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"A Study on Investors' Perception and Investment Behaviour Towards the Capital Market with Special Reference to Mangaluru City"

[1]**Dr. Subrahmanya K C**, [2] **Mr. Chandrakantha Shenoy**,

[1]Assistant Professor in Management, [2]Assistant Professor in Commerce

[1]Department of Business Administration,

[2]Department of Commerce

[1&2] **MPM Government. First Grade College of Professional and Business Management, Karkala - 574104**

Abstract: This study examines the behaviour of investors towards the capital market with special reference to Mangalore City. The research focuses on understanding how psychological factors, financial literacy, and external influences affect investment decisions of individual investors. Recent studies indicate that investor behaviour is often influenced by biases such as overconfidence, herding, and loss aversion, leading to deviations from rational decision-making. The study adopts a descriptive research design using primary data collected through structured questionnaires from investors in Mangalore. The findings are expected to provide insights into local investment patterns and contribute to better policy formulation and investor awareness in the region.

Index Terms **-** Behavioural Biases, Representativeness, Familiarity bias, anchoring bias, Regret aversion, Gamblers fallacy & Overconfidence

I. INTRODUCTION

Investor behaviour has become a central theme in financial research due to the increasing participation of retail investors in capital markets. Traditional finance theories assume rational decision-making; however, behavioural finance highlights that investors often act irrationally due to psychological, emotional, and social influences. Recent studies emphasize that investor decisions are shaped by biases, market sentiments, and external information sources.

Behavioural Finance is the study of the influence of psychology on the behaviour of financial practitioners and the aftermath effect on markets. Behavioural Finance is of interest of the present day because it helps explain WHY and HOW markets might be inefficient. It overcomes the difficulties when compared to other financial assessments. Behavioural finance is a framework that augments some parts of standard finance and replaces other parts. It describes the behavior of investors and managers; it describes the outcomes of interactions between investors and managers in financial and capital markets; and it prescribes more effective behavior for investors and managers.

"Behavioral finance is a new archetype of finance, which seeks to supplement the standard theories of finance by introducing behavioral aspects to the decision-making process. Contrary to the Markowitz and Sharp approach, behavioral finance deals with individuals and ways of gathering and using information. Behavioral finance seeks to understand and predict systematic financial market implications of psychological decision

processes. In addition, it focuses on the application of psychological and economic principles for the improvement of financial decision- making" (Olsen, 1998).

1.1 Heuristic Decision Process

The decision process by which the investors find things out for themselves, usually by trial and error, lead to the development of rules of thumb. In other words, it refers to rules of thumb which humans use to make decisions in complex, uncertain environments. The reality, the investors decision making process are not strictly rational one, though the investors have collected the relevant information and objectively evaluated, in which the mental and emotional factors are involved. It is very difficult to separate. Sometimes it may be good, but many times it may result in poorer decision outcomes. It includes:

1. **Representativeness**

Representativeness refers to the tendency to form judgments based on stereotypes. While representativeness may be good rule of thumb, it can also lead people astray. For example Investors may believe that a healthy growth of earnings in the past may be representative of high growth rate in future. They may not realize that there is a lot of randomness in earnings growth rates. If a person Mr. x is successful with his portfolio for a long period then he will be followed by the other investors thinking that Mr. x has chosen the winning stocks.

2. **Overconfidence**

People tend to be overconfident and hence overestimate the accuracy of their forecasts. Overconfidence stems partly from the illusion of knowledge. The human mind is perhaps designed to extract as much information as possible from what is available, but may not be aware that the available information is not adequate to develop an accurate forecast in uncertain situations. Overconfidence is particularly seductive when people have special information or experience.

3. **Anchoring**

People who have to make judgments under uncertainty use this heuristic by starting with a certain reference point (anchor) and then adjust it insufficiently to reach a final conclusion. For example, some investors invest in the stocks of companies that have fallen considerably in a very short amount of time. In this case, the investor is anchoring on a recent "high" that the stock has achieved and consequently believes that the drop in price provides an opportunity to buy the stock at a discount.

4. **Gambles Fallacy**

In the gambler's fallacy, an individual erroneously believes that the onset of a certain random event is less likely to happen following an event or a series of events. This line of thinking is incorrect because past events do not change the probability that certain events will occur in the future.

5. **Availability Bias**

This heuristic is used to evaluate the frequency or likelihood of an event on the basis of how quickly instances or association come to mind. When examples or associations are easily brought to mind, this fact leads to an over estimation of the frequency or likelihood of this event. Example: People are over estimating the divorce rate if they can quickly find examples of divorced friends.

2. Literature Review

2.1 Gokhale and Mittal (2024) Recent literature strongly supports the role of behavioural finance in understanding capital market dynamics. A systematic literature review analysed over 248 research papers and found that investor behaviour significantly deviates from market efficiency assumptions, influencing portfolio decisions and market outcomes.

2.2 Sundavadara and Sanghvi (2024) identified that behavioural finance integrates psychological factors such as heuristics, biases, and emotions into financial decision-making, providing a broader understanding of investor actions.

2.3 Gorzon et al., 2024 explains that behavioural biases significantly affect portfolio performance and may lead to suboptimal returns.

2.4 Annapurna and Basri (2024) found that factors like mood, weather, and external conditions influence investor behaviour, often leading to irrational investment choices.

2.5 Baveja & Verma, 2024 indicates that higher financial literacy improves investment decision-making and increases participation in capital markets, while lack of knowledge leads to poor investment choices and susceptibility to fraud.

2.6 Shefrin, H., Beyond Greed and Fear: Understanding behavioral Finance and psychology of Investing, New York: Oxford University Press, 2000. The behavioral biases are generally classified into heuristic driven and frame dependent biases. Heuristics are the foundations of thumb that market participants use to modify advanced deciding process, whereas frame dependent denotes the frame of mind of the financial practitioner. Samples of heuristic driven biases are availability bias, representativeness, gamblers false belief (gamblers fallacy), anchoring and adjustment, and aversion to ambiguity. The frame dependent biases embrace loss aversion, mental accounting, and cash illusion.

2.7 Hoffmann, A. and Post, T., "What Makes Investors Optimistic, What makes them Afraid", Netspar working Paper Series No. 44, 2012, states it is often majorly classified into four strands. the primary strand deals with drivers of optimism. The second strand of literature focuses on optimism of analysts in foretelling expected returns and projecting target costs Third strand deals with identification of this bias in investors. The fourth strand explores the presence and impact of this bias on money markets.

2.8 Lakshman, M.V., Basu, S. and Vaidyanathan, R., "Market wide herding and therefore the impact of institutional investors within the Indian capital market", working Paper 327, Indian Institute of Management, Bangalore, 2011, herd behavior is that the tendency of investors to follow the people. Researchers examine the factors that would result in herd behavior within the investment choices of people. They supply a measure to estimate herding in money markets. Literature additionally provides the proof of this bias in developed and developing countries as in India.

The concept of the disposition effect is introduced by **Shefrin, H. and Statman, M.,** "The Disposition to Winners too Early and Ride Losers too Long: Theory and Evidence", Journal of Finance, vol. 40, pp. 777-79, 1985. The presence of this bias has been documented in U.S., Republic of Finland and China identifies the things which will result in the disposition impact study the impact of this bias on mercantilism volume and compare this bias between individual and institutional investors.

3. Research Gap:

The existing literature largely focuses on investor behaviour in metropolitan or national contexts, with limited attention to tier-2 cities like Mangalore. There is a noticeable gap between investor awareness and actual participation in capital markets at the local level. Additionally, insufficient research exists on the impact of behavioural biases, financial literacy, and digital influences on investors in this region. Hence, a city-specific study is essential to understand the unique investment behaviour in Mangalore.

4. Statement of the Problem:

Researchers have studied the investors investment pattern based on individual behaviors in metros and big cities but a tier 2 city like Mangalore (India) has not come under the view of such researches and the investors of cities like Mangalore are not alike that of metros. To broadly categorize and analysing gaps here, it would be justified to state that the existing studies are inadequate to find out if at all there has been any change in the investment pattern or portfolio preferences of the Investors in a country that has undergone economic and financial reforms in recent times.

5. Objectives of the Study

1. To determine the factors influencing investor behavior.
2. To examine the factors affecting investor behavior in investment decision making process.

6. Scope of the Study:

This research will cover mainly the study on the behaviour of Indian retail investors with respect to Mangalore city, which study the factors which affecting the investor behaviour.

7. Research Methodology:

Research Type: Exploratory
Sampling Technique: Non-Probabilty
Sampling Type: Convenience Sampling
Sampling Unit: Retail Individual Investors
Sample Size: 94
Data Used: Primary Data
Data Tool: Questionnaire
Area under Study: Mangalore, Karnataka State

8. Limitations of the Study:

1. The study is limited to Mangalore city only.
2. The views of respondents will be subjected to their bias & prejudice.
3. The findings of this study would be based on sample size, so they cannot be generalized.

9. Analysis & Result:

Sl.no	Demographic Characteristics	Categories	Frequency	Percentage
1	**Gender**	Male	55	58.5
		Female	39	41.5
		Total	94	100
2	**Marital Status**	Single	36	38.3
		Married	56	59.6
		Divorced	2	2.1
		Total	94	100
3	**Educational Qualification**	High School or Equivalent	2	2.1
		PUC	5	5.3
		Graduate Degree	61	64.9
		Masters or Ph.D	26	27.7
		Total	94	100
4	**Occupation**	Services	34	36.2
		Business	10	10.6
		Professional	20	21.3
		Others	30	31.9
		Total	94	100
5	**Annual Income in INR**	Below Rs.150000	25	26.6
		Rs.150000-Rs.300000	23	24.5
		Rs.300000-Rs.450000	20	21.3
		Rs.450000-Rs600000	12	12.8
		Rs.600000 and above	14	14.9
		Total	94	100
6	**Percentage of Income Invested**	less than 10%	39	41.5
		10% to 20%	32	34
		20% - 30%	10	10.6
		30% - 40%	10	10.6
		40% and above	3	3.2

		Total	94	100
7	**Years of Investment in Capital Market**	0-5 Years	67	71.3
		6-10 Years	19	20.2
		11-15 Years	5	5.3
		16-20 Years	3	3.2
		Total	94	100

Reliability Test:

Sl No	Factor	Items	Cronbach Alpha
1	Representativeness	3	0.568
2	Familiarity Bias	3	0.546
3	Anchoring Bias	3	0.513
4	Regret Aversion	4	0.713
5	Gamblers Fallacy	3	0.664
6	Overconfidence	4	0.673
	Overall	20	0.554

The above table shows the Cronbach Alpha for each individual factors and as well as for overall factors. As the overall Cronbach alpha for the 20 items is 0.554 so we can say that the research data is more reliable. When we come to individual factor for representativeness the Cronbach Alpha is 0.568 and the 3 items have been considered for this factor, for the familiarity bias we have considered 3 items and for the Cronbach Alpha for this is 0.546, for Anchoring bias we have considered 3 items and for this the Cronbach Alpha is 0.513, for the factor regret aversion we have considered 4 items and the Cronbach Alpha is 0.713, for the factor gamblers fallacy 3 items were considered and the Cronbach Alpha for this is 0.664 and for the factor overconfidence 4 items were considered and the Cronbach Alpha for this is 0.673. For all the individual factors the Cronbach Alpha is more than 0.5 which shows that the data is reliable and for the overall 20 items were considered and the Cronbach Alpha is 0.554 which is more than 0.5 we can say that the data reliability is good and we can consider for the study.

KMO and Bartlett's Test

Before we load the items for factor analysis it is imperative to know the sample adequacy for the study we are using. To confirm the sample size is sufficient for the study the researchers used the KMO test. The value of KMO for the good study should be more than 0.50 and in our study it is 0.598 which is more than the required. This means that the selected sample for the study is sufficient as per the KMO.

Bartlett's test has been conducted to know the correlation among the items chosen for the study. In this study the correlation among the selected items is significant and it is what the requirement for conducting the factor analysis using Principal Component Method.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.598
Bartlett's Test of Sphericity	Approx. Chi-Square	400.945
	Df	190
	Sig.	.000

Communalities

Communalities are the one which tests the contribution of each item variance to the total variance. Here each item selected should have the value more than 0.50. Since all the items value is more than 0.50 we can proceed for conducting the factor analysis.

Communalities		
	Initial	Extraction
P2 1	1.000	.732
P2 2	1.000	.660
P2 3	1.000	.650
P2 4	1.000	.663
P2 5	1.000	.713
P2 6	1.000	.576
P2 7	1.000	.818
P2 8	1.000	.793
P2 9	1.000	.812
P2 10	1.000	.630
P2 11	1.000	.748
P2 12	1.000	.628
P2 13	1.000	.760
P2 14	1.000	.532
P2 15	1.000	.554
P2 16	1.000	.688
P2 17	1.000	.613
P2 18	1.000	.677
P2 19	1.000	.647
P2 20	1.000	.592
Extraction Method: Principal Component Analysis.		

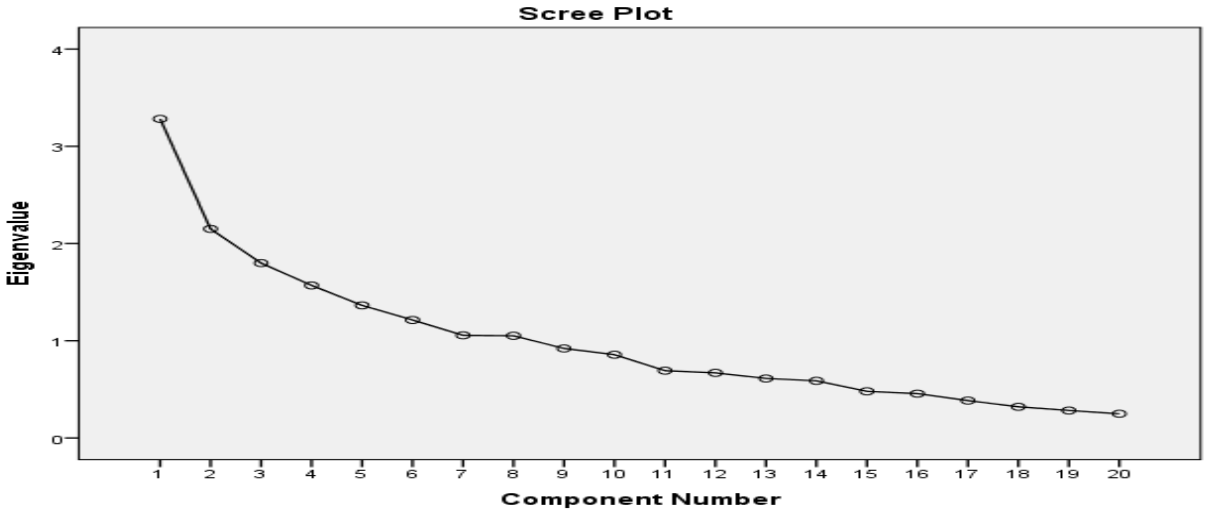
Total Variance Explained

Total Variance Explained						
	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.282	16.410	16.410	2.327	11.633	11.633
2	2.150	10.752	27.163	2.219	11.093	22.726
3	1.799	8.993	36.156	1.825	9.127	31.853
4	1.569	7.847	44.003	1.725	8.623	40.476
5	1.364	6.820	50.823	1.543	7.714	48.190
6	1.214	6.069	56.892	1.505	7.525	55.715
7	1.056	5.280	62.172	1.222	6.109	61.824
8	1.052	5.258	67.430	1.121	5.606	67.430
9	.921	4.603	72.033			
10	.857	4.284	76.317			
11	.693	3.463	79.781			
12	.670	3.349	83.130			
13	.612	3.061	86.191			

14	.588	2.940	89.131			
15	.480	2.401	91.532			
16	.456	2.281	93.812			
17	.385	1.924	95.737			
18	.321	1.604	97.341			
19	.283	1.414	98.754			
20	.249	1.246	100.000			

For the above table it is understood that the eight factors have been extracted for the out of 20 items and the total variance explained by these for factors is 67.43% which is very good for the study. Usually the total variance more than 60% is good for the proposed studies, however in this study it is more than 60%. The no of factors mainly decided based on the Eigen Values where is it should be more than 1.

The no of factors also can be decided based on the Screen Plot. The same has been listed below



Rotated Compound Matrix

Rotated Component Matrix[a]								
	Component							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
P2 13	.789							
P2 11	.748							
P2 12	.655							
P2 10	.530							
P2 18		.805						
P2 19		.767						
P2 17		.605						
P2 20		.595	-.408					
P2 1			.803					
P2 3			.662					
P2 2			.594					
P2 16				.689				
P2 14				.656				
P2 6				.639				
P2 9					.863			
P2 5						.822		
P2 4						.567		
P2 15						.481		
P2 8							.871	

P2 7								.888

From the above table the items can be grouped into the particular factor. Based on the matrix scores they are grouped into factors and then they are labelled as below

Sl. No	Items	Factor Name
1	I feel down when there is increase in the price of the stock that I previously owned	Regret Aversion
2	I feel very bad when I sell a stock that could have earned still better returns	
3	I regret when I miss a better price for the stock I wished for	
4	I regret when I buy a stock too late and that stock price falls after I purchase	
5	I feel I have enough knowledge of stock market to make decisions	Overconfidence
6	The stock I pick performs always better than my expectations	
7	I am confident of my ability to do better than others in picking better stocks	
8	when I buy/sell stock i will decide on my own	
9	I often blindly imitate decisions of others when making investment decisions	Representativeness
10	If an experienced person buys more and more stock, I too will buy the same stock	
11	I often consider the information that majority of investors focus on as a basis for trading in the stock market	
12	I will buy a stock that has gone up in multiple sessions thinking that it will still go up in the next sessions	Gamblers Fallacy
13	I will hold on to the stock that has fallen in multiple sessions thinking that it will go up in the next session	
14	I feel always that investing in public sector company stocks is less riskier	
15	I will sell the stock only when i get my price	Anchoring Bias
16	I am more comfortable investing in shares of public sector companies than private sector companies	Familiarity Bias
17	I usually invest in companies I am familiar with	
18	I feel to liquidate the position after it has gone up in a series of subsequent trading sessions	
19	I don't sell a stock today if it was priced higher in the past compared to current market price	Anchoring Bias
20	I will buy a stock only when I get the stock at my price	Familiarity Bias

11. Conclusion

This study focuses on examining the relationship between investor behavioural factors and demographic characteristics in the Indian market scenario. The findings indicate that investors often make irrational decisions, especially during market downturns, influenced by various behavioural factors identified through factor analysis. The research further establishes that demographic variables such as age, gender, education, and occupation significantly influence investor behaviour and decision-making patterns. Although understanding investor behaviour across different market situations is complex, the study provides valuable insights into how Indian investors respond to market conditions and make investment decisions.

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