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A STUDY ON BEHAVIOURAL FINANCE ON WEALTH MANAGEMENT DECISIONS

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Abstract:

This research study examines the impact of behavioral finance on individual investors' wealth management decisions. While traditional financial theories assume that investors act rationally, practical observations show that emotions and psychological biases significantly influence financial behavior. Factors such as loss aversion, overconfidence, and herd behavior often affect investment choices, risk tolerance, and long-term financial planning. The study is based on primary data collected from 100 individual investors through a structured questionnaire. The findings indicate that many investors are influenced by emotions and market trends when making investment decisions, and that a majority are sensitive to potential losses. The research highlights the importance of understanding investor psychology in designing effective wealth management strategies. Overall, the study concludes that behavioral biases play a crucial role in shaping investment decisions and financial outcomes.

Keywords: *Behavioral Finance, Wealth Management,,Investor Psychology, Behavioral Biases, Investment Decision-Making*

Introduction:

Behavioral finance is a field of study that explains how psychological factors and emotions influence financial decisions. In traditional finance theory, investors are assumed to be rational and logical while making investment decisions. However, in real life, people are often influenced by emotions such as fear, greed, overconfidence, and peer pressure. These emotions directly affect decisions related to saving, investing, and managing wealth. In wealth management, understanding investor behavior becomes very important because it impacts portfolio selection, risk-taking ability, and long-term financial planning. This study focuses on examining how different behavioral biases influence the wealth management decisions of investors.

Review of Literature:

Behavioral finance challenges the traditional assumption that investors always behave rationally. Several researchers have studied how psychological factors influence investment decisions.

Kahneman and Tversky (1979) introduced Prospect Theory, which explains that individuals feel the pain of losses more strongly than the pleasure of gains. This concept of loss aversion plays a significant role in wealth management decisions.

Shefrin and Statman (1985) discussed common biases such as mental accounting, regret aversion, and overconfidence, which affect portfolio diversification and investment choices.

Barber and Odean (2001) found that overconfident investors tend to trade more frequently, which often reduces their returns due to excessive trading.

Pompian (2006) classified behavioral biases into emotional and cognitive categories and suggested that financial advisors should consider investor psychology while designing investment strategies.

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Ritter (2003) explained herd behavior, where investors follow market trends or others instead of making independent decisions. Overall, previous studies clearly show that behavioral biases significantly affect wealth management decisions.

Research Methodology:

1. **Objectives of the Study:**

The main objectives of this study are:

- To understand the concept of behavioral finance in wealth management.
- To identify major behavioral biases such as loss aversion, overconfidence, and herd behavior.
- To analyze how psychological factors influence investment decisions.
- To examine investors' risk perception and investment preferences.
- To study the impact of behavioral biases on long-term financial planning.

2. **Scope of the Study:**

The study focuses on individual investors and their behavior in managing personal wealth. It examines how factors like emotions, risk tolerance, and market perception influence investment decisions. The research is limited to selected respondents and aims to understand their financial decision-making patterns. The findings may help wealth managers and financial advisors design better investment strategies by considering investor psychology.

3. **Significance of the Study:**

This study is important because it highlights how emotions and psychological biases affect financial decisions. It helps investors become more aware of their behavior and improve their decision-making process. It is also useful for financial advisors to understand client behavior while planning investment strategies. Academically, the study connects behavioral finance theories with practical wealth management decisions.

4. **Limitations of the Study:**

The study has certain limitations. It is based on a limited sample size, which may not fully represent the entire investor population. The use of convenience sampling may create bias in responses. The results depend on the honesty and understanding of the respondents. Due to time constraints, the study covers only selected behavioral factors and may not include all aspects affecting wealth management decisions.

5. **Data Collection:**

For this study, primary data was collected through a structured questionnaire from 100 individual investors using the convenience sampling method. The questionnaire included questions related to investment habits, risk tolerance, and behavioral factors influencing financial decisions. After analyzing the responses, it was found that 74% of respondents invest regularly. Around 38% prefer mutual funds as their primary investment option, and 48% have a moderate risk tolerance. The findings also showed that 70% of respondents are more sensitive to losses than gains, indicating loss aversion, while 56% admitted that market trends and others' opinions influence their decisions. Additionally, 66% of respondents stated that they have a long-term financial plan. The data was analyzed using percentage analysis to understand the role of behavioral biases in wealth management decisions

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Data Analysis:

Q.No	Question	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5
Q1	Gender	Male – 79 (49.4%)	Female – 81 (50.6%)	–	–	–
Q2	Age Group	18–20 – 53 (33.1%)	21–25 – 49 (30.6%)	26–30 – 28 (17.5%)	30+ – 30 (18.8%)	–
Q3	Education	HSC – 56 (35%)	UG – 62 (39%)	PG – 23 (14%)	Professional – 19 (12%)	–
Q4	Occupation	Student – 52 (32.5%)	Private – 29 (18.1%)	Govt – 20 (12.5%)	Business – 22 (13.8%)	Retired – 37 (23.1%)
Q5	Income	0–2L – 53 (33.1%)	3–5L – 45 (28.1%)	6–10L – 25 (15.6%)	11–15L – 19 (11.9%)	16L+ – 18 (11.3%)
Q6	Invest Savings	Yes – 65 (40.6%)	Maybe – 70 (43.8%)	No – 25 (15.6%)	–	–
Q7	Long-Term Goals	SA – 50 (31.3%)	A – 54 (33.8%)	N – 34 (21.3%)	D – 12 (7.5%)	SD – 10 (6.3%)
Q8	Portfolio Monitoring	SA – 43 (26.9%)	A – 32 (20.0%)	N – 21 (13.1%)	D – 26 (16.2%)	SD – 22 (13.7%)
Q9	Professional Advice	Yes – 57 (35.6%)	No – 27 (16.9%)	Maybe – 76 (47.5%)	–	–
Q10	Financial Knowledge	SA – 39 (24.4%)	A – 61 (38.1%)	N – 17 (10.6%)	D – 23 (14.4%)	SD – 20 (12.5%)
Q11	Investor Psychology	SA – 44 (27.5%)	A – 44 (27.5%)	N – 29 (18.1%)	D – 17 (10.6%)	SD – 26 (16.2%)
Q12	Prefer Safer Option	SA – 17 (10.6%)	A – 33 (20.6%)	N – 44 (27.5%)	D – 45 (28.1%)	SD – 21 (13.1%)
Q13	Anxiety (Short-Term Loss)	SA – 43 (26.9%)	A – 45 (28.1%)	N – 19 (11.9%)	D – 20 (12.5%)	SD – 24 (15.0%)
Q14	Change Due to Market	Yes – 47 (29.4%)	No – 37 (23.1%)	Maybe – 76 (47.5%)	–	–
Q15	Rely on Past Performance	SA – 47 (29.4%)	A – 42 (26.3%)	N – 21 (13.1%)	D – 26 (16.2%)	SD – 24 (15.0%)
Q16	Avoid Selling at Loss	SA – 38 (23.8%)	A – 43 (26.9%)	N – 26 (16.3%)	D – 29 (18.1%)	SD – 24 (15.0%)
Q17	Overconfidence	SA – 59 (36.9%)	A – 18 (11.2%)	N – 39 (24.4%)	D – 20 (12.5%)	SD – 24 (15.0%)

The table summarizes the demographic and behavioral profile of 160 respondents. The sample is almost equally divided by gender (49.4% male and 50.6% female). A majority (63.7%) fall within the 18–25 age group, indicating that the study primarily represents young investors. Educationally, 39% are undergraduates and 35% have completed HSC, while 32.5% are students by occupation. Additionally, 61.2% earn below ₹5 lakhs annually, suggesting limited income levels that may influence risk-taking ability.

In terms of investment habits, 40.6% respondents actively invest their savings and 43.8% stated “Maybe,” showing moderate participation in investment activities. A significant 65.1% (31.3% strongly agree + 33.8% agree) invest with clearly defined long-term financial goals, reflecting structured financial planning. However, behavioral tendencies are evident—55% (26.9% + 28.1%) feel anxious about short-term losses, and 36.9% strongly agree that they are confident in making better investment decisions than others, indicating overconfidence bias. Nearly 47.5% sometimes change investment decisions based on market fluctuations, showing sensitivity to market volatility.

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Overall, the data suggests that while respondents display financial awareness and goal-oriented investing behavior, psychological factors such as loss aversion, overconfidence, and market influence significantly affect their decision-making process.

Hypothesis Testing :

"Do short-term losses in your investments make you feel anxious?"

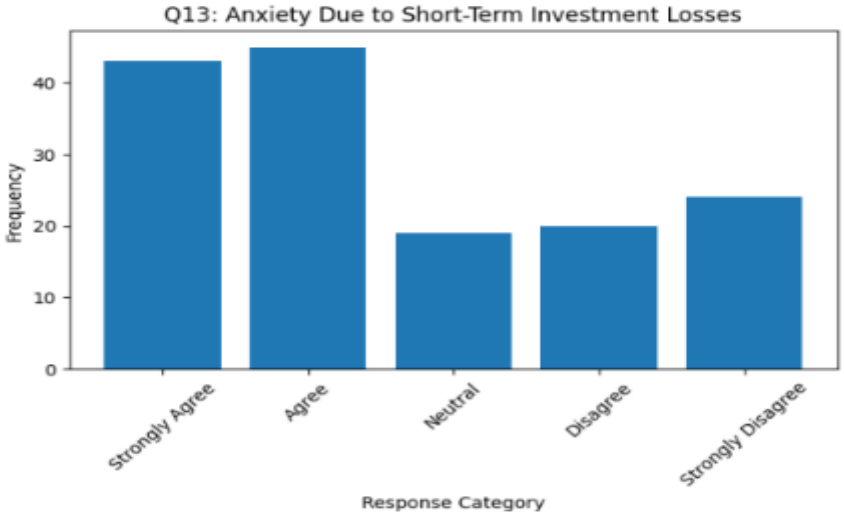

TABLE.1

Response Category	Observed (O)	Expected (E)
Strongly Agree	43	30.2
Agree	45	30.2
Neutral	19	30.2
Disagree	20	30.2
Strongly Disagree	24	30.2
Total	151	151

H_0 (Null Hypothesis): Responses are equally distributed across all categories (no significant anxiety pattern).

H_1 (Alternative Hypothesis): Responses are not equally distributed (significant anxiety pattern exists)

Finding :

Since the p-value (0.00024) is less than 0.05, we reject the null hypothesis.This indicates that responses are not equally distributed, meaning a significant proportion of investors experience anxiety due to short-term investment losses.Specifically:55% (Strongly Agree + Agree) admit feeling anxious.

This supports the presence of Loss Aversion Bias, a key concept in behavioral finance.

Conclusion:

This study examined the influence of behavioural finance on wealth management decisions, focusing on how psychological biases affect investment behavior. The findings indicate that investors are not always rational decision-makers, as assumed in traditional financial theories. Instead, factors such as overconfidence, herd behavior, loss aversion, anchoring, and emotional influences significantly shape financial choices.

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The analysis revealed that these behavioural biases often lead to suboptimal investment decisions, including excessive trading, poor portfolio diversification, and panic-driven buying or selling. Furthermore, demographic factors such as age, income level, and financial literacy were found to moderate the extent to which behavioural biases influence decision-making.

Overall, the study highlights the importance of integrating behavioural insights into wealth management practices. Financial advisors and institutions must consider psychological factors while designing investment strategies to improve decision quality and long-term financial outcomes.

Future Research Implications:

Future research may expand this study by examining behavioural biases across diverse demographic groups and geographical regions to enhance generalizability. Longitudinal studies could provide deeper insights into how investor psychology evolves over different market cycles and economic conditions. Further investigation may focus on identifying the relative impact of specific biases such as overconfidence, loss aversion, and herd behaviour on portfolio performance. Researchers can also explore the effectiveness of financial literacy programs and behavioural interventions in minimizing irrational decision-making. Additionally, future studies may analyze the growing role of fintech platforms, robo-advisory services, and artificial intelligence in mitigating behavioural distortions and improving wealth management outcomes.

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