Emotions and Intuition in Trading Decisions: An Empirical Study of Behavioral Influences on Investor Decision-Making

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***Abstract*—Financial decision-making has traditionally been viewed through the lens of rational choice theory, assuming investors act logically and maximize utility based on available information. However, behavioral finance has demonstrated that psychological biases and emotional responses significantly influence trading behavior. This study empirically examines the role of emotions and intuition in trading decisions using primary data collected from 568 respondents through a structured five-point Likert scale questionnaire. Five dimensions were analyzed: emotional decision-making, influence of fear and greed, role of intuition, emotional reactions during market fluctuations, and the relative importance of emotional control versus technical knowledge. The results reveal that a majority of respondents perceive themselves as rational and analytical traders. Nevertheless, a considerable minority acknowledges emotional influence, particularly during volatile market conditions. The findings highlight the divergence between self-perception and behavioral reality and emphasize the importance of integrating psychological awareness into trading strategies. The study contributes to the literature on behavioral finance and offers implications for investor education, risk management, and financial training programs.**

***Index Terms*—Behavioral Finance, Trading Psychology, Emotional Bias, Investor Behavior, Fear and Greed, Intuition in Trading, Market Volatility, Financial Decision-Making**

I. INTRODUCTION

The foundation of traditional finance rests on the assumption of rational investors operating in efficient markets. The Efficient Market Hypothesis (EMH) proposes that asset prices reflect all available information, thereby eliminating opportunities for abnormal returns. However, empirical evidence from financial crises, speculative bubbles, and abrupt market crashes suggests that investor behavior is often driven by psychological and emotional factors.

The emergence of behavioral finance challenged the rationality paradigm by integrating psychological principles into economic theory. The groundbreaking work of Daniel Kahneman and Amos Tversky introduced Prospect Theory, which demonstrated that individuals evaluate gains and losses asymmetrically and exhibit loss aversion. Later, Richard Thaler expanded the discipline by incorporating mental accounting, self-control bias, and bounded rationality into financial analysis.

In trading environments, emotions such as fear, greed, anxiety, and overconfidence frequently shape buying and selling behavior. Fear may result in panic selling during downturns, while greed can drive speculative bubbles during bullish trends. Additionally, intuition — often defined as rapid, subconscious decision-making based on experience — may influence traders when analytical clarity is limited.

Understanding the extent to which traders rely on emotional versus analytical reasoning is crucial for improving trading performance and minimizing behavioral bias. This study investigates these psychological dimensions empirically using survey-based evidence.

II. REVIEW OF LITERATURE

1. Kahneman & Tversky (1979) – Prospect Theory: This seminal paper challenges the traditional expected utility theory by showing that individuals evaluate potential gains and losses

relative to a reference point rather than absolute outcomes. It introduces key concepts like loss aversion and probability weighting, fundamentally reshaping our understanding of decision-making under risk.

2. Thaler (1985) – Mental Accounting and Consumer Choice: Thaler explores how individuals mentally categorize money into separate “accounts,” influencing spending and investment behavior. The paper demonstrates that people’s decisions often deviate from standard economic predictions due to these mental accounting practices.
3. Barber & Odean (2001) – Boys Will Be Boys: This study examines gender differences in investment behavior, showing that men are generally more overconfident than women in stock trading. The research links overconfidence to higher trading frequency and lower net returns, highlighting behavioral biases in financial markets.
4. Shefrin (2007) – Behavioral Corporate Finance: Shefrin’s book applies behavioral finance principles to corporate decision-making, including capital budgeting, capital structure, and dividend policy. It emphasizes how psychological biases and heuristics affect corporate managers, challenging the assumptions of traditional finance theory.

III. RESEARCH GAP

While behavioral finance theory is well established:

- Few studies measure self-perceived emotional influence quantitatively.
- Limited focus exists on comparing emotional control and technical knowledge.
- Survey-based empirical validation among traders is insufficient.

This study attempts to bridge these gaps.

IV. OBJECTIVES OF THE STUDY

1. To analyze emotional reliance in trading decisions.
2. To assess fear and greed influence.
3. To evaluate the role of intuition.
4. To examine emotional reactions during volatility.
5. To compare emotional control and technical knowledge.

V. RESEARCH METHODOLOGY

The present study examines the role of emotions and intuition in trading decisions through empirical analysis. This chapter explains the procedures followed to achieve the research objectives and ensure scientific rigor.

5.1 Research Design

The study adopts a descriptive and analytical research design.

- Descriptive Research Design was used to describe the emotional and intuitive behavior of traders.
- Analytical Research Design was applied to interpret patterns, relationships, and behavioral tendencies based on collected data.

The design is appropriate because the study aims to measure perceptions, attitudes, and psychological influences rather than manipulate variables experimentally.

5.3 Source of Data

The study utilized both primary and secondary data sources. Primary data was gathered through a structured questionnaire administered to respondents actively engaged in trading activities. The questionnaire was designed to measure aspects such as emotional decision-making, the influence of fear and greed, the role of intuition, emotional reactions during market fluctuations, and the relative importance of emotional control versus technical knowledge. Secondary data was collected from academic journals, research articles, books on behavioral finance, and published works of prominent scholars including Daniel Kahneman, Amos Tversky, and Richard Thaler. This secondary data provided support for the theoretical framework and literature review, helping to contextualize the study within established research in behavioral finance.

5.4 Population of the Study

The population of the study consists of individuals actively involved in financial market trading, including Retail investors, Active traders and Short-term market participants The population is assumed to possess basic knowledge of trading practices.

5.5 Sample Size
The total sample size for the study is:
N=568 respondents
The sample size is considered adequate for descriptive statistical analysis and provides sufficient representation for general behavioral interpretation.

5.6 Sampling Technique
The study employed a non-probability convenience sampling method.

- Respondents were selected based on accessibility and willingness to participate.
- The method was suitable due to time and resource constraints.
- Although it limits generalizability, it is commonly used in behavioral finance research involving surveys.

5.7 Structure of Questionnaire
The questionnaire consisted of:

- Statements related to emotions and intuition in trading.
- 5-point Likert scale responses.

5.8 Measurement Scale
A 5-point Likert Scale was used:

Scale Value	Response Category
1	Strongly Disagree
2	Disagree
3	Neutral
4	Agree
5	Strongly Agree

The Likert scale was selected because it allows measurement of attitudes and psychological perceptions quantitatively.

5.9 Tools and Techniques for Data Analysis
The following statistical tools were used:
5.9.1 Frequency Distribution
Used to determine the number of respondents selecting each response category.
5.9.2 Percentage Analysis
Used to understand the proportion of responses.

$$Percentage = \frac{Frequency}{Total\ Respondents} 100$$

Where:

- Frequency = Number of respondents giving a particular response
- Total Respondents = Total number of participants in the study

5.9.3 Mean Score Analysis
Used to determine the average response level.

$$Mean = \frac{\Sigma(\ Frequency * Weight)}{N}$$

Where:

- Frequency = Number of respondents selecting a particular response
- Weight = Numerical value assigned to each response (e.g., 1 = Strongly Disagree, 5 = Strongly Agree)
- N = Total number of respondents

1. Data analysis and Interpretation

6.1 Objective 1: To Determine Whether Traders Rely on Emotions Rather Than Data
Statement 9.1
"I often make trading decisions based on my emotions rather than data or analysis."
Table 6.1: Frequency and Percentage Distribution

Response	Frequency	Percentage
Strongly Disagree	131	23.06%
Disagree	288	50.70%
Neutral	8	1.41%
Agree	129	22.71%
Strongly Agree	12	2.11%
Total	568	100%

Mean Score Calculation

$$Mean = \frac{(131 \times 1) + (288 \times 2) + (8 \times 3) + (129 \times 4) + (12 \times 5)}{568}$$

Mean = 2.30
Interpretation

- 73.77% respondents disagreed.
- Mean score (2.30) is significantly below the neutral midpoint (3.00).

This indicates that the majority of traders perceive themselves as data-driven rather than emotionally driven. However, approximately 24.82% agreed, suggesting that a substantial minority may rely on emotions in decision-making.

From a behavioral finance perspective, this may reflect self-attribution bias, where individuals underestimate emotional influence.

6.2 Objective 2: To Assess the Influence of Fear and Greed

"Fear and greed strongly influence my investment choices in trading."

Table 6.2: Frequency and Percentage Distribution

Response	Frequency	Percentage
Strongly Disagree	258	45.42%
Disagree	97	17.08%
Neutral	67	11.80%
Agree	129	22.71%
Strongly Agree	17	2.99%
Total	568	100%

Mean = 2.20

Interpretation

- 62.50% respondents denied strong emotional influence.
- 25.70% admitted fear and greed impact decisions.

The low mean indicates overall disagreement. However, one-fourth acknowledging emotional influence suggests behavioral inconsistency. This supports theoretical propositions by Daniel Kahneman regarding loss aversion and emotional bias under risk conditions.

6.3 Objective 3: To Evaluate the Role of Intuition

"Intuition plays an important role in my trading decisions."

Table 6.3: Frequency and Percentage Distribution

Response	Frequency	Percentage
Strongly Disagree	201	35.39%
Disagree	129	22.71%
Neutral	180	31.69%
Agree	41	7.22%
Strongly Agree	17	2.99%
Total	568	100%

Mean = 2.20

Interpretation

- 58.10% disagreed.
- 31.69% remained neutral.

The high neutral percentage indicates uncertainty or situational use of intuition. This suggests that traders may use intuition subconsciously without openly recognizing it.

Intuition in trading aligns with heuristic decision-making models discussed by Amos Tversky.

6.4 Objective 4: Emotional Reaction During Market Volatility

"Emotional reactions during market fluctuations affect my trading profitability."

Table 6.4: Frequency and Percentage Distribution

Response	Frequency	Percentage
Strongly Disagree	230	40.49%
Disagree	10	1.76%
Neutral	155	27.29%
Agree	62	10.92%
Strongly Agree	111	19.54%
Total	568	100%

Mean = 2.68

Interpretation

This statement shows the highest mean among all five statements.

- 30.46% agreed.
- 27.29% neutral.

Although overall mean is below 3.00, emotional impact during volatility is comparatively stronger than other factors.

This indicates that emotional influence may not be constant but situational, intensifying during uncertain market conditions.

6.5 Objective 5: Emotional Control vs Technical Knowledge

"I believe controlling emotions is more important than technical knowledge in trading."

Table 6.5: Frequency and Percentage Distribution

Response	Frequency	Percentage
Strongly Disagree	215	37.85%
Disagree	121	21.30%
Neutral	101	17.78%
Agree	55	9.68%
Strongly Agree	76	13.38%
Total	568	100%

Mean = 2.39

Interpretation

- 59.15% prioritized technical knowledge over emotional control.
- 23.06% believed emotional control is more important.

This indicates strong belief in analytical skills over psychological discipline, though behavioral finance suggests both are critical.

6.6 Overall Emotional and Intuition Factor **Analysis**

Table 6.6: Summary of Mean Scores

Statement	Mean Score
Emotional Decision-Making	2.30
Fear & Greed Influence	2.20
Role of Intuition	2.20
Emotional Reaction to Volatility	2.68
Emotional Control vs Technical Knowledge	2.39
Overall Mean	2.35

Overall Interpretation

- Overall mean (2.35) < 3.00 midpoint.
- Respondents generally disagree that emotions strongly influence trading.
- Emotional impact is highest during market volatility.

VIII. HYPOTHETICAL MEAN SCORE INTERPRETATION (SCALE EXPLANATION)

If Likert values are assigned (1–5), mean scores would likely fall between 2 and 3 for most statements, indicating overall disagreement but with moderate dispersion. This suggests emotional influence exists but is not dominant in self-perception.

Table 8.1: Emotional and Intuition in Trading – Frequency Distribution

Total Respondents (N = 568)

Sr. No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I often make trading decisions based on my emotions rather than data or analysis.	131	288	8	129	12
2	Fear and greed strongly influence my investment choices in trading.	258	97	67	129	17
3	Intuition plays an important role in my trading decisions.	201	129	180	41	17
4	Emotional reactions during market fluctuations affect my trading profitability.	230	10	155	62	111
5	I believe controlling emotions is more important than technical knowledge in trading.	215	121	101	55	76

Table 8.2: Percentage Distribution of Responses

(Percentages calculated out of 568 respondents)

Sr. No.	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
1	23.06%	50.70%	1.41%	22.71%	2.11%
2	45.42%	17.08%	11.80%	22.71%	2.99%
3	35.39%	22.71%	31.69%	7.22%	2.99%
4	40.49%	1.76%	27.29%	10.92%	19.54%
5	37.85%	21.30%	17.78%	9.68%	13.38%

Table 8.3: Combined Disagreement and Agreement Analysis

Sr. No.	Total Disagreement (%)	Neutral (%)	Total Agreement (%)
1	73.77%	1.41%	24.82%
2	62.50%	11.80%	25.70%
3	58.10%	31.69%	10.21%
4	42.25%	27.29%	30.46%
9.5	59.15%	17.78%	23.06%

Table 8.4: Mean Score Calculation (Likert Scale: 1–5)

(1 = Strongly Disagree, 5 = Strongly Agree)

Mean calculated using weighted average formula:

$$Mean = \frac{\Sigma(Frequency * Weight)}{N}$$

Sr. No.	Statement (Short Form)	Mean Score	Interpretation
1	Emotional Decision-Making	2.30	Disagree
2	Fear & Greed Influence	2.20	Disagree
3	Role of Intuition	2.20	Disagree
4	Emotional Reaction to Volatility	2.68	Slightly Below Neutral
5	Emotional Control vs Technical Knowledge	2.39	Disagree

Table 8.5: Overall Factor Mean

Average of all five statements:

OverallMean=2.35

Interpretation:

Since the overall mean (2.35) is below the neutral midpoint (3.00), respondents generally disagree that emotions and intuition strongly influence their trading decisions.

IX. FINDINGS

The study examined the role of emotions and intuition in trading decisions among 568 participants. The findings indicate that most traders perceive themselves as rational and data-driven, with 73.77% disagreeing that they rely on emotions, supported by a mean score of 2.30. Nonetheless, nearly one-fourth admitted some emotional involvement, suggesting that emotional influence, while limited, is not absent.

Fear and greed were similarly reported as minor influences, with 62.50% disagreeing and a mean of 2.20, though about 25.70% acknowledged their role, aligning with Kahneman's concept of loss aversion. Regarding intuition, 58.10% disagreed on its importance, and 31.69% were neutral, indicating occasional or situational reliance on subconscious judgment, consistent with Tversky's dual-process framework.

Emotional responses during market volatility were more acknowledged, with a mean of 2.68; 30.46% agreed they affect profitability, suggesting that stress and uncertainty amplify psychological biases. When comparing emotional control and technical knowledge, 59.15% favored technical expertise, though 23.06% recognized emotional regulation as important, highlighting partial awareness of its role in trading success.

Overall, the aggregate mean of 2.35 indicates that traders largely consider themselves analytical and disciplined, yet a minority admit emotional and intuitive influences, particularly in volatile conditions, supporting Thaler's perspective that investor behavior often deviates from pure rationality.

X. CONCLUSION

This study provides empirical evidence on the emotional and intuitive dimensions of trading behavior. While most respondents perceive themselves as rational and technically driven, behavioral finance theory suggests that emotional factors subtly influence decision-making.

The research supports the theoretical contributions of Daniel Kahneman and Richard Thaler that financial decisions deviate from pure rationality.

Effective trading requires a balance of technical knowledge, Analytical reasoning, Emotional regulation and psychological awareness

Recognizing and managing emotional influences can enhance trading performance and long-term financial stability.

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