A Study on the Influence of Behavioural Finance on Investment Decisions: Demographic Factors and Investor Preferences in Bengaluru

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Abstract- This study explores the influence of demographic factors and psychological biases on investment decisions among individual investors in Bengaluru. Utilizing structured questionnaires and statistical analysis, the research investigates the impact of variables such as age, gender, income, and education, alongside behavioural factors including risk perception, overconfidence, herd behaviour, and loss aversion. The findings reveal that younger and higher-income investors tend to exhibit a greater appetite for risk, whereas older investors prefer safer investment avenues such as fixed deposits and insurance. Overconfidence is positively associated with equity investments, herd behaviour significantly influences mutual fund selection, and loss aversion leads investors to favour traditional savings products. The study concludes that investment decisions are not solely driven by rational analysis but are significantly shaped by a combination of demographic characteristics and behavioural tendencies. These insights offer valuable implications for policymakers, financial advisors, and financial product designers in crafting investor-centric strategies and improving financial decision-making frameworks.

Index-Terms: **Behavioural Finance, Psychological Biases, Investment Decisions, Risk Perception, Herd Behaviour, Overconfidence, Loss Aversion.**

I. INTRODUCTION

In the world of investing, the assumption has long been that people make decisions based purely on logic and analysis. Traditional finance theories like the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) are built on the idea that investors are rational individuals who carefully weigh risk and return to make the best financial choices. These models suggest that markets are efficient and investors always act to maximise their gains.

However, what we observe in real life often tells a different story. People don't always behave rationally when it comes to money. Emotions, mental shortcuts, and social influences often shape their financial decisions. This gap between theory and reality has led to the growth of behavioural finance—a field that explores how psychological factors and human behaviour impact investment choices.

Behavioural finance highlights that investors are not always calm and calculated decision-makers. Instead, they are influenced by common biases. For example, overconfidence can lead someone to overestimate their ability to predict market trends, while herding behaviour might push people to follow the crowd rather than think independently. Loss aversion explains why some investors fear losses more than they value equivalent gains, and anchoring shows how people rely too heavily on initial information when making decisions. These behavioural patterns can lead to poor investment outcomes and missed opportunities.

This study looks at these behavioural tendencies in the context of Bengaluru, one of India's most vibrant and diverse cities. Known for its tech-driven economy and fast-growing financial awareness, Bengaluru is home to a wide range of investors—from young professionals and entrepreneurs to seasoned market participants. The city's diversity in income, education, and investment exposure makes it a compelling place to understand how different people approach financial decisions.

The focus of this research is to examine how demographic factors such as age, gender, income level, educational background, and investment experience influence both behavioural biases and investment preferences. By exploring this connection, the study aims to uncover patterns that can help financial planners, advisors, and educators tailor their strategies to better suit the psychological profiles and needs of various investor groups.

II. OBJECTIVE OF THE STUDY

- To examine the influence of demographic factors on behavioural finance biases among individual investors in Bengaluru.
- To identify the preferred investment options among individual investors in Bengaluru.
- To analyse the impact of risk tolerance and risk perception on the investment preferences of individual investors.

III. REVIEW OF LITERATURE

The impact of behavioral finance on the decision-making process and investment

A study on financial literacy and investment behaviour among investors: An empirical study.

Savaliya (2024) conducted an empirical study to examine how financial literacy influences investment behavior among individual investors. The study revealed that investors with higher financial literacy are more likely to make informed investment decisions, diversify their portfolios effectively, and achieve greater satisfaction with their investment outcomes. Savaliya's work provides valuable insights into the direct correlation between financial literacy and investment behavior, reinforcing the importance of integrating financial education into investor development strategies.

The Influence of Behavioral Finance on Investment Decisions: A Systematic Literature Review.

Ferdian (2024) conducted a systematic literature review to analyze how behavioral finance influences investment decisions. The study found that cognitive biases such as overconfidence, herding behavior, and loss aversion significantly impact both short-term and long-term investment decisions. The review highlights that short-term investments are more susceptible to quick emotional reactions and biases, while long-term investments are influenced by subtler biases such as anchoring and availability bias. Institutional investors, although not immune, are somewhat shielded due to structured processes and higher financial literacy. These findings support the current research by reinforcing the importance of understanding and addressing behavioral factors that lead to suboptimal investment decisions.

The impact of behavioral finance on the decision-making process and investment.

Bhanushali and Jhansi Rani (2023) in their study on "The impact of behavioral finance on the decision-making process and investments" emphasizes that investment decisions are often influenced more by cognitive biases and emotions than by rational analysis, which can lead to suboptimal outcomes for retail investors. It highlight several key behavioral biases that affect investors, including overconfidence bias, where individuals overestimate their knowledge or predictive abilities, and herding behaviour, where investors tend to follow the crowd instead of conducting independent variables. The study summarizes theoretical frameworks and known biases, it also underscores the need for empirical studies that measure the impact of these biases across different investor demographics and market contexts.

IV. RESEARCH METHODOLOGY

This study is based on primary data gathered directly from individual investors in Bengaluru, with the goal of understanding how their demographic characteristics and behavioral tendencies influence investment decisions. A random sampling method was used to ensure every potential participant had an equal opportunity to be part of the study.

The research focuses on analyzing how factors such as age, gender, income, education level, risk perception, and risk tolerance impact investment choices.

To interpret the data, the study employed both descriptive and inferential statistical tools. Percentages were used to present a clear overview of demographic trends and investment preferences among the respondents. To examine whether investment behaviour significantly differed across various demographic groups, the study used the chi-square test and mann-whitney u test This helped identify patterns and differences in investment choices that may be influenced by demographic or psychological factors.

V. LIMITATIONS OF THE STUDY

1. The study is limited to individual investors in Bengaluru, the results may not reflect the behaviours or preferences of investors in other cities or regions.
2. The study looks at commonly preferred investment choices, but it may not capture every possible investment avenue available in today's dynamic financial market.

3. Risk tolerance and perception are deeply personal and subjective, so the way respondents interpret and report these may vary, possibly affecting the accuracy of the insights.

VI. FINDINGS OF THE STUDY

Demographic profile of the investors

To understand how behavioural factors influence investment decisions, the study collected demographic details from 100 respondents. The majority of participants were male (62%), while females made up 38%. Most respondents belonged to the younger age group of 18–30 years (46%), followed by 31–45 years (37%) and those above 46 years (17%). This indicates that younger individuals are increasingly participating in investment activities. In terms of educational background, 52% of respondents were graduates, 34% held postgraduate degrees, and 14% had other qualifications, suggesting that education plays a role in shaping investment choices. When it came to income, 45% earned less than ₹50,000 per month, 32% earned between ₹50,000 and ₹1,00,000, and 23% earned more than ₹1,00,000, reflecting a majority from middle-income groups. The data also showed that 62% of participants had more than three years of investment experience, indicating strong familiarity with financial products and markets. Additionally, 23% had less than one year of experience, and 15% had between one and three years. These findings highlight a healthy mix of both seasoned and relatively new investors. Overall, the demographic profile reflects a diverse group of respondents, providing a meaningful base for analyzing behavioural finance trends in the context of investment decisions.

Table 1: Demographic profile of the respondent

Variable	Categories	Percentage
Gender	Male	62
	Female	38
Age	18-30	46
	31-45	37
	Above 46	17
Education level	Graduate	52
	Post graduate	34
	others	14
Monthly Income	Less than 50000	45
	50000 -100000	32
	Above 100000	23
Investment experience	Less than 1 year	23
	1-3 year	15
	More than 3 years	62

Source based on field survey 2025

Risk Tolerance by Income Group

To examine whether there is a significant difference in risk tolerance based on income level, the Mann-Whitney U Test was applied.

The null hypothesis was tested

H_0: There is no significant difference in risk tolerance between low-income and high-income individuals.

H_1: There is a significant difference in risk tolerance between the two income groups.

Table 2: Mann Whitney U-Test-Risk tolerance by Income group

Groups Compared	U Statistic	P –Value	Significance	Result
Low Income VS High Income	0.0	0.000140	0.5	Significant difference between the group

The Mann-Whitney U Test was applied to examine whether income level significantly affects individuals' risk tolerance. The calculated U statistic is 0.0, and the p-value is 0.000147, which is far below the significance level of 0.05.

This result shows there is a significant difference in risk tolerance between low income and high income individuals and rejected null hypothesis.

Gender and choice of investment

H_0: There is no significant difference in gender and choice of investment

H_1: There is a significant difference in gender and choice of investment

Table 3: Chi-Square Test –Gender and choice of investment

Test Statistic	Chi-square value	Degree of freedom (df)	P-Value	Significant
Value	11.133	4	0.025106	0.05

The P value s 0.02 is less than 0.05 which is statistically significant reject null hypothesis and conclude there is a significant relation between gender and choice of investment

VII. SUGGESTIONS

- To increase investors awareness and to help investors understand how psychological biases can affect their financial decision.
- To provide personalized advice based on an investor’s age, income, education, and risk tolerance.
- To support more on low and middle income investors with modern digital tools.

VIII. CONCLUSIONS

This study shows that individual investors in Bengaluru make financial decisions based not just on logic, but also on their personal background and psychological tendencies. Factors like age, gender, income, education, and investment experience all play a key role in shaping how people view risk and which investment options they prefer. The findings support the core idea of behavioural finance—that investors don't always make decisions purely based on rational thinking. Instead, their choices are often influenced by a mix of emotions, habits, and personal circumstances. Understanding these influences is important for financial advisors, product designers, and policymakers who want to help people make better, more informed investment decisions.

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