Survey of the Behavioural Factors Influencing Investment Decisions and Performance: The Case of Individual Investors at the Colombo Stock Exchange

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In finance, it is assumed that the individual investors are rational, but in reality their judgments and decision making lead towards irrational decision making causing market inefficiency. This is mainly due to the fact that individuals have psychological biases which drive their trading behaviour in themselves away from rationality. The behavioural finance shows the impact of such behavioural biases namely, herding, heuristics, prospect, market and contextual on the behaviour of individual investors. The ignorance of individual investors' role in the stock market on price movements appear to be influenced by certain psychological biases, it is imperative to identify the factors most influential to individual trading behaviour and performance. Thus, this study aims at examining whether some behavioural and contextual factors influence on individual investor behaviour in the Colombo Stock Exchange (CSE) and if it is so which factors persuade most. The data were collected through a structured questionnaire from 164 sample respondents and gathered data were analyzed using mean scores, percentages, factor analysis and multivariate regression techniques.

The results show that the individual investors in the CSE are influenced by five behavioral biases: Herding, Heuristics, Prospect, Market and contextual in which each dimension includes certain behavioural variables. The mean scores demonstrate a high impact of each variable on investment decisions of individual investors which suggests that all the factors of behavioural finance and contextual factors have high impacts on individuals' investment decisions at the CSE. The multivariate analysis demonstrates that among the five underlying behavioural biases; Heuristics, Prospect, Market, Herding and Contextual, only four factors are found to be influenced on investment performance. The herding, heuristics, market and contextual factors have to be influenced positively on individual investors' performance. Although the prospect variables (two sub groups; regret aversion and loss aversion) are supposed to have a positive impact on investment performance, it is found that regret aversion is to be influenced positively while in contrast negative impact existed between loss aversion and investment performance. It can be concluded that individual investors do not act rationally all the time when making investment decisions and confirm the presence of psychological biases among Sri Lankan individual investors.

Key words: *Behavioral Finance, Colombo Stock Exchange, Individual Investors, Investment Performance, Psychological Biases.*