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Do Behavioral Biases Impact Individual Investor Decision-Making in the Colombo Stock Exchange

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Background: The study is conducted based on the Sri Lankan stock market. A high level of variation of the All-Share Price Index (ASPI) for the last 10 years of the Colombo Stock Exchange proves the anomalies of the behavior of individual investors and the limited knowledge of behavioral biases.

Objective: This study investigates the impact of behavioral biases on Individual Investor decision-making in the Colombo Stock Exchange (CSE). The confirmation bias, disposition effect, regret aversion, and self-control issues (biases) were selected based on contradicting empirical results of the Sri Lankan stock market over the last 10 years.

Methods: Survey (Questionnaire) method used to collect the responses from the individual investors out of a total of 704,352, as per the CSE report 2023. 384 minimum individual investor responses collected as per the Morgan table. As per the screening, a pilot test was conducted for 30 individuals, and a reliability and validity test was run, which met the minimum requirements. Data were analysed using SPSS, with regression, correlation, and ANOVA tests.

Results: As per the four objectives & four hypotheses developed based on four biases (confirmation bias, disposition effect, regret aversion, and self-control issues), there was a significant impact from all four biases on the individual investment decisions of CSE.

Conclusion: These findings are crucial for investor education, financial advisory practices, and policymaking within the CSE. Raising awareness about behavioural biases can help investors make more rational decisions. Financial advisors can apply behavioural insights to guide clients more effectively, while policymakers can implement regulations and strategies to mitigate the negative impact of biases on investor welfare and market efficiency. The survey was conducted after the COVID-19 pandemic situation, where the outcomes also included those pandemic shocks in the final results, which is inevitable.

Keywords: Colombo Stock Exchange, Disposition Effect, Regret Aversion