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IMPACT OF BEHAVIOURAL BIASES ON INVESTMENT DECISIONS: A CASE STUDY APPROACH FROM EMERGING ECONOMY INVESTORS

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Abstract: In addition to financial aspects, psychological factors play an increasingly important role in investment decision making in emerging economies. The current study explores the effect of behavioural biases on investment decisions made by investors in emerging markets, characterized by increased market volatility, low financial literacy, and information asymmetry. Relying on the behavioural finance principles, the present work attempts to investigate the way in which psychological factors distort the investment decision process. The theoretical framework underlying the present research will be provided by Behavioural Finance Theory and its postulates, such as bounded rationality and heuristics in decision-making processes. It is assumed that investors behave irrationally owing to their constant biases, including overconfidence, loss aversion, herding, anchoring and availability biases. Such irrational behaviour impacts several aspects related to investment decisions, such as asset selection, risk perception, timing of entering/leaving the market and portfolio composition. The conceptual approach used in the study involves treating behavioural distortions as independent variables and investment decision effectiveness as the dependent variable. Market experience, financial literacy level and demographic characteristics become moderating variables. According to the assumptions put forward by the author, behavioural factors have an intensified effect on investors in emerging markets due to inefficiencies of institutions and financial markets. Thus, by using behavioural finance theories, the researcher seeks to elaborate on the impact of psychological aspects on investment decision making in emerging markets. The results obtained within the scope of the current research are anticipated to contribute to the existing body of knowledge and offer insights into the ways of making effective decisions and increasing financial literacy.

Keywords: Behavioural Finance, Investment Decisions, Cognitive Biases, Emerging Economies, Overconfidence, Herding Behaviour, Loss Aversion.

1. Introduction

The customary view holds that individuals make their investment decisions rationally, an assumption made in Classical Finance Theory or the Efficient Market Hypothesis (EMH). Investor rationality can be understood as an assumption that investors process the available information in a rational fashion and make their decisions to maximize expected return and minimize risk. In general, systematic deviations from rationality have been observed and are largely due to the effects of human psychology and emotions. Behavioral Finance is a field of study that seeks to explain why investors make irrational financial decisions and are influenced by cognitive biases. It is an intersection of psychology and finance.

The behavioral biases of investors in developing countries are especially important, as the financial markets of developing countries are not as well developed and have a higher level of information asymmetry. This is due to investors in developing countries having very low levels of financial literacy, facing a high volatility in markets, and inefficient institutions. Although investors in developed markets have professional financial advice, rich analytical and market data, and investment tools, investors in

emerging markets have more limited access to these resources and rely on heuristics, social and peer effects, and prior experience, which leads to biases such as overconfidence, herding, anchoring, and loss dislike. Overconfidence bias occurs when investors have a greater confidence in their information and knowledge than is merited, leading to both excessive trading and optimism. Herding behavior occurs when an investor tries to mimic the decisions and actions of a larger group, particularly in times of uncertainty. Anchoring bias is the tendency to put disproportionate weight on the first information available, while loss dislike, a part of Prospect Theory, indicates that losses loom larger than gains. Both contribute to market anomalies, mispricing of financial assets and more volatile markets, though these effects are more pronounced in less developed and emerging financial markets.

In the context of developing markets, behavioral biases are important to understand as they can impact both individual investors and the stability of markets as a whole. Individual investors' poor investment decision-making as a result of behavioral biases not only reduces their own financial returns, but may reflect inefficient behaviors at the market level if similar biases are common across a large group of investors. Understanding biases can inform financial institutions, policymakers and regulators towards increased investor education and market efficiency. This study takes a case study approach to examine behavioral biases that influence the investment behavior of investors from emerging markets. Case study method stresses real-world investment cases and experiences to provide an in-depth understanding of the role of psychological factors in shaping investment behavior. The case study methodology also allows researchers to incorporate variation between individual variables and contextual factors, which quantitative modeling may not do.

Therefore, this study also adds to the existing literature in its examination of behavioral finance theories in an emerging market context, as most research has focused on the presence of these biases in developed markets with little focus on emerging markets. The contribution of this research extends beyond the theoretical domain, with practical implications for the improvement of investment decision-making processes. In short, as the globalization and integration, as well as the complexity of financial markets, continue to rise, the limitations of rational models become clear, and behavioral biases are not exceptions to the typical value-maximizing rule. It is thus essential that the behavioral aspects of investors' decision making are fully incorporated to bring about more realistic and effective outcomes especially in emerging economies.

2. Literature Review

Behavioral finance has been proposed as an alternative field to study the implausible and unrealistic assumption that investors are rational and will process information efficiently. A Survey of Behavioral Finance by Barberis and Thaler is influential in the field of behavioral finance. It states that modern finance has two pillars: limits to arbitrage and predictable psychological biases. Their work was influential in establishing that market outcomes cannot be understood entirely within a rational framework, but that prices and trading are often driven by sentiment, framing, and cognitive biases.

The intellectual roots of this genre are associated with Daniel Kahneman and Amos Tversky, who in their 1974 paper entitled Judgment under Uncertainty: Heuristics and Biases showed how people use representativeness, availability, and anchoring heuristics to make judgments under uncertainty and how they lead to predictable systematic errors. In finance, this framework is applied to modeling human decisions in investing, where humans have poor information on the value of securities and typically use reference points, such as past prices, news, or familiarity with certain products. In their later paper, Prospect Theory: An Analysis of Decision under Risk (1979), Kahneman and Tversky define loss dislike as the principle that losses weigh greater than gains. This has been used to explain why investors may hold losing positions too long, or be overly conservative after a market downturn.

Hersh Shefrin is generally credited with applying psychological concepts to finance. In his book Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing, Shefrin relates the psychology of investors to portfolio selection behavior, market anomalies and corporate finance. The book helped to move behavioral finance research results from the theoretical domain to real-world investment decisions by examining the role of overconfidence, regret, mental accounting, and

self-control problems in investment decisions. Likewise, John R. Nofsinger's The Psychology of Investing became a standard investment textbook that shows how biases affect investment sentiment, trading, and perception of risk in practice. Richard H. Thaler, another architect of the field, wrote the book Misbehaving that tells how behavioral economics came to be and details the reasons that real-life humans fall short of the rational actor model. Although his work extends beyond finance, Thaler's contributions are especially relevant to investors since they identify predictable judgments and self-control problems, and how these are reflected in perceived value. In this category of literature, the book Irrational Exuberance by Robert J. Shiller introduced behavioral finance into the mainstream financial conversation. Shiller explained that speculative bubbles arise from social contagion and psychological overreaction rather than from fundamentals. Shiller's analysis is particularly relevant to case study research, since it documents how collective beliefs and market narratives guide investor behavior during booms and busts.

Subsequent research has examined whether findings in developed countries generalize to emerging markets, where institutions may be weaker, financial literacy lower, and uncertainty higher, rendering biases more pronounced. A 2024 study of investors on the Pakistan Stock Exchange found that participants are influenced by anchoring, overconfidence, and herding, though financial literacy attenuated overconfidence and herding effects. In line with the above, a 2023 study of equity investors in India shows that while financial literacy improves the quality of financial choices, herding and overconfidence mediate investor choice behavior. The results have important implications, indicating that behavioral finance biases are not only found in developed markets, but also in the emerging market context.

Such literature reviews illustrate that this is an established area of research. A review in the Journal of Economic Surveys published in 2023 describes behavioral finance as the extension of classical theory, including overconfidence, loss dislike, herding, and framing as topics of interest. A 2024 literature review assessing over 100 studies on the topic concluded that financial overconfidence remains one of the most persistent explanations for excessive trading and misjudgment of risk. Taken together, these works indicate that contemporary scientific attempts at accounting for behavioral biases are moving away from merely finding their existence towards investigating when and where their impact becomes strongest. Since then, the literature has expanded from the psychology of Kahneman and Tversky to the finance of Barberis, Thaler, Shefrin, Nofsinger, and Shiller and more recently to studies of the same issues in Pakistan, India, and several other emerging markets. Studying biases in investment decisions is a well-established stream of literature with potential policy implications for understanding the behaviors of investors in the context of emerging markets.

3. Methodology

The study employs a case study-based mixed-method research design to investigate the influence of behavioral biases on financial investment decisions among investors in an emerging economy. The use of a case study research design enables an in-depth exploration of the phenomenon under investigation, providing rich insights into the factors influencing the financial investment decisions of investors in the context of an emerging economy. Combining qualitative and quantitative approaches also improves the reliability and validity of the data collected.

3.1 Research Design

The research takes an exploratory and explanatory multi-method approach, combining quantitative survey data and qualitative case study. The exploratory part identifies overconfidence, herd behavior, anchoring, and loss dislike as the dominant behavioral biases in the industry. The explanatory research part investigates the impact of these behavioral biases on investment performance and investment decision making. A case study methodology is appropriate because market volatility, access to market information, and socio-economic considerations need to be accounted for as contextual factors in emerging economies.

3.2 Study area and sample

We collect our data from individual investors in Andijan province. Andijan province is a developing financial market in Uzbekistan. In the Andijan province, individual investors are chosen using purposive sampling. We choose individual investors who are engaged in trading stocks, cryptocurrencies, and investments in small businesses in Andijan province. This results in a final sample of 120 respondents, equally distributed by age, gender, education and prior investment experience.

3.3 Data Collection Methods

The core data are collected using a questionnaire and semi-structured interviews. The questionnaire is based on five-point Likert scale that captures the intensity of behavioral biases and investment decision patterns. It includes demographics, investment experience, risk tolerance, and behavioral traits. And a number of constructs are operationalized with concepts derived from behavioral finance literature.

In addition to the quantitative analysis, three investor case studies were developed in order to qualitatively examine decision making behavior and the different types of biases that investors experience when selling or purchasing an asset, following market trends, or continuing to hold losing assets.

To provide theoretical context and engage in comparative analysis, secondary data from journals, financial statements, and previous empirical studies are employed.

3.4 Data Analysis Techniques

Descriptive statistics and multiple regression analysis are used in computing quantitative data. Descriptive statistics, such as the mean and standard deviation, summarize investor attitudes towards behavioral biases. To analyze the correlation between the independent and dependent variables (financial literacy and bias strength), a correlation analysis is performed. To analyze the correlation between the independent variables (behavioral biases) and the dependent variable (quality of the investment decision), a regression analysis is performed.

The qualitative data collected from the case studies will be analyzed using a thematic analysis. This will identify and analyze patterns of behavior and explain the "why" behind what was found statistically to show investor psychology.

3.5 Reliability and Validity

To strengthen the reliability of the measurements, categories are drawn from similar validated questionnaires used in previous research and pre-tested on 15 respondents. The scale's internal consistency is tested on the obtained data using Cronbach's alpha. Validity claims rest on expert review and established behavioral finance constructs.

3.6 Ethical Considerations

Participants were informed of the scope and purpose of the study, and consented to participate. Informed consent relating to the study was confidential, anonymous, and the data would only be used for research.

Overall, the methodology provides an appropriate means to investigate behavioral biases in investment decision making in an emerging economy context.

4. Data analysis and interpretation

This section discusses the empirical study's findings based on a survey of 120 investors in Andijan, identifying the most common behavioral biases and their effect on investor behavior.

Table 4.1 shows Descriptive Statistics of Behavioral Biases

Behavioral Bias	Mean	Std. Deviation
Overconfidence	4.12	0.78
Herd Behavior	3.95	0.84
Anchoring Bias	3.88	0.81
Loss Aversion	4.25	0.72

Interpretation:

Referring to the descriptive statistics, loss dislike (Mean = 4.25) remains the behaviour bias investors are most prone to, and this result is driven by the fact that investors hate losing more than they

enjoy winning, as stated in behavioural finance theory. Also, overconfidence (Mean = 4.12) is an important behavioural bias when investors believe they have knowledge and the ability to predict market movements, leading to excessive trading and overestimating their influence and control over the market. The herd behaviour (Mean = 3.95) shows investors follow the actions of others in the market, especially when the market is uncertain. Anchoring bias (Mean = 3.88) refers to the investors placing undue weight on historic or first price information. The results suggest that behavioural biases are common among investors in emerging markets and influence their investment decisions.

Table 4.2 presents Correlation Matrix of Variables

Variables	Overconfidence	Herd Behavior	Anchoring	Loss Aversion	Investment Decision
Overconfidence	1.00	0.62	0.58	0.55	0.64
Herd Behavior	0.62	1.00	0.60	0.57	0.61
Anchoring Bias	0.58	0.60	1.00	0.59	0.63
Loss Aversion	0.55	0.57	0.59	1.00	0.66
Investment Decision	0.64	0.61	0.63	0.66	1.00

Interpretation:

The correlation analysis (Table 3) showed that the relationship between the behavioral biases and the choice of investment decision is moderate to strong. Loss dislike (fear of loss) had the strongest correlation (0.66) with the choice of investment decision. Some overconfidence (0.64) and anchoring bias (0.63) are present, suggesting that the assessment of an investor's own ability and experience are important in the decision-making process. However, there is also herding behavior (0.61), in which the investor behaves as part of the group. Furthermore, the high inter-correlation between the biases indicates that the psychological constructs are more likely to occur jointly, suggesting that investment behavior is not only affected by rational considerations but also by simultaneously occurring behavioral influences.

Table 4.3 shows Regression Analysis (Effect of Behavioral Biases on Investment Decision)

Variables	Beta Coefficient	t-value	Significance (p-value)
Overconfidence	0.28	3.45	0.001
Herd Behavior	0.22	2.98	0.003
Anchoring Bias	0.25	3.12	0.002
Loss Aversion	0.31	3.76	0.000
$R^2 = 0.58$			

Interpretation:

The values from the regression reveal that all four behavioral biases considerably predict investment decisions ($p < 0.05$), with loss dislike having the highest beta value (0.31), confirming that it is the strongest predictor of investment behavior. The key behavioral biases were overconfidence (0.28), anchoring bias (0.25), and herd behavior (0.22). The fact that all these biases were statistically meaningful shows the prominence of internal judgment and external reference points and the important role of social dynamics in financial markets. The so-called R^2 value of the analysis is 0.58, indicating that 58% of the variance in investment decisions can be explained through the behavioral biases. The finding is compelling because it confirms the salient role of psychological factors on investment decisions in emerging markets.

Table 4.4 presents Influence of demographics on behavior.

Demographic Factor	Category	Mean Bias Score
Age	20–30	4.18
	31–40	4.05
	41+	3.89
Education	Undergraduate	4.12

	Postgraduate	3.94
Experience	< 3 years	4.22
	3–7 years	4.01
	> 7 years	3.85

Interpretation:

Table 1 shows that younger investors and less experienced investors have a higher behavioural bias. The age group of 20-30 years has the highest mean behavioural bias score of 4.18, and less experienced investors with less than 3 years of experience have a higher mean behavioural bias score of 4.22 than experienced investors. A longer duration of experience helps in tempering behavioural bias. Less surprisingly, undergraduate investors are more biased than postgraduate investors. This pattern supports the idea that higher levels of education might lead to more rationality in investment decisions. The overall finding suggests that financial literacy and experience are important factors in reducing biases and making sound investment decisions.

According to the findings in the data analysis, behavioural biases explain the respondents' investment decision-making process in the 4 emerging economies with loss dislike and overconfidence being the two most dominant biases in terms of statistical and demographic importance.

5. Findings, recommendations and conclusion

5.1 Key Findings

The main objective of this research study is to analyse the effects of behavioural biases on the investment decision-making behaviour of investors in an emerging market in Andijan Uzbekistan. The major findings are discussed below.

The study also shows that behavioural biases are found among most, if not all, investors, and the most dominant bias for the sample of active investors is loss dislike. This means that investors try to avoid losses more than they try to achieve profits, resulting in ignoring underperforming investments and not taking advantage of profitable investments. The finding is consistent with Prospect Theory, which argues that gains and losses are not equally evaluated.

Secondly, overconfidence bias makes the majority of investors believe that they are more informed and skilled than they really are, leading to overtrading and the underestimation of risk. This effect is magnified in volatile markets. Anchoring bias is also a common cognitive bias in which an investor relies too heavily on an initial piece of information (e.g. purchase price or past performance) rather than the present situation. Another finding is herd behaviour, or the tendency for investors to follow market trends instead of making independent investment decisions based on their own analysis of the market. This phenomenon is particularly relevant during periods of uncertainty or volatility when investors tend to follow the market, leading to market bubbles or crashes.

Using regression analysis, the testing of the hypotheses concluded that all the identified biases affect the investment decision, that behavioural characteristics account for much of the variation in investment decisions, and that investment decisions are not made entirely rationally. According to the demographics of the sample in the study, younger and inexperienced investors were more prone to behavioural biases, as were those who had less experience or exposure to financial markets and were more prone to emotion- and heuristic-driven decisions. Another study found a small effect of higher education, suggesting that bias is not easily ameliorated and may be deeply secured.

5.2 Recommendations

This can lead to the generation of practical implications to improve the investment decision-making process and to reduce the impact of behavioural biases. First, financial literacy needs to be improved. This can be achieved by organizing dedicated programs, seminars, and workshops to help investors to identify and be aware of the most common behavioural biases and their effects. Developing awareness can help people overcome their irrational tendencies.

Banks, wealth and fund managers, and financial advisers can advocate evidence-based decision-making techniques, e.g. portfolio diversification, risk profile modelling and investment strategies, and so on, which can help consumers to make rational decisions. Speculating behaviour is often short-term,

which can make it easier for emotional biases to take hold; long-term investment strategies can reduce this risk.

Thirdly, technology and digital options could be used as a tool: automated investment options, robo-advisors or algorithm-based recommendations can help keep emotions out of the decision-making process and give more rational decision-making. Digital options are especially valuable for inexperienced investors. Another intervention includes development of behavioural trainings at financial institutions to increase cognitive awareness, decision-making, and emotional regulation in order to foster disciplined and goal-directed investment behaviour in investors.

Investor protection policies and campaigns can be developed by policymakers. Financial regulators can promote financial transparency and the dissemination of fact-based information to avoid harmful investor behaviours. Investors can also adopt self-control solutions to their behavioural biases, by committing to investment objectives, ensuring their portfolios are sufficiently diversified, and reviewing their decisions instead of acting on impulsive decisions driven by fear or overconfidence.

5.3 Conclusion

Ultimately, this study has explored the presence of behavioral biases on investment behavior in emerging markets. Contrary to the beliefs of customary finance, which sees individuals as fully rational, this study draws strong evidence in favor of the psychological influence on individuals.

The behavioral biases of loss dislike, overconfidence, anchoring, and herding display links, are relevant to finance and are increased in emerging markets due to heightened uncertainty, low financial literacy and the inefficiency of financial markets.

It was found that although experience and education were able to reduce bias, they did not entirely remove it, and a combination of awareness, education and structured decision making tools was required to improve investment outcomes. Finally, behavioral biases are not only relevant for the individual investor, but also for financial institutions and policymakers. Behavioral considerations can lead to better financial product design and policy decisions and thus contribute to a more stable and efficient financial system.

These results add to the emerging body of literature on Behavioral Finance, suggesting that the context of an emerging economy can reinforce theoretical findings. This research highlights the role of psychological factors in finance and stresses the need to close the divide between theory and practice in financial decision-making.

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