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"Investment Decision Dilemma: A Study on Young Professionals in Bengaluru"

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Abstract

Classical financial theories assume that investors are rational actors, making decisions solely on risk–return trade-offs and available information. In practice, cognitive limitations, emotional responses, and ingrained psychological biases systematically distort financial judgment. This study investigates the nature and extent of such biases among young professionals aged 23–31 in Bengaluru—one of India's fastest-growing investor demographics—grounded in the frameworks of behavioural finance and neurofinance. Employing a mixed-method design, the research combines a structured survey (n = 71) with fifteen in-depth interviews across North, South, and East Bengaluru. Three objectives guide the study: to identify common psychological biases affecting investment decisions; to analyse the role of emotions and mental processes in shaping those decisions; and to provide insights into how financial literacy and awareness can reduce the impact of such biases. Key findings reveal that familiarity bias is the most pervasive distortion, with 74.6% of respondents always or sometimes preferring sectors familiar to them. Overconfidence is evident in the 38% who review portfolios weekly; 42.3% admitted to at least one impulsive decision in the past year; 69% rely on gut feeling frequently or occasionally; and a combined 53.5% are primarily influenced by news/media or peer activity, reflecting herd behaviour. In-depth interviews reinforced these patterns and surfaced a consistent gap between analytical intent and emotional execution, aligned with the empathy gap in behavioural economics. The study concludes that psychological biases are structurally embedded in this cohort's investment behaviour and that effective mitigation requires practical in-the-moment decision support, pre-commitment mechanisms, and applied financial literacy—not awareness alone. Targeted recommendations are offered for financial advisors, fintech platforms, and educational institutions.

Keywords: Behavioural finance, neurofinance, cognitive biases, investment decisions, Bengaluru, young professionals, loss aversion, financial literacy.

Introduction

Classical financial theory posits that investors are rational agents who maximise utility by objectively weighing risk against return. In practice, however, real-world investment behaviour deviates markedly from this assumption. Cognitive limitations, emotional responses, and ingrained mental shortcuts, collectively termed behavioural biases, systematically distort financial judgment, often leading to suboptimal outcomes.

The field of neurofinance, which integrates neuroscience, psychology, and economics, offers a biological explanation for these deviations. Decision-making engages overlapping brain regions governing both analytical reasoning (prefrontal cortex) and emotional response (amygdala). Under conditions of uncertainty or market stress, the emotional system frequently overrides deliberative reasoning, producing impulsive, fear-driven, or herd-following behaviour (Lo & Repin, 2002).

Young adults aged 23–31 represent an increasingly prominent investor cohort in India. Rising incomes, early access to fintech platforms, and a digitally saturated information environment have lowered the barriers to market participation while simultaneously amplifying exposure to media narratives, peer activity, and algorithmically curated content factors that heighten susceptibility to bias-driven decision-making. Bengaluru, as India's technology and startup capital, concentrates a uniquely large population of this demographic.

This study is guided by three research objectives: to identify the common psychological biases affecting investment decisions; to analyse the role of emotions and mental processes in shaping those decisions; and to provide insights into how financial literacy and awareness can reduce the impact of such biases. The findings are drawn from a structured survey (n = 71) and fifteen in-depth interviews, and aim to inform advisors, platforms, and institutions in developing more bias-resilient financial environments for young investors.

Literature Review

Virlics (2013) established that investment risk has both objective and subjective dimensions, with emotional responses frequently diverging from statistical risk measures an early indication that psychological factors cannot be separated from financial decision-making. Kumar and Goyal (2015) systematically reviewed the behavioural finance literature, documenting overconfidence, loss aversion, herding, and anchoring as the most consequential biases among retail investors, while noting a significant gap in region-specific Indian market research. Slovic (2017) demonstrated that cognitive heuristics and emotional affect dominate financial judgment, particularly when information is complex or ambiguous.

On the neurological dimension, Lo and Repin (2002) provided psychophysiological evidence that even professional traders experience elevated emotional arousal during market fluctuations, confirming that emotions are integral not incidental to financial decisions. Camerer, Loewenstein, and Prelec (2005) further showed that stress impairs cognitive flexibility, increasing heuristic reliance under volatile conditions. Thaler (2016) documented how emotional states such as fear during downturns and euphoria in bull markets systematically distort investor judgment.

Lusardi and Mitchell (2014) found that higher financial literacy correlates with better diversification and reduced herding, though partial knowledge can paradoxically inflate overconfidence. Barber and Odean (2001) documented the return-reducing effects of overconfidence through excessive trading. Collectively, this literature establishes a strong empirical and theoretical basis for examining psychological biases in the specific context of young Bengaluru professionals, a population whose characteristics have not been the subject of dedicated empirical investigation.

Theoretical Background

1. Traditional Finance and its Limitation

Traditional finance rests on three pillars: Expected Utility Theory (Von Neumann & Morgenstern, 1944), which models choice as probability-weighted outcome optimisation; Modern Portfolio Theory (Markowitz, 1952), which prescribes diversification-based risk-return optimisation; and the Efficient Market Hypothesis (Fama, 1970), which assumes asset prices fully reflect all available information. While theoretically coherent, these models fail to explain persistent market anomalies like excessive trading, momentum effects, asset bubblesthat reflect the systematic influence of human psychology.

2. Behavioural Finance

Behavioural finance challenges the rationality assumption by documenting systematic decision-making deviations. Kahneman and Tversky's (1979) Prospect Theory is foundational: investors evaluate outcomes relative to a reference point, and losses loom approximately twice as large as equivalent gains (loss aversion). Overconfidence, anchoring, familiarity bias, regret aversion, and herd behaviour are among the most consequential biases with direct implications for portfolio construction and market stability.

3. Neurofinance

Neurofinance provides the biological substrate for these findings. The amygdala, activated during loss events, can override the prefrontal cortex's deliberative reasoning—particularly under emotional arousal. Past investment experiences are encoded in neural memory pathways, conditioning future risk responses. In digitally rich environments where young investors face continuous real-time stimuli like prices, news, peer signals, neural arousal is chronically elevated, amplifying susceptibility to emotional decision-making (Camerer et al., 2005).

Research Methodology

Title of the Research

Investment Decision Dilemma: A Study of Young Professionals from Bengaluru

Research Objectives

- To identify common psychological biases affecting investment decisions.
- To analyse the role of emotions and mental processes in shaping investment decisions.
- To provide insights into how financial literacy and awareness can reduce the bias.

List of Data Collected

- **To identify common cognitive biases affecting investment decisions**

Required Information:

a. Demographic details

b. Investment experience

c. Perceived biases

d. Past investment outcomes

e. Awareness of biases

- **To analyse the role of emotions and mental processes in shaping investment behaviours.**

Required Information:

a. Emotional triggers

b. Cognitive evaluation

c. Role of external factors

d. Decision-making patterns: Risk-taking versus risk-averse tendencies

- **To provide insights into how financial literacy and awareness can counteract these biases**

Required Information:

a. Financial literacy level
b. Education sources
c. Use of investment apps, tools, or advisors for decision-making.

d. Perception of education impact

Sources of Data Collection

- Structured questionnaires distributed among individuals aged 23–31 in selected zones of Bengaluru (North, South, East).
- In-depth interviews (15 participants) for qualitative insights into investor psychology and decision-making behaviour.
- Academic journals, research papers, and books on investment decision-making, behavioural finance, and neurofinance.

Research Design

- **Descriptive:** To quantify biases and patterns in investment decisions.
- **Exploratory:** To understand the emotional and psychological underpinnings of these biases among young investors.

The study uses both **quantitative** (via surveys) and **qualitative** (through in-depth interviews and open-ended responses) approaches.

Sampling

Sampling Frame

Data was collected across four zones of Bengaluru:

- North Bengaluru
- South Bengaluru
- East Bengaluru
- West Bengaluru

Sampling Element

Working population and students in IT and Non-IT sectors, aged 23–31.

Sampling Size

71 valid survey responses; 15 in-depth interview participants.

Sampling Technique

Purposive non-probability sampling, targeting individuals aged 23–31 working or residing in Bengaluru across North, South, and East zones, covering both IT and Non-IT professional backgrounds.

Data Collection Method

Tools of Data Collection

- **Primary –** Questionnaire / Survey and In-Depth Interviews
- **Secondary –** Research Articles, Academic Journals, and Books

Methods of Data Analytics

- Factor Analysis
- Correlation Analysis
- Thematic Analysis (for qualitative data).

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Data Analysis And Interpretation

Demographic Profile of Respondents

Variable	Category	n	%
Age	23–25 years	40	56.3%
	25–27 years	4	5.6%
	29–31 years	27	38.0%
Gender	Male	43	62.0%
	Female	27	38.0%
Occupation	Working Professional	47	66.2%
	Student	24	33.8%
Sector	Non-IT	40	56.3%
	IT	31	43.7%
Education	Post Graduate	39	54.9%
	Graduate	32	45.1%
Location	North Bengaluru	27	38.0%
	South Bengaluru	25	35.2%
	East Bengaluru	19	26.8%
Inv. Experience	Less than 1 year	24	33.8%
	1–3 years	18	25.4%
	4–6 years	13	18.3%
	More than 6 years	16	22.5%

Table 1: Demographic Profile of Respondents

The sample skews toward the 23–25 age cohort (56.3%), representing early-career investors. Working professionals (66.2%) outnumber students, and postgraduates comprise 54.9% of respondents. Crucially, 59.2% of the sample has fewer than three years of investment experience, a profile that heightens susceptibility to psychological biases driven by limited financial exposure and nascent analytical frameworks.

Identifying Common Psychological Biases

The survey questions were designed to surface observable behavioural indicators of four core biases: familiarity bias, loss aversion, overconfidence, and herd behaviour. The data below is interpreted through each lens.

Familiarity Bias

Aspect	Response	n	%
Tend to invest in familiar sectors?	Yes – Always	28	39.4%
	Sometimes	25	35.2%
	No	18	25.4%

Table 2: Familiarity Bias – Sector Preference

A combined 74.6% of respondents always or sometimes prefer investing in industries they are familiar with through work or education. This is the most pervasive bias in the sample. IT-sector professionals in Bengaluru are particularly exposed, with occupational familiarity with technology companies creating an automatic preference for tech-sector equities, limiting diversification and increasing concentration risk. Interview evidence reinforces this: all 15 interviewees described sector familiarity as their primary allocation anchor, and only 3 of 15 identified this as a bias rather than a rational advantage.

Overconfidence Bias

Aspect	Response	n	%
Portfolio review frequency	Weekly	27	38.0%
	Monthly	19	26.8%
	Yearly	25	35.2%

Table 3: Overconfidence Indicator – Portfolio Monitoring Frequency

Weekly portfolio review (38.0%) is the most common monitoring frequency in the sample. In the behavioural finance literature, excessive monitoring is a well-documented manifestation of overconfidence—investors who overestimate their ability to time the market or detect meaningful short-term signals check their portfolios more frequently, increasing the likelihood of reactive, emotion-driven trades. Eleven of fifteen interview participants described using financial analysis tools (Screener, Moneycontrol, XIRR), yet the same participants reported overriding their research-based conclusions under peer pressure or time constraints, a pattern consistent with overconfidence in one's own judgment.

Loss Aversion

Aspects	Response	n	%
Likelihood of selling in market downturn	Likely	20	28.2%
	Neither Likely nor Unlikely	15	21.1%
	Unlikely	21	29.6%

Aspects	Response	n	%
	Very Unlikely	15	21.1%
Past losses influencing current decisions	Strongly Agree / Agree	30	42.3%
	Neither Agree nor Disagree	20	28.2%
	Disagree / Strongly Disagree	21	29.6%

Table 4: Loss Aversion Indicators

Loss aversion manifests in two related patterns. First, 28.2% of respondents are likely to sell during a market downturn, a classic panic-selling response driven by the disproportionate emotional weight of losses over equivalent gains. Second, 42.3% acknowledge that past investment losses actively influence their current decisions, indicating that loss memory is encoded behaviourally. Interview evidence deepened this finding: 12 of 15 participants described modifying their investment behaviour after significant losses, with avoidance of loss-associated instruments persisting for months or years regardless of changes in the underlying fundamentals.

Herd Behaviour

Aspects	Response	n	%
Primary factor influencing decisions	News / Media Reports	21	29.6%
	Personal Research	18	25.4%
	Peer Influence	17	23.9%
	Market Trends	15	21.1%

Table 5: Herd Behaviour Indicators – Decision Influence Factors

News and media reports (29.6%) and peer influence (23.9%) jointly account for 53.5% of primary decision-making influences, exceeding personal research (25.4%) as the combined dominant force. This pattern is consistent with information cascade theory and herd behaviour: investors update their beliefs based on observable signals from others rather than independent analysis. In Bengaluru's connected digital environment, social media investment communities, WhatsApp groups, and financial influencers serve as amplifiers of herd dynamics. Eleven of fifteen interview participants acknowledged that peer investment activity had influenced at least one decision they later questioned.

Emotional and Mental Processes in Investment Decision Making

The survey captured the emotional and psychological dimensions of decision-making by mapping how respondents react to losses, gains, market volatility, and advertised opportunities. These findings reveal the mechanisms through which emotional states translate into investment behaviour.

Impulsivity and Gut-Feeling Reliance

Aspects	Response	n	%
Impulsive decisions in past year (Q13)	Yes	30	42.3%
	No	41	57.7%
Rely on gut feeling (Q22)	Frequently	29	40.8%
	Occasionally	20	28.2%
	Rarely	22	31.0%

Table 6: Impulsivity and Heuristic Decision Making

42.3% of respondents admitted to at least one impulsive investment decision in the past year, and a combined 69% rely on gut feeling either frequently or occasionally. These figures confirm that heuristic, emotionally driven decision-making is prevalent and not incidental in this cohort. Neurofinance provides the mechanism: when emotional arousal is elevated, triggered by market fluctuations, peer activity, or media narratives, the amygdala's rapid, pattern-matching response overrides the slower, analytical processing of the prefrontal cortex, producing impulsive execution. Interview analysis reinforced this: eleven of fifteen participants described executing positions impulsively despite having conducted prior research that suggested restraint.

5.3.2. Emotional Reaction to Gains and Losses

Aspects	Response	n	%
Reaction to unexpected gains (Q14)	Reinvest the gains	26	36.6%
	Withdraw and use funds	25	35.2%
	Maintain existing portfolio	20	28.2%
Reaction to financial loss (Q18)	Reassess and learn	24	33.8%
	Other (case by case)	22	31.0%
	Avoid similar investments	16	22.5%
	Increase investment to recover	9	12.7%

Table 7: Emotional Reactions to Gains and Losses

The propensity of 35.2% of respondents to withdraw unexpected gains reflects the disposition effect, the tendency to realise gains prematurely while deferring the realisation of losses. This asymmetry in emotional processing is a hallmark of Prospect Theory: gains generate satisfaction that prompts early withdrawal, while losses generate pain that is avoided through non-action or doubling down. Critically, 12.7% of respondents report increasing their investments following losses, escalation of commitment behaviour wherein the emotional cost of accepting a realised loss is so high that additional capital is deployed to avoid acknowledgment of failure. In interviews, eight of fifteen participants described averaging down as their primary loss response, with most admitting the motivation was emotional rather than analytical.

Regret Aversion and Decision Regret

Aspects	Response	n	%
Frequency of investment regret	Always	20	28.2%
	Sometimes	21	29.6%
	Rarely	30	42.3%

Table 8: Investment Decision Regret

57.8% of respondents experience investment regret sometimes or always. Regret aversion which is the anticipation of future regret influencing current decisions, is one of the most behaviourally consequential emotional processes in investment contexts. It manifests as either excessive caution (avoiding decisions that might lead to regret) or over-persistence (refusing to exit positions that have declined, to avoid the regret of realising a loss). In interviews, regret was described as a persistent emotional undertone rather than a discrete event, shaping risk tolerance and investment confidence over time.

Response to Advertised Opportunities and Social Influence

Aspects	Response	n	%
Response to advertised opportunities	Avoid such opportunities	32	45.1%
	Actively invest after basic checks	22	31.0%
	Research thoroughly first	17	23.9%

Table 9: Response to advertised Investment Opportunities

While 45.1% avoid advertised investment opportunities that indicate healthy skepticism, 31.0% actively invest after only basic checks, suggesting vulnerability to anchoring on advertised returns and social proof. Only 23.9% conduct rigorous research before considering such opportunities. This finding is consistent with the availability heuristic: vivid, prominently advertised investment narratives are cognitively overweighted relative to their actual evidential value. Interviews confirmed this: respondents who described being drawn into advertised opportunities consistently reported relying on the emotional vividness of the pitch rather than independent analysis.

Financial Literacy and Bias Awareness

The closing reflection section of the survey was designed to surface the financial literacy landscape of the sample: what resources respondents use, what knowledge gaps they perceive, and whether they believe biases can be mitigated.

Self - Reported Knowledge Gaps

Perceived Skill Gap (Q28)	n	%
Financial Modelling	14	20.0%
Risk Assessment & Portfolio Diversification	13	18.6%

Perceived Skill Gap (Q28)	n	%
Equity Analysis	11	15.7%
Market Analysis	10	14.3%
Financial Reporting	9	12.9%
Accounting Fundamentals	8	11.4%

Table 10: Perceived Financial Knowledge Gaps

The two most cited knowledge gaps are financial modelling (20.0%) and risk assessment and portfolio diversification (18.6%) which are precisely the skills most relevant to bias reduction. An investor who cannot quantitatively model risk is more likely to rely on intuition and familiarity; one who does not understand diversification is structurally predisposed to familiarity bias. The gaps reported are not incidental: they represent the exact analytical competencies that, if developed, would provide the most direct counterweight to the biases documented earlier.

Resources Used for Financial Self Improvement

Resource Type (Q27)	n	%
Books or Courses	32	45.1%
Other (apps, advisors, investment tools)	22	31.0%
Financial Blogs / Websites	17	23.9%

Table 11: Financial Knowledge Resources

Books and formal courses remain the dominant self-improvement resource (45.1%), suggesting receptivity to structured learning. Digital tools like apps, blogs, and advisory platforms collectively account for approximately 55% of knowledge-building activity, reflecting the digitally-driven habits of the cohort. This presents an opportunity: fintech platforms that this demographic already engages with are well-positioned to embed financial literacy content, bias-awareness prompts, and decision-support tools directly into the investment experience.

Beliefs on Bias Elimination and Long-Term Decision Quality

Open-ended responses to whether financial biases can be completely eliminated were predominantly negative across the sample. The prevailing view was that while awareness, discipline, and structured frameworks can reduce the frequency and severity of bias-driven decisions, emotional and cognitive tendencies are deeply embedded in human psychology and are unlikely to be fully extinguished. This aligns with the neuroscientific evidence that emotional responses are pre-cognitive they arise before deliberative reasoning engages making complete elimination practically impossible.

Respondents' open-ended assessments of how decision-influencing factors affect long-term investment success revealed a broadly held belief that sustained market exposure and long-term commitment outperform short-term media-driven reactions. Several participants articulated that personal research and fundamental analysis are better predictors of long-term success than peer signals or trend-following even while acknowledging that they do not always act accordingly. This self-awareness gap is the key leverage point for literacy interventions: the sample

understands what it should do; what it lacks are the practical tools and decision environments to consistently do it under emotional pressure.

Case Analysis: Literacy as Partial Protection

Among the 15 interview participants, a clear gradient was observable between investment experience and bias management. Participants with more than three years of experience demonstrated more deliberate use of analytical tools like XIRR, fundamental analysis, sector valuation and were more likely to articulate a pre-defined investment thesis before execution. However, even experienced participants described departing from their analytical framework under social pressure or during market volatility, confirming that literacy provides partial but not complete protection against emotional bias.

Three participants described deliberately implementing personal rules to reduce impulsive behaviour such as imposing a 48-hour waiting period before acting on trending investment ideas, or requiring written justification before executing a new position. These self-imposed behavioural constraints are consistent with pre-commitment strategies documented in the behavioural economics literature as among the most effective tools for bridging the gap between stated and actual investment behaviour. Their spontaneous emergence among participants suggests both awareness of the problem and practical appetite for solutions.

Objectives	Key Survey Finding	Supporting Interview Evidence
Identifying biases	74.6% familiarity bias; 42.3% loss aversion influence; 53.5% herd/media-driven	All 15 show familiarity bias; 12/15 modify behaviour post-loss; 11/15 influenced by peers/media
Emotions & mental processes	42.3% impulsive decisions; 69% gut-feeling reliance; 57.8% experience regret regularly	11/15 report research-execution gap; 8/15 average down emotionally; 12/15 show regret aversion
Financial literacy as mitigation	Top gaps: modelling (20%) & diversification (18.6%); 45.1% use books/courses	Experienced investors use XIRR & analysis; 3/15 self-imposed pre-commitment rules

Table 12: Interview Responses Ratios

Findings

The three-objective framework yields a layered and internally consistent picture of investment decision-making among young Bengaluru professionals. The biases identified such as Familiarity bias, loss aversion, herd behaviour, and overconfidence are not isolated tendencies but an interconnected system: familiarity bias narrows the portfolio, loss aversion prevents corrective rebalancing, herd behaviour introduces correlated risk, and overconfidence sustains excessive monitoring that amplifies reactivity.

The emotional and mental process analysis reveals the mechanism by which these biases become behaviourally active. The documented gap between stated hypothetical responses and reported actual behaviour is particularly significant: it confirms that knowledge of what constitutes rational behaviour does not translate into rational execution when emotional arousal is present. This is the empathy gap in operation, and it has a direct implication which is financial education That is purely conceptual will not close the behaviour gap; it must also equip investors with in-the-moment regulatory tools.

The financial literacy findings are both diagnostic and constructive. The specific gaps identified like risk assessment and portfolio diversification align precisely with the biases most prevalent in the sample. The spontaneous emergence of pre-commitment strategies among experienced interview participants suggests that behavioural literacy, not just financial literacy, is the more critical competency for bias reduction. A respondent who understands diversification theoretically but lacks the emotional regulation to act on that understanding during a market decline has not yet acquired the skill that matters.

Conclusion

This study provides empirical evidence, structured across three research objectives, that cognitive and emotional biases are active and measurable determinants of investment behaviour among young professionals aged 23–31 in Bengaluru. It confirmed the prevalence of familiarity bias (74.6%), loss aversion (42.3%), overconfidence (38% weekly monitoring), and herd behaviour (53.5% media/peer-driven). The study also revealed the emotional and neurological mechanisms through which these biases operate which are impulsivity (42.3%), gut-feeling reliance (69%), regret aversion (57.8%), and a consistent gap between analytical intent and emotional execution. At last identified that knowledge gaps in risk assessment and diversification compound bias impact, while financial literacy particularly when paired with practical behavioural tools offers meaningful though incomplete protection.

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