ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

An Empirical Analysis of Overconfidence and Anchoring Biases in Investment Decision-Making

Dr. Shamshuddin M Nadaf[1], Dr. Yasmin Begum Nadaf[2]

[1]Assistant Professor, Department of Post Graduate Studies and Research in Commerce, Rani Channamma University, Belagavi, Karnataka, India.

[2]Associate Professor, Department of Commerce, Govt. First Grade College for Women, Belagavi, Karnataka, India.

DOI: https://doi.org/10.51583/IJLTEMAS.2026.150800022

Received: 29 July 2026; Accepted: 03 August 2026; Published: 04 September 2026

ABSTRACT

Behavioural finance has emerged as an important field of study by recognizing that investment decisions are not always based on rational analysis but are frequently influenced by psychological biases. Among these biases, **overconfidence** and **anchoring** significantly affect investors' judgment, risk perception, and portfolio decisions. The present study empirically examines the influence of overconfidence and anchoring biases on investment decision-making among retail investors in Belagavi city. The study adopts a descriptive and exploratory research design and utilizes both primary and secondary data. Primary data were collected through a structured questionnaire administered to retail investors using a random sampling technique. Out of 70 responses collected, 56 valid questionnaires were used for analysis after excluding incomplete responses. Descriptive statistical tools, including frequency, percentage, mean, and standard deviation, were employed to analyse the data.

The demographic profile indicates that the majority of respondents were male, young, well-educated, and belonged to low- and middle-income groups. The findings reveal that respondents exhibit a **moderate level of overconfidence bias**, with mean scores ranging from **3.13 to 3.80**. Investors expressed strong confidence in the correctness of their investment decisions and showed a considerable tendency to rely on their own judgment while investing. The analysis also indicates a **moderately high level of anchoring bias**, with mean scores ranging from **3.39 to 3.89**. Most respondents compared current market prices with purchase prices before selling investments and relied heavily on historical price trends and previous market information while making investment decisions. A comparative analysis suggests that anchoring bias is relatively more pronounced than overconfidence bias among the respondents. The study concludes that psychological biases substantially influence retail investors' decision-making and may lead to irrational investment behaviour, excessive trading, delayed selling decisions, and suboptimal portfolio performance. The findings highlight the need for behavioural finance education, investor awareness programmes, and objective investment strategies to minimize the adverse effects of cognitive biases and promote rational investment decision-making.

Keywords: Overconfidence Bias, Anchoring Bias, Decision Making

INTRODUCTION

Investment decision-making has traditionally been explained through the principles of rational choice theory, which assumes that investors act logically and make decisions aimed at maximizing expected utility. According to the theory of rationality, individuals evaluate all available information, assess risks and returns objectively, and select investment alternatives that maximize their expected benefits while minimizing potential costs. Traditional finance is built upon this assumption of rational behavior, where investors are believed to possess complete information and the cognitive ability to process it efficiently, leading to optimal financial decisions (Fama, 1970; Jensen, 1978).

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

However, real-world financial markets often exhibit anomalies that cannot be adequately explained by the assumption of perfect rationality. The theory of bounded rationality, proposed by Simon, argues that individuals have limited cognitive capabilities, restricted access to information, and finite time to process complex financial data. As a result, investors frequently rely on simplified decision-making strategies or heuristics rather than comprehensive analysis. These cognitive limitations often result in systematic deviations from rational decision-making and contribute to behavioral biases that influence investment choices (Simon, 1957; Kahneman & Tversky, 1979).

Behavioral finance emerged as a response to the shortcomings of traditional finance by integrating concepts from psychology, economics, and sociology to explain how psychological factors influence financial decision-making. Unlike traditional finance, which assumes that investors are fully rational, behavioral finance recognizes that emotions, cognitive biases, and social influences significantly affect investment behavior (Shefrin, 2001; Barberis & Thaler, 2003). The pioneering contributions of Daniel Kahneman, Amos Tversky, and Richard Thaler established the foundation of behavioral finance by demonstrating that individuals often make predictable errors in judgment under conditions of uncertainty. Their work challenged the Efficient Market Hypothesis by providing evidence that investors are not always rational and that psychological biases can lead to persistent market inefficiencies.

Among the various behavioral biases identified in the literature, overconfidence and anchoring have received considerable attention because of their significant influence on investment decision-making. Overconfidence bias refers to the tendency of investors to overestimate their knowledge, forecasting abilities, and control over investment outcomes. Overconfident investors often believe they possess superior information or skills, leading them to trade more frequently, underestimate risks, and make overly optimistic investment decisions. Such behavior may result in excessive portfolio turnover, increased transaction costs, and lower investment performance (Odean, 1998; Barber & Odean, 2001).

Anchoring bias, on the other hand, refers to the tendency of individuals to rely heavily on an initial piece of information, known as an "anchor," when making subsequent judgments or decisions. In investment contexts, investors may anchor their expectations on historical stock prices, purchase prices, analyst forecasts, or other reference points, even when new information suggests that these anchors are no longer relevant. This reliance on initial information may prevent investors from objectively evaluating changing market conditions, leading to biased investment decisions and suboptimal portfolio performance (Tversky & Kahneman, 1974).

Existing research has demonstrated that both overconfidence and anchoring biases significantly influence investors' perception of risk, information processing, and decision-making behavior. Overconfidence encourages excessive risk-taking and frequent trading, whereas anchoring causes investors to depend excessively on historical or arbitrary reference values when evaluating investment opportunities. These biases may impair rational judgment, reduce investment efficiency, and contribute to financial losses. Consequently, understanding the influence of these behavioral biases has become increasingly important for researchers, financial advisors, policymakers, and individual investors seeking to improve investment outcomes.

LITERATURE REVIEW

Overconfidence bias is one of the most extensively researched behavioural biases in finance. It refers to the tendency of investors to overestimate their knowledge, forecasting ability, and capacity to predict future market movements. According to Daniel Kahneman and Amos Tversky (1974), individuals frequently exhibit excessive confidence in their judgments despite limited information, resulting in irrational investment decisions. This cognitive bias causes investors to underestimate risks and overestimate expected returns, thereby deviating from rational decision-making models.

One of the pioneering studies by Brad M. Barber and Terrance Odean (2001) examined trading records of individual investors and found that overconfident investors traded significantly more frequently than others. Their findings revealed that excessive trading reduced portfolio performance due to increased transaction

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

costs and poor timing decisions. The study concluded that investors often confuse luck with skill, thereby reinforcing overconfidence over time.

Similarly, Odean (1998) argued that investors tend to believe their private information is superior to publicly available information, leading them to ignore market signals and expert opinions. Such behaviour often results in under-diversified portfolios and excessive risk-taking. The study demonstrated that overconfident investors systematically overestimate the accuracy of their information, causing suboptimal investment outcomes.

Gervais and Odean (2001) proposed a theoretical model explaining how investors become increasingly overconfident after experiencing initial investment success. According to the authors, early gains strengthen investors' belief in their forecasting abilities, encouraging them to undertake riskier investments in subsequent periods. This self-attribution mechanism contributes significantly to persistent market mispricing.

Glaser and Weber (2007) investigated the relationship between investor confidence and trading behaviour in Germany. Their findings suggested that investors with higher self-confidence executed more trades, although greater confidence did not necessarily translate into superior investment performance. The study concluded that confidence influences trading frequency rather than investment quality.

Research conducted by Statman, Thorley, and Vorkink (2006) showed that rising stock prices often reinforce investor overconfidence, leading to speculative trading and asset price bubbles. The authors argued that favourable market conditions create an illusion of superior investment ability, which further amplifies market volatility.

Pompian (2017) classified overconfidence as one of the most influential behavioural biases affecting both individual and institutional investors. According to his behavioural wealth management framework, overconfident investors generally underestimate investment risks, ignore contradictory evidence, and concentrate excessively on familiar securities. These behaviours reduce portfolio diversification and increase financial vulnerability.

Baker and Ricciardi (2014) emphasized that overconfidence is closely associated with financial literacy and investment experience. Although experienced investors possess greater market knowledge, they may also develop excessive confidence in their decision-making abilities, leading to overtrading and poor portfolio management.

In the Indian context, studies have consistently reported the significant influence of overconfidence on retail investors. Chandra (2008) observed that Indian investors frequently rely on personal judgment instead of objective financial analysis while selecting investment alternatives. Likewise, Boda and Sunitha (2018) found that overconfidence significantly influences equity investment behaviour among retail investors, resulting in excessive trading activity and higher portfolio risk.

More recent studies have further confirmed these findings. Agrawal et al. (2024) reported that overconfidence positively influences investment decisions among young investors by increasing risk tolerance and encouraging speculative investments. Similarly, Kumar and Goyal (2015), through a comprehensive review of behavioural finance literature, concluded that overconfidence remains one of the strongest psychological determinants of irrational investment behaviour across different financial markets.

Overall, existing literature consistently demonstrates that overconfidence bias significantly affects investment decision-making by encouraging excessive trading, underestimating risk, reducing diversification, and increasing investors' susceptibility to financial losses.

Anchoring bias refers to the cognitive tendency of individuals to rely excessively on an initial piece of information, known as the "anchor," when making subsequent judgments or decisions. Introduced by Kahneman and Tversky (1974), anchoring bias suggests that investors often use arbitrary reference points such as historical stock prices, purchase prices, analyst forecasts, or previous market indices while evaluating

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

investment opportunities. Even when new information becomes available, investors tend to adjust insufficiently from these initial anchors.

Northcraft and Neale (1987) were among the earliest researchers to demonstrate the influence of anchoring in financial decision-making. Their experimental study showed that participants' valuation judgments were significantly influenced by initial reference values regardless of their relevance. The findings indicated that anchoring can distort objective financial assessments.

Tversky and Kahneman (1974) illustrated that individuals frequently rely on arbitrary numerical values when estimating uncertain outcomes. In investment contexts, investors often anchor on previous stock prices or initial purchase prices, causing delays in selling losing investments or purchasing undervalued securities.

George and Hwang (2004) examined stock market behaviour and found that investors commonly anchor on 52-week high prices while making investment decisions. Their research revealed that stocks approaching their previous highs often continue to generate abnormal returns because investors perceive these prices as important psychological benchmarks.

Kaustia, Alho, and Puttonen (2008) observed that investors anchor strongly on IPO offering prices. Their study showed that purchase prices significantly influence subsequent investment decisions even when market conditions change substantially. Investors were reluctant to revise their expectations despite new information.

Campbell and Sharpe (2009) demonstrated that professional financial analysts are also susceptible to anchoring bias while preparing earnings forecasts. Their findings suggest that anchoring is not limited to individual investors but also affects experienced financial professionals.

Pompian (2017) identified anchoring as one of the major cognitive biases affecting portfolio management. According to his framework, investors often rely excessively on historical purchase prices when deciding whether to hold or sell securities, resulting in poor timing decisions and opportunity losses.

Baker and Nofsinger (2010) argued that anchoring contributes significantly to market inefficiencies because investors fail to incorporate newly available information objectively. Instead, they continue to evaluate securities relative to outdated reference points, causing stock mispricing.

In emerging markets, anchoring bias has also been widely documented. Kudryavtsev, Cohen, and Hon-Snir (2013) found that investors frequently depend on past market trends and previous prices while making investment decisions, thereby reducing their responsiveness to current market information.

Within the Indian financial market, Chandra (2008) reported that retail investors commonly anchor their investment decisions on recommendations from friends, brokers, and historical stock prices rather than conducting independent financial analysis. Similarly, Boda and Sunitha (2018) observed that anchoring significantly affects equity investment behaviour among Indian retail investors, particularly during volatile market conditions.

Recent behavioural finance studies continue to validate the importance of anchoring in investment decision-making. Agrawal et al. (2024) reported that anchoring bias significantly influences investors' portfolio allocation decisions by causing reliance on previous market experiences instead of objective financial indicators. Kumar and Goyal (2015) also concluded that anchoring remains one of the most frequently observed cognitive biases influencing investment behaviour across developed and emerging financial markets.

Collectively, the literature suggests that anchoring bias impairs rational investment decision-making by causing investors to rely excessively on initial information, historical prices, or arbitrary benchmarks, thereby limiting their ability to respond effectively to changing market conditions.

Although extensive literature has examined the individual effects of overconfidence bias and anchoring bias on investment decision-making, several gaps remain. Most earlier studies have investigated these biases

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

independently rather than examining their combined influence within an integrated behavioural finance framework. Moreover, much of the existing research has been conducted in developed economies, while empirical evidence from emerging markets, particularly India, remains relatively limited. Additionally, there is limited evidence focusing on young and novice investors, whose investment behaviour may differ significantly from that of experienced investors. Addressing these gaps can contribute to a deeper understanding of behavioural biases in contemporary investment decision-making and provide valuable insights for investors, financial advisors, and policymakers.

Objectives Of The Study

- To study the role of overconfidence biases on investment decision making.
- To examine the role of anchoring biases on investment decision making.

RESEARCH METHODOLOGY

Research methodology is the systematic approach used to identify, collect, analyze, and interpret data to solve research problems. The present study is descriptive and explorative in nature. The target population for the present study consists of retail investors who participate in financial markets. Retail investors include individuals who invest their personal funds in financial instruments such as equities, mutual funds, bonds, exchange-traded funds, and other investment products. These investors make independent investment decisions and are often influenced by psychological biases and behavioural tendencies.

To collect data from this population, the study employs a random sampling technique. It is a probability sampling method in which each and every individual has an equal opportunity to be selected for the data collection. The sample size of 70 valid responses was collected from retail investors. Incomplete responses or questionnaires with missing data were excluded from the final dataset, resulting in 56 usable observations.

Data is collected using primary and secondary sources. Primary data means the data that is collected for the first time and thus happens to be original in character. It is first-hand information. In this study, primary data was collected through the administration of structured questionnaires to the retail investors of the Belagavi city. Secondary data means data that has already been collected and analysed by someone else. It is a second-hand formation. In this study, secondary data was obtained from Books, Journals, Magazines, Thesis, Research Papers, and Conference Proceedings.

ANALYSIS AND DISCUSSION

Table 5.1 Investor's Demographic Profile

Demographic Profile	Frequency	Percentage
Gender		
Male	32	57.1
Female	24	42.9
Age		
18–30	24	42.9
31–45	17	30.4
46–60	10	17.9
Above 60	5	8.9
Income Level		
Below ₹30,000	20	35.7
₹30,001–₹60,000	18	32.1
₹60,001–₹1,00,000	11	19.6

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

Above ₹1,00,000	7	12.5
Education Level		
Postgraduate	22	39.3
Professional	10	17.9
Graduate	18	32.1
Undergraduate	6	10.7

In table 5.1 demographic profile of the respondents provides important insights into the characteristics of thesample selected for the study. A total of 56 respondents participated in the survey. With respect to gender, 32 respondents (57.1%) were male, while 24 respondents (42.9%) were female. This indicates that male investors constituted a slightly higher proportion of the sample, although female participation was also substantial, ensuring a reasonably balanced representation for analysing behavioural biases in investment decision-making.

Regarding the age distribution, the majority of respondents belonged to the 18–30 years age group, accounting for 24 respondents (42.9%). This was followed by the 31–45 years category with 17 respondents (30.4%), while 10 respondents (17.9%) were between 46 and 60 years of age. Only 5 respondents (8.9%) were above 60 years. These findings indicate that the sample was predominantly composed of young and middle-aged investors, suggesting that the study primarily reflects the investment behaviour of economically active individuals who are more likely to participate in financial markets.

The distribution of respondents based on monthly income shows that 20 respondents (35.7%) earned below ₹30,000, representing the largest income group. This was followed by 18 respondents (32.1%) earning between ₹30,001 and ₹60,000, while 11 respondents (19.6%) reported incomes between ₹60,001 and ₹1,00,000. Only 7 respondents (12.5%) earned above ₹1,00,000 per month. The income profile indicates that the majority of respondents belonged to low- and middle-income groups, reflecting the participation of retail investors with varying financial capacities.

In terms of educational qualification, 22 respondents (39.3%) were postgraduates, constituting the largest educational category. Graduates accounted for 18 respondents (32.1%), followed by 10 respondents (17.9%) with professional qualifications, while 6 respondents (10.7%) were undergraduates. The high proportion of graduate and postgraduate respondents suggests that the sample possessed relatively strong educational backgrounds, which may influence financial awareness and investment behaviour.

Overall, the demographic profile indicates that the study sample comprised predominantly male, young, low- to middle-income, and well-educated retail investors. The diversity in gender, age, income, and educational qualifications provides an appropriate basis for examining the influence of overconfidence bias and anchoring bias on investment decision-making and enhances the reliability of the study findings.

Table 5.2 Overconfidence Biases

Overconfidence Biases	SDA	DA	N	A	SA	Mean	SD
I believe my investment decisions are usually correct.	2	5	10	24	15	3.8	1.03
I am confident in predicting stock market movements.	4	8	15	19	10	3.41	1.14
My investment knowledge is better than that of most investors.	6	10	18	15	7	3.13	1.16
I rely mainly on my own judgement when investing.	3	6	11	23	13	3.66	1.08
I trade frequently because I trust my investment skills.	5	9	14	19	9	3.32	1.19

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

The descriptive statistics presented in Table 5.2 indicate the extent to which respondents exhibit overconfidence bias in their investment decision-making. The mean scores range from 3.13 to 3.80, indicating a moderate to moderately high level of overconfidence among the respondents. The results suggest that investors generally possess confidence in their investment abilities, although the degree of confidence varies across different aspects of investment behaviour.

The highest mean score (Mean = 3.80, SD = 1.03) was recorded for the statement "I believe my investment decisions are usually correct." The response distribution shows that 39 respondents (69.6%) either agreed or strongly agreed with this statement, whereas only 7 respondents (12.5%) disagreed or strongly disagreed. This finding indicates that a majority of respondents have strong confidence in the correctness of their investment decisions, reflecting a tendency toward overconfidence.

The statement "I rely mainly on my own judgement when investing" recorded the second-highest mean score (Mean = 3.66, SD = 1.08). A total of 36 respondents (64.3%) agreed or strongly agreed that they primarily depend on their own judgment while making investment decisions. This suggests that many investors prefer personal evaluation over external advice or professional recommendations, which is a common characteristic of overconfident investors.

Respondents reported a moderate level of confidence in predicting stock market movements, as reflected by the statement "I am confident in predicting stock market movements" (Mean = 3.41, SD = 1.14). Approximately 29 respondents (51.8%) expressed agreement or strong agreement, while 12 respondents (21.4%) disagreed. This indicates that although investors are reasonably confident in forecasting market trends, a considerable proportion remain uncertain about their predictive abilities.

Similarly, the statement "I trade frequently because I trust my investment skills" obtained a mean score of 3.32 (SD = 1.19). Around 28 respondents (50.0%) agreed or strongly agreed with this statement, suggesting that confidence in personal investment skills encourages more frequent trading among many investors. Such behaviour may increase transaction costs and expose investors to greater investment risk.

The lowest mean score (Mean = 3.13, SD = 1.16) was observed for the statement "My investment knowledge is better than that of most investors." Although 22 respondents (39.3%) agreed or strongly agreed, an equal proportion of respondents either disagreed or remained neutral. This finding indicates that respondents are comparatively more cautious when assessing their investment knowledge relative to other investors, despite expressing confidence in their own investment decisions.

Overall, the descriptive analysis demonstrates that respondents exhibit a moderate level of overconfidence bias. The relatively higher mean scores for confidence in personal investment decisions and reliance on self-judgment suggest that investors tend to trust their own abilities while making investment choices. However, the comparatively lower confidence regarding superior investment knowledge indicates that respondents do not exhibit extreme overconfidence. These findings imply that overconfidence bias is present among the respondents and has the potential to influence investment behaviour through increased reliance on personal judgment, greater trading activity, and reduced dependence on external financial advice.

Table 5.3 Anchoring Biases

Anchoring Biases	SDA	DA	N	A	SA	Mean	SD
I rely on past stock prices when making investment decisions.	4	7	12	22	11	3.52	1.18
I compare current prices with purchase price before selling.	2	4	9	24	17	3.89	1.05
I wait for stocks to return to their previous levels before selling.	5	8	13	20	10	3.39	1.22
I consider historical highs and lows when investing.	3	5	10	24	14	3.73	1.1
Past price trends strongly influence my decisions.	3	6	11	23	13	3.66	1.12

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

The descriptive statistics presented in Table 5.3 illustrate the extent to which respondents exhibit anchoring bias in their investment decision-making. The mean scores range from 3.39 to 3.89, indicating a moderately high level of anchoring bias among the respondents. The findings suggest that investors frequently rely on historical prices and previous market information as reference points when making investment decisions.

The highest mean score (Mean = 3.89, SD = 1.05) was recorded for the statement "I compare current prices with purchase price before selling." The response distribution indicates that 41 respondents (73.2%) either agreed or strongly agreed with this statement, while only 6 respondents (10.7%) disagreed or strongly disagreed. This finding demonstrates that the majority of investors use their purchase price as a benchmark when deciding whether to sell an investment, reflecting a strong anchoring effect in investment behaviour.

The statement "I consider historical highs and lows when investing" recorded the second-highest mean score (Mean = 3.73, SD = 1.10). A total of 38 respondents (67.9%) agreed or strongly agreed that historical price levels influence their investment decisions. This suggests that investors frequently use previous market highs and lows as important reference points while evaluating investment opportunities.

Similarly, the statement "Past price trends strongly influence my decisions" obtained a mean score of 3.66 (SD = 1.12). The results reveal that 36 respondents (64.3%) agreed or strongly agreed that previous market trends significantly affect their investment choices. This indicates that many investors rely on historical market performance when forecasting future price movements, even though past performance may not necessarily predict future returns.

The statement "I rely on past stock prices when making investment decisions" recorded a mean score of 3.52 (SD = 1.18). Approximately 33 respondents (58.9%) agreed or strongly agreed with this statement, whereas 11 respondents (19.6%) expressed disagreement. This finding suggests that previous stock prices serve as important psychological reference points for a majority of investors during investment evaluation.

The lowest mean score (Mean = 3.39, SD = 1.22) was observed for the statement "I wait for stocks to return to their previous levels before selling." Although this statement recorded the lowest mean within the construct, 30 respondents (53.6%) still agreed or strongly agreed, indicating that many investors prefer to postpone selling until prices recover to earlier levels. Such behaviour reflects the influence of anchoring on selling decisions and may prevent investors from responding objectively to changing market conditions.

Overall, the descriptive analysis indicates that respondents exhibit a moderately high level of anchoring bias in their investment decision-making. The relatively higher mean scores for comparing current prices with purchase prices and considering historical market highs and lows suggest that investors depend substantially on historical reference points rather than evaluating investments solely on current market information and fundamental analysis. These findings imply that anchoring bias has a significant influence on investment behaviour by encouraging investors to base their decisions on past prices, historical trends, and previous market experiences, which may result in delayed decision-making and suboptimal investment outcomes.

Overall, the study confirms that demographic characteristics such as age, education, and income provide important context for understanding investor behaviour, while overconfidence and anchoring biases substantially shape investment decision-making. Investors' confidence in their own abilities, combined with excessive dependence on historical reference points, may result in frequent trading, delayed selling decisions, insufficient diversification, and suboptimal portfolio performance. These findings emphasize the importance of behavioural finance education, investor awareness programmes, and evidence-based investment practices to help investors recognize and mitigate psychological biases. They also provide empirical support for the growing body of behavioural finance literature, highlighting that cognitive biases remain important determinants of investment decisions, particularly among retail investors operating in dynamic and uncertain financial markets.

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

CONCLUSION

The present study examined the influence of overconfidence bias and anchoring bias on investment decision-making among retail investors. The study was undertaken in response to the growing recognition within behavioural finance that investment decisions are influenced not only by financial information but also by psychological and cognitive factors. Unlike the assumptions of traditional finance, which consider investors to be rational decision-makers, the findings of this study demonstrate that behavioural biases significantly affect investment behaviour and decision quality.

The demographic analysis revealed that the majority of respondents were young, educated, and belonged to low- and middle-income groups, representing typical retail investors participating in contemporary financial markets. Although respondents possessed relatively good educational qualifications, the results indicate that education alone does not eliminate behavioural biases in investment decisions. This finding reinforces the behavioural finance perspective that psychological tendencies continue to influence investors irrespective of their educational background.

The descriptive analysis showed that respondents exhibited a moderate level of overconfidence bias. Investors expressed strong confidence in the correctness of their investment decisions and relied considerably on their own judgment while making investment choices. Such confidence, although beneficial to some extent, may encourage excessive trading, inadequate portfolio diversification, and underestimation of investment risk. At the same time, respondents demonstrated some caution in evaluating their investment knowledge relative to other investors, indicating that extreme overconfidence was not evident.

The study further found that anchoring bias was more prominent than overconfidence bias. Investors relied extensively on historical purchase prices, previous market trends, and historical highs and lows while evaluating investment opportunities. Such dependence on historical reference points may prevent investors from responding objectively to new market information, resulting in delayed selling decisions and inefficient portfolio management. These findings confirm that historical price information often serves as a psychological benchmark that influences investment behaviour even when market fundamentals change.

Overall, the study confirms that both overconfidence and anchoring biases significantly influence investment decision-making among retail investors. The findings support the principles of behavioural finance by demonstrating that investment decisions are not purely rational but are shaped by cognitive shortcuts and psychological perceptions. The study contributes to the existing literature by providing empirical evidence from retail investors in Belagavi city and highlights the importance of incorporating behavioural finance concepts into investment education, financial advisory services, and policymaking. Strengthening investor awareness regarding behavioural biases, encouraging evidence-based investment decisions, and promoting financial literacy can help investors make more objective and informed investment choices. Future studies may extend this research by incorporating additional behavioural biases, larger and more diverse samples, advanced statistical techniques, and comparative analyses across different regions and investor categories to provide a broader understanding of behavioural influences on investment decision-making.

REFERENCES

1. Agrawal, S., Sharma, R., & Gupta, P. (2024). *Behavioral biases and investment decision-making among young investors*. *Journal of Behavioral Finance, 25*(1), 45–60.
2. Baker, H. K., & Nofsinger, J. R. (2010). *Behavioral finance: Investors, corporations, and markets*. John Wiley & Sons.
3. Baker, H. K., & Ricciardi, V. (2014). How biases affect investor behaviour. *The European Financial Review, 5*(2), 7–10.
4. Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *The Quarterly Journal of Economics, 116*(1), 261–292. https://doi.org/10.1162/003355301556400

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue VIII, August 2026

5. Barberis, N., & Thaler, R. H. (2003). A survey of behavioral finance. In G. M. Constantinides, M. Harris, & R. M. Stulz (Eds.), *Handbook of the Economics of Finance* (Vol. 1, pp. 1053–1128). Elsevier.
6. Boda, J. R., & Sunitha, G. (2018). Investor's psychology in investment decision making: A behavioral finance approach. *International Journal of Pure and Applied Mathematics, 119*(7), 1253–1261.
7. Campbell, S. D., & Sharpe, S. A. (2009). Anchoring bias in consensus forecasts and its effect on market prices. *Journal of Financial and Quantitative Analysis, 44*(2), 369–390. https://doi.org/10.1017/S0022109009090127
8. Chandra, A. (2008). Decision making in the stock market: Incorporating psychology with finance. *National Conference on Forecasting Financial Markets of India*.
9. Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *The Journal of Finance, 25*(2), 383–417. https://doi.org/10.2307/2325486
10. Gervais, S., & Odean, T. (2001). Learning to be overconfident. *The Review of Financial Studies, 14*(1), 1–27. https://doi.org/10.1093/rfs/14.1.1
11. George, T. J., & Hwang, C. Y. (2004). The 52-week high and momentum investing. *The Journal of Finance, 59*(5), 2145–2176. https://doi.org/10.1111/j.1540-6261.2004.00695.x
12. Glaser, M., & Weber, M. (2007). Overconfidence and trading volume. *The Geneva Risk and Insurance Review, 32*(1), 1–36. https://doi.org/10.1007/s10713-007-0003-3
13. Jensen, M. C. (1978). Some anomalous evidence regarding market efficiency. *Journal of Financial Economics, 6*(2–3), 95–101.
14. Kahneman, D., & Tversky, A. (1974). Judgment under uncertainty: Heuristics and biases. *Science, 185*(4157), 1124–1131. https://doi.org/10.1126/science.185.4157.1124
15. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica, 47*(2), 263–291. https://doi.org/10.2307/1914185
16. Kaustia, M., Alho, E., & Puttonen, V. (2008). How much does expertise reduce behavioral biases? The case of anchoring effects in stock return estimates. *Financial Management, 37*(3), 391–412.
17. Kudryavtsev, A., Cohen, G., & Hon-Snir, S. (2013). Rational or intuitive? The effect of behavioral biases on investors' decision-making. *Journal of Behavioral Finance, 14*(4), 296–305.
18. Kumar, S., & Goyal, N. (2015). Behavioural biases in investment decision making: A systematic literature review. *Qualitative Research in Financial Markets, 7*(1), 88–108. https://doi.org/10.1108/QRFM-07-2014-0022
19. Northcraft, G. B., & Neale, M. A. (1987). Experts, amateurs, and real estate: An anchoring-and-adjustment perspective on property pricing decisions. *Organizational Behavior and Human Decision Processes, 39*(1), 84–97. https://doi.org/10.1016/0749-5978(87)90046-X
20. Odean, T. (1998). Volume, volatility, price, and profit when all traders are above average. *The Journal of Finance, 53*(6), 1887–1934. https://doi.org/10.1111/0022-1082.00078
21. Pompian, M. M. (2017). *Behavioral finance and wealth management: Practical applications of behavioral finance to wealth management* (2nd ed.). John Wiley & Sons.
22. Shefrin, H. (2001). *Behavioral corporate finance*. McGraw-Hill.
23. Simon, H. A. (1957). *Models of man: Social and rational*. John Wiley & Sons.
24. Statman, M., Thorley, S., & Vorkink, K. (2006). Investor overconfidence and trading volume. *The Review of Financial Studies, 19*(4), 1531–1565. https://doi.org/10.1093/rfs/hhj032