

Behavioural Finance and Consumer Decision-Making In Investment Products

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ABSTRACT

This thesis explores how behavioral finance principles influence individual investment decisions, challenging the traditional notion that investors are fully rational. It highlights the impact of psychological biases such as loss aversion, overconfidence, mental accounting, and herd behavior on consumer preferences for products like mutual funds, SIPs, insurance, and stocks.

The study is based on primary data collected from 50 digitally active young Indian investors (mainly aged 18–35), who are increasingly turning to digital media and social networks for investment advice. Results show that emotional and social triggers, rather than purely logical analysis, often guide investment behavior.

Keywords: behavioural finance, consumer decision

I. INTRODUCTION

In the digital age, the landscape of financial decision-making has transformed. While traditional theories like the Efficient Market Hypothesis (EMH) assume rational investor behavior, behavioral finance integrates psychology and sociology to explain why real-life decisions often deviate from logic. Influences such as social media, peer recommendations, and financial influencers ("finfluencers") now shape perceptions of risk and return. Young retail investors, especially Millennials and Gen Z, are most affected, as they rely more on informal sources like YouTube, Instagram, or Telegram than certified financial advisors. This shift necessitates a deeper understanding of how and why consumers make certain financial choices, beyond just numbers.

Need for the Study

The study addresses emerging trends where investors increasingly consume financial content digitally, replacing formal advice with influencer opinions and crowd-sourced tips. Word-of-mouth has shifted from personal discussions to Reddit threads, finance YouTubers, and Instagram reels. Moreover, investors

now seek emotional satisfaction, ethical alignment (e.g., ESG funds), and transparency in products—often guided by biases and heuristics. The growing dependency on influencers calls for academic scrutiny to assess how such behavior affects long-term financial outcomes.

II. LITERATURE REVIEW

Kahneman & Tversky (1979): Introduced Prospect Theory, showing that individuals weigh losses more than gains—a core idea behind loss aversion.

Barberis, Shleifer & Vishny (1998): Outlined how biases like representativeness and conservatism impact market behavior.

Ricciardi & Simon (2000): Described how mental shortcuts or heuristics influence investment decisions.

Meir Statman (2010): Discussed how emotions like regret, fear, and hope significantly affect market sentiment.

Pompian & Chandrashekhar (2022): Focused on Indian investors, emphasizing the role of anchoring, risk tolerance, and education level. These works provide a theoretical foundation for studying the behavioral aspects of financial decision-making.

Research Objectives

- Examine behavioral biases (e.g., overconfidence, loss aversion, herd behavior) and their effect on investment decisions.
- Analyze demographic influences such as age, education, income, and experience on behavioral traits.
- Assess the role of emotions and cognitive shortcuts in risk perception and product choice.
- Study how financial literacy and product awareness reduce the impact of psychological biases.
- Understand the influence of digital platforms and social behavior in shaping investment patterns.

III. RESEARCH METHODOLOGY

Design: Descriptive with exploratory elements.

Data Collection: Primary data via a structured questionnaire (distributed both online and offline).

Sample: 50 participants, primarily young investors (20–45 years old), gathered through convenience sampling via WhatsApp, LinkedIn, Telegram, and university campus interactions.

Key Themes in Questionnaire:

- Investment experience and goals
- Exposure to behavioral biases
- Risk tolerance and confidence levels
- Sources of investment advice
- Social media and influencer impact

Scales used include nominal, ordinal, and 5-point Likert scales to capture psychological tendencies and their intensity.

IV. DATA ANALYSIS

Investment Awareness

Most respondents are familiar with common investment products—especially mutual funds and SIPs. 85% have already invested or plan to in the near future.

Behavioral Biases Identified

Loss Aversion: A majority avoid high-return products (like stocks) due to fear of loss.

Herd Behavior: 60% of respondents invest based on peer or influencer advice.

- **Mental Accounting:** Investors allocate funds irrationally—e.g., PPF for retirement, SIP for vacation—without an overall strategy.
- **Overconfidence:** Common among early investors, particularly males, who overrate their knowledge and skip expert consultation.

Social and Influencer Impact

- 88% follow at least one finance influencer on YouTube, Instagram, or LinkedIn.
- Influencers influence platform choice (Groww, Zerodha) and investment product selection through simplified content and relatable storytelling.
- Trust is built more on relatability and communication style than on credentials or follower count.

Subconscious Influence Even self-reported — rational investors || showed patterns of digital influence. Brand trust is often —transferred || from influencer to product without rigorous evaluation—highlighting the power of social proof and digital presence.

V. RECOMMENDATIONS

Recommendations and Managerial Implications

Strategic Recommendations

- Partner with relatable financial influencers: Choose micro-influencers who share real stories and financial journeys.
- Use visual and short-form content: Reels and infographics can demystify complex concepts and counter information overload.
- Leverage influencers for education—not just promotion: Content should be transparent, goal-based, and explain risks.
- Build long-term influencer relationships: Consistency improves trust and reduces anchoring bias.
- Combat financial fatigue: Use creative content (vlogs, no-spend challenges, goal-oriented stories) to re-engage users.
- Increase due diligence among users: Encourage financial literacy and promote data-backed

decision-making through content and advisor collaboration.

Barberis, N., Shleifer, A., & Vishny, R. (1998). A model of investor sentiment. *Journal of Financial Economics*.

Managerial Insights

- Mutual funds, SIPs, and stock investments are most influenced by digital behavior.
- Financial institutions must invest in influencer-led education campaigns with ethical messaging.
- Consumers trust financial educators who simplify, disclose risk, and prioritize learning.
- Campaigns should include behavioral nudges, risk profiling, and tailored recommendations.

Statman, M. (2010). *What Investors Really Want*. McGraw-Hill.

Pompian, M. M. (2012). *Behavioral Finance and Wealth Management*. Wiley.

Lou, C., & Yuan, S. (2019). Influencer marketing and consumer trust on social media. *Journal of Interactive Advertising*.

VI. LIMITATIONS & CONCLUSION

Limitations

- Sample Bias: Mostly limited to educated, young, urban investors from Galgotias University.
- Response Bias: Participants may overstate rationality due to social desirability.
- Conceptual Limitations: Behavioral tendencies like FOMO, regret, and overconfidence are hard to fully capture in survey formats.
- Small Sample Size: 50 respondents may not represent the wider Indian investor base.

Conclusion

This study affirms that behavioral finance plays a vital role in shaping modern investment decisions. With the rise of fintech and financial influencers, traditional advisory models are being replaced by digital-first learning and social proof. While this democratizes finance and improves awareness, it also introduces risks of impulsive decisions and overreliance on personality-driven advice.

To foster healthier investment behavior, financial education, influencer ethics, and responsible content strategies must align. Institutions, influencers, and policymakers must work together to design systems that account for real human behavior, not idealized rationality.

VII. REFERENCES

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *American Economic Review*.