

Role of Behavioral Finance in Investment Decision– A Study of Investment Behavior in India

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Abstract- *The study attempts to analyze the behavior of investors towards investment pattern and to analyze the factors which an investor takes into consideration while taking Investment decision. Faculty members in Uttarakhand were surveyed using questionnaire. Study concludes that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investors complete considers factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns.*

Keywords: Behavioral, Finance, Savings, Investment.

INTRODUCTION

“People in standard finance are rational. People in behavioral finance are normal.”

-Meir Statman

Stock market complexities and market anomalies have led to the growth of a new field of financial research namely “behavioral finance”. Financial market inconsistencies are cross-sectional and time series patterns in returns from investment in securities that cannot be predicted by a central paradigm or theory. Behavioral finance is the study of the influence of the psychological factors on an individual investment behaviour. This new approach of financial research advocates that investment decision is affected by psychological and emotional factors.

This new approach assumes that investors are influenced by psychological factors such as fear, hope, optimism and pessimism. Role of these factors in investment and trading has changed the direction of research in the area of Behavioral finance. Kahneman and Tversky (1979), Shefrin and Statman (1994) and Shleifer (2000) are the researchers that have attempted to analyze the efficiency of financial markets and tried

to discuss the fluctuations in stock markets. With growing challenges in market environment, investors can benefit and can beat the market if they properly analyse the different investment options and securities. Over the past five decades established finance theory had assumed that investors have little difficulty in making investment decisions. The investors are well-informed, careful and consistent. The traditional theory holds that investors are not confused by how information is presented to them and not swayed by their emotions. But clearly reality does not match these assumptions and this led to move to new approach in finance theory.

Behavioral finance has gained importance over the last two decades as new area of Research due to the thought that investors rarely behave as per the assumptions made in traditional theory of finance. Behavioral researchers have taken the view that finance theory should take consideration the observation of human behaviour. They use research from psychological point of view to develop an understanding of investment decision making and create the discipline of behavioral finance.

LITERATURE REVIEW

Research contributions by Manjunath Awalakki and Dr. Archanna H. N. have consistently explored the intersection of financial decision-making, behavioral finance, and regional investment behavior. One early study on the investment patterns of salaried class investors in Kalaburagi revealed that most employees prefer safe avenues such as bank deposits, insurance, and gold, with limited diversification into equities and mutual funds. The study emphasized that awareness and proactive financial planning among salaried investors remain limited, with most focusing on retirement-oriented savings rather than long-term wealth creation (Awalakki, 2015). In another paper,

financing decisions of leading cement companies were analyzed to understand capital structure patterns. The study found that fluctuations in debt–equity mix significantly influenced investment policies and long-term solvency, highlighting how strategic financing choices shape firm-level value creation (Awalakki, 2015). More recently, Awalakki and Archanna (2021) investigated the impact of financial performance ratios on stock returns of NSE-listed companies. Their findings confirmed that indicators like return on equity, price-to-earnings, and return on assets significantly affect stock returns, underlining the importance of ratio-based analysis in investment decisions (Awalakki & Archanna, 2021).

Expanding into behavioral finance, their 2023 study examined the dynamics of investor attention and market volatility. They argued that cognitive biases, emotions, and herding behavior shape investor attention, which in turn amplifies volatility, bubbles, and crashes. This highlighted the role of psychology in shaping overall market outcomes (Awalakki & Archanna, 2023). Finally, a 2024 study focused on retail investors in the Hyderabad–Karnataka region, analyzing the impact of home bias on diversification. Results showed that strong preferences for domestic assets significantly restricted portfolio diversification, exposing investors to concentrated risks. The authors concluded that addressing home bias through financial literacy and awareness is crucial for improving investment resilience (Awalakki & Archanna, 2024).

The Behavioral theory showing the influence of human behaviour on investing decision emerges not as a supplementary assumption, but as a contradictory approach. In this part of literature review, an attempt is made to present a brief review of relevant research studies carried out on the behavioral finance and its impact on Investment decision making. Lewellen (1977) through a research work concluded that age, sex, income and education affect investors' preferences. Ippolito and Bogle (1992) analyzed that selection of fund by investors is based on the past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Shefrin's (2001) analyzed that Behavioral Finance is the study of impact of psychology on financial decision making.

Phillip (1995) analysed the changes in financial decision-making and investor behavior after participating in investor education programs. In

India, SEBI organizes awareness program for small investors, which has started giving benefits, in terms of value investing and informed investing from retail investors. Madhusudhan and Jambodekar (1996) concluded that investors expect better services from the Company where they invest. The majority of investors invest for safety of principal, liquidity and capital gain. According to a survey conducted by SEBI (1998) investment objective of the investor, risk appetite, income or funds available for investment influences the investment behavior in securities market across different levels.

Sewell (2005) concluded that Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets.

Tavakoli (2011) inspected the different factors influencing the decision of the investors. He analyzed the 13 factors to determine whether the investors consider these factors and decisions are influenced by these factors. He found that some of these factors are more influencing including financial statement, consulting with anybody, second hand information resources, financial ratios, reputation of the firm, profitability variable. Most important sub variable of profitability is the dividend.

Kadariya (2012) investigated factors impact on the investor decision. These factors include capital structure, political and media coverage, luck and financial education and trend analyses in the Nepalese capital market. He concluded that majority of the investors are youngsters and they take decision considering the media coverage and friends recommendations as good source of information. Dividend, earning, equity contribution and government control are considered the most important factors while taking the decision. Investors when bears the loss blame to the market and when earns profit take whole credit to their own abilities.

Keeping this background in mind, this paper is focused on the study of behavioral finance on Investment decisions in Uttarakhand especially focusing on Faculty members as they can guide the future decision makers in a better manner. Although few research studies are available which highlights the Investment behavior of investors, but analysis of savings and investment decision making is still an area which needs to touch and require an empirical analysis. This research work is an attempt made to fill this gap in

research. The main objective is to identify various behavioral factors influencing the decision of investor in Uttarakhand. Uttarakhand is a small state with limited number of options for earning. So how to manage or allocate money is a key area to focus.

OBJECTIVE OF STUDY

The study was conducted taking into consideration the following objectives:

1. To analyze the savings and investment decision
2. To detect the factors which have an impact on the investor's decision and
3. To identify the preferred investment options.

RESEARCH METHODOLOGY

The study is exploratory and descriptive in nature. The methodology of the study is discussed as follows:

Population:

The population for the study includes the investors of the Dehradun.

Source and Tool of Data Collection:

The study uses primary as well as secondary source of information. For collecting data from the sample respondents and the questionnaire was used. Questionnaire were distributed to 400 people out of which response was received from 358 respondents. The data collected was analyzed using different analytical tools like percentage, frequencies, charts, likert -scale etc

DATA ANALYSIS AND INTERPRETATION

Age profile of the investors:

21-30	99	27.6%
31-40	179	50%
41-50	55	15.5%
Above50	25	6.9%

50% of the total population falls in the age group of 31years to40years while remaining 27.6%population falls in the age group of 21 years to 30 years.

Marital Status

Single	99	27.60%
Married	259	72.40%

72.4%of the total investors population and the remaining 27.6%are single.

Qualification

Doctorate	168	46.60%
MEd	6	1.70%
BEd	0	0%
PG	160	44.80%
Graduate	25	6.90%

As far as educational qualification is concerned 46.6% of the population had doctorate degree and 44.8% were Post graduates.

Monthly Income

Lessthan 5,000	31	8.60%
5,000-10,000	0	0%
10,000-20,000	12	3.40%
20,000-30,000	56	15.50%
Above30,000	259	72.40%

72.4% of the total population belong to the income bracket of above Rs. 30,000, followed by income bracket between20,000-30,000 with15.5%of the population, 8.6%of the population have income less than5,000 and the remaining 3.4% have their income between 10,000-20,000.

Years of Experience

Under5years	86	24.10%
5-10years	86	24.10%
Above10years	186	51.70%

51.7%of the total population have an experience of above10years.

Assured Return [What is the main purpose for Investment decision?]

Highly Important	204	56.90%
Important	130	36.20%
Neutral	19	5.20%
Less Important	6	1.70%
Least Important	0	0%

56.9%of the total population consider assured return as highly important whereas 36.2%of the total population consider assured return as important.

Low Risk [What is the main purpose of Investment decision?]

Highly Important	93	25.90%
Important	167	46.60%
Neutral	80	22.40%

Less Important	12	3.40%
Least Important	6	1.70%

46.6% of the total population consider low risk as an important investment decision whereas 25.9% of the total population consider low risk as highly important investment option.

Tax benefits [What is the main purpose for Investment decision?]

Highly Important	111	31%
Important	204	56.90%
Neutral	37	10.30%
Less Important	6	1.70%
Least Important	0	0%

56.9% of the total population consider tax benefits as an important investment decision whereas 31% of the total population consider tax benefits as highly important investment decision.

Child Education [What is the main purpose for Investment decision?]

Highly Important	100	27.60%
Important	86	24.10%
Neutral	80	22.40%
Less Important	43	12.10%
Least Important	49	13.80%

27.6% of the total population consider Child education as highly important investment decision whereas 24.1% of the total population consider as important investment decision.

Daughter Marriage [What is the main purpose for Investment decision?]

Highly Important	62	17.20%
Important	49	13.80%
Neutral	87	24.10%
Less Important	55	15.50%
Least Important	105	29.30%

29.3% of the total population considers daughter marriage as least important investment decision whereas 24.1% of the total population consider daughter marriage as neutral investment decision.

Speculation [What is the main purpose for Investment decision?]

Highly Important	6	1.70%
Important	86	24.10%
Neutral	111	31%

Less Important	62	17.20%
Least Important	93	25.90%

31% of the total population considers speculation as a neutral investment decision whereas 25.9% of the total population consider speculation as least important investment decision.

Capital Gain [What is the main purpose for Investment decision?]

Highly Important	80	22.40%
Important	173	48.30%
Neutral	55	15.50%
Less Important	19	5.20%
Least Important	31	8.60%

48.3% of the total population considers capital gain as an important investment decision whereas 22.4% of the total population consider capital gain as highly important investment decision.

Retirement [What is the main purpose for Investment decision?]

Highly Important	80	22.40%
Important	179	50%
Neutral	49	13.80%
Less Important	31	8.60%
Least Important	19	5.20%

50% of the total population considers retirement as an important investment decision whereas 22.4% of the total population consider retirement as highly important investment decision.

Secured Future [What is the main purpose for Investment decision?]

Highly Important	179	50%
Important	142	39.70%
Neutral	19	5.20%
Less Important	6	1.70%
Least Important	12	3.40%

50% of the total population considers secured future as a highly important investment decision whereas 39.7% of the total population considers secured future as an important investment decision.

Safety of Investment [What is the main purpose for Investment decision?]

Highly Important	216	60.30%
Important	124	34.50%

Neutral	18	5.20%
Less Important	0	0%
Least Important	0	0%

60.3% of the total population considers safety of investment as highly important investment decision whereas 34.5% of the total population considers safety of investment as important investment decision.

Investment amount [What are the factors which have implications on Investment Decision?]

Highly Important	124	34.50%
Important	216	60.30%
Neutral	6	1.70%
Less Important	12	3.40%
Least Important	0	0%

60.3% of the total population considers investment amount as important investment decision whereas 34.5% of the total population considers investment amount as highly important investment decision.

Potential Risk [What are the factors which have implications on Investment Decision?]

Highly Important	142	39.70%
Important	179	50%
Neutral	12	3.40%
Less Important	19	5.20%
Least Important	6	1.70%

50% of the total population considers potential risk as important investment decision whereas 39.7% of the total population considers potential risk as highly important investment decision

Potential Gain [What are the factors which have implications on Investment Decision?]

Highly Important	167	46.60%
Important	179	50%
Neutral	12	3.40%
Less Important	0	0%
Least Important	0	0%

50% of the total population considers potential gain as important investment decision whereas 46.6% of the total population considers potential gain as highly important investment decision

Tax advantage [What are the factors which have implications on Investment Decision?]

Highly Important	86	24.10%
Important	234	65.50%

Neutral	26	6.90%
Less Important	12	3.40%
Least Important	0	0%

65.5% of the total population considers Tax advantage as highly important investment decision whereas 24.1% of the total population considers Tax advantage as important investment decision.

Liquidity [What are the factors which have implications on Investment Decision?]

Highly Important	86	24.10%
Important	204	56.90%
Neutral	62	17.20%
Less Important	6	1.70%
Least Important	0	0%

56.9% of the total population considers Liquidity as important investment decision whereas 24.1% of the total population considers Liquidity as highly important investment decision

Customer Service [What are the factors which have implications on Investment Decision?]

Highly Important	93	25.90%
Important	148	41.40%
Neutral	86	24.10%
Less Important	19	5.20%
Least Important	12	3.40%

41.4% of the total population considers Customer Service as important investment decision whereas 25.9% of the total population considers Customer Service as highly important investment decision.

Ease of market ability [What are the factors which have implications on Investment Decision?]

Highly Important	62	17.20%
Important	167	46.60%
Neutral	86	24.10%
Less Important	31	8.60%
Least Important	12	3.40%

46.6% of the total population considers Ease of marketability as important investment decision whereas 24.1% of the total population considers Ease of marketability as highly important investment decision

Perception [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	185	51.70%

Neutral	86	24.10%
Less Important	32	8.60%
Least Important	12	3.40%

51.7% of the total population considers Perception as important investment decision whereas 24.1% of the total population consider Perception as neutral important investment decision

Past experience [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	160	44.80%
Neutral	62	17.20%
Less Important	25	6.90%
Least Important	12	3.40%

44.8% of the total population considers Past experience as important investment decision whereas 27.6% of the total population consider Past experience as highly important investment decision

Lack of Confidence [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	148	41.40%
Neutral	99	27.60%
Less Important	43	12.10%
Least Important	25	6.90%

41.4% of the total population considers Lack of Confidence as important investment decision whereas 27.6% of the total population considers Lack of Confidence as neutral investment decision.

Information through Internet [What are the factors which have implications on Investment Decision?]

Highly Important	37	10.30%
Important	179	50%
Neutral	68	19%
Less Important	55	15.50%
Least Important	19	5.20%

50% of the total population considers as Information through Internet important investment decision whereas 19% of the total population considers Information through Internet as neutral investment decision.

Information from the Company [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	124	34.50%

Neutral	99	27.60%
Less Important	31	8.60%
Least Important	6	1.70%

34.5% of the total population considers as Information from the Company important investment decision whereas 27.6% of the total population considers Information from the Company as highly important & neutral investment decision

Financial knowledge [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	191	53.40%
Neutral	43	12.10%
Less Important	19	5.20%
Least Important	6	1.70%

53.4% of the total population consider Financial knowledge as important investment decision whereas 27.6% of the total population considers Financial knowledge as important investment decision

Ease of Purchase [What are the factors which have implications on Investment Decision?]

Highly Important	124	34.50%
Important	198	55.20%
Neutral	19	5.20%
Less Important	19	5.20%
Least Important	0	0%

55.2% of the total population considers ease of purchase important in taking investment decision.

Familiarity [What are the factors which have implications on Investment Decision?]

Highly Important	93	25.90%
Important	198	55.20%
Neutral	43	12.10%
Less Important	19	5.20%
Least Important	5	1.70%

55.2% of the total population consider Familiarity as important investment decision whereas 25.9% of the total population considers Familiarity as highly important investment decision.

Professional Investment Management [What are the factors which have implications on Investment Decision?]

Highly Important	80	22.40%
Important	173	48.30%

Neutral	74	20.70%
Less Important	25	6.90%
Least Important	6	1.70%

48.3% of the total population considers Professional Investment Management as important investment decision whereas 22.4% of the total population consider Professional Investment Management as highly important investment decision.

Suggestion by Friends[What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	191	53.40%
Neutral	80	22.40%
Less Important	38	10.30%
Least Important	6	1.70%

53.4%of the total population considers Suggestion by Friends as important investment decision whereas 22.4% of the total population considers Suggestion by Friends as neutral investment decision

Suggestion by Relatives[What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	148	41.40%
Neutral	74	20.70%
Less Important	74	20.70%
Least Important	19	5.20%

41.4% of the total population considers Suggestion by Relatives as important investment decision whereas 20.7% of the total population considers Suggestion by Relatives as less important& neutral investment decision.

Guidance by Investment Consultant [What are the factors which have implications on Investment Decision?]

Highly Important	68	19%
Important	167	46.60%
Neutral	68	19%
Less Important	43	12.10%
Least Important	12	3.40%

46.6% of the total population considers Guidance by Investment Consultant as important investment decision where as 19% of the total population considers Guidance by Investment Consultant as highly important & neutral investment decision.

Financial dailies[What are the factors which have implications on Investment Decision?]

Highly Important	37	10.30%
Important	191	53.40%
Neutral	55	15.50%
Less Important	68	19%
Least Important	6	1.70%

53.4% of the total population consider Financial dailies as important investment decision whereas 15.5% of the total population considers Financial dailies as neutral investment decision.

TV Channels [What are the factors which have implications on Investment Decision?]

Highly Important	31	8.60%
Important	160	44.80%
Neutral	62	17.20%
Less Important	80	22.40%
Least Important	25	6.90%

44.8% of the total population considers TV Channels as important investment decision whereas 22.4% of the total population considers TV Channels as less important investment decision

Colleagues/PeerGroups[What are the factors which have implications on Investment Decision?]

Highly Important	49	13.80%
Important	142	39.70%
Neutral	86	24.10%
Less Important	62	17.20%
Least Important	19	5.20%

39.7% of the total population considers Colleagues /Peer Groups as important investment decision whereas 24.1% of the total population considers Colleagues /Peer Groups as neutral investment decision.

Newspapers [What are the factors which have implications on Investment Decision?]

Highly Important	49	13.80%
Important	173	48.30%
Neutral	74	20.70%
Less Important	49	13.80%
Least Important	13	3.40%

48.3% of the total population consider newspaper as important investment decision whereas 20.7% of the total population considers newspaper as neutral investment decision.

After analyzing the above information following

interpretation could be drawn:

1. 50% of the total population falls in the age group of 31 years to 40 years while remaining 27.6% population falls in the age group of 21 years to 30 years.
2. 72.4% of the total investor's population and the remaining 27.6% are single.
3. As far as educational qualification is concerned 46.6% of the population had doctorate degree and 44.8% were Post graduates.
4. 72.4% of the total population belong to the income bracket of above Rs. 30,000.
5. The respondents were asked about the purpose for Investment decision which they consider highly important. The respondents replied that they focus on assured returns, tax benefits, capital gain, low risk, safety of investment, secured future, child education and daughter marriage.
6. According to the response received the factors which have an impact on decision making includes Tax Advantage, Ease of Purchase, Familiarity, Liquidity, Suggestion by friend, Potential Risk, Potential Gain, Financial knowledge, Investment amount, Financial dailies, Information through Internet, Professional Investment Management, Perception, Ease of Marketability, Newspaper, Past experience, Customer Service, Guidance by Investment Consultant, TV Channels, Lack of Confidence, Suggestion by Relatives and Peer Groups/Colleagues.

CONCLUSION

Investment decision in India is taken into consideration by perception, by word of mouth, by pass returns and honestly investment decision in India is not taken seriously and lack proper planning for the long term investment rather it is done quickly and no proper detail review regarding investment take place. So to overcome this problem this study highlights the behavior of the different investor and how it impacted the investment decision in India. Behavioural finance is considered to be the important element in any investment decision in Indian capital market. Through this study the analysis of investor saving and investment decision making in Indian capital market is highlighted with 358 respondents opinion is gathered. The various parameter for which the

behavior of investors for investing in Indian capital market. Majority of investor more than 50% are in the age group of 31 to 40 and the majority investors are married with 72.4% respondents, the decision of investment are not taken hurriedly it requires proper planning and education in terms of knowledge of the various investment products and 46.6% of the population is having a doctorate degree and the majority of the individuals are investing their surplus money into the capital markets with monthly income of Rs. 30000 and above with 72.4% respondents. It is concluded from our research that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investor's complete behavioural pattern which includes goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity, expected return and linking of the investment with the goals, the understanding of the investment objective in line with one's goals. To be a successful investor one should follow one's psychology related to analyzing the different investment avenues in the Indian capital market and how to take a final decision in terms of selecting the best possible investment avenue. The behaviour pattern of investing in capital market is different from general human behaviour but there are certain common points like goal clarity, understanding the product, risk analysis, investment comparison, linkage with individual goals and requirements, time period of investment are some of the common factors which are generally acceptable key factors to judge an individual behaviour and link it with the capital market investment in particular.

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