IMPACT OF INVESTMENT BIASES OF INDIVIDUAL INVESTORS' DECISION MAKING: A STUDY ON THE COLOMBO STOCK EXCHANGE

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Abstract

Despite the availability of information and resources, investors often exhibit biased decision-making influenced by psychological factors. The study identifies vital biases such as Overconfidence, Representative, Loss Aversion, and Availability biases, which frequently lead to suboptimal investment decisions. A quantitative survey using simple random sampling conducted via Google Forms in June 2023 yielded 144 suitable responses from an initial 162, with an over 80% response rate after excluding non-investors. Overconfidence bias encourages riskier investments, and Representative bias promotes quick, irrational decision-making. Loss-averse people may adopt conservative investment strategies prioritizing capital preservation over aggressive growth. The availability heuristic influences rapid decision-making, particularly in volatile market conditions. These biases collectively contribute to suboptimal investment outcomes. The study is limited by its reliance on potentially biased self-reported data, focus on a specific geographic area, and exclusion of non-investors, which may affect the generalizability of the findings. Focusing on the CSE provides valuable insights into investors' behavioral patterns in an emerging market context, contributing to a broader understanding of behavioral finance.

Keywords: *colombo stock exchange, demographic factors, investment bias, stock market decision-making*

1 Introduction

The realm of financial markets is a complex ecosystem, driven not only by economic indicators and market trends but also significantly influenced by the decisions and behaviors of individual investors. In the context of the CSE in Sri Lanka, the impact of investment bias on individual decision-making emerges as a critical yet understudied facet of market dynamics (Wijekumara & Madhushanka, 2019; Somathilake, 2020). The term "investment bias" encapsulates a spectrum of cognitive and emotional factors that may lead investors to deviate from rational

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decision-making, potentially resulting in suboptimal choices and financial losses (Kahneman & Tversky, 1979).

Despite existing research on general investment decision-making and cognitive biases, there remains a significant gap in understanding the specific consequences of investment bias on individual choices concerning shares in the stock market, particularly within the unique context of the CSE. Investors' susceptibility to biases such as overconfidence, loss aversion, and representative and availability behavior can significantly alter their decision-making processes, shaping market outcomes.

This study seeks to address the potential repercussions of uninformed choices, and the research aims to shed light on the specific manifestations of bias in this market and their implications for investors. By exploring how investment bias influences decision-making intricacies, this study aspires to offer valuable insights that extend beyond academic curiosity, holding practical implications for individual investors, financial advisors, and policymakers alike (Jain et al., 2015). Past literature on behavioral biases has predominantly involved Western countries; this, however, cannot be applied to Asian countries, for contextual factors such as individualism and collectivism paradigms exist (Ahmad et al., 2018). The literature review suggested that most studies have been conducted in individualistic countries with highly developed stock markets. At the same time, there is a lack of solid research on the behavior of individual investors in collectivistic nations and less developed markets. This research proposal seeks to fill this gap by focusing on how investors' bias influences investment decisions within a collectivist culture: The Sri Lankan Context.

Sri Lankan investors' thinking levels differ from those in developed countries, making this study contextually significant. As investment decisions have become increasingly important, this research is valuable for individual investors and financial professionals like portfolio managers and traders. The study focuses on individual investors, helping them avoid relying on heuristic biases or feelings in their decisions, thereby improving investment performance. It aims to raise awareness about these biases and reduce the likelihood of costly errors. By recognizing and controlling these mental mistakes, investors can choose better investment tools and improve their overall investment strategies. The paper also advises that behavioral biases should not be relied on when investing. Increasing people's awareness of such biases adds value to decision-makers and other professionals in the financial industry, such as portfolio managers, traders of commercial and investment banks, and managers of mutual funds. Thus, by demonstrating to investors how to choose more appropriate investment tools and avoid heuristic-based bad decisions, the paper also underscores the concept of focusing on specific investment strategies to minimize mental errors.

The ultimate goal is to enhance our understanding of the impact of investment bias on individual decision-making and provide actionable strategies for mitigating biases and improving investment outcomes. This research contributes to developing a more informed and resilient investor community, fostering a financial landscape conducive to prudent decision-making and sustainable economic growth.

2 Review of Literature and Hypothesis

Due to various investment biases, overseas investors profit from trading equities in their home markets. Meanwhile, Sri Lankans at the CSE are not benefiting as much from the market. Determining "The Impact of Behavioral Bias on Investment Decision-Making in the Stock Market" is the researcher's primary goal. Trading experience is the primary source of thought learning for an investor, which assists an investor in realizing different trading biases and correcting them for the evolving situation. Other factors determining individual learning behavior are genuine relationships, motivation towards learning, and demographic factors, such as age, gender, and education level of the learners (Shantha et al., 2018). In social learning, impression and the need to help the investors modify their behaviors to emulate or replicate what they see other people doing. Hence, there are prospects of organizational change or modification of biased, prejudiced views about stock trading. Events in the stock market that catch their attention impact investors even if they are unaware of the possibility of favorable future returns on their investments (Barber & Odean, 2000). According to Jagonggo and Mutswenje (2014), investors' emotional tendencies, cognitive processes, perceptions, and psychological biases often influence their rationality in making financial decisions. Investors' decision-making about investments is influenced by behavioral finance, which makes them biased. Investors' inconsistent decision-making has been observed in the Sri Lankan stock market. Decisions that conventional theory, which relies on the supposition that markets are efficient and investors are always rational, cannot explain. Before 2005, the Sri Lankan stock market was considered one of the region's best-performing. However, a closer examination of the listed companies reveals ―lackluster performance, according to Arunajith (2014), the author of the Sunday Times article ―Behavioral Finance: Force Behind Capital Market Behavior. He said that the Colombo stock price index fell right after the 2005 presidential elections, which behavioral biases might explain.

In past times, CSE has drawn foreign investors. As stated in a statement released by Mr. Rajeeva Bandaranaike, CEO of CSE (2017), "The foreign activity we have observed suggests that foreign investors have been quick to recognize an

opportunity in Sri Lankan stocks. "The Securities and Exchange Commission and University of Peradeniya (2012), Dunusinghe and Ranasinghe (2015), Perera (2016), and other previous studies carried out in Sri Lanka show that investors at CSE have a significant tendency of being led to irrational decision-making due to the effect of behavioral finance, i.e., emotions and biases. The results also imply that investing bias is greatly influenced by the decisions made by investors

Overconfident investors sometimes have an overly optimistic view of their market knowledge, which causes them to overtrade and underestimate hazards. Overconfidence is a strong psychological result and is thought to be a major cause of market anomalies. This behavior could affect individual Colombo Stock Exchange investing decisions, leading to poorly diversified portfolios and yielding lower returns. Though an overconfident person has a high subjective probability, Kyle and Wang (1997) contend that overconfident people trade more than rational investors and anticipate more significant returns on their investments as well as positive outcomes and return on investment.

Loss-averse investors are more afraid of losses than they are of gains. This prejudice may cause investors to act risk-averse and make cautious decisions, affecting the variety of investments and risk levels on the Colombo Stock Exchange. Representativeness is "the extent to which the circumstances and examples mirror the population" (De Bondt & Thaler, 1995). Representative bias might cause investors to rely on past experiences or stereotypes, distorting their perception. Their preference for particular stock types based on past performance could be influenced by this bias, which could impact their portfolio makeup and investing choices on the CSE. The representativeness heuristic illustrates how people relate to probabilities and similarities, leading to the disregard of important information (Lagnado & Sloman, 2004).

Investors prone to availability bias might place a high value on readily available information, possibly ignoring more in-depth assessments. Since investor preferences are determined by accessible information, unrelated information might occasionally impact an investment decision. Typically, investors who fall victim to this prejudice buy local companies and favor stocks that specialists have assessed. This bias may affect judgments made in response to current events or news, affecting how investors on the Colombo Stock Exchange perceive risk and return.

The literature review suggests conflicting findings. Some studies indicate a positive relationship between behavioral biases and investment decisions, while others show a negative connection. This study investigates the influence of four specific behavioral biases on individual investment decision-making. The biases under scrutiny include:

2.1 Over Confidence

Overconfident individuals in the financial domain, characterized by excessive self-assurance and a tendency to overlook investment risks, form a distinct group affected by this bias (Rehan & Chhapra, 2017; Ferreira & Dickason, 2023).. These investors are prone to frequent and excessive trading, display a reaction to public information, and overreact to private cues (Kumar & Goyal, 2015). This bias manifest when individuals overestimate their skills and information. Overestimation, over-placement, and over-precision are critical traits of those affected by overconfidence bias, as they tend to focus on their abilities, perceive themselves as superior, and exhibit excessive confidence in their judgments, often neglecting risk factors (Moore & Healy, 2008).

Various studies highlight the detrimental impact of confirmation and overconfidence on investors' returns (Park et al., 2013). Overconfident investors, driven by a belief in their abilities, engage in excessive trading, resulting in lower returns than their counterparts (Trinugroho, 2011). The adverse effects of overconfidence extend to investment-related choices and overall performance in the stock market, as observed in the context of Sri Lanka, the S&P 500, the Nairobi Stock Exchange, and the Tehran Stock Exchange. Overconfidence bias negatively influences rational decision-making, leading overconfident investors to make inappropriate or risky investment choices (Waweru et al., 2008). Empirical research on the Islamabad Stock Exchange Qadri and Shabbir (2014) indicates a substantial positive effect of overconfidence and the illusion of control on investor decisions. These findings emphasize overconfidence bias's pervasive and detrimental influence on investors' financial decisions and market participation.

2.2 Availability Bias

The availability bias significantly influences perceptions of market efficiency. This bias, rooted in the ease with which relevant information comes to mind, leads people to form "systematic biases," causing an overestimation of the likelihood of events repeating (Kahneman & Tversky, 1979).. In risky situations, individuals employ the availability strategy to minimize risk, negatively impacting decision-making and contributing to market inefficiency (Keller et al., 2021). The availability heuristic becomes evident when people, influenced by dramatically bad news, overestimate the probability of its recurrence (Clark & Zygmunt, 2014). This bias hamper individual investment choices in stocks and contributes to inefficient stock markets. Various studies, including one on the Islamabad stock exchange, establish a positive relationship between availability bias and investment decisions, indicating that this bias improves returns for individual investors (Ikram, 2016).As outlined by Brahmana et al. (2012), the availability heuristic influences decision-makers who base the frequency of events on their

availability and ease of recall. Those affected by this heuristic often fail to diversify their investment portfolio, relying on accessible options rather than conducting thorough analyses. This tendency restricts their investment opportunities and leads to suboptimal decisions. Decision-makers succumb to availability bias when only considering immediately available options. The knowledge gained by stock market decision-makers influences their choices (Haley & Stumpf, 1989), and investors, evaluating their cost of money during changes, exhibit fluctuating preferences based on available information (Modigliani & Miller, 1958). The impact of specific patterns or irrelevant information on investment decisions is noted, with the latter negatively affecting decision-making based on available information and influencing investors' risk-taking behavior (Kirchler et al., 2010)

2.3 Loss Aversion Bias

Loss aversion bias, a prominent aspect of Behavioral Finance, reflects investors' tendency to prioritize avoiding losses over pursuing gains due to a heightened fear of losses. Loss-averse investors focus more on protecting their capital and fear investment loss rather than seeking growth. Cultural values, as observed in Pakistan, influence loss aversion, with women generally being more loss-averse than men in financial decision-making (Hassan et al., 2014). Older and jobless individuals are more risk-averse in their financial choices than their younger and employed counterparts.

While some investors, due to a lack of financial knowledge or high loss aversion, resist unknown risks but accept low returns with known risks, others, described as limited risk-averse, may embrace risks for higher returns if they evaluate investments less frequently. Financial literacy can reduce loss aversion in some instances. The correlation between loss aversion, investor wealth, and revenue is significant (Gächter et al., 2007). Investors affected by loss aversion tend to make risky financial decisions to minimize losses rather than considering potential profitable investments (Ainia & Lutfi, 2018). This bias leads them to take on greater risks when potential losses are anticipated while becoming more risk-averse in the presence of possible returns. Loss aversion serves as an intermediary variable impacting the age and gender of investors, as well as their risk-taking ability (Muskaan et al., 2015). Studies on financial markets in the United States and the United Kingdom reveal a strong presence of loss aversion among investors, with increased sensitivity during bull markets compared to bear markets. Similarly, Kenyan stock market investors demonstrate a significant impact of framing effect and loss aversion, influencing choices based on problem

presentation, where market losses hold more sway than gains (Mbaluka et al., 2012).

2.4 Representative Bias

The impact of representativeness bias on individual investors at the Romanian stock exchange suggests that this bias positively influenced investment decisions, ultimately enhancing returns. (Irshad, Badshah, & Hakam, 2016) also found a favorable link between representativeness bias and individual investors' decision outcomes. However, dissenting opinions argue that representativeness bias can lead to trading mistakes and irrational behavior (Ikram, 2016). Waweru et al. (2014) observed that representativeness bias affected institutional investors on the Nairobi Stock Exchange. Chinese investors and companies engaging in poor investments due to representativeness bias were also documented (Chen et al., 2004). The representative bias involves drawing conclusions based on a small sample, leading investors to make decisions akin to past winners. Representativeness bias influences forecasting processes, with investors reacting strongly to certain types of information.

However, studies on these biases present mixed results, with some experimental and few utilizing real-time stock market data. Notably, the overreaction hypothesis demonstrates a representative bias in the market, where investors act irrationally and overlook the Probability rule (Bondt et al., 2015).

3 Hypothesis

3.1 Overconfident Positive Decision-making

Based on trade frequency, bid spread, and past knowledge, investors seem overly confident in their investments (R-Squared=0.501). A significant positive link (p-value = 0.006) exists between overconfidence and individual investment decisions (Joan, Tabitha, 2016). Overconfidence bias, as outlined by Risman et al. (2023), refers to investors making investment decisions based on an exaggerated trust in their knowledge and predictions, showcasing a person's belief in their competence. Shefrin (2002) notes that individuals with excessive confidence often perceive themselves as more capable than they truly are, indicating a lack of understanding of their abilities and knowledge limits. This aligns with studies by Waweru (2008), Qureshi et al. (2012), Bashir et al. (2013), Qadri and Shabbir (2013), Broihanne et al. (2014), Bakar and Yi (2016), Khan et al. (2017), Raut et al. (2018), Pahlevi and Oktaviani (2018) and Mahanthe and Sugathadasa (2019) highlighting a consistent Positive correlation between overconfidence bias and investment decisions. Consequently, the hypothesis can be stated as follows:

H1: Overconfidence is significantly and positively associated with Individual Decision Making.

This recommends using strong business expertise, analyzing market stats, and considering economic indicators rather than relying on gut feelings for investment choices.

3.2 Loss Aversion positive decision-making

Kahneman et al. (1991) found that loss aversion bias influences investors into making irrational investment decisions. Female investors have more loss aversion bias than male investors (Hassan et al., 2014; Blavatskyy & Pogrebna, 2008). There is a significant positive relationship between loss aversion bias and investment decisions (Lather et al., 2020; Lim, 2012; Khan, 2017).

H2: Loss Aversion is Significantly and positively associated with Individual Decision Making.

3.3 Representative positive decision-making

Moosa and Ramiah (2017) observe that individuals often display anger, with their reactions being scrutinized. Representativeness bias offers insight into why people react strongly, attributing it to a combination of past experiences and a triggering event. This behavioral trait is evident in the stock market, as highlighted by Waweru et al. (2014), Badshah et al. (2016), Raut et al. (2018), and Islam (2012). This rationale leads to the third hypothesis**:**

H3: Representative bias Significantly and positively associated with Individual Decision Making.

3.4 Availability of Positive Decision-making

Moosa and Ramiah (2017) observe that individuals often display anger, with their reactions being scrutinized. Representativeness bias offers insight into why people react strongly, attributing it to a combination of past experiences and a triggering event. This behavioral trait is evident in the stock market, as highlighted by Waweru et al. (2014), Badshah et al. (2016), Raut et al. (2018), and Islam (2012). This rationale leads to the third hypothesis:

H3: Representative bias Significantly and positively associated with Individual Decision Making.

3.5 Model Specification and Estimation Methodology

Model Specification

$IDM = \alpha + \beta 1OC + \beta 2AB + \beta 3LA + \beta 4RB + \varepsilon$

Where,

IDM = Investment Decision Making

OC = Overconfidence

AB = Availability Bias
LA = Loss Aversion
RB = Representative Bias
α = Constant
ε = Error Term

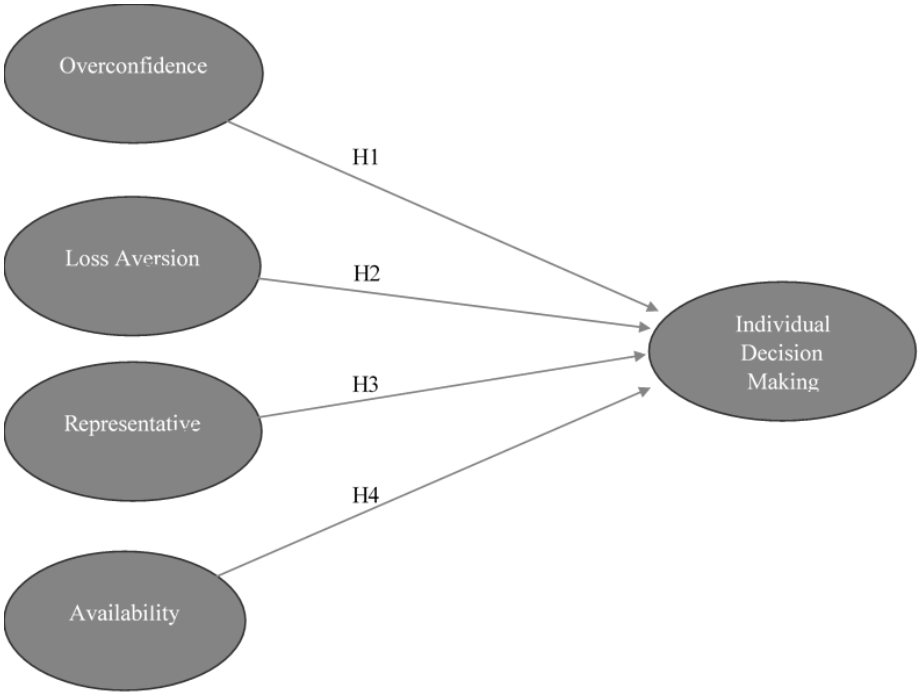

Figure 1: Conceptual framework
Sources: Developed by the researcher

4 Methodology

The study adopts a quantitative research method using cross-sectional data for analysis, aligning with a positivist philosophy and deductive reasoning to achieve its research objectives. A descriptive study design is employed to understand the characteristics of certain groups, such as sex, age, and investment frequency. The survey questions measuring factors determining investors' biases in individual decision-making were sourced from previous Sri Lankan studies (Rohana & Kawshala, 2021) and measured using a five-point Likert scale questionnaire, with data analyzed through SPSS 24.

The population for this study comprises all individual investors involved in decision-making on the Colombo Stock Exchange, with the sample frame being a list or database of these investors in the Colombo area. The sample size for the study is 144, determined after filtering out 18 respondents who did not invest in

shares from the initial 162 responses collected via Google Forms in June 2023, using simple random sampling to ensure every investor had an equal chance of being selected and achieving a response rate of over 80%, with the final sample representing both genders.

5 Data Analysis

Among the investors surveyed, 59% (85) were aged 18 to 25, 22.2% (32) were aged 26 to 35, 12.5% (18) were aged 46 to 55, and the remaining 6.3% (9) were over 56 years old based on Table 1. In Table 2, 64.6% (93 responses) were male investors, while 35.4% (51 responses) were female, with males showing a higher propensity for investing in the Colombo Stock Exchange (CSE). Table 3 reveals that out of 144 responders, 1.4% invest daily, 27.8% weekly, 54.9% monthly, and 16% annually, with monthly investments prevalent due to regular income streams. Daily and weekly investors are primarily entrepreneurs.

Table 1: Age Distribution among Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	85	59	59	59
	26-35	32	22.2	22.2	81.3
	46-55	18	12.5	12.5	93.8
	> 56	9	6.3	6.3	100
	Total	**144**	**100**	**100**	

Sources: Developed by the researcher (primary data)

Table 2: Gender Distribution among Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	93	64.6	64.6	64.6
	Female	51	35.4	35.4	100.0
	Total	144	100.0	100.0	

Source: Developed by the researcher (primary data)

Table 3. Investment Decision-Making Frequency among Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Daily	2	1.4	1.4	1.4
	Weekly	40	27.8	27.8	29.2
	Monthly	79	54.9	54.9	84.0
	Annually	23	16.0	16.0	100.0
	Total	144	100.0	100.0	

Source: Developed by the researcher (primary data).

5.1 Reliability Test

The reliability test results (Table 4) show a Cronbach Alpha value of 0.762, indicating the scale's reliability as it surpasses the significant threshold of 0.6.

Table 4: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
0.762	0.740	5

Source: Developed by the researcher (primary data).

5.2 Correlation Analysis

The correlation analysis reveals significant associations between various biases and individual investment decision-making. Availability bias exhibits a moderate positive correlation (R=0.635) and a statistically significant relationship ($p<0.01$) with investment decisions. Loss aversion bias also displays a positive association (R=0.687) with significance at the 99% confidence level. Representative bias and overconfident bias similarly show positive correlations, with respective R values of 0.653 and 0.672, both significant at $p<0.01$. Moreover, availability bias correlates moderately positively with loss aversion bias (R=0.607) and representative bias (R=0.564) and positively with overconfident bias (R=0.506), all significant at the 99% confidence level. Loss aversion bias additionally correlates moderately positively with overconfident bias (R=0.558) and representative bias (R=0.568), both significant at $p<0.01$. These findings suggest that biases such as availability, loss aversion, and representative and overconfident biases play significant roles in shaping individual investment decisions.

Table 5. Pearson Correlation Analysis

Correlation Matrix						
		Availability Bias	**Loss Aversion Bias**	**Representative Bias**	**Over Confidence Bias**	**Individual Decision Making**
Availability Bias	Pearson Correlation	1				
	Sig (2- tailed)					
	N	144				
Loss Aversion Bias	Pearson Correlation	.607**	1			
	Sig (2- tailed)	.000				
	N	144	144			
Representative Bias	Pearson Correlation	.564**	.604**	1		
	Sig (2- tailed)	.000	.000			
	N	144	144	144		
Over Confidence Bias	Pearson Correlation	.506**	.558**	.568**	1	
	Sig (2- tailed)	.000	.000	.000		
	N	144	144	144	144	
Individual Decision Making	Pearson Correlation	.635**	.687**	.653**	.672**	1
	Sig (2- tailed)	.000	.000	.000	.000	
	N	144	144	144	144	144

** Correlation is significant at the 0.01 level (2-tailed).

Source: Developed by the researcher (primary data)

5.3 Model Summary

Regression analysis, a statistical tool, examines relationships between variables. This study assessed the impact of investment biases on individual decisions regarding listed company shares. The R-squared value of 0.651 indicates that 65.1% of the variation in decision-making can be explained by biases jointly. Other variables may account for the remaining 34.9%.

Table 6. Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of The Estimate**
1	.807[a]	0.651	0.641	0.20467

Predictors: (constant), Overconfidence, Availability, Representative, Loss Aversion

Sources: Developed by the researcher (primary data)

5.4 Anova Results

The ANOVA analysis reveals a significant model (F = 64.864, P<0.05), indicating that four investment bias variables studied significantly influence individual investment decisions in CSE shares.

Table 7. Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	10.869	5	2.717	64.864	.000[b]
	Residual	5.823	139	0.042		
	Total	16.691	144			

a. Dependent Variable: Individual Investment Decision-Making
b. Predictors: (constant), Overconfidence, Availability, Representative, Loss Aversion

Source - Developed by the researcher (primary data)

5.4.1 Coefficients

The results indicate that a one-unit increase in Availability bias scores corresponds to a 0.232 increase in individual investment decision-making scores. Similarly, a one-unit increase in Loss aversion bias scores results in a 0.325 increase. Additionally, a one-unit increase in Representative bias leads to a decrease of 0.239 units in individual investment decision-making. Furthermore, a one-unit increase in Overconfident bias scores corresponds to a 0.35 increase in individual investment decision-making.

Table 8 : Regression Test Score, Variables in the Equation

Model	Unstandardized Coefficients				T	Sig
		B	Std. Error	Beta		
1	(Constant)	-0.071	0.101		-0.703	0.483
	Availability	0.232	0.077	0.203	3.014	0.003
	Loss Aversion	0.325	0.085	0.273	3.844	0.000
	Representative	0.239	0.081	0.203	2.929	0.004
	Overconfidence	0.35	0.076	0.302	4.621	0.000

a. Dependent Variable: Individual Investment Decision-Making

Sources: Developed by the researcher

6 Discussion

After reviewing research papers on various behavioral biases, it is found that overconfidence, availability, representativeness, and loss aversion biases significantly impact investment decision-making. These findings align with a study on the Egyptian stock market by Metawa et al. (2018), indicating that confident investors are less likely to follow herd behavior, and financially literate

individuals tend to be overconfident. Challenging overconfident beliefs by considering contrarian perspectives can lead to more balanced decision-making.

Loss aversion bias influences decision-making differently after gains and losses: after gains, individuals tend to be overconfident and make hasty decisions, while after losses, they become more cautious and seek extensive information before investing. However, excessive caution might lead to missed investment opportunities. Dollar-cost averaging is suggested to mitigate emotional biases by spreading investments over time.

Availability bias affects investment decisions, with investors preferring domestic investments due to easy access to information. Therefore, the guidance provided by financial or stock experts plays a crucial role in investors' choices. Investors should critically evaluate such guidance to minimize risks. Investors can counter availability biases and make more rational decisions by mentally simulating future events and considering alternatives. Representative bias leads investors to favor stocks with recent high returns, disregarding probability (Dhar & Kumar, 2001). Cultivating self-awareness of cognitive biases is crucial in investment decision-making.

These insights are valuable for individual investors, professionals, fund managers, and financial service providers, helping them navigate the complexities of the market and manage risks effectively.

7 Conclusion

Conventional finance advocates that investors make rational decisions, while behavioral finance contends that investors often act irrationally due to biases. However, these results contradict (Rohana & Kawshala, 2021). There will be less bargaining when there is a greater exposure to loss in a certain scenario since people are unaware of the loss (Chira et al., 2008). Overconfidence significantly influences investment decision-making, consistent with the findings of (Rohana and Kawshala, 2022; and Metawa et al., 2019) in the Egyptian stock market. However, a similar study by Bashir et al. (2013) did not find statistical significance for overconfidence bias in investment decision-making. Overconfident investors may take on too much risk, but those who are loss-averse are less willing to take on losses, affecting their risk tolerance. When combined, these biases can lead to investors becoming risk-averse when faced with possible losses but taking on high-risk positions out of overconfidence. Because of this interconnection, decision-making in the investing process can be influenced by maintaining a careful balance between perceived confidence and loss aversion.

Regarding trading in the stock market, availability bias is evident, as investors typically purchase the stocks of local businesses that they are familiar with and have easy access to information about (Bakar & Yi, 2016). This

contradicts the fundamental idea of diversification in portfolio management for optimization (Waweru et al., 2008). When people overuse and depend on readily available information, biases like these develop. Availability bias influences decisions based on easily accessible information, possibly leading to suboptimal choices. Moreover, representative bias might lead investors to view potential opportunities resembling past profitable ventures, offering a reassuring familiarity. This could boost investor involvement and drive, potentially leading to more assertive decision-making and heightened investment participation. To address biases, the study recommends strategies such as diversifying investments, consulting multiple information sources, and seeking advice from financial advisors.

This research has several limitations that future studies should address. First, the small sample size affects the results' trustworthiness and scope. Second, the study focuses solely on four behavioral biases, despite multiple behavioral factors like herding, prospect, and market factors influencing investment decisions. Third, there is a lack of literature on the relationship between behavioral biases and individual investor decision-making in the Sri Lankan context, as behavioral finance is a new field. Additionally, inefficient markets and the reluctance of key investors to share information might distort outcomes.

This research fills a knowledge gap in understanding the impact of investment bias on stock market decisions, providing valuable insights for investors, advisors, and policymakers. It contributes to the field of behavioral finance, extending its relevance to emerging markets like CSE in Sri Lanka and shedding light on the interplay between investment bias and demographic factors in decision-making. Future studies should consider larger samples and incorporate other influencing factors, such as herding, prospect, and market factors. This paper can also learn more about how risk tolerance, financial literacy, and emotional intelligence influence decision-making processes if we look into their moderating effects. The study also suggests that future research should focus on respondents from selective sectors in the Colombo Stock Exchange (CSE), such as land and property investors, the plantation and manufacturing sectors, and the banking and finance sectors. This would help to understand how behavioral factors affect investors in different sectors.

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