



Investment Decisions – A Study On Behavioral Factors and Financial Well-Being

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Abstract

The research examines the extent to which financial well-being and behavioural factors impact investors' decision. Its objectives are to explore perceived financial well-being, examine behavioural factors affecting investment choices, determine the role of financial well-being on behaviour, and its mediating role. Primary and secondary data were used. Primary data was collected through a standardized questionnaire used to survey 122 individual investors using convenience and snowball sampling, and secondary data collected from journals and articles. Statistical analysis included descriptive analysis, regression, and mediation analysis. Findings showed that behavioural biases such as overconfidence and loss aversion greatly impacted investment decision, with financial well-being mediating to a certain extent. Investors attribute losses to market volatility, not bad luck, and prefer equity investment with short-term and long-term balanced approaches. While many are financially secure and confident in managing emergency needs, financial control is moderate. The research finds that there is a need for specialized financial education, particularly among Generation Z, to rectify behavioural biases, diversify investment, and develop long-term investment. The research finds that enhancing financial literacy, bias awareness, diversification, and developing a long-term investment culture is the way to optimal financial decision-making. Youth investors can have their investment confidence and ability enhanced by means of exclusive youth investment schemes, which result in enhanced financial stability and well-being.

Keywords: Investment decisions, Behavioural finance, Financial well-being.

1. Introduction

Investment choices, previously largely seen in terms of rational choice theory, are increasingly being seen through the prism of behavioural finance. People don't always make economically rational decisions; rather, they are affected by a variety of cognitive and emotional biases [1-3]. These behavioural biases—representativeness, overconfidence, gambler's fallacy, availability bias, loss aversion, regret aversion, mental accounting, and herding—can play a large role in determining how investment decisions are made. Concurrently, financial well-being has come to be recognized as an important construct capturing not only the objective financial circumstances of individuals, but also their subjective perceptions of financial security and freedom of choice. The combination of behavioural traits and

financial well-being offers a rich field for investigation, particularly in the understanding of how these factors together impact investment behaviour [4]. This paper looks into the dynamic interaction between behavioural biases and investment choices and, more specifically, the mediating function of financial well-being. While prior studies have investigated the direct effect of behavioural factors on investment habits, this paper aims to bridge the gap by investigating how financial well-being mediates the relation between behavioural biases and investment choices, at least intensifying or weakening the impact of such biases. Through the use of mediation analysis, this study helps to further the understanding of investor psychology and provides practical insights for

financial planners, policy makers, and individual investors seeking to make more balanced and informed choices.

1.1.Objectives of the Study

- To examine the perceived financial well-being of the individual investors.
- To study the behavioural factors affecting Investment decisions.
- To understand the impact of financial well-being on investment behaviour.
- To analyse how Investment decisions are mediated by financial well-being.

2. Review of Literature

Current research emphasizes the strong effect of behavioural biases and financial health in making investment choices. Anchoring and confirmation bias were found by Chauhan et al. [1] to be the most potent drivers of investment behaviour. In the same vein, Ali et al. [2] and Utari et al. [3] established that overconfidence, herding, and social influence produce instant and sometimes irrational investment decisions. Johri et al. [4] pointed out that overconfidence and availability bias lead to proactive investing, whereas conservatism handicaps long-term choices. Kapoor and Awasthi [5] discovered that financial awareness, age, and risk tolerance have more influence on the behaviour of investors than gender. Advertising and finance education played an important role in influencing millennial choices, which was evident in Dogra et al. [6] and Bhatia and Singh [7], with the mediating effect of financial behaviour. Garg et al. [8] highlighted the necessity of an integrated model of financial well-being, whereas Almansour et al. [9] and Bustani [10] highlighted the significance of risk perception, financial literacy, and self-monitoring. Srivastava and Kumar [11] supported the applicability of conventional biases such as mental accounting and anchoring. Demographics continue to play a role; Rahman and Gan [12] associated self-monitoring with good investment among Gen Y, while Lakshmi [13] and Mathew et al. [14] established that biases and well-being differ across age and marital status. She et al. [15] reaffirmed that well-being is mediated by financial behaviour between beliefs psychologically and well-being. Atmaningrum et al. [16] placed the

emphasis upon the mediating role of attitudes financial. Previously, Setyorini and Indriasari [17] mentioned peer influence prevails in millennial investment behavior. Hallale and Gadekar [18] listed herding, gambler's fallacy, and overconfidence as essential biases, and Parambil et al. [19] mentioned professionals' inclination towards secure, short-term investments. Netemeyer et al. [20] operationalized financial well-being using present stress and future security. Finally, Jaiswal and Kamil [21] concluded that gender is an important factor in determining risk tolerance and behavioural inclinations, necessitating customized advisory styles.

3. Methodology

This study adopts a quantitative research design to explore the relationship between behavioural biases, financial well-being, and investment decisions. The research utilizes both primary and secondary data sources. Primary data was collected through a structured and standardized questionnaire designed to measure behavioural factors (such as overconfidence, loss aversion, herding, etc.), perceived financial well-being, and investment behaviour. The questionnaire included closed-ended items measured on a five-point Likert scale ranging from "strongly disagree" to "strongly agree." The survey was conducted among 122 individual investors, selected using convenience and snowball sampling techniques. Participants were primarily from urban regions and included a mix of working professionals, self-employed individuals, and business owners. Secondary data was gathered through a review of existing literature including peer-reviewed journals, academic articles, and reports from credible institutions. For data analysis, statistical tools such as descriptive statistics, regression analysis, and mediation analysis using process Macro in SPSS were employed. Descriptive statistics helped summarize the data; regression analysis was used to determine the impact of behavioural biases on investment decisions, and mediation analysis tested the role of financial well-being as an intermediary variable between behavioural factors and investment behaviour (Table 1 to 3).

4. Analysis & Interpretation

Table 1 Behavioural factors affecting Investment Decisions

Statements	Mean	Std. Deviation
I tend to hold on to securities losing value waiting for better results.	3.89	1.077
My disappointment after losing money on an investment diminishes a little if others have also experienced the same loss	3.25	.950
I generally postpone my decision to sell the financial assets at a loss till the end of the financial year in order to save tax	3.47	1.054
I mostly concentrate more on positive news after my investment.	3.70	1.067
I take full control and responsibility of my portfolio performance.	3.69	1.076
I rely on my knowledge and experience to predict the direction of a financial market in advance	3.61	.992
I prefer to sell financial assets as soon as their price starts increasing.	3.52	1.077
I feel extremely disappointed if I take a contrarian position (opposite to the general trend) and lose while my friends make profits by following the crowd.	3.34	1.155
I perceive bad luck to be main reason for loss in the financial market	3.16	1.195
I prefer not to invest during inauspicious time of the year like shared or eclipse	3.19	1.229
I expect my stock to perform better in comparison with Sensex and Nifty	3.57	1.012
I prefer to invest in new venture in expectation of higher returns.	3.60	1.065
I prefer not to buy share whose immediate earning has fallen down.	3.35	1.142
I believe in the opinion of a pool of investors for profit making investment.	3.31	1.099
I prefer to invest in a stock of a company in which many of my friends and relatives invest in expectation of higher profits	3.40	1.096
I invest more after hearing some good national news in TV channels and print media	3.48	1.046
I compare the purchase price with the market price at the time of selling the asset.	3.58	.952
I usually make an investment in a company having good image (good management) in the market.	3.62	1.086
I prefer to invest in growth stock companies	3.57	1.120
I consider the profit and loss of each financial investment separately in my portfolio	3.58	.995
I prefer unrealized paper loss in my investments over realized actual loss	3.25	.992
My past investment successes make me invest more in those assets	3.51	1.062
23 I usually get emotionally attached with the stock/company after my investment and prefer to have them in my portfolio	3.34	1.057
I usually avoid or invest less on a day having a bad mood	3.42	1.059
I stand with my belief about the stock/company after the investment even if it doesn't match with others	3.47	1.006
I predict the future value of an investment through detailed analysis of its past performance	3.60	.976
I mostly consider the immediate past performance of a financial asset before taking my decision to invest.	3.49	.973

I prefer to have some investments of few reputed companies in my stock portfolio	3.61	.992
I prefer to invest in the days that witness an increase in the general index of National Stock Exchange.	3.39	.983
I prefer to sell stocks in the days that witness a decrease in the general index of National Stock Exchange.	3.54	.955
I prefer to invest in the financial assets which has been evaluated by well-known expert	3.45	1.053
Discussing my investment decisions with colleagues reduces my pressure	3.49	1.022
I prefer to invest in a stock with high trading volume	3.43	1.060
I prefer to buy the stocks if many "buy" orders were placed from the beginning of the trading session	3.27	.979
I never make any investment decision without consulting my investment advisor	3.35	1.083
I am confident of my ability to pick better financial assets than others	3.51	.947
I don't care about the performance of my investment portfolio as a whole but I care about the return of each account separately	3.30	1.028
	3.53	.911

The item "I tend to hold on to securities losing value waiting for better results" has achieved the highest mean value (M=3.89) describes that the investors wait for better results even if the securities are losing their value. The item "I perceive bad luck to be main reason for loss in the financial market" has achieved lowest mean value (M=3.16) describes that the investors attribute the loss as bad luck. The highest mean value is related to Loss aversion, where the investors experience the pain of loss more strongly than the pleasure of an equal gain. It refers to the investors as evading realization of losses, therefore

holding poorly performing investments in the hope of a turnabout in their value. They are sure that the poorly performing assets will return, despite the indications in the market. It also indicates that the investors portfolio management is inefficient and produces a detrimental effect on long-run returns. The lowest mean suggests that investors do not attribute losses to bad luck and thus reflect a realistic perception of the performance of the market. They blame losses on market volatility, individual choice, or lack of information and not on uncontrollable variables such as luck (Table 2).

Table 2 Financial Well-being

Statements	Mean	Std. Deviation
I could handle a major unexpected expense	3.92	.932
I am securing my financial future	3.47	.929
Because of my money situation, I feel like I will never have the things I want in life	3.43	1.083
I can enjoy life because of the way I'm managing my money	3.47	1.022
5. I am just getting by financially	3.58	.832
I am concerned that the money I have or will save won't last	3.26	1.104
Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month	3.31	1.092
I have money left over at the end of the month	3.59	.870
I am behind with my finances.	3.39	.932
My finances control my life.	3.25	.914

Investors' investment decisions are motivated by their financial well-being. A mean of 3.92 for "I could handle a major unexpected expense" shows that most respondents are financially secure against shocks. The confidence would result in more risk-calculated investment and long-term investment.

The lowest mean of 3.25 is on "My finances control my life," which shows the respondents are somewhat in control of their finances. The majority of them do not think finances control their lives, but there are some who are still impacted, as can be observed in the standard deviation.

Table 3 Investment Decisions

Statements	Mean	Std. Deviation
1. I expect to invest in equities (stocks/shares) and/or equity mutual funds	4.37	.815
2. I want to invest in equities (stocks/shares) and/or equity mutual funds	4.07	.864
3. I intend to invest in equities (stocks/shares) and/or equity mutual funds	4.16	.909
4. I am willing to invest in physical/traditional(Residential home) options in the future	3.75	1.025
5. I am willing to invest in non-physical (Goodwill, Patent) options in the future	3.53	1.187
6. I intend to invest in projects and/or companies that are sustainable and socially responsible.	3.75	.905
7. If the value of the investments increases, I will tend to invest more.	3.88	.932
8. If the value of the investments decreases, I will sell my financial assets.	3.48	1.046
9. I prefer short term investments over long term investments	3.66	1.119
10. I prefer long term investments over short term investments	3.46	1.214

The responses to Investment Decisions indicate that "I expect to invest in equities (stocks/shares) and/or equity mutual funds" has the highest mean (4.37), which indicates strong agreement and equity investment expectations. The majority of the respondents are keen to invest in the stock market with high-return growth investments. The sentence "If the value of the investments falls, I will sell my financial assets" has the lowest average (3.48), points to a conservative response to market fluctuations. It implies that most investors would prefer to hold onto their assets despite value losses, either as a way of delaying realization of losses or in expectation of a subsequent increase in the market. These

observations suggest that respondents prefer equity investments and are conservative when it comes to selling assets during a decline. The statements about willingness to invest in physical (Residential home) options (mean 3.57), non-physical (Goodwill, Patent) options (mean 3.53), and sustainable projects (mean 3.75) suggest respondents are slightly open to diversifying their investments. However, these options are less favoured than equities. The assertion "I prefer short term investments" has an average score of 3.66, and "I prefer long term investments" has a score of 3.46, reflecting equal investor inclinations (Table 4 & 5).

Table 4 Regression analysis of Financial Well-being & Investment Decisions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.471 ^a	.222	.216	.48880
a. Predictors: (Constant), Mean Financial Well-being				

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.189	1	8.189	34.274	<.001 ^b
	Residual	28.671	120	.239		
	Total	36.860	121			
a. Dependent Variable: Mean Investment Decisions						
b. Predictors: (Constant), Mean Financial Well-being						

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.080	.299		6.969	<.001
	Mean Financial Well-being	.499	.085	.471	5.854	<.001
a. Dependent Variable: Mean Investment Decisions						

Regression analysis shows a moderate positive correlation between investment decisions and financial well-being ($R = 0.471$, $R^2 = 0.222$). This means that 22.2% of investment decisions' variance is accounted for by financial well-being. The model is significant statistically ($F = 34.274$, $p < .001$), and the unstandardized coefficient ($B = 0.499$) indicates

that growth in financial well-being corresponds to higher investment activity. The standardized beta (0.471) and t-value (5.854, $p < .001$) confirm that this effect is significant. While financial health is an important factor, the comparatively low R^2 indicates that other factors also have an effect on investment behaviour.

Table 5 Regression analysis of Behavioral Factors & Investment Decisions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558 ^a	.312	.306	.45974
a. Predictors: (Constant), Mean Behavioural Factors				

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.497	1	11.497	54.392	<.001 ^b
	Residual	25.364	120	.211		
	Total	36.860	121			
a. Dependent Variable: Mean Investment Decisions						
b. Predictors: (Constant), Mean Behavioural Factors						

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.946	.256		7.602	<.001
	Mean Behavioural Factors	.537	.073	.558	7.375	<.001
a. Dependent Variable: Mean Investment Decisions						

A linear regression analysis revealed a moderate to high positive association ($R = 0.558$) between investment choices and behavioural variables, accounting for 31.2% of the variance ($R^2 = 0.312$). The model is significant statistically ($F = 54.392$, $p < .001$), with a very strong positive effect ($B = 0.537$,

$\beta = 0.558$, $t = 7.375$, $p < .001$). These results attest to the extent that behavioural biases can affect investment conduct, evidencing the leading contribution of psychology in financial choices (Table 6).

Table 6 Mediation Analysis

Mediation Estimates							
			95% Confidence Interval				
Effect	Estimate	SE	Lower	Upper	Z	p	% Mediation
Indirect	0.121	0.0421	0.0384	0.204	2.87	0.004	22.5
Direct	0.416	0.0783	0.2623	0.569	5.31	<.001	77.5
Total	0.537	0.0722	0.3954	0.678	7.44	<.001	100.0

Path Estimates								
					95% Confidence Interval			
			Estimate	SE	Lower	Upper	Z	p
Mean Behavioural Factors	→	Mean Financial Well-being	0.426	0.0727	0.284	0.569	5.87	<.001
Mean Financial Well-being	→	Mean Investment Decisions	0.284	0.0862	0.115	0.453	3.29	<.001
Mean Behavioural Factors	→	Mean Investment Decisions	0.416	0.0783	0.262	0.569	5.31	<.001

The mediation analysis emphasizes the position of financial well-being in the relationship between investment decisions and behavioural factors. Overall, the effect of behavioural factors on investment decisions is considerable ($\beta = 0.537$, $p < .001$), showing that behavioural characteristics highly determine investment conduct. The direct effect is still important ($\beta = 0.416$, $p < .001$), and it accounts for 77.5% of the total effect. It means that behavioural factors like overconfidence, loss aversion, or herding have a great impact on making investment decisions, even when financial well-being is included as a control. The indirect influence via financial well-being is also large ($\beta = 0.121$, $p = .004$), validating partial mediation. Financial well-being explains 22.5% of the entire effect, implying that it has a critical, though not unique, function in how behavioural biases become investment actions. Path estimates also validate this relation:

- Behavioural Factors $\rightarrow$ Financial Well-being: $\beta = 0.426$ (positive, significant)
- Financial Well-being $\rightarrow$ Investment Decisions: $\beta = 0.284$ (positive, significant)
- Behavioural Factors $\rightarrow$ Investment Decisions (direct): $\beta = 0.416$ (significant)

These results provide insight into how financial well-being partially mediates the effects of behavioural factors on investment decisions and further inform us about the psychological and financial processes involved in investor decision-making.

Conclusion

This study investigated the interaction between behavioural factors, financial well-being, and investment choice, and the mediating effect of financial well-being. The results show that financial well-being has a significant effect on investment choice, while the mediating role is played by financial well-being. More specifically, such behavioural biases as loss aversion, overconfidence, and herding have a direct impact on investment decisions, yet financial well-being is also responsible for increasing or moderating their effects. Even after controlling for financial well-being, the direct effect of behavioural factors on investment choice is pronounced, emphasizing the value of psychological characteristics in determining financial behaviour.

Financial well-being, in itself, was discovered to impact investment choice, further increasing its value in enhancing investor self-assurance and decision-making. The research also revealed that most respondents were younger, inexperienced investors with a high affinity for equity investments and a moderate interest in other asset classes. Even though they had some financial security, numerous investors reported only moderate control over their money, indicating potential to enhance budgeting, emotional control, and general financial management. Following these insights, the study suggests that targeted financial training for young investors is paramount in order to minimize behavioural biases and promote more diversified investment strategies. Encouragement of long-term investment strategies, improved financial discipline, and emotional control will enable investors to make more informed and confident investment decisions.

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