



Investigate The Impact of Overconfidence Bias on Investors' Decision-Making in The Indian Stock Market

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Abstract

The stock market has experienced significant investment expenditure in recent years, driven by the proliferation of internet trading platforms and the need for financial literacy among the workforce. This research aims to explore the impact of individual investor behavior on investment decision making in the Indian stock market. Psychological factors, market and economic factors, and stock-specific factors influence Indian stock market investors' choices. Understanding these habits could help financial sector professionals better serve their customers' expectations and guide lawmakers in preventing rash judgments.

Keywords: Investigate, Overconfidence Bias, Decision-Making, Indian Stock Market, workforce

Introduction

Both the dynamics of the market as a whole and the investment decisions made by individual investors are impacted by the actions of investors. The premise of many classical theories of finance is that investors make logical judgments based on all the data at their disposal and cold, hard logic. Behavioural finance, on the other hand, casts doubt on this assumption by drawing attention to the emotional and mental variables that could influence people to make poor financial choices. Market inefficiencies and anomalies may arise when important behavioral biases including loss aversion, overconfidence, herding behavior, and emotional reactions impair logical reasoning.

A lot of factors interact with one another to determine how well the market does. Investors may hang onto losing equities for longer than necessary due to loss aversion, and they may trade and take risks too much due to overconfidence. When investors act in unison, it may accentuate existing market patterns and lead to events like asset bubbles or collapses. Even while these actions don't happen with regular investors, they may show up in institutional settings and disrupt the market as a whole.

An investor's actions have a significant impact on the outcome of their capital market investment. If individual investors are rational, with perfect knowledge and are

conscientious in making decisions, then an investment—whether individual or institutional—will do well ex post. In a balanced efficient market, price changes reflect actual economic events, and individual investors compete as educated agents, either directly or indirectly. This is the essence of financial markets. Having said that, things are really very different. The stock market is quite unpredictable and appropriately discounts developments that turn out to be significant in the future. Despite their subjectivity and inherent uncertainty, many successful capitals market investments are typically anticipatory in character.

If investors want to do their jobs well and make educated decisions based on accurate predictions of the future, they'll need to understand human psychology in order to know what news to expect, how to read it, and what to do in response. The investor must decide whether to purchase or sell shares, or to keep or remove the portfolio from the share market. The likelihood that an investor will make a share investing choice when presented with facts and other alternatives. Consequently, the area where shares are bought and sold is called the share market.

The goal of these selections is to either increase the investor's profit or decrease their risk. Whenever there are several viable options, the decision-making process begins.

Literature Review

Abhishek Shrivastava, *et al.* (2025) ^[1] - Classical economic theories suggest that variables outside rationality often impact investor behavior in financial markets. The impact of psychological factors and beliefs on financial decision-making has been highlighted by behavioral finance. This research examines how Indian individual investors' perceptions of financial risk and overconfidence bias affect their stock investing choices. While financial risk perception includes the subjective evaluation of market uncertainty, overconfidence bias refers to investors' tendency to overestimate their knowledge and forecasting abilities. Both ideas have a significant role in influencing investment choices, particularly in developing nations where retail participation is increasing. 700 individual investors of various ages, genders, and degrees of investing expertise were given a structured questionnaire as part of the study's quantitative research approach, which collected primary data. Demographic distributions were analyzed using descriptive statistics, and the hypotheses were assessed by inferential analysis using basic linear regression. The results show that overconfidence bias significantly and statistically favorably influences stock investing choices. Financial risk perception has a significant positive impact, indicating that traders' trading decisions are influenced by their own risk evaluations. The findings demonstrate the substantial impact that behavioral biases have on investing behavior and provide useful implications for lawmakers, advisers, and investors. The Indian stock market may see an increase in logical, knowledgeable, and sustainable investing practices if financial literacy is raised and behavioral insights are incorporated into advising and regulatory frameworks.

Aditi Nema, Dr. Mamta Manshani (2025) ^[2] - The purpose of this study is to investigate the influence that behavioural biases have on judgments about financial investments, with a particular emphasis on the emotional factors that lead to incorrect economic choices. The conventional view that markets are efficient and that capitalists are rational is put to the test by behaviour finance. Instead, it bases its assumptions on the idea that psychological factors have a significant impact on decision-making. Insolence, herding tendencies, loss hostility, and verification tendency are examples of common biases that cause capitalists to make decisions that depart from rationality, which in turn influences the financial outcomes they achieve. The purpose of this study is to provide a theoretical framework for understanding how these biases impact investor behaviours and market dynamics. This will be accomplished by doing a full evaluation of the material that is already available. At the same time, the review draws attention to the processes via which these predispositions appear, highlighting the significance of these mechanisms in relation to financial investment strategies. The results highlight the need for both capitalists and economic counsellors to recognize and lessen the impacts of behaviour biases in order to improve the efficiency of decision-making. The purpose of this expedition is to improve the study of behavioural money and teach ways for better financial decision-making. This will be accomplished by adding understandings into the complexities of capitalism psychology.

Ms. Kiruthika R. and Dr. S. Ramya (2025) ^[3] - The purpose of this study is to evaluate the impact that the behavioural determinants factors of Overconfidence Bias and Availability Bias have on the investment choices made by individual investors, with the locus of control serving as a moderating element. The link was explored by means of the distribution of a questionnaire and the collection of empirical data from investors about their own opinions of these biases via the use of self-administered questionnaires from Stoke Exchange and numerous brokerage businesses. According to the findings of the research, the individual investor's investment choice is highly influenced in a favourable direction by both the Overconfidence Bias and the Availability Bias. It is also the locus of control that moderates the overconfidence bias and the judgments about investments. The purpose of this study is to evaluate the impact of the behavioural determinants factors of Overconfidence Bias and Availability Bias on the investment choices made by individual investors, with the locus of control serving as a controlling factor. The link was explored by means of the distribution of a questionnaire and the collection of empirical data from investors about their own opinions of these biases via the use of self-administered questionnaires from Stoke Exchange and numerous brokerage businesses. According to the findings of the research, the individual investor's investment choice is highly influenced in a favourable direction by both the Overconfidence Bias and the Availability Bias. It is also the locus of control that moderates the overconfidence bias and the judgments about investments. In this study, 146 participants were selected at random to participate in the evaluation of the current empirical literature and the collection of data via the use of cluster sampling and quantitative research methods. A descriptive analysis, a Chi-square analysis, and a regression analysis were used to evaluate the data.

Sanhati Sengupta (2025) ^[4] - The fact that human decision-making in financial markets is not always logical is shown by the many stock market disasters and bubbles that have occurred. There is a powerful impact that operates on the decision-making processes of market investors, which raises the question: what exactly is this influence? This impact is none other than behavioural biases, which is now one of the most fascinating subjects in the fields of economics and finance. The results of the market are formed by these biases, which operate as a supernova factor. Previous study has shown that when it comes to picking assets, investors often depart from logical decision-making. This is especially true during times of uncertainty or when they are already experiencing stress. Herding bias is a phenomenon that occurs when people have a tendency to follow the crowd without critically examining the information that they are presented with. In the course of our present investigation, we have conducted a comprehensive literature analysis in order to investigate the ways in which investors are influenced by this herding tendency.

Vidhu Johnson (2025) ^[5] - The phenomenon known as "herding" of investors in the stock market is the situation in which individuals or groups of investors make judgments based on the actions of other investors, rather than on their

own independent analysis or knowledge. In this situation, herding often results in collective purchasing or selling behaviour, which drives stock values to extremes, either driving them up to levels that are not sustainable or crashing them down to levels that are unsustainable.

Research Methodology

Research design refers to the processes and procedures that go into conducting a study, from formulating broad hypotheses to implementing detailed strategies for data collection, analysis, and interpretation. Making a few decisions along the way, organizing ideas, and putting them on paper all begin with the proposal's beginning.

A structured questionnaire was sent out to over 500 investors via email and personal connections using Google Forms for the current study. However, only 300 (60% response rate) of those questionnaires were deemed useful for data analysis. Of this total, 208 were filled out by investors themselves, while 92 were filled out by brokers, portfolio managers, and investment advisors.

Information on relevant factors may be systematically and systematically measured via data collecting, which helps to answer research questions, test hypotheses, and make educated judgments. The study's primary data came from a questionnaire, while secondary data came from a variety of sources.

Data Analysis

Considerations pertaining to the market, the economy as a whole, and individual companies all have a role in investing choices. What follows is a discussion of the factors that investors hold in high esteem. In order to examine these aspects, the study employs the percentile technique.

Table 1: Company Size as a Factor in Choosing a Stock Market Investment

Size of the company	Frequency	Percentage
Least Important	51	17%
Somewhat Important	31	10.3%
Neutral	107	35.7%
Important	53	17.7%
Most Important	58	19.3%
Total	300	100%

It can be seen from the table up there that When asked how important the "Size of the company" aspect is for stock market investment, investors had conflicting reactions, with 35.7% taking no position at all. About 19.3% consider it to be the "Most Important" aspect, while 17.0% consider it to be the "Least Important." Along with that, 10.3% think it's "Somewhat Important," and 17.7% think it's "Important." When making investing selections, it's important to consider more than just the firm's size. One smart way to limit risk is to diversify across sectors and company sizes.

In making stock market investments, the majority of respondents (107 or 35.7%) did not care how big a firm was.

Table 2: Importance of a Company's Profitability in Determining Stock Market Investment Opportunities

Profitability of the Company	Frequency	Percentage
Least Important	35	11.7%
Somewhat Important	43	14.3%
Neutral	48	16.0%
Important	62	20.7%
Most Important	112	37.3%
Total	300	100%

It can be seen from the table up there that When it comes to making investment choices, investors' views on "Profitability" differ greatly. Revenue generation is ranked as the "Most Important" component by 37.3% of respondents, with 11.7% ranking it as the "Least Important." The following percentages also consider it important: 14.3%, 16.0%, and 20.7%. This suggests that although some investors place a high value on a company's profitability, a large number of investors place a moderate or low value on it. If you want to make smart investment selections, you need to look at a company's profitability and other important metrics to see how healthy and promising it is financially. When asked what factors most influence their stock market investing selections, the majority of respondents (112, or 37.3%) said the company's profitability.

Table 3: Factors Influencing Stock Market Investment Decisions: The Importance of Company Stock Price

Stock Price of the Company	Frequency	Percentage
Least Important	36	12.0%
Somewhat Important	71	23.7%
Neutral	92	30.7%
Important	46	15.3%
Most Important	55	18.3%
Total	300	100%

It can be seen from the table up there that When making financial selections, investors have different opinions on how important "Stock Price" is. Notably, 30.7% are still "Neutral" on the matter, suggesting that stock price is not the only factor for these investors. Just 18.3% think it's the "Most Important" consideration, while 12% think it's the "Least Important." Plus, 23.7% think it's "Somewhat Important," and 15.3% think it's "Important." This indicates that investors have different priorities; some may place a high value on stock price, while others may see it as only one among several considerations.

When asked how they felt about the company's stock price impacting their stock market investments, 92 respondents (30.7%) said they were unsure.

Table 4: Effect of a Company's Earnings Per Share (EPS) on Stock Market Investing Decisions

EPS of the Company	Frequency	Percentage
Least Important	53	17.7%
Somewhat Important	18	6.0%
Neutral	69	23.0%
Important	74	24.7%
Most Important	86	28.7%
Total	300	100%

It can be seen from the table up there that When it comes to making investing choices, investors have different opinions on how important "Earnings Per Share" (EPS) is. Of the investors surveyed, 23.0% are still "Neutral" about earnings per share, suggesting that this metric is not very important to them. The percentage of people who think it is "Most Important" is 28.7%, whilst 17.7% think it is "Least Important." Another 6% think it's "Somewhat Important," and 24.7% think it's "Important."

A large percentage of respondents (86, or 28.7%) ranked a company's earnings per share (EPS) as very significant when deciding whether or not to invest in its shares.

Table 5: Company Dividend Per Share and Its Importance in Choosing a Stock to Invest In

Dividend per share of the company	Frequency	Percentage
Least Important	56	18.7%
Somewhat Important	65	21.7%
Neutral	115	38.3%
Important	37	12.3%
Most Important	27	9.0%
Total	300	100%

It can be seen from the table up there that The significance of "Dividend per Share" in influencing investment choices is a matter of subjective judgment among investors. The fact that 38.3% of investors are still "Neutral" regarding dividends implies that they may not be the deciding factor for these people. On the other hand, 9.0% rank dividends as the "Most Important" aspect, while 18.7% claim they are the "Least Important." Furthermore, dividends are considered "Somewhat Important" by 21.7% of respondents and "Important" by 12.3%.

When it came to making stock market investments, the majority of respondents (115 or 38.3%) were agnostic about the company's dividend per share.

Table 6: Considerations for Stock Market Investing Based on a Company's P/E Ratio

P/E ratio of the company	Frequency	Percentage
Least Important	42	14.0%
Somewhat Important	25	8.3%
Neutral	69	23.0%
Important	89	29.7%
Most Important	75	25.0%
Total	300	100%

It can be seen from the table up there that When it comes to making investing choices, investors have different opinions on how important the "P/E Ratio" is. Some investors may not let the P/E ratio be a deciding factor, because 23.0% of them are still "Neutral" about it. The percentage of people

who think it is "Most Important" is 25%, while 14% think it is "Least Important." Furthermore, 29.7 percent consider it "Important," and 8.3 percent consider it "Somewhat Important."

Of those who took the survey, 89 (or 29.70%) said that they base their stock market investments on the company's P/E ratio.

Table 7: Importance of Stock Volatility for Investing in the Stock Market

Stock volatility	Frequency	Percentage
Least Important	46	15.3%
Somewhat Important	36	12.0%
Neutral	91	30.3%
Important	71	23.7%
Most Important	56	18.7%
Total	300	100%

The significance of "Stock Volatility" in influencing investing choices is seen by investors from many angles. Stock volatility may not be the major concern for 30.3% of investors, who remain "Neutral" on the matter. While 15.3% think it's the "Least Important" aspect, 18.7% think it's the "Most Important." Plus, 12,000 people think it's "Somewhat Important," and 23.7 percent think it's "Important."

Of those who took part in the survey, 91 (30.3%) said they were unsure how stock volatility will affect their investing selections.

Table 8: Importance of Past Market Volatility for Future Stock Market Investments

Market Volatility	Frequency	Percentage
Least Important	45	15.0%
Somewhat Important	65	21.7%
Neutral	76	25.3%
Important	58	19.3%
Most Important	56	18.7%
Total	300	100%

It can be seen from the table up there that When it comes to making investing choices, investors have different opinions on how important "Market Volatility" is. Considering that 25.3% of investors still identify as "Neutral" about market volatility, it's possible that this factor is not their top consideration. While 15.0% think it's the "Least Important" aspect, 18.7% think it's the "Most Important." Furthermore, 19.3% consider it "Important," and 21.7% consider it "Somewhat Important."

When asked how they felt about market volatility and its impact on stock market investments, 76 respondents (or 25.3% of the total) said they were unsure.

Table 9: Market Demand and Supply Factors and Their Importance for Stock Market Investing

Demand Supply forces in the Market	Frequency	Percentage
Least Important	30	10.0%
Somewhat Important	62	20.7%
Neutral	112	37.3%
Important	58	19.3%
Most Important	38	12.7%
Total	300	100%

It can be seen from the table up there that When it comes to making investment choices, investors have different opinions on how important "Demand-Supply Forces in the Market" are. A substantial percentage of 37.3% is still "Neutral" about these factors, suggesting that they may not be the major focus for these investors. But 12.7% think they're "Most Important," and 10% think they're "Least Important." A further 20.7% consider them "Somewhat Important," and 19.3% rank them as "Important."

Conclusion

Study found that investors tend to rely on readily available information and make judgments based on recent or memorable events that can influence their investment decisions. Investors also tend to underreact to newer information stick to the older information and maintain the impressions derived from old information instead of acting on new information.

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