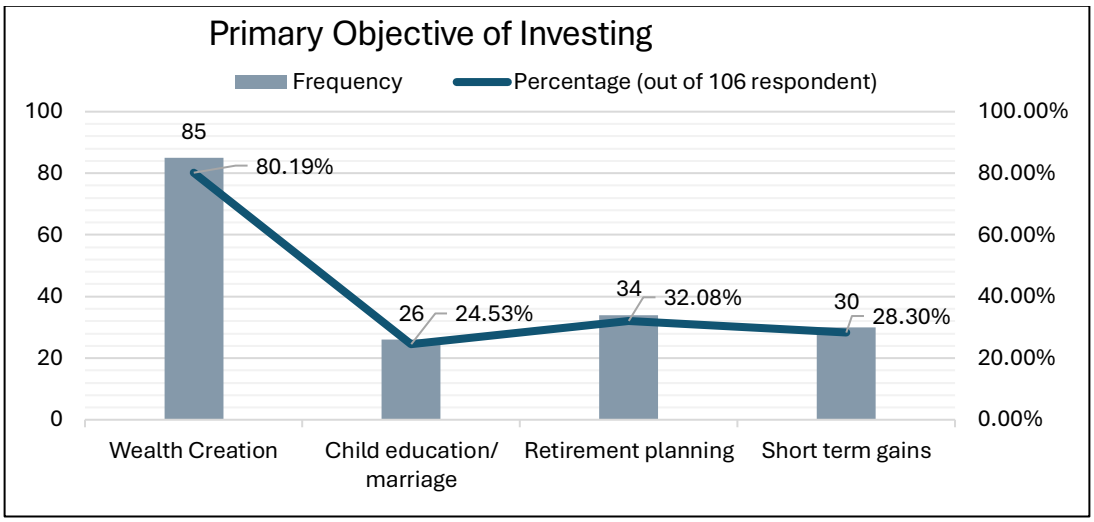
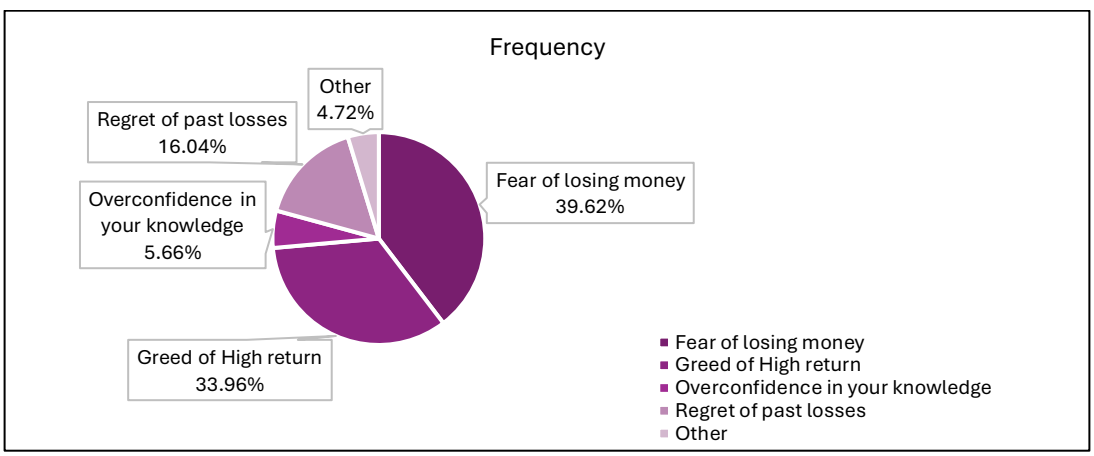
- *Primary objectives of investing:* According to the analysis, the main goal of investing is wealth creation (80.19%), which reflects investors' preference for long-term growth. Retirement planning (32.08%) and short-term gains (28.30%) are other goals, but child education and marriage (24.53%) come in last. Overall, the results show that investors place more emphasis on building wealth than they do on particular life events or immediate profits.





- *Emotional factors influencing investment decisions:* According to the analysis, fear of losing money (39.62%) and greed for large returns (33.96%) are the two most important emotional factors in investment decisions. While 4.72% of respondents reported other

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emotional drivers, regret for past losses (16.04%) and overconfidence in knowledge (5.66%) affected a smaller percentage of respondents. The "other" category includes factors such as long-term investment perspective, investing wisely with genuine advice, sixth sense based on experience, and risk management guided by fundamental conviction.

Overall, the findings suggest that risk-related emotions, particularly fear and greed, play the most significant role in investors' decisions.

7.0 Hypothesis Testing

Table 3: ANOVA

			Sum of Squares	Df	Mean Square	F	Sig.
Fear of losing money influence investment decisions	Between Groups	(Combined)	2.955	3	0.985	13.664	0.006
		Linearity	0.975	1	0.975	0.657	0.419
		Deviation from Linearity	1.980	2	0.990	0.667	0.516
	Within Groups		151.422	102	1.485		
	Total		154.377	105			
Greed of earning money influence investment decisions	Between Groups	(Combined)	9.421	3	3.140	12.835	0.005
		Linearity	6.183	1	6.183	3.614	0.060
		Deviation from Linearity	3.237	2	1.619	0.946	0.392
	Within Groups		174.513	102	1.711		
	Total		183.934	105			
Overconfidence in trading influence investment decisions	Between Groups	(Combined)	2.375	3	0.792	28.485	0.694
		Linearity	0.037	1	0.037	0.022	0.881
		Deviation from Linearity	2.338	2	1.169	0.716	0.491
	Within Groups		166.568	102	1.633		
	Total		168.943	105			
Regret of last investment decision influence investment decisions	Between Groups	(Combined)	2.658	3	0.886	166.559	0.643
		Linearity	0.835	1	0.835	0.527	0.469
		Deviation from Linearity	1.823	2	0.911	0.575	0.564
	Within Groups		161.569	102	1.584		
	Total		164.226	105			
		Linearity	0.035	1	0.035	0.026	0.873
		Deviation from Linearity	9.058	2	4.529	3.323	0.040
	Within Groups		139.029	102	1.363		
	Total		148.123	105			

H_1: Emotional Factors influences investment decisions.

1. The above table shows that the ANOVA value of Greed of earning money is 0.000 p-value is 0.005, on influence investment decisions that is less than 0.05 at 95 per cent

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confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is Fear of losing money influence investment decisions. F value is 13.664 which is greater than table values show's good fit of the model.

2. The above table shows that the ANOVA value of Fear of losing money is 0.000 p-value is 0.006, on influence investment decisions that is less than 0.05 at 95 per cent confidence level. It indicates that the good model fit. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is Greed of earning money influence investment decisions. F value is 12.835 which is greater than table values show's good fit of the model.
3. The above table shows that the ANOVA value of Overconfidence in trading is 0.164 p-value is 0.694, on influence investment decisions that is greater than 0.05 at 95 per cent confidence level. F value is 0.485 which is less than table values shows that the poor model fit. Therefore, the alternative hypothesis was rejected and we accept the null hypothesis that is Overconfidence in trading does not influence investment decisions
4. The above table shows that the ANOVA value of Regret of last investment is 0.599 p-value is 0.643, on influence investment decisions that is greater than 0.05 at 95 per cent confidence level. F value is 0.569 which is less than table values shows that the poor model fit. Therefore, the alternative hypothesis was rejected and we accept the null hypothesis that is Regret of last investment decision does not influence investment decisions

Conclusively we partial accept that the factors like Fear of losing money and greed of earning money positively influences the investment decisions of the investors, whereas overconfidence in trading and regret of last investment decision negatively influences the investment decision. Therefore we partially accept that *Emotional Factors influences investment decisions.*

Table 4: Summary of Hypothesis Testing

Hypothesis	ANOVA	F value	Significance (P-value)	Result
H_{1a}: Fear of losing money influence investment decisions	0.000	13.664	0.006	Accepted
H_{1b}: Greed of earning money influence investment decisions	0.000	12.835	0.005	Accepted
H_{1c}: Overconfidence in trading influence investment decisions	0.164	0.485	0.694	Rejected
H_{1d}: Regret of last investment decision influence investment decisions	0.599	0.569	0.643	Rejected

H_2: Demographic Factors influences investment decisions.

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Table 5: ANOVA

			Sum of Squares	df	Mean Square	F	Sig.
Age influence investment decisions	Between Groups	(Combined)	10.257	3	3.419	3.870	0.011
		Linearity	3.716	1	3.716	4.206	0.043
		Deviation from Linearity	6.541	2	3.270	3.702	0.028
	Within Groups		90.120	102	0.884		
	Total		100.377	105			
Gender influence investment decisions	Between Groups	(Combined)	0.098	3	0.033	4.158	0.002
		Linearity	0.015	1	0.015	0.073	0.788
		Deviation from Linearity	0.083	2	0.041	0.201	0.818
	Within Groups		20.968	102	0.206		
	Total		21.066	105			
Qualification influence investment decisions	Between Groups	(Combined)	5.172	3	1.724	4.021	0.009
		Linearity	0.086	1	0.086	0.200	0.656
		Deviation from Linearity	5.087	2	2.543	5.932	0.004
	Within Groups		43.733	102	0.429		
	Total		48.906	105			
Occupation influence investment decisions	Between Groups	(Combined)	7.505	3	2.502	2.876	0.040
		Linearity	1.793	1	1.793	2.061	0.154
		Deviation from Linearity	5.712	2	2.856	3.284	0.041
	Within Groups		88.721	102	0.870		
	Total		96.226	105			
Income influence investment decisions	Between Groups	(Combined)	10.679	3	3.560	3.233	0.025
		Linearity	2.891	1	2.891	2.625	0.108
		Deviation from Linearity	7.789	2	3.894	3.537	0.033
	Within Groups		112.311	102	1.101		
	Total		122.991	105			

1. The above table shows that the ANOVA value of *Age influence investment decisions* is 0.00 p-value is 0.011, that is less than 0.05 at 95 per cent confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is *Age influence investment decisions*. F value is 3.870 which is greater than table values show's good fit of the model.

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2. The above table shows that the ANOVA value of *gender influence investment decisions* is 0.00 p-value is 0.002, that is less than 0.05 at 95 per cent confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is *gender influence investment decisions*. F value is 4.158 which is greater than table values show's good fit of the model
3. The above table shows that the ANOVA value of *Qualification influence investment decisions* is 0.09 p-value is 0.009, that is less than 0.05 at 95 per cent confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is *Qualification influence investment decisions*. F value is 4.021which is greater than table values show's good fit of the model
4. The above table shows that the ANOVA value of *Occupation influence investment decisions* is 0.09 p-value is 0.040, that is less than 0.05 at 95 per cent confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is *Occupation influence investment decisions*. F value is 2.876 which is greater than table values show's good fit of the model
5. The above table shows that the ANOVA value of *Income influence investment decisions* is 0.09 p-value is 0.025, that is less than 0.05 at 95 per cent confidence level. Therefore, the null hypothesis was rejected and we accept the alternative hypothesis that is *Income influence investment decisions*. F value is 3.233which is greater than table values show's good fit of the model

Conclusively we accept that Demographic factors like Age, Gender, Qualification, and Income & Occupation of the respondents significantly and positively influences the investment decisions of investors. Therefore, we accept the alternative hypothesis that is Demographic Factors influences investment decision.

Table 6: Summary of Hypothesis Testing

Hypothesis	ANOVA	F value	Significance (P-value)	Result
H_{2a}: Age influence investment decisions	.000	3.870	.011	Accepted
H_{2b}: Gender influence investment decisions	.000	4.158	.002	Accepted
H_{2c}: Qualification influence investment decisions	.009	4.021	.009	Accepted
H_{2d}: Occupation influence investment decisions	.000	2.876	.040	Accepted
H_{2e}: Income influence investment decisions	.000	3.233	.025	Accepted

8.0 Findings

- More people prefer mutual funds and equity linked products over government securities and cryptocurrencies.

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- The primary objective of investment is wealth creation, after that retirement planning short-term gains, and child education or marriage.
- Emotional factors like fear of losing money & greed for high returns positively influence investment decisions.
- Demographic factors like age, gender, qualification, income, occupation have positive influence on investment decisions.
- Education play significant role in reducing emotional biases.

9.0 Conclusion

In conclusion, the investment decisions are influence by both demographic and emotional factors. Fear of losing money or greed for more returns control most decisions, regret and overconfidence reduces rationality. Investors aim for wealth creation with equity linked products are more preferred options. Education helps in reducing emotional biases.

10.0 Suggestions for Further Study

To generalize results, future studies can use larger samples from various geographical areas. The behavioural variations among investor age groups and income levels can be further examined.

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