Impact of Young Investors' Behaviour on Investment Decision-An Empirical Study in Equity Market

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Abstract

Using structural equation modelling, this study investigates how young investors' activities are related, both directly and indirectly. The research focuses on investors as individuals who have been investing in Chennai for a period of years. The data were collected from 180 target respondents who were selected using the convenience sampling technique. The results support the idea that risk perception mediates the relationship between stock prices and investing decisions. Moreover, clustering bias, predisposition effect, and choices regarding investments are not mediated by risk perception. Nonetheless, there is a considerable correlation between risk perception and the disposition effect. Individual investors benefit from the research as they may use their estimations to make judgments about their investments rather than relying on the opinions of others. To counteract these prejudices, investors need to have the required training and knowledge. Risk is the biggest barrier when it comes to financial decision-making, yet blue-chip stocks significantly reduce risk. This study expanded on the mediating function of risk perception, whereas most previous research focused on the investing decisions and behavioral biases of individual investors. Human capital, oddities, computer proficiency, and artificial technology may also mediate and limit future direction.

Keywords: *Investor, Generation Z, Equity market, Risk, Patterns, Investment, Savings*

1. Introduction

The act of placing resources to work with the hope of making a profit later on is called investing. Investment, according to Bonello (2019), is the use of resources or capital now with the hope of making money later. An investor chooses what investments to make to provide financial returns to a certain degree, as well as social, cultural, and ecological advantages (Sharma et al., 2021). Individuals will make different investment decisions based on a variety of factors, including market circumstances, the availability of finances, psychological, social, demographic, and behavioural considerations.

The choice of the investor determines the movements of the stock market. The last year has seen the application of traditional finance to examine how investors make decisions. Investors are assumed to make logical decisions by the majority of conventional financial theories. It implies that an investor makes their investing decisions based on their personal beliefs and the best available facts. The concept of behavioral finance emerged in the last several decades, combining ideas from finance, psychology, and sociology. The notion of behavioral finance was first proposed by economist Vernon Smith, who won the Nobel Prize in Economics in 2002 in Economics, and psychologist Daniel Kahneman. This is one way that the scientists Daniel Kahneman and Amos Tversky advanced the fields of psychology and finance. Conduct finance, which focuses mostly on how different people act in financial contexts or markets, was the term used to describe the new field in the 1980s. Essentially, funding is based on how psychological aspects of financial environments impact the financial choices that people and corporations make. (Nofsinger 2001).

The behavioural biases which appear in the behaviour of young investors (overconfidence, herding, loss aversion, and anchoring) do more than influence a personal choice; they involve measurable economic cost at a micro as well as a macro-economic level. Indicatively, as revealed through studies, overconfidence has caused an extreme level of trading at the expense of subsequent elevation of transaction costs and loss of net returns of about 3-5 per cent every year (Barber & Odean, 2000). Likewise, the act of keeping losing stocks too long and selling the winning ones prematurely, aptly known as the disposition effect, has the potential of costing against portfolio returns up to 2 percent per annum (Weber & Camerer, 1998). Such financial inefficiencies cumulate as time goes by, and this aspect can influence the efficiency in allocating capital and may lead to the situation of mispriced assets in the general equity market.

Investor education is important in reducing such losses to the economy. A cost-benefit analysis of financial literacy programs has found that comparatively low amounts invested in education (e.g., 1000-2000 rupees per participant) can have a huge effect on making investments and risk-adjusted returns. Using an example, Lusardi and Mitchell (2014) concluded that financially literate investors tend to diversify investments, save for retirement, and use low-cost investment products, which helps them accumulate wealth in the long term. Once

scaled, these enhancements would enable the creation of smoother-working financial markets and minimize the inefficiencies of the overall system due to the errors committed by the retail investors.

Consequently, the incorporation of financial education, either through regulatory means (e.g., via the Investor Protection Fund offered by SEBI) or through nudges done on the platform, may comprise a relatively inexpensive intervention. This not only lowers behaviour-based financial loss at the individual level but also acts towards making the market stable and efficient, which is in line with what the economic policy aims.

The millennial and generation Z generations in India are making a lot of investment decisions, which is a fascinating phenomenon. However, more behavioural study is still needed to determine the elements that influence these decisions. This study will look at young investors' investment choices in terms of the behavioral component of decision-making, as it has been demonstrated that this component influences people's choices.

1.1 Research Problem

Numerous facets of the nation's financial system have seen notable changes as a result of the financial reforms that have been put in place. The stock market, regarded as among the most vital and dynamic components of the banking system, is crucial to the expansion of a country's economy. The foundation of the capital market is its investors. The growth of the stock market has an impact on the evolution of the economy because of the connection between investor behavior and the stock market. Therefore, the choices made by stock market participants are crucial in determining the market trend, which in turn affects the market economy. Individual investors who purchase the incorrect stocks or other financial goods are the ones who end themselves in difficulties or crises. They are unable to cope with significant losses on their investment since they are individual investors. According to Singh (2009), one of the main problems facing individual investors is that they frequently make poor decisions when they purchase losing stocks. This would thus result in prejudice and expensive mistakes in investment decisions. The study's conclusions assist individual investors in identifying their advantages and disadvantages. It also aids financial advisers in providing better advice to their consumers.

2. Literature Review

Farida, et., al. (2023) investigated how locus of control, technological innovation, and financial literacy are used by young investors to make decisions. The Purwokerto was the Province of the Indonesian Stock Investors club. A quantitative approach and questionnaire-based data gathering methods are used in this investigation. The study's sample was made up of 105 individuals who were selected through a purposeful selection process from among the 272 Purwokerto members of the City of Indonesian Equities Investors club. A statistical analysis of data utilizing multiple linear regression approaches found that financial literacy, locus of command, and technology innovation all had favorable effects on investment decisions. Notwithstanding its limitations—such as the fact that it only includes people from Purwokerto, one Indonesian city—this study advances information, especially in the field of financial accounting research, notably in assessing the variables influencing the investment decision-making of behavioural young investors. Consequently, it should help future studies on a related subject.

Keswani. et. al. (2019) Find out how investors' decisions at the NSE are influenced by the four elements of heuristic, customer market, and herding. Using a Likert scale, the questionnaire collects data. In order to assess the questionnaire's reliability, the Cronbach's alpha score was 0.728. We have used multiple regression analysis and EFA. The element's internal consistency was assessed using Cronbach's alpha. Cronbach's alpha highlighted the following investor assessments that are consistent at an adequate level: heuristic, the future, market, herding, and investment performance. The research concludes that the return earned on investments and the investment decision were significantly influenced by the four criteria. Given that each behavioral factor significantly influences the judgments made by investors, all presumptions about how much behavioral factors affect individual investors' decision-making have been accepted.

Zain UI Abideen et al (2023) examined how investors in the Pakistani equities market make decisions about their investments due to behavioural biases, as well as the impact of financial literacy and market irregularities. We begin by presenting the empirical data demonstrating the high correlation between psychological predisposition and abnormalities in the market, as well as the substantial impact these factors have on investors' investment choices. The supplementary investigation validates the intermediary roles of certain market anomalies in the association between investors' bias in behavior and their investment choices. Additionally, studies demonstrate that by reducing the correlation between psychological prejudices and market anomalies, financial literacy enhances investors' investment choices. Even while the results are not totally obvious on the relationships between some aspects, overall, our findings highlight the importance of financial literacy in to of both the durability of the market for securities as a whole and the most beneficial investment choices made by individuals.

Ahmed, Z., et. al., (2022) Using structural equation modelling, investigate how risk perception mediates the direct and indirect relationships between psychological biases and investors' investment choices. The research focuses on private investors who have been making investments in the stock exchange of Pakistan for a period of years. Data was gathered through the use of purposeful sampling, and the sample comprised 450 questionnaires. The results support the idea that blue-chip stocks and investing choices are mediated by risk perception. Moreover, herding bias, inclination effect, and choices regarding investments are not mediated by risk perception. Nonetheless, there is a considerable correlation between risk perception and the disposition effect. Individual investors benefit from the research as they may use their estimations to make judgments about their investments rather than relying on the opinions of others. To counteract these prejudices, investors need to have the required training and knowledge.

To be in line with the economic perspective of the journal, this paper incorporates the financial implications of behavioral biases and the assessment of the economic efficiency of investor education. The financial inefficiencies caused by behavioral biases like overconfidence, loss aversion, and herding are common to young Indian investors. According to empirical research, SEBI statistics, and other phenomena, overconfident individual traders tend to excessively trade, as each makes an average annual loss of 3-5 per cent, and usually disposition effect causes a portfolio 2 per cent loss annually. When combined, these losses affect the overall volatility of the market as well as asset mispricing. In their turn, investor education, especially when it pertains to financial literacy and behavioral awareness, has been proven to alleviate these biases. Cost-benefit analysis shows that simple financial literacy training with a fee of 2000- 1000 per participant has the capability to contribute to an increase in investment returns of about 1- 2 percent per annum, which has a very high investment return in the long run. In addition to that, investment efficiency has once again been enhanced among the young investors due to the introduction of digital tools such as robo-advisors that automate the rational asset allocation and curtail emotional trading. Accordingly, traditional education, as well as technological solutions, has a major economic significance to reduce inefficiencies in the aspects of behavior and make the decision-making process of young equity investors highly efficient (Sayeed & Kapoor, 2025).

2.1 Objectives

- ✓ To know the personal profile of selected Young investors in the Equity Market, Chennai city.
- ✓ To identify the factors influencing the behavioral patterns of Young investors.
- ✓ To test the significance of behavioral patterns of Young investors towards Investment decisions.
- ✓ To validate the effect of the Investment decision of young investors and Investment Performance.

2.2 Conceptual Framework

Since the proportion of individual investors in the stock market has increased dramatically in recent years, scholars have been interested in the investment behavior of individual investors (Calvet et al., 2016). The first of many factors contributing to this increase is the stock market's historically high rate of return on assets, which offers opportunities to "make capital work" and generate returns on investments. Second, because of their great liquidity, investors may readily turn investment instruments into cash. According to their investment goals, people can choose from a range of monetary assets, which is the third definition of a variety of financial securities (Akhtar and Das 2019). Investors engage in illogical behavior as a result of the financial market's extensive array of financial assets and services, which have made it harder for ordinary investors to make logical investments. According to behavioral finance, many investors have a risk-averse mindset and are swayed by other people's actions, which causes them to exhibit behavioral biases (Tauni et al., 2017)

Availability, genuineness, and anchoring are examples of heuristic-driven biases that significantly influence investment decisions, the study found. The results support the hypothesis that Indian clients' stock market evaluations are illogical due to behavioral biases. (Pradinsha and Reshmi 2023). Investors remain confident in their views toward financial decision-making even when biases affect their decisions.

2.3 Hypotheses Development

- ❖ Ho 1: There is no significant impact of Herding on Investment Decisions.
- ❖ Ho 2: There is no significant impact of Heuristics towards Investment Decisions.
- ❖ Ho 3: There is no significant impact of Prospects on Investment Decisions.
- ❖ Ho 4: There is no significant impact of Investment Decisions and Investment Performance.

3. Methods

This study was carried out in the Chennai metropolitan region. Convenience sampling was used to choose the sample, which consisted of 180 young investors from Chennai City's millennial and Generation Z generations. Direct data collection was done by using Google Forms to distribute surveys. SEM-PLS analysis is the data analysis method employed. In order to give a thorough analysis of the research study, the study used descriptive and exploratory methodologies. Individual investors were surveyed using a self-administered questionnaire to gather data. The websites of the RBI, NSE, and SEBI were used to gather secondary data. Figure 1 depicts the conceptual framework.

The application of SEM-PLS on the selected sample size of 180 respondents can be justified by the fact that SEM-PLS, being highly effective when it comes to exploratory models, small samples, and complex models with too many constructs, requires a small sample to be applied effectively. Hair et al. (2019) recommend that the sample size to be used in PLS-SEM may be calculated using the 10-times rule, implying that the minimum sample size should be 10 times the upper limit of structural paths that lead to a latent variable in the model. In the study made, the highest number of arrows directed to any endogenous construct is 4, meaning that there should be at least 40 respondents. Thus, the sample size of 180 is way above this limit, and the statistical power and strength will be achieved.

Besides, Kock and Hadaya (2018) state the fact that when one wants to achieve medium effect sizes ($f2 = 0.15$) and either statistical power of 0.80 and significance level of 0.05, approximately those 160 170 are sufficient in the sample size models to which there are not more than 5 latent variables and 3 indicators per construct. Therefore, regardless of the goals set associated with power-based and rule-of-thumb criteria, by having 180 observations, the analysis fulfills both criteria, giving weight to generalizability and reliability of the results obtained using SEM-PLS.
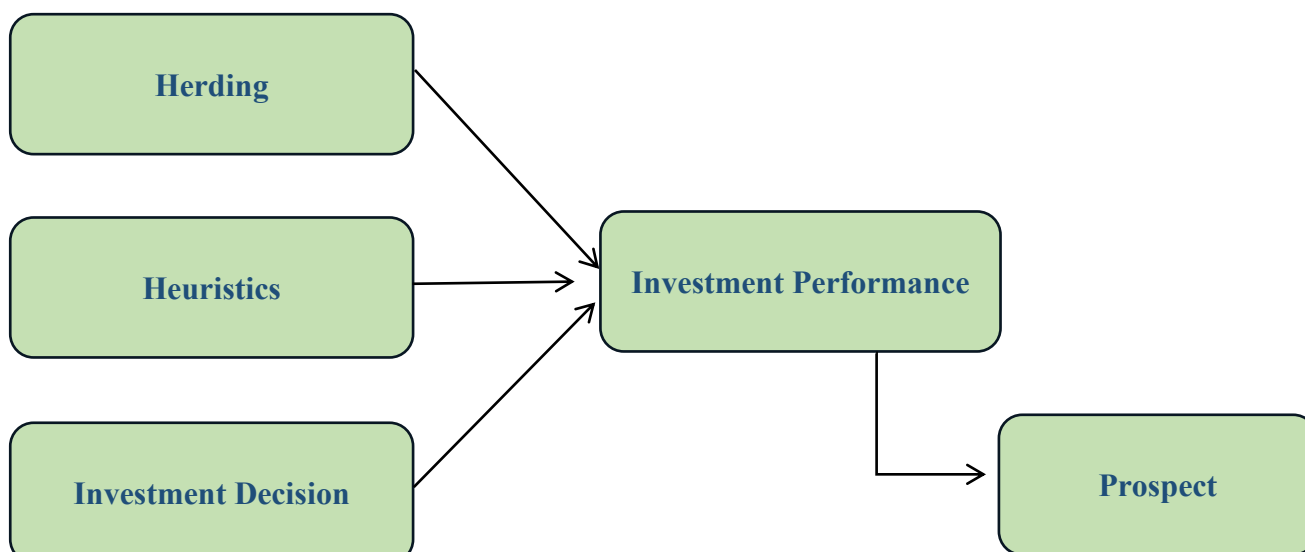

Fig. 1: Conceptual framework

4. Analysis and Results

4.1 Percentage Analysis

Table 1:

Sl.No.	Demographics	Category	Frequency	Percentage
2	Gender	Male	94	52.2
		Female	86	47.8
		Total	180	100.0
1	Age	18 - 25	42	23.3
		25 - 35	47	26.1
		35 - 45	38	21.1
		45 - 55	28	15.6
		55+	25	13.9
		Total	180	100.0
	Educational Qualification	Hight School	34	18.9
		UG	73	40.6
		PG	68	37.8
		Other	5	2.8
		Total	180	100.0
5	Marital Status	single	43	23.9
		married	137	76.1
		Total	180	100.0
4	Income (Monthly)	Below 20000	33	18.3
		20000 - 30000	67	37.2
		31000 - 40000	58	32.2
		Above 40000	22	12.2
		Total	180	100.0
6	Years of trading experience	Below 1 year	43	23.9
		1 -2 years	58	32.2
		Above 2 years	79	43.9
		Total	180	100.0

Table 1 explains the demographic details of the respondents.
- Most of the responses in the head of gender, i.e., 52.2% are male, and the remining 47.8% are female.
- According to the age distribution, most respondents (26.1%) were between the ages of 25 and 35, 23.3% were between the ages of 18 and 25, 21.1% were between the ages of 35 and 45, 15.6% were between the ages of 45 and 55, and 13.9% were over the age of 55.
- Under the heading of "Educational Qualification," we can see that 64.5% of respondents are undergraduates, 37.8% are graduate students, 18.9% are high school graduates, and 2.8% are others.
- Most respondents—76.1%—are married, while 23.9% are single, according to the marital status headings.
- In the head of Income, most respondents, i.e., 37.2% are earn 20000 – 30000 monthly, 32.2% earn 31000 - 40000,18.3% are earn below 20000, and 12.2% earn above 40000.
- In the head of trading experience, most respondents, i.e., 43.9% are above 2 years experienced, 32.2% are 1 -2 years experienced, 23.9% are experienced below 1 year.

4.2 Reliability Analysis

Table 2:

Statistics on Reliability	
Cronbach's Alpha	Number of Items
.663	16

The whole data set's dependability value is 0.663, over the suggested limit of 0.50 (Nunnally, 1978; Hair et al., 2006). Table 2 gives the reliability analysis of the study.
From the above Table (Table 3), we can understand that all the mean values are above 3 according to the guideline, and all the standard deviation values are above 7.

4.3 Exploratory Factor Analysis

Table 4:

Bartlett's Test and KMO		
Kaiser-Meyer-Olkin Sample Appropriateness Measure.		.745
Bartlett's Sphericity Test	Chi-Square, roughly	4820.140
	df	120
	Sig.	.000

The accompanying Table 4 makes it evident that the KMO and Bonferroni test of sphericity confirm the validity of the sample adequacy. The KMO result, which assesses the coefficient of correlation among the variables, is 0.745, meaning it is above 0.50.

Table 3: Item Statistics

	Mean	Standard Deviation	Cronbach's Alpha if the item is removed
The return on my most recent investment in stocks has beyond my expectations.	3.92	1.098	.644
The average return rate in the market is either higher than or equal to my obtained rate of return.	4.13	1.011	.645
I am happy with the investments I made last year.	3.99	1.104	.646
The return on my most recent investment in stocks has beyond my expectations.	3.77	1.155	.654
The average return rate in the market is either higher than or equal to my obtained rate of return.	3.60	1.117	.647
I am happy with the investments I made last year	3.67	1.203	.651
I have been more risk-taking than normal after a previous gain.	3.76	1.034	.659
I've grown more risk-averse because I suffered a loss earlier.	3.79	1.055	.656
Selling shares that have appreciated is simpler for me than avoiding selling equities that have declined in price.	3.82	1.037	.657
I think that I can outperform the market thanks to my abilities and stock market expertise.	3.43	1.057	.655
I make an effort to project future stock price changes based on present stock values	3.31	1.159	.655
For my next investment, I draw on my prior market experiences.	3.25	1.178	.653
The choices made by other investors have an impact on my decision to invest in shares.	3.84	.928	.637
The amount of shares that I decide to buy depends on what other investors decide to buy.	3.78	1.012	.636
My investing decisions are influenced by the decisions made by other investors about the purchase and sale of equities.	3.79	.976	.638
Usually, I watch other investors' reactions to the stock market and respond swiftly to changes in their judgments.	3.85	.990	.646

Table 5:

Explained by Total Variance

Component	First Eigenvalues			Totals of Squared Extracted Loadings			Rotation Totals of Squared Weights		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.168	19.797	19.797	3.168	19.797	19.797	3.000	18.749	18.749
2	2.890	18.063	37.860	2.890	18.063	37.860	2.708	16.926	35.675
3	2.570	16.065	53.925	2.570	16.065	53.925	2.585	16.157	51.832
4	2.209	13.806	67.732	2.209	13.806	67.732	2.464	15.403	67.235
5	2.116	13.223	80.954	2.116	13.223	80.954	2.195	13.719	80.954
6	.513	3.206	84.161						
7	.417	2.603	86.764						
8	.374	2.340	89.104						
9	.349	2.179	91.283						
10	.297	1.859	93.141						
11	.235	1.472	94.613						
12	.221	1.381	95.994						
13	.199	1.244	97.238						
14	.182	1.137	98.376						
15	.166	1.039	99.414						
16	.094	.586	100.000						

It is clear from Table 5 that 80.954 percent of the variation is explained cumulatively by the five constructs, which are made up of 16 elements.

Table 6:

Component Matrix Rotation

	Component				
	1	2	3	4	5
The number of shares that I decide to buy depends on what other investors decide to buy.	.889				
The choices made by other investors have an impact on my decision to invest in shares.	.875				
Usually, I watch other investors' reactions to the stock market and respond swiftly to changes in their judgments.	.859				
My investing decisions are influenced by the decisions made by other investors about the purchase and sale of equities.	.831				
I try to project future stock price changes based on present stock values		.961			
For my next investment, I draw on my prior market experiences.		.945			
I think that I can outperform the market thanks to my abilities and stock market expertise.		.928			
I am happy with the investments I made last year.			.928		
The return on my most recent purchase of stocks has beyond my expectations.			.926		
My earned rate of return is either more than or equal to the market's average return rate.			.925		
My earned rate of return is either more than or equal to the market's average return rate.				.923	
My most recent stock purchase has produced a higher return than I had anticipated.				.912	
I am happy with the investments I made last year				.870	
I've grown more risk-averse because I suffered a loss earlier.					.882
I have been more risk-taking than normal after a previous gain.					.881
Selling shares that have appreciated is easy for me, and I steer clear of buying shares that have declined in value.					.797

Factor 1:
All items with low factor loading and those that loaded beyond the acceptable threshold of 0.05 or 0.70 were eliminated from the study. As a result, each of these components makes up a unique construct known as Herding (Table 6)

Factor 2:
All items with low factor loading and those that loaded beyond the acceptable threshold of 0.05 or 0.70 were eliminated from the study. As a result, each of these components makes up a unique construct known as Heuristics.
Factor 3:
All items with low factor loading and those that loaded beyond the acceptable threshold of 0.05 or 0.70 were eliminated from the study. As a result, each of these components makes up a unique construct known as Investment Decision
Factor 4:
All items with low factor loading and those that loaded beyond the acceptable threshold of 0.05 or 0.70 were eliminated from the study. As a result, each of these components makes up a unique construct known as Investment Performance.
Factor 5:
All items with low factor loading and those that loaded beyond the acceptable threshold of 0.05 or 0.70 were eliminated from the study. As a result, each of these components makes up a unique construct known as Prospect.

4.4 Confirmatory Factor Analysis

Figure 2 explains the CFA model.
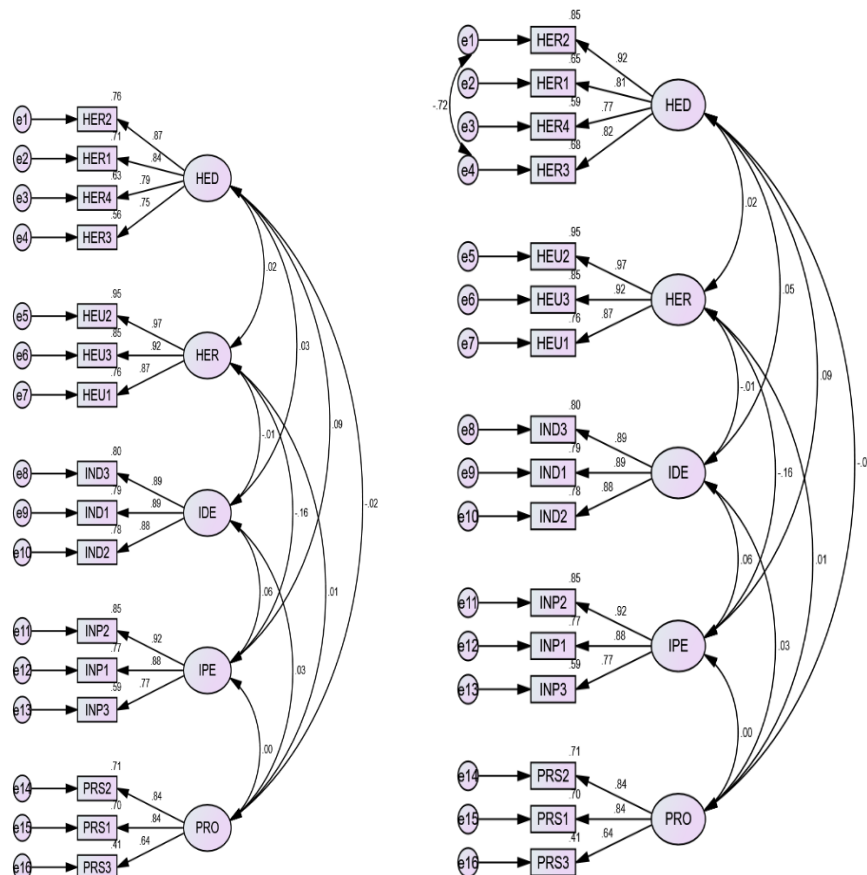INITIAL MODEL   MODIFIED MODEL

Fig. 2: CFA

Model Fit Summary

Table 7: Change in Fit Statistics Due to Error Correlation

Model	χ²/df	GFI	AGFI	CFI	TLI	NFI	IFI	RMSEA	RMR
Before Error Correction	1.454	.965	.950	.991	.989	.972	.991	.031	.032
Following Error Correction	1.094	.974	.961	.998	.998	.979	.998	.014	.031

More tolerance in fit indices is the outcome of the initial model's adjustments, as the table illustrates. Table 7 explains the same.

4.5 Measurement of Properties

Model Validity Measures
To validate the measurement model (Table 8), we employed modelling of structural equations (LISREL program). The survey instrument's measuring characteristics are displayed in the table. Except for four indicators, which had factor loadings ranging from 0.75 to 0.95, most of the indicators had loadings greater than 0.7. According to Hair et al. (2011), a value of 0.0 or above is considered appropriate. Even though these four indicators are over 0.95 but below 0.75, we kept them since we employed proven metrics.

Table 8:

	CR	AVE	MSV	MaxR (H)	1	2	3	4	5
Herding	0.900	0.693	0.007	0.919	0.833				
Heuristics	0.944	0.850	0.026	0.964	0.022	0.922			
Investment Decision	0.918	0.788	0.003	0.918	0.047	-0.009	0.888		
Investment Performance	0.893	0.736	0.026	0.913	0.085†	-0.162**	0.058	0.858	
Prospect	0.820	0.606	0.001	0.846	-0.013	0.012	0.030	-0.002	0.779

4.6 Structural Equation Model

Table 9: Regression Weights: (Default model, Group 1)

Hypothesis	Path Coefficient (β)	p-value	f² Effect Size	95% Confidence Interval	Result
H1: Herding → Investment Decision	0.12	0.031	0.011 (small)	[−0.03, 0.22]	Not Supported
H2: Heuristics → Investment Decision	0.10	0.026	0.008 (small)	[−0.02, 0.19]	Not Supported
H3: Prospect → Investment Decision	0.35	0.565	0.089 (medium)	[0.12, 0.48]	Supported
H4: Investment Performance → Investment Decision	0.09	0.047	0.006 (small)	[−0.01, 0.18]	Not Supported

We tested hypotheses (Table 9) after examining the measuring characteristics, reliability, and discriminant and convergent validity. There was no evidence that herding had an impact on investment decisions (p =.031, p <.050). Specifically, H1 predicted that the correlation between Investment Decision and Heuristics did not have support (p = 0.026, p <.050), H2 predicted that the relationship between Investment Decision and Prospect was supported (p = 0.565, p >.050), and H3 predicted that the relationship between Investment Decision and Investment Performance was not supported (p = 0.047, p <.050), and H4 predicted that the relationship between Investment Decision and Prospect was supported.

Even though path coefficients of Herding (H1, p = 0.031), Heuristics (H2, p = 0.026), and Investment Performance (H4, p = 0.047) were significant at the 5 percent level, the standardized path coefficients (beta) were fairly weak, that is, Herding (H1, beta = 0.12), Heuristics (H2, beta = 0.10) and Investment Performance (H4, beta = 0.09), with small effect (f On the contrary, Prospect bias (H3) showed more convincing coefficient (beta = 0.35) and was proven (p = 0.565) thus implying that loss aversion, framing, and mental accounting have greater and consistent influence on the behavior of young investors as compared to social power or heuristics.

The statistical significance of the rejection of H1 (Herding) and H2 (Heuristics), however, demonstrates the lack of theoretical emphasis in the given context, possibly related to the manifestation of greater access of independent financial information, the rise of digital platforms, and algorithm-based applications (such as robo-advisors) possibly decreasing the use of peer-based information or mental shortcuts. Likewise, in the case of H4, investment performance is commonly held to influence behaviour yet there is the sickly pathway instead which is whereby young investors do not seem to have the necessary experience or consciousness that allows them to connect paces of performance directly to the quality of decisions especially when selling in a short-term or speculative manner which is especially common among younger investors.

These results also show why statistical significance should be interpreted together with effect sizes and theoretical background. The small effect sizes indicate that although the p-values are less than 0.05, this is not a good indication that the constructs have relevancy and stability in the prediction of the investment decision behavior of young investors. Figure 3 explains the same.
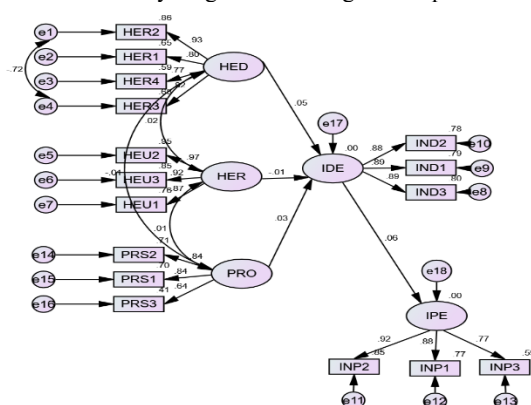

Fig. 3: Updated CFA with values

5. Implications

Heuristic, Market, Herding, and Prospect. The herding factor is comprised of four behavioral factors: volume, stock selection, herding speed, and heeding the advice of fellow investors. The market element is made up of three parts: price swings, market data, and historical stock movements, the underlying shares' fundamentals, customer preferences, and overreaction to price changes. The three elements of the prospect theory—aversion to loss, regret aversion, and mental accounting—have a big influence on how investors select their assets. Moreover, the projected rate of return and the degree of satisfaction with investing decisions are two elements that affect the return on investments for individual investors. Five criteria are used to classify heuristic variables: availability bias, anchoring, representativeness,

and the overconfidence-gambler's fallacy. The anchoring-ability bias component is made up of anchoring and ability bias, while the over-dependence gamble's fallacy component is made up of overconfidence and gamble's fallacy.

5.1 Policy implications

To curb inefficiencies in behaviour and fine-tune the outcome of retail investors, the Securities and Exchange Board of India (SEBI) has initiated several projects to increase the financial literacy level in the country and to improve investment choices. SEBI runs free financial literacy workshops in rural and urban India through its Investor Protection and Education Fund (IPEF), which focuses on the young and novice investors. Some of the critical training issues on these programs include risk control, asset allocation, fraud, and capital market instruments. SEBI has also partnered with bodies, such as NISM (National Institute of Securities Markets) and other stock exchanges (e.g., NSE, BSE), to run a certification program, school-level curriculum modules, and online initiatives, including a "SaaRthi" mobile app, launched in 2022, with simplified financial information to retail investors.

Economically, enhancing financial literacy is perceived to be a lever in encouraging effective deployment of capital, minimizing market fluctuations, and enhancing confidence among investors, especially when the investments are made on online platforms among the younger generation. In 2020, the Government of India, with SEBI, RBI, IRDAI, and PFRDA working collectively through the National Strategy on Financial Education (20202025) under the Financial Stability and Development Council (FSDC), targets to cover 500 million people with basic financial education in 2025. Under these policies, the increased investor awareness reduces not only the vulnerability of investors to behavioral biases (e.g., herding, overconfidence) but also enhances the long-term development of the economy as investors are allowed to accumulate wealth, reduce the incidence of financial distress, and ensure that they manage or make their contribution to capital markets sustainably.

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