

## **The Impact of Risk Tolerance on Investment Decisions of Individual Investors in Colombo Stock Exchange, Sri Lanka**

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### **Abstract**

Individuals' Investment decisions are influenced by various factors such as demographics, personal characteristics, market influences, and many more. Thus, rational investing is challenged by the evolution of behavioral finance. Risk tolerance is one of the main determinants of investors' market perception. Based on the level of risk tolerance, the investor may allocate funds to assets of the matching risk level. The level of risk tolerance is altered based on the demographic environment the investor is familiar with. Hence, this study aims to identify the impact of risk tolerance on investment decisions taken by Sri Lankan investors. Individual investors residing in the Western province were considered for this study. The multiple linear regression analysis portrayed that risk tolerance had a statistically significant impact on investment decisions. Furthermore, social influence moderated the relationship between risk tolerance and investment decisions. The model was controlled by the investors' education level, gender, and age. The study paves the way for potential researchers to identify psychological characteristics in investment decisions. The investors' risk tolerance is a prominent feature that describes the possible move towards a particular investment choice. Hence, this research attempted to provide a more accurate depiction of the impact of risk tolerance on investment decisions in the Sri Lankan context.

**Keywords:** *behavioral finance, investment decisions, risk tolerance, social influence, Sri Lanka*