

Investor Psychology in Volatile Markets: An Empirical Study

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Abstract—Financial markets are increasingly characterized by high volatility due to globalization, economic uncertainty, technological advancements and rapid information dissemination. During volatile periods, investor behaviour often deviates from rational decision-making due to psychological influences. Primary data was collected from 25 investors using a structured questionnaire. This study explains how investor's psychology affects investment decisions during market ups and downs. This study examines the impact of emotional and cognitive biases on investor behaviour. Many investors do not make decisions purely based on logic. Their emotions, fear, confidence, and market rumors also influence them. The study is purely based on 25 investors. Data was collected using a questionnaire with a five-point Likert scale, Percentage analysis and mean score methods were used to study the responses. The findings reveal that fear of loss, herd behaviour and overconfidence significantly influence investment decisions during volatile market conditions. The study gives useful suggestions for investors and policymakers.

Index Terms—Investor Psychology, Behavioural Finance, Cognitive Bias, Market Volatility.

I. INTRODUCTION

Investment decisions are very important in today's financial world. Traditionally, finance theory assumes that investors are rational and always make logical decisions. However, in real life, investors are influenced by emotions and psychological factors. When markets rise or fall sharply, investors often react emotionally. Fear during market crashes and overconfidence during market booms lead to poor decisions. This field of study is known as behavioural finance.

Volatility is an inherent feature of modern financial markets. Frequent fluctuations in stock prices create uncertainty and emotional pressure among investors.

Traditional financial theory assumes rationality; however, real-world market behaviour suggests that psychological biases strongly influence decision-making.

Understanding investor psychology is essential to explain panic selling, speculative buying and herd behaviour. This study explores psychological, environmental and cognitive factors affecting investment decisions.

This study focuses on understanding how psychological factors influence investors during volatile market conditions. It gives special attention to common biases such as overconfidence, herd behaviour, fear of loss, anchoring, and market rumours.

II. REVIEW OF LITERATURE

Previous studies in behavioural finance explain that investors are not fully rational. Researchers have found that emotions play a major role in investment decisions. Studies show that investors often follow others without proper analysis. Loss aversion makes investors fear losses more than they value gains. Overconfidence leads to excessive trading. These findings clearly show that psychology influences financial behaviour.

III. RESEARCH GAP

Many studies are conducted at the National and International level. However, limited studies focus on small samples of retail investors in Hyderabad. This study attempts to fill that gap by analysing 25 investors and understanding their psychological behaviour during market fluctuations.

IV. OBJECTIVES OF THE STUDY

1. To identify the psychological factors influencing investment decisions during market volatility.
2. To analyse the impact of selected behavioural biases using percentage and mean score methods.

V. HYPOTHESIS

H0: Psychological factors do not significantly influence investment decisions.

H1: Psychological factors significantly influence investment decisions.

VI. RESEARCH METHODOLOGY

The study is descriptive in nature. The study uses both primary and secondary data. Primary data was collected from 25 retail investors using a structured questionnaire. The investors are based in Hyderabad. A five-point Likert scale was used to measure opinions. Percentage analysis method and mean score and ranking analysis method were also used in the study. Secondary data was collected from journals and books related to behavioural finance.

Five-Point Likert Scale

Response	Score
Strongly Agree	5
Agree	4
Neutral	3
Disagree	2
Strongly Disagree	1

Percentage Analysis

Formula: $\text{Percentage} = \left(\frac{\text{Number of Respondents}}{\text{Total Respondents}} \right) \times 100$

Factor	No. of Respondents	Percentage
Fear of Loss	20	80%
Overconfidence	18	72%
Market Rumours	17	68%
Herd Behaviour	15	60%
Anchoring Bias	14	56%

The table shows that fear of loss is the most important factor influencing investors. Overconfidence and market rumours also strongly affect decisions.

Mean Score and Ranking Analysis

Formula: $\text{Mean Score} = \frac{\text{Total Score}}{\text{Number of Respondents}}$

Factor	Total Score	Mean Score	Rank
Fear of Loss	110	4.4	I
Overconfidence	105	4.2	II
Market Rumours	98	3.9	III
Herd Behaviour	95	3.8	IV
Anchoring Bias	88	3.5	V

The mean score analysis also shows that fear of loss ranks first. This means investors are more afraid of losing money than missing gains.

VII. DISCUSSION

The results clearly show that psychological factors influence investment decisions. When markets fall, investors panic and sell quickly. When markets rise, they become overconfident. This behaviour supports behavioural finance theory.

VIII. IMPLICATIONS OF THE STUDY

Investors should be aware of their emotional biases. Financial advisors should educate clients about behavioural mistakes. Policymakers can design awareness programs to improve financial literacy.

IX. LIMITATIONS OF THE STUDY

The study is limited to 25 respondents. The findings may not represent all investors. The study focuses only on selected psychological factors.

X. FINDINGS

1. Majority experience anxiety during volatility: It is observed from the research that most of the investors were afraid that they would lose their money and anxiety was the key reason.
2. Panic selling behaviour is evident: The fall in prices of shares made investors buy more and more and this made them fall in the trap. Investors also sold at the shares at the lower prices, expecting that the price would never go up.
3. Media influence significantly affects decisions: It is also observed that investors follow a lot of social

media influencers because of which their decision making was not appropriate. Lack of knowledge is the reason why investors failed.

4. Herd behaviour is common among retail investors.

XI. SUGGESTIONS:

1. The investors should understand that they are well educated in Behavioural finance and this will help them to be successful.
2. Encourage investors for long-term investment planning.
3. Reduce emotional trading decisions.
4. Strengthen financial literacy initiatives.

XII. CONCLUSION

The study concludes that investor psychology plays a major role in investment decisions. Fear of loss, overconfidence, and market rumours significantly influence behaviour. Understanding these factors can help investors make better financial decisions. Investor psychology plays a crucial role during volatile market conditions. Emotional biases such as fear, overconfidence, and herd behaviour significantly influence financial decisions. The study emphasizes the importance of awareness, discipline, and financial education to promote rational investment behaviour.

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