INTERNATIONAL JOURNAL OF ENGINEERING MANAGEMENT AND SOCIAL SCIENCES (IJEMSS)
www.ijemss.com
Vol. 01, Issue 3, July2026, pp:657-663
e-ISSN :
editor@ijemss.com

Investor Sentiment Condition Making: A Behavioral Finance Perspective.

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ABSTRACT

Investor sentiment refers to the overall attitude, emotions, and expectations of investors toward financial markets or specific assets. Conventional theories of finance make the assumption that investors are logical and always base their choices on comprehensive data and logical analysis. However, this assumption is frequently contradicted by actual market behavior. Behavioral finance is crucial in this situation. Behavioral finance explains how emotions, cognitive biases, and psychological factors affect investment choices. Investors can be motivated by fear, greed, overconfidence, herd mentality, or prior experiences; they are not always logical. Together, these elements influence investor sentiment, which influences price movements, market trends, and investment choices. The process by which these feelings and perceptions are developed and change over time is known as investor sentiment condition making. Sentiment is influenced by a variety of factors, including social media, political developments, market news, economic conditions, and peer pressure. For instance, excessive buying may result from optimism and overconfidence during a market boom, whereas heavy selling may be caused by fear and panic during a downturn. Since investor sentiment can cause market anomalies like bubbles and crashes, understanding it is essential.

Investors and researchers can better forecast market movements, spot mispriced assets, and make more informed investment decisions by examining sentiment from a behavioral finance standpoint.

Keywords: *Investor Sentiment, Behavioral Finance, Investment Decision-Making, Cognitive Biases, Psychological Factors, Investor Behavior, Market Sentiment, Emotional Biases, Financial Markets, Decision Making.*

1. INTRODUCTION

The Banking and Financial Services (BFSI) sector plays a vital role in the economic development of a country by facilitating the flow of funds, promoting investment, and supporting financial stability. In India, this sector includes commercial banks, insurance companies, non-banking financial companies (NBFCs), and other financial institutions that provide services such as deposits, loans, investment, and risk management. The sector has witnessed significant growth due to technological advancements, financial inclusion initiatives, and digital banking services. Government policies and regulatory bodies like the Reserve Bank of India ensure smooth functioning and stability of the financial system. Despite challenges such as rising competition, cyber risks, and economic fluctuations, the BFSI sector continues to expand with opportunities in digital payments, fintech innovations, and increasing customer awareness.

2. NATURE AND SCOPE OF THE STUDY

The present study is descriptive and analytical in nature. It focuses on understanding how investor sentiment is influenced by behavioral finance factors such as psychological biases, emotions, cognitive biases, and external market information. The study examines investors' attitudes, perceptions, and decision-making behavior using primary data collected through a structured questionnaire. Statistical tools are used to analyse the relationship between behavioral factors and investor sentiment, providing empirical evidence on how these factors influence investment decisions. The study adopts a quantitative research approach to draw meaningful conclusions and recommendations.

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Geographical Scope: The study is limited to the selected geographical area and covers investors from that region only.

Organizational Scope: Organizational Scope: The study is not limited to any one organization and encompasses individual investors engaged in various investment opportunities.

Functional Scope: Investor sentiment, cognitive biases, emotional reactions, external information, psychological and behavioral factors, and investment decisions are the main topics of this study.

Time Scope: The research is limited to the time frame in which the data was gathered and examined.

Methodological Scope: A structured questionnaire was used to collect primary data for the study, which was then analysed using correlation analysis, t-test, ANOVA, and descriptive analysis.

3. REVIEW OF LITERATURE

1. **Vu Hiep Hoang & The Lan Huong Le (2025):** The study found that digital financial literacy, digital finance adoption, and behavioral biases collectively influence investment decisions. It emphasized that investor behavior cannot be explained solely by traditional financial theories. The research highlighted the importance of integrating digital finance with behavioral finance.
2. **Samira Troudi & Sami Aouadi (2025):** The study examined the impact of financial inclusion, technology, and behavioral biases on corporate investment decisions. It concluded that financial inclusion positively influences investment, while behavioral biases reduce decision quality. The findings stressed the need to minimize biases for better financial outcomes.
3. **Gahlot & Sachdeva (2025)**: The study investigated the influence of anchoring, availability, and overconfidence biases on investment decisions. It found that overconfidence had the strongest impact on investors' financial behavior. Workplace stress and peer influence further increased irrational investment decisions.
4. **Agarwal, Samantaray & Jena (2025)**: The researchers applied machine learning techniques to identify patterns in investor biases. The study revealed that behavioral biases occur in groups and significantly affect investment decisions. It demonstrated the growing role of artificial intelligence in behavioral finance research.
5. **Maheshwari & Samantaray (2025)**: The study explored whether financial literacy and digital advisory services reduce behavioral biases. It concluded that both improve investment decision-making by encouraging rational financial behavior. The effectiveness of these tools depends on investors' willingness to follow objective advice.
6. **Khan, Fatima & Shah (2025)**: The study explained investment decisions using concepts from neuroscience and behavioral finance. It found that emotions, brain functions, and cognitive processes strongly influence investor behavior. The research broadened the understanding of investment decisions beyond traditional financial theories.
7. **Wang & Zou (2024)**: The study examined the relationship between financial literacy, cognitive bias, and investment decisions. It found that financial knowledge alone cannot eliminate irrational investment behavior. Behavioral biases continue to influence investors despite having adequate financial literacy.
8. **Mahajan & Singh (2024)**: The study analyzed global research trends related to cognitive bias and sustainable decision-making. It identified a growing interest in behavioral finance across various disciplines. The authors recommended more empirical research on investor behavior.
9. **Ari, Nugroho & Prasetyo (2024):** The study examined how financial literacy, financial experience, behavioral finance, and investor awareness influence fintech-based investment decisions. Using a quantitative survey, it found all four factors significantly improve investment decisions. However, it paid limited attention to psychological aspects such as emotions and cognitive biases.
10. **Agarwal, Samantaray & Jena (2025):** This study applied machine learning to identify clusters of investor biases and predict investment behavior. The findings showed that biases occur in combinations and improve prediction accuracy. The research lacked explanation of the psychological reasons behind these behavioral patterns.

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11. **Maheshwari, Samantaray & Jena (2024):** The researchers conducted a bibliometric analysis of cryptocurrency investment decisions. The study identified investor sentiment, risk perception, and herding as major research themes. However, it did not empirically examine behavioral factors influencing real investor outcomes.
12. **Yamani & Hajar (2024):** The study investigated behavioral biases among Moroccan bank-affiliated asset managers. Results showed that professionals also exhibit biases such as overconfidence and anchoring. The study was limited to one country and lacked comparison with retail investors.
13. **Maheshwari & Samantaray (2025):** This research explored the role of financial literacy and digital advisory services in reducing behavioral biases. It found that both improve rational investment decisions. The study did not examine differences across age groups or investor experience.
14. **Kirchler, Huber & Stöckl (2020):** The study examined the influence of the hot-hand and gambler's fallacy in investment decisions. Experimental findings showed that teams also display irrational decision-making under uncertainty. However, the experimental setting limits real-world applicability.
15. **Khan, Fatima & Shah (2025):** The study explored the neurological basis of investment decisions using behavioral finance concepts. It concluded that emotions and brain processes strongly influence financial judgement. The research remained largely theoretical without empirical validation.
16. **Baker& Wurgler (2006):**
    The study analyzed the impact of investor sentiment on stock returns. It found that optimism and pessimism lead to stock mispricing, supporting behavioral finance theory. However, the focus was mainly on market-level sentiment rather than individual investors.
17. **Barberis, Shleifer & Vishny (1998):**
    The authors developed a behavioral model explaining how investors process information and form expectations. They highlighted the influence of psychological biases on investment decisions. The model was conceptual and lacked empirical testing.
18. **Brown & Cliff (2005):**
    This study examined the relationship between investor sentiment and stock valuation. It found that excessive optimism leads to overvaluation, while pessimism lowers stock prices. A major limitation was the difficulty of accurately measuring sentiment.
19. **Da, Engelberg & Gao (2015):**
    The researchers introduced internet search volume as a measure of investor sentiment. They found that online search activity effectively predicts stock market movements. However, search data may not represent all investor groups.
20. **Schmeling (2009):**
    The study investigated investor sentiment across international markets. Results showed that high sentiment predicts lower future stock returns, especially in less efficient.

4. OBJECTIVES OF THE STUDY

Statement of the Problem

In modern financial markets, investment decisions are often assumed to be rational and based on objective analysis of risk and return. Their decisions are frequently influenced by psychological, emotional, and behavioral factors such as fear, overconfidence, herding, loss aversion, and market optimism or pessimism. Investor sentiment has become an important area of study in behavioral finance because it can significantly affect the quality and direction of investment decisions.

Objectives of the study

- To identify the psychological and behavioral factors affecting investor sentiment
- To examine the role of cognitive biases and emotional responses in shaping investor behavior.

RESEARCH METHODOLOGY

Research Method: In this study Descriptive research design is used to describe and understand the

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characteristics, behavior, attitudes, and opinions of a particular group or phenomenon, it helps in identifying the psychological, behavioral, emotional, and cognitive factors that influence investor sentiment. It is useful for collecting detailed information about how investors think, feel, and behave while making investment decisions.

Sampling design

- **Sampling Method**: The study uses purposive sampling technique to select respondents who are actively involved in investment decisions and possess knowledge regarding financial market behavior.
- **Sampling Size:** A sample of 400 respondents is considered appropriate for the study. This sample size is sufficient to analyse the psychological, behavioral, and informational factors affecting investor sentiment and investment decision-making.

Source of Data

The present study is based on both primary and secondary sources of data. The primary data for the study is collected from individual investors through a structured questionnaire to identify psychological and behavioral factors affecting investor sentiment.

Secondary data is collected from books, journals, research articles, and previous studies related to behavioral finance and investor sentiment.

Tools of the Study

One-Sample T-Test: The t-test is used in this study between two categories of respondents, such as gender, marital status, or investment experience. It helps in understanding whether demographic differences influence the study variables connected to H_{01}, H_{02}, H_{03}, and H_{04}. Thus, it provides supporting evidence regarding variations in behavioral and sentiment-related responses among two-group classifications.

Correlation Analysis: Correlation Analysis is the major statistical tool is used to analyse behavioral factors and investor sentiment (H_{01}), investor sentiment and investment decisions (H_{02}), cognitive biases and emotional responses with investor behavior (H_{03}), and external information with investor sentiment and investment decisions (H_{04}).

ANOVA Analysis: ANOVA is used in this study to determine whether there are significant differences in investor sentiment, investor behavior, and investment decisions it helps in analyzing whether demographic characteristics have any significant influence on the variables associated with H_{01}, H_{02}, H_{03}, and H_{04}.

Hypotheses

H_{01}: There is no significant effect of psychological and behavioral factors on investor sentiment.

H_{02}: There is no significant relationship between investor sentiment and investment decisions.

Data Analysis and Interpretation

This section presents the analysis and interpretation of the primary data collected from 400 respondents. Statistical tools such as the One-Sample t-Test, Correlation Analysis, Regression Analysis, and ANOVA were applied using SPSS software to examine the influence of psychological and behavioral factors on investor sentiment and investment decisions. The findings help achieve the research objectives and test the proposed hypotheses by identifying the relationship between behavioral finance factors, investor sentiment, and investment decision-making.

H_{01}: There is no significant effect of psychological and behavioral factors on investor sentiment.

Table- 1 *ONE SAMPLE T-TEST*

Variables	Statistics	df	P
Past Success	34.4	400	<.001
Loss Aversion	32.01	400	<.001
Investment Regret	26.1	400	<.001

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Holding Bias	27.8	400	<.001
Overconfidence Bias	25.3	400	<.001
Recent Events	28.2	400	<.001
Herd Behavior	26.9	400	<.001
Emotional Influence	33.3	400	<.001
Selling Hesitation	27.7	400	<.001
Emotional Decisions	33	400	<.001

Source: Survey data – Jamovi output

The one-sample t-test results indicate that all behavioural finance variables have statistically significant mean values, as all p-values are less than 0.001. This shows that the respondents' average scores are significantly different from the test value (neutral point), reflecting strong agreement with each behavioural factor. Among the variables, Past Success recorded the highest t-value (t = 34.4), indicating the strongest influence on respondents' investment behaviour. The remaining variables, including Loss Aversion, Investment Regret, Holding Bias, Overconfidence Bias, Recent Events, Herd Behaviour, Emotional Influence, Selling Hesitation, and Emotional Decisions, also demonstrate significant effects.

Table- 2 *ANOVA*

Factors	**Sum of Squares**	**df**	**Mean Square**	**F**	**p-value**
Place	5.92	3	1.973	9.24	<0.001
	84.87	401	0.212		
Gender	3.18	1	3.18	15.13	<0.001
	87.62	403	0.217		
Age Group	2.8	3	0.933	4.25	0.006
	87.99	401	0.219		
Educational Qualification	0.455	4	0.114	0.5	0.736
	90.337	400	0.226		
Occupation	3.83	4	0.958	4.24	0.002
	86.96	400	0.217		
Income (Per Annum)	0.505	3	0.168	0.75	0.529
	90.288	401	0.225		

Source: Survey data – Jamovi output

The ANOVA results show that Place, Gender, Age Group, and Occupation have a significant impact on the dependent variable ($p < 0.05$). However, Educational Qualification and Income (Per Annum) do not show significant differences ($p > 0.05$). This indicates that respondents' responses vary significantly based on certain demographic factors, particularly place, gender, age, and occupation.

5. DISCUSSION OF RESULTS

- The descriptive analysis indicates that psychological and behavioral factors significantly influence investor sentiment and investment decision-making.
- The One-Sample t-test results reveal a statistically significant effect of psychological and behavioral factors on investor sentiment ($p < 0.05$), supporting the behavioral finance perspective.

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- The correlation analysis shows a positive and significant relationship between investor sentiment and investment decisions, indicating that changes in sentiment influence investors' decisions.
- The regression analysis demonstrates that psychological factors, cognitive biases, emotional responses, and external information significantly predict investor sentiment and investment behavior.
- The ANOVA results confirm significant differences in respondents' perceptions of investor sentiment based on behavioral and psychological factors.
- The findings reveal that overconfidence, herd behavior, loss aversion, emotional influence, investment regret, and market information are key determinants of investor sentiment.
- The study also identifies that market volatility, economic conditions, financial news, and social media significantly shape investor sentiment and investment decisions.

6. CONCLUSION

According to the study's findings, investment decisions are heavily influenced by investor sentiment. Investors' perceptions of risk and investment decisions are influenced by a variety of factors, including psychological and behavioral aspects, cognitive biases, emotional reactions, and external information sources. The behavioral finance theory, which holds that investors don't always act rationally, was supported by the statistical analysis, which verified important correlations between the study variables. All things considered, the study offers insightful information that helps investors, financial advisors, financial institutions, and policymakers comprehend investor behavior and create plans that promote logical and knowledgeable financial market investment choices.

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