


Research Article

Impact of Human Behaviour on Investment Decision

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Abstract

In real life, people rarely take investment decisions in a fully rational way. Many studies over the years suggest that emotions, personal mindset, past experiences, and even the people around us push and pull our money choices in different directions. This paper looks at how human behaviour affects investment decisions in India, especially now that retail investors are entering the market in very large numbers. The study is based only on secondary data taken from trusted sources such as SEBI reports, NSE and BSE statistics, NSDL and CDSL depository data, RBI publications, AMFI updates, SBI Research reports and earlier peer-reviewed research papers. The data covers the period from 2019 to 2025, with the main focus on the post-COVID phase, since this is when retail participation in Indian markets really exploded. Behavioural finance concepts such as overconfidence, loss aversion, herding, anchoring, gambler's fallacy and regret aversion are discussed along with real numbers from the Indian market. The findings show that, even though many more people are investing today, a large number of them are still losing money. In many cases, this happens not because of a bad market, but because of small mental shortcuts and emotional reactions that investors are not even aware of. SEBI's own data, for example, shows that around 91% of individual F&O traders ended up with net losses. The paper ends with a few practical suggestions for investors, financial advisors and regulators that can help in reducing the harm caused by such behavioural biases.

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1. INTRODUCTION

For many years, classical economists believed that investors are rational. Their idea was simple: a person collects all the information available, compares the choices and then picks the option that gives the best return for the lowest possible risk. But if we look around, real-world behaviour does not really match this picture. People often make decisions based on what they feel, what they have seen in the past, what their friends are doing, or just simple mental shortcuts. This is the area where behavioural finance comes in. It mixes psychology with finance and tries to explain why investors sometimes act in ways that look irrational on paper.

The Indian financial market has changed a lot in the last few years. Between 2019 and 2024, the number of demat accounts in India jumped from around 39.3 million to more than 185 million (NSDL & CDSL, 2024). That is more than four times growth in just five years, which is huge. Mobile trading apps, easy KYC, cheap internet and zero-brokerage offers have brought millions of first-time investors into the market. This is good news for financial inclusion. But, on the other hand, it also raises a fair question — are these new investors really ready to handle the ups and downs of the market?

This paper tries to look at how human behaviour shapes investment choices. It studies common psychological biases that investors usually fall into, and supports the discussion with real data. Since the study uses only secondary data, the information is taken from government reports, market statistics and peer-reviewed research. The problem is quite clear even though investment opportunities are growing, many small investors continue to lose money. And behavioural reasons appear to be a big part of this story.

2. OBJECTIVES OF THE STUDY

The main objectives of this paper are listed below:

- To study how psychological and behavioural factors affect individual investment decisions in India.
- To identify major cognitive biases such as overconfidence, loss aversion, herding, anchoring and regret aversion, and to understand how each one shapes investor behaviour.
- To look at trends in retail investor participation, using data from SEBI, NSE, BSE and RBI.

3. LITERATURE REVIEW

A good amount of research has already been done on behavioural finance, both in India and outside. A few important studies that are closely connected with the topic of this paper are summarised below.

Awalakki and Archanna (2023)^[1]: Their work focused on how cognitive biases, emotions and herding behaviour affect investor attention and create market volatility, price bubbles and even crashes. They argued that markets are not driven only by fundamentals; psychology plays a very big role too.

Makwana (2024): This study used survey data from 375 equity investors in India and applied factor analysis and regression. The author looked at biases such as overconfidence, gambler's fallacy, loss aversion and anchoring. The conclusion was that

these biases noticeably distort rational decision-making among private investors.

Banerji, Kundu and Alam (2023)^[3]: They found that biases like herding, overconfidence and loss aversion mix with market anomalies and increase price volatility. According to them, if such biases are not handled, they can destabilise markets and create mispricing, which usually hurts retail investors the most.

Dutta and Roy (2024)^[5]: Their paper specifically dealt with loss aversion among Indian investors and how it affects portfolio decisions. They showed that loss-averse investors often exit the market too early or simply avoid equity altogether, which limits their long-term wealth creation.

SEBI Study on Equity Derivatives (FY24–FY25): This is probably the most useful secondary source for the present paper. SEBI's analysis revealed that nearly 91% of individual traders in the equity derivatives segment ended up with net losses in FY25, and the total losses of retail investors in this segment grew by about 41% to roughly Rs. 1.05 trillion. This data strongly supports the view that behavioural factors are pushing retail investors toward risky trading.

Varshini and Vinayalaxmi (2024)^[13]: Their study showed that Indian investors do consider macroeconomic factors like GDP growth, inflation and political stability while planning investments. However, they also found that emotional reactions to news, whether good or bad, often override careful analysis.

Karimi and Nasieku (2024)^[6]: Even though this research was done on the Nairobi Securities Exchange, the findings about behavioural biases increasing market volatility apply quite well to India too. It showed that reactive trading driven by herding leads to early selling or wrong holding, which is a common problem for Indian retail investors as well.

SBI Research Report (2024–25): The report highlighted that since 2021, at least 30 million new demat accounts are being opened in India every year, and around 25% of these belong to women investors. While this shows growing financial inclusion, the report also warned that many new investors do not yet have the knowledge required to deal with market risks properly.

4. RESEARCH METHODOLOGY

This paper is based completely on secondary data. Data was collected from a number of reliable and official sources to keep the study accurate and relevant.

4.1 TYPE OF RESEARCH

Descriptive and analytical research, based fully on secondary data.

4.2 DATA SOURCES

- SEBI (Securities and Exchange Board of India) annual reports, investor grievance data and F&O segment studies.
- NSE and BSE market statistics, trading volume data and demat account growth.

- NSDL and CDSL depository data on demat accounts.
- RBI household savings data and macroeconomic indicators.
- Published research journals, International Journal of Research, IJRASET, ResearchGate, PubMed/PMC articles.
- Government publications, Ministry of Finance reports, and Economic Survey of India.
- SBI Research Reports investor demographic analysis.

4.3 TOOLS OF ANALYSIS

- Percentage analysis to interpret growth in demat accounts, investor losses and so on.
- Comparative analysis comparing investor behaviour across years and segments.
- Trend analysis studying changes in market participation between 2019 and 2024-25.

- Tabular presentation, arranging secondary data in a clear structure.

4.4 Time Period

The study covers the period from 2019-20 to 2024-25, with the main focus on post-COVID investor trends.

5. Data Analysis and Interpretation

This section presents the key data that supports the arguments of the study. The figures have been collected from SEBI, NSE, NSDL, CDSL and RBI sources.

5.1 Growth of Retail Investor Participation in India

One of the most striking changes in recent years is the sharp rise in the number of demat accounts in India. The table below gives the year-wise growth.

Year	Demat Accounts (in millions)	Year-on-Year Growth (%)
2019-20	39.3	—
2020-21	55.1	40%
2021-22	89.7	63%
2022-23	114.0	27%
2023-24	151.3	33%
2024-25*	185.3	22%

Source: NSDL and CDSL Data; SBI Research (2025).

Note: *Data for 2024-25 is up to December 2024.

From the table, it is clear that the biggest jumps came during and right after the COVID-19 pandemic. People were sitting at home with not much to do, and many of them turned towards the stock market as a new option. This rush was largely emotion-driven, which is a classic example of how outside events change investor behaviour. Most of these new entrants had little experience and were pulled in by the fear of missing out (FOMO) rather than careful planning.

5.2 Retail Investor Losses in Equity Derivatives (F&O Segment)

Although retail participation has grown a lot, the actual financial outcomes for many investors tell a very different story. SEBI’s study on the equity derivatives segment shows some serious concerns.

Metric	FY 2023-24	FY 2024-25
% of retail traders making losses	91%	91%
Total net losses (individual traders)	Rs. 0.745 trillion	Rs. 1.05 trillion
Increase in losses (YoY)	—	41%
% of F&O volume driven by retail	~60%	62%

Source: SEBI Study on Equity Derivatives, 2024-25; CFA Institute Market Integrity Report, 2025.

The numbers above are quite alarming. Even though more people have started trading, the share of those who are losing money has not improved at all. In fact, total losses went up by 41% in just one year. This strongly suggests that behavioural

factors, mainly overconfidence, FOMO and herding, are pushing inexperienced investors into risky derivatives without the right understanding.

5.3 Key Behavioural Biases and Their Impact

Behavioural Bias	Description	Impact on Investment Decision
Overconfidence Bias	Investors overestimate their own knowledge or ability to predict markets	Excessive trading, low diversification, higher losses
Loss Aversion	Pain of loss is felt more than the joy of equal gain	Holding losing stocks too long; booking profits too early
Herding Behaviour	Following what others are doing without personal study	Creates asset bubbles and sudden market crashes
Anchoring Bias	Sticking to one specific price point, such as the buying price	Irrational entry/exit decisions and missed opportunities
Gambler’s Fallacy	Believing that past patterns will repeat in the future	Wrong bets based only on recent trends
Regret Aversion	Avoiding decisions out of fear of regretting later	Inaction; staying in cash even during good market periods

Source: Compiled from Makwana (2024), Banerji *et al.* (2023)^[3], SEBI and various behavioural finance studies.

5.4 Mutual Fund Participation and Changing Investor Patterns

Not all behavioural patterns are negative. There is also a clear shift towards more disciplined investing through mutual funds

and SIPs (Systematic Investment Plans). According to AMFI data, mutual fund net inflows in FY2023-24 were around Rs. 5.1 lakh crore (close to USD 61 billion), and the assets under management grew by 34% the highest level since FY2016-17.

This shows that a growing section of investors is becoming more patient and goal-oriented in their approach.

Interestingly, a Motilal Oswal report mentioned that younger investors (below 35 years) are now the fastest-growing group in

the capital markets. This group is more tech-savvy and open to learning, but at the same time, it is also more likely to fall for social-media-driven herding and FOMO.

Category	Key Data / Finding	Implication
Mutual fund net inflows (FY2023–24)	Rs. 5.1 lakh crore (approx. USD 61 billion) — Source: AMFI	Strong and growing interest in structured investing
AUM growth rate	34% — highest since FY2016–17	Investor confidence and market depth increasing
Investment vehicle	SIPs (Systematic Investment Plans)	Promotes disciplined, goal-oriented behaviour
Fastest-growing investor group	Investors below 35 years — Source: Motilal Oswal	Youth driving capital market expansion
Positive traits (young investors)	Tech-savvy, open to learning, growth-oriented	Better adoption of digital investment platforms
Risk traits (young investors)	Prone to social-media-driven herding and FOMO	Susceptible to irrational investment decisions

Sources: AMFI (FY2023–24 data); Motilal Oswal Capital Markets Report.

6. FINDINGS

Based on the data analysis and the literature review, the following key findings emerge:

- India's retail investor base has grown sharply from 39.3 million demat accounts in 2019 to over 185 million by the end of 2024. This more than fourfold rise was mainly driven by the COVID-19 period and the spread of digital trading platforms.
- Despite this growing participation, the quality of investment decisions has not improved in the same proportion. SEBI data shows that 91% of individual traders in equity derivatives kept making losses in both FY24 and FY25.
- Net losses of individual F&O traders widened by 41% to about Rs. 1.05 trillion in FY25, suggesting that the real problem is behavioural, not the lack of opportunity.
- Overconfidence bias is very common, especially among younger and newer investors who feel confident after a few winning trades and start taking on too much risk.
- Loss aversion makes many investors hold losing stocks far too long, hoping for a recovery that may never come, while quickly selling profitable ones to “lock in gains”.
- Herding behaviour is a major reason behind IPO oversubscriptions and speculative trading. For example, Zomato's IPO was subscribed 71.7 times its offer, mostly because of public excitement and social media buzz.
- Financial literacy is still a big challenge. The NSE Market Pulse report pointed out that states like Bihar and Jharkhand lag behind in retail participation by as much as 73% compared to western states reflecting both awareness and income gaps.
- Mutual fund SIP investments show a more positive behavioural trend disciplined, regular investing that avoids market-timing mistakes. Mutual fund AUM grew 34% in FY24, showing growing financial maturity in part of the investor population.
- Women investors are a rising group about 25% of new demat accounts are opened by women according to SBI Research (2025), though they often show more conservative and risk-averse behaviour than male investors.
- Home bias (preferring domestic or familiar investments) limits portfolio diversification among Indian investors, as noted by Awalakki & Archanna (2024) [2], exposing them to concentrated risks.

7. CONCLUSION

It seems fairly clear from this study that human behaviour plays a very large role in shaping investment decisions in India. The data paints an interesting but slightly worrying picture — more people than ever before are investing in markets, yet most of them are not getting good financial outcomes. The gap between participation and profitability is mostly explained by psychological biases that block rational decision-making.

Behavioural finance has given a useful framework to understand why this happens. Biases like overconfidence, loss aversion, herding and anchoring are not really personal failures they are deeply human tendencies that even experienced investors face. The difference is that experienced investors usually have systems and discipline in place to handle these tendencies, while beginners do not.

India's massive retail investor expansion brings both opportunity and risk together. On the bright side, more people are building wealth through capital markets. On the other side, many newcomers — often guided by social media tips, peer pressure or simple curiosity — are taking uninformed decisions and losing big amounts of money. So there is a clear need for focused action on financial education, investor awareness and stronger regulation. The future of retail investing in India depends not only on market growth, but also on how well investors learn to understand and control their own behaviour.

8. LIMITATIONS OF THE STUDY

- The study uses only secondary data. No primary survey or direct interview was conducted, which limits the ability to capture real-time investor sentiment.
- Data availability is uneven across regions and income groups. It is difficult to find detailed behavioural data specifically for rural or semi-urban investors.
- Behavioural biases are often unconscious, and self-reported data (where available) may not fully reflect actual investment decisions.
- The study covers a fixed time period from 2019 to 2025. Market conditions and investor behaviour can change quickly, so some findings may become outdated soon.
- A few international studies referred to in the literature review come from different economic contexts, and may not apply fully to the Indian situation.

9. SUGGESTIONS AND RECOMMENDATIONS

- SEBI and stock exchanges should make financial literacy programmes more strict and compulsory for first-time investors, particularly those who open demat accounts through online platforms.
- Brokerage platforms and fintech apps can build small behavioural nudges into their interface like showing past trading history, total losses and risk warnings before large or frequent trades.
- Schools and colleges should add basic personal finance and investment topics to their syllabus, so that the next generation enters the market with better preparation.
- Investors should be encouraged to follow a simple written Investment Policy Statement (IPS) that defines their goals, risk tolerance and rules for buying or selling. Such a document can reduce emotional decisions.
- Regulatory bodies should think about stricter disclosure rules for social media influencers, or “finfluencers”, who give investment tips. In recent years they have become a major reason behind herding.
- Further research can be done using primary data to capture changing behavioural patterns, especially among younger investors who are now the fastest-growing segment.
- Financial advisors and wealth managers should be trained to identify and handle client biases as part of their advisory work, and not focus only on asset allocation.

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