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IMPACT OF BEHAVIOURAL FACTORS ON THE INVESTMENT PERFORMANCE OF HOUSEHOLD INVESTORS IN JAFFNA DISTRICT, SRI LANKA

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ABSTRACT

Investment is the present commitment of funds for a future period of time with the intention of obtaining future payments that will compensate the investor for the time period the funds are committed, the expected inflation during this period and the uncertainty of the future payments. Maximization of return is the ultimate objective of an investment and the success of an investment is assessed based on the performance of the investment. Investment performance can be considered as the outcome of an investment program. The objective of this study is to examine the impact of behavioural factors on the investment performance of household investors in Jaffna, Sri Lanka. The relevant data for the study were collected form 1093 sample respondents through questionnaire which is considered as a primary source of data and a household who engages in investment is considered as the sampling unit of this study. The proportionate stratified random sampling method was adopted to select the sample respondents. In this study, the explanatory variables of behavioural factor components include heuristic theory aspects of representativeness, overconfidence, anchoring, and availability bias; prospect theory aspects of loss aversion, regret aversion and mental accounting; and herding. Investment performance of individual households is considered as response variable. For the purpose of examining hypotheses, this study employed the PLS-SEM, a variance-based structural equation modeling method. The findings of this study reveal that cognitive heuristics such as anchoring, representativeness, and herding behaviour can improve investment performance. Conversely, emotional biases, including regret aversion, loss aversion, and overconfidence, tend to impair performance. By examining the role of psychological biases, the study offers valuable insights into why investors may deviate from rational decision-making and how such behaviour affects their financial outcomes.

Keywords: *Investment, Investment performance, Behavioural biases, Heuristics*

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1. Background of Study

Household finance is a field of finance equivalent to corporate finance, and it elucidates the methods in which households use financial instruments to achieve their financial goals. The major components of household finance include financial planning and management of income, expenditure, savings, investments, liabilities and risk. Household saving and investment play a significant role in wealth creation (Campbell, 2006).

According to Reilly and Brown (2012) investment is the present commitment of fund for a future period of time with the intention of obtaining future payments that will compensate the investor for the time period the funds are committed, the expected inflation during this period and the uncertainty of the future payments. Investment process of individual household investors involves with searching the answers for the important questions such as why they want to invest, how much of their disposable income they want to invest, for how long they want to invest and most importantly the timing of such investment. Particularly, the process of investment decision making involves arriving at a number of decisions such as type, mix, amount, timing and grade of investment and disinvestments.

Through the process of investment decision making investors transfer present purchasing power of their fund to the future with the objective of improving their future cash inflows and living standard. However, in investment decision making, investors face severe difficulties in choosing the appropriate field of investment (Fisher and Statman,1997) and given the potential for substantial future financial outcomes, the investment decisions made today are critical for ensuring financial security in later life

Standard or traditional finance assumes that investors are rational, wealth-maximizers, and making perfect investment decisions based on the risk and return of investments. They have the entire relevant information and cognitive ability to estimate return and risk and, based on these information and estimation they make their choices (Von Neumann, and Morgenstern, 1945). However, behavioural finance argues that human decisions often rely on their nature, intuitions, habits and cognitive or emotional biases and the assumption of rational and utility maximizing economic decision makers are unrealistic in the real world (Kahneman and Tversky, 1979; Shiller, 1995 and Statman, 1999). Behavioral finance suggests that investors do not always act rationally, and the investment decisions are highly influenced by cognitive and emotional biases that make the investors to make irrational decisions (Barber and Odean, 1999).

Saving and investment offer various benefits to individual households and financial independency and higher standard of living are the main benefits to them. Therefore, in the entire life cycle of a person, financial freedom and financial security depend basically on his income, saving and investments. Maximization of return is an ultimate objective of an investment and the success of an investment is assessed based on the performance of the investment. Investment performance can be considered as the outcome of an investment program (Feibel 2003). Therefore, the achievement of investment objective highly depends on the performance of the investment and investors provide greater attention on the future performance of the investments when selecting investment choices.

The Jaffna district of Sri Lanka has been affected by civil war for last few decades. During the civil war period, due to lack of adequate income, saving and financial service facilities, households in this district failed to engage in serious investment programs. However, in the present post war context, different types of investment opportunities are available to them and some of them are new and unfamiliar to them. In addition, now they are able to access various sources of information which are necessary for their investment decision making. In this background, it is important to investigate the role of behavioural factors in the investment performance of household investors in the Jaffna district of Sri Lanka.

2. Statement of Problem

Household investment outcomes play critical role in household wealth accumulation and economic growth of economies (Dumas, Kurshev, & Uppal, 2009). The present investment environment is dynamic and changing rapidly which makes investment decision making as a challenging activity for investors. Particularly, investors make investment decisions currently but, the results of those decisions which is called as investment performance will occur in future. However, the investor is unable to precisely forecast the future conditions and these future conditions will play a critical role in shaping the performance of investments of the investors.

At present, investors have a wide variety of market and investment choices. There are various types of investment options with different types of features such as risk, return, safety and liquidity. Due to this increased complexity of financial products and services, individuals face difficulties in selecting the optimum investment options for their investment purpose. It requires investors to hold perfect understandings on different investment options. However, when compared to institutional investors, most of the individual household investors have lower level of awareness and knowledge on investment options (Hirshleifer, 2015).

The household finance concepts could be positive or normative and positive specifies that what households actually do; whereas, normative proposes what they should do. Campbell (2006) argues that there is a gap between normative household finance and positive household finance. In other words, there are deviations between the observed actual financial behaviours of households and the theoretically ideal financial behaviour of households. This is the central point of this study. Various studies observed the gap between returns available to investors and actual returns received by them due to fundamental mistakes in the decision-making process (Kim and Nofsinger, 20081).

According to standard financial theories, investors are assumed to be rational and wealth maximizers and investors make investment decisions based on all necessary information and their decisions are solely guided by the objectives of maximizing return and minimizing risk (Baker, Hargrove & Haslem, 1977). However, the idea of perfect rationality was criticized behavioural finance scholars and they proved that real investor behaviour deviates from rational behaviour due to the factors such as non-availability of information, awareness and assessment, risk tolerance and understanding, personal qualities and investor emotions, mood and expectations (Arthur, 1995; Bodie, Kane and Marcus, 1998; Almansour et al., 2023). Mansor and Lim (1995) and Aduda, Odera and Onwonga (2012) argued that investors are not guided by traditional standard investment practices and their irrational behaviours lead to poor financial performance. According to Kahneman and Tversky (1979) investors often use heuristics when making decisions and these heuristics may lead to incorrect decisions.

In developing regions like the Jaffna District of Sri Lanka, household investment behaviour is still evolving. Even though households exhibit a strong tendency toward saving, there fail to engage in effective investment activities and the existence of this gap between saving and investment suggests that households may lack the financial knowledge, analytical skills, and access to vital information required for effective investment decision-making. Accordingly, their investment performance may be significantly influenced by behavioural biases rather than rational appraisal. Furthermore, socio-economic conditions, cultural influences, and post-

conflict economic recovery in Jaffna further influence financial behaviour. Over reliance of households on informal advice, past experiences, or community trends for making investment decisions indicates the possibility for the existence of behavioural biases.

There is limited empirical research focusing specifically on role of behavioural biases in the investment performance of households in the Jaffna District. Most existing studies in Sri Lanka have focused on general investor behaviour or stock market participants, with less attention provided to household-level investment dynamics in regional context. Therefore, the key research problem is to examine the extent to which behavioural biases influence the investment performance of households in Jaffna District and addressing this problem is important for enhancing investment decision-making, improving financial well-being and supporting economic development at the household level.

3. Research Objective

The objective of this study is to examine the impact of behavioural factors on the investment performance of household investors in Jaffna, Sri Lanka. Particularly, the study aims to identify the role of key behavioural biases such as overconfidence, herding behaviour, availability bias, anchoring, loss aversion, regret aversion, mental accounting and representativeness in determining the financial outcomes of household investors.

4. Significance of the Study

This study is significant as it contributes to a deeper understanding of how behavioural factors influence the investment performance of household investors in Jaffna, Sri Lanka. By examining the role of psychological biases, the study offers valuable insights into why investors may deviate from rational decision-making and how such behaviour affects their financial outcomes. The findings will support individual investors by increasing awareness of their own cognitive biases, thereby helping them make more informed and effective investment decisions. Moreover, the study holds practical importance for policymakers, financial advisors and financial institutions, as it highlights the need to design educational programs and advisory services that address behavioural tendencies among household investors.

5. Review of Literature

Prospect theory, developed by Kahneman and Tversky (1979), is a cornerstone of behavioral finance that challenges the perfect rationality assumption of traditional financial models and it suggests that individuals assess potential outcomes in relation to a reference point, rather than concentrating merely on final wealth. According to Waweru et al. (2008), prospect theory describes some states of mind that place impacts on an individual's decision-making processes, which include: Regret aversion, Loss aversion and Mental accounting. Regret aversion is a psychological mistake which arises due to too much of focus on feelings of regret during the decision-making process (Plous, 1993). Loss aversion bias arises when investors express a different degree of emotion towards gains than towards losses and under these losses are weighted about twice as heavily as gains (Tversky and Kahneman, 1991). According to Thaler (1999), mental accounting is the cognitive process of assigning financial events into categories, making financial decisions and evaluating outcomes.

Another important theory in this field is heuristics, refers to the mental shortcuts or rules of thumb that investors use to simplify complex financial decisions. Tversky and Kahneman (1974) introduced three factors under heuristics namely, representativeness, availability bias and anchoring and later Waweru et al. (2008) included Gambler's fallacy and Overconfidence into heuristic theory. Representativeness is the tendency to judge an investment based on how closely it matches a familiar pattern (Tversky and Kahneman, 1974). Availability bias occurs when recent or easily recalled information disproportionately influences decisions (Javed et al. 2017). Anchoring refers to the reliance on an initial reference point when making financial judgments, even if it is irrelevant (Lord et al. 1979). Overconfidence is the tendency of investors to overestimate their knowledge, skills, or ability to predict market outcomes (Odean,1998). Herding refers to the behavior of following the actions of a larger group rather than relying on one's own analysis (Hirshleifer and Teoh, 2003).

Chen (2025), Kumar and Kumar (2024), Glaser and Weber (2021), Allameh et al. (2015), Ranjbar et al. (2014), Khan (2014), Aduda et al. (2012); Ozerol et al. (2011), Chen et al. (2007), Kim and Nofsinger (2003) and Barber and Odean (2000) identified influence of different set of behavioural factors on investment performance of investors in various countries. In the Sri Lankan context Wickramathilaka and Silva (2024), Rajeshwaran (2020), Gunathilaka (2014), Menike et al. (2015) and Kengatharan and Kengatharan (2014) explored the role of behavioural factors in shaping investment performance.

Javed et al. (2017), Kanojia et al. (2023) and Menike et al. (2015) observed the positive influence of representativeness bias on investment performance whereas Lakonishok et al. (1994), Barberis et al. (1998), and Hirshleifer (2002) indicated that representativeness bias has negative impact on investment performance.

Nabeshima et al. (2025), Chen (2025), Kumar and Kumar (2024), Tekce and Yılmaz (2015), Hoffmann and Shefrin (2014), Kengatharan and Kengatharan (2014), Lee et al. (1991), Trinugroho and Sembel (2011), Park (2022), Hsu and Shiu (2010), Gervais and Odean (2001) and Barber and Odean (2000) concluded that overconfidence bias has a negative impact on investment performance. In contrast, Risal et al. (2025), Menike et al. (2015), Javed et al. (2017), Glaser and Weber (2007) and Benos (1998) found the positive influence of overconfidence bias on investment performance.

Pervez et al. (2025), Menike et al. (2015), Ranjbar et al. (2014), and Kengatharan and Kengatharan (2014) observed the positive influence of anchoring bias on investment performance whereas Dong (2025), Ahmad etal. (2021), Zhong (2025) and Tang (2025) found a negative association among them. According to Nizar and Daljono (2024), availability bias positively associated with investment performance. However, Kumar et al. (2021) and Barberis et al. (1998) indicated that availability bias has negative impact on investment performance.
Radha et al. (2026), Bodnaruk and Simonov (2016) and Ranjbar et al. (2014) asserted the negative relationship between loss aversion bias and investment performance. In case of regret aversion bias, Menike et al. (2015) observed the positive impact however, Wangzhou et al. (2021) and Paudel and Yedgarian (2024) found the negative impact of regret aversion on investment performance.

Apochi et al. (2024), Menike et al. (2015), Ranjbar et al. (2014) and Khan (2014) found the positive impact of herd behaviour on investment performance, whereas, Aduda et al. (2012),

Chang et al. (2000), Demirer et al. (2010), Nofsinger et al. (1999), Rajeshwaran (2020) and Kengatharan and Kengatharan (2014) observed that herding affects performance of investors negatively. Kahneman and Tversky (1984) concluded a positive association between mental accounting bias and investment performance, however, Shefrin and Statman (1985), Barberis et al. (2001), Odean (1998) and Ranjbar et al. (2014) confirmed a negative relationship among them.

A considerable number of studies explored the role behavioural factors in shaping the investment performance and those studies were carried out in different countries, in different context and in different time frame. Investment decision making relates with the behaviour of investors and it may differ from one country to another based on the economic, cultural and social environments of those countries. Similarly, these aspects may change over time. Although behavioural finance has gained increasing attention in Sri Lanka, existing studies have mainly examined the impact of behavioural factors on investment decision-making instead of investigating their direct impact on investment performance. Moreover, most of the studies in the Sri Lankan context are based on stock market investors, leaving household investors in regions such as Jaffna underexplored. In addition, there is limited empirical evidence focusing on how multiple behavioural factors simultaneously influence investment performance at the household level, especially in post-conflict and developing regional contexts. Therefore, a clear gap exists in integrating behavioural factors with investment performance among household investors in Jaffna, highlighting the need for a comprehensive and context-specific investigation.

This study attempts to examine the following hypotheses.

H_1: The representativeness bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_2: The overconfidence bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_3: The anchoring bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_4: The availability bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_5: The loss aversion bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_6: The regret aversion bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_7: The mental accounting bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

H_8: The herding bias has an impact on investment performance of household investors in Jaffna district, Sri Lanka.

6. Research Methodology

The relevant data for the study were collected through questionnaire which is considered as a primary source of data. A household who engages in investment is considered as the sampling unit of this study. The proportionate stratified random sampling is considered as the most appropriate and efficient sampling method for this study. Since households with surplus

income can engage in investment activities aggressively, the entire population of the study is divided into income-based strata. Finally, the relevant data for the study were collected form 1093 sample respondents in the Jaffna District. The sample respondents of this study encompass a diverse socio demographic spectrum of the Jaffna district population, including factors such a age, gender, marital status, educational qualifications, occupation and monthly income, as detailed in Table 1.

In this study, the explanatory variables of behavioural factor components include heuristic theory aspects of representativeness, overconfidence, anchoring, and availability bias; prospect theory aspects of loss aversion, regret aversion and mental accounting; and herding. Investment performance of individual households is considered as response variable. The questionnaire items were adapted from Waweru et al. (2008), Mittal and Vyas (2011) and Aziz and Khan (2016). For the purpose of examining hypotheses, this study employs the PLS-SEM, a variance-based structural equation modeling method.

Table 1: The demographic Features of Respondents (n=1093)

Demographic variables	Category	Frequency (N)	Percentage (%)
Gender	Male	398	36.4
	Female	695	63.6
Marital Status	Single	216	19.8
	married	877	80.2
Age	30 years or below	134	12.3
	31-40 Years	289	26.4
	41-50 Years	324	29.6
	51-60 Years	244	22.3
	Over 60 Years	102	9.4
Educational background	G.C.E. (O/L) and below	81	7.4
	G.C.E. (A/L)	380	34.7
	Diploma	158	14.5
	Graduates	297	27.2
	Post Graduates	177	16.2
Occupation	Government	379	34.7
	Private	322	29.5
	Semi Government	115	10.5
	Self Employed	207	18.9
	Retired	70	6.4
Monthly Income	Below LKR 50,000	210	19.2
	LKR 50,001–LKR 80,000	340	31.1
	LKR 80,001–LKR 110,000	257	23.5
	LKR 110,001–LKR 140,000	150	13.7
	LKR 170,001–LKR 200,000	79	7.2
	Above LKR 200,000	57	5.3

Source: Author's Own Creation

7. Data Analysis

7.1 Review of Measurement Model

The measurement model's assessment criteria entail scrutinizing several facets, including reliability, convergent and discriminant validity.

Table 2: Summary of the measurement model with mean (M), standard deviation (SD) and factor loading (FL)

		M	SD	FL
I believe recent investment performance predicts future results.	RES 1	3.54	1.130	0.916
I evaluate investments based on a small sample of past experiences.	RES 2	3.50	1.121	0.897
I evaluate an investment's quality based on how closely it matches a "good investment" profile.	RES 3	3.53	1.130	0.962
I have strong knowledge of investments and available avenues.	OVC 1	3.19	1.098	0.866
I am confident in outperforming others when selecting investments.	OVC 2	3.16	1.146	0.900
I take full responsibility for my investment decisions.	OVC 3	3.34	1.127	0.844
I base new investment decisions on past experiences.	ANC 1	3.66	1.180	0.876
I use a property's purchase price as a reference point when trading it.	ANC 2	3.45	1.188	0.899
I adjust my expectations slowly despite changing market conditions.	ANC 3	3.55	1.109	0.949
I prefer familiar investments due to easier access to information.	AVB 1	3.38	1.078	0.804
I rely on advice from friends and relatives for investment decisions.	AVB 2	3.23	1.104	0.862
Recent news or events heavily influence my investment choices	AVB 3	3.33	1.095	0.734

I become more loss-averse after experiencing a loss.	LOS 1	3.24	1.235	0.881
I prioritize avoiding losses over achieving returns in investments.	LOS 2	3.22	1.226	0.926
I feel anxious about possible investment losses.	LOS 3	3.15	1.251	0.845
I avoid selling losing properties.	REA 1	3.10	1.305	0.869
I quickly sell properties that have gained value.	REA 2	2.94	1.125	0.883
I regret holding losses longer than selling gains too soon.	REA 3	3.04	1.095	0.824
I evaluate each investment separately.	MEA 1	3.47	.966	0.939
I overlook relationships between different investments.	MEA 2	3.19	1.043	0.730
I follow the majority in choosing investments.	HER 1	3.38	1.021	0.854
I base my investment decisions on other investors' actions.	HER 2	3.37	1.092	0.901
I quickly react and follow changes in others' investment decisions.	HER 3	3.25	1.093	0.878
I feel my investments provide adequate returns for the risk.	IVP 3	3.48	1.010	0.735
My investments show satisfactory capital appreciation.	IVP 5	3.34	1.047	0.755
The investment risk is acceptable to me.	IVP 6	3.27	1.065	0.713
I find it convenient to earn returns and recover capital	IVP 7	3.37	1.062	0.738
Recent investment returns meet my expectations.	IVP 9	3.43	.953	0.745
I have no fear of losing capital in my investments.	IVP 10	3.60	.880	0.742

Source: Author's Own Creation

Table 3: Summary of Cronbach's Alpha, Composite Reliability and Average Variance Extracted

	Cronbach's alpha	Composite reliability (rho_a)	Average variance extracted (AVE)
Anchoring	0.893	0.894	0.825
Availability Bias	0.719	0.725	0.642
Herding	0.851	0.858	0.770
Loss Aversion	0.862	0.883	0.783
Mental Accounting	0.621	0.822	0.707
Overconfidence	0.840	0.848	0.758
Regret Aversion	0.824	0.839	0.739
Representativeness	0.915	0.916	0.856
Investment Performance	0.833	0.834	0.545

Source: Author's Own Creation

Table 4: Fornell-Larcker Criteria

	ANC	AVB	HER	IVP	LOS	MEA	OVC	REA	RES
ANC	0.908								
AVB	0.202	0.802							
HER	0.092	-0.091	0.878						
IVP	0.444	0.188	0.233	0.738					
LOS	-0.072	0.309	-0.243	-0.308	0.885				
MEA	0.190	0.068	0.360	0.162	-0.100	0.841			
OVC	-0.011	0.296	-0.047	-0.250	0.415	0.081	0.870		
REA	0.042	0.276	-0.180	-0.298	0.571	0.020	0.485	0.859	
RES	0.528	0.194	0.116	0.331	-0.036	0.271	0.050	0.083	0.925

Source: Author's Own Creation

Table 5: HTMT Statistics

	ANC	AVB	HER	IVP	LOS	MEA	OVC	REA	RES
ANC									
AVB	0.254								
HER	0.106	0.114							
IVP	0.512	0.243	0.276						
LOS	0.081	0.389	0.279	0.360					
MEA	0.221	0.104	0.518	0.209	0.161				
OVC	0.036	0.378	0.065	0.296	0.483	0.089			
REA	0.053	0.353	0.217	0.355	0.671	0.060	0.584		
RES	0.583	0.239	0.132	0.377	0.046	0.320	0.058	0.100	

Source: Author's Own Creation

The measurement model was evaluated through reliability, convergent validity, and discriminant validity. As summarized in Table 02 and Table 03 the entire factor loadings and average variance extracted (AVE) values exceeded 0.5, suggesting strong convergent validity (Hair et al., 2019). Reliability analyses including Cronbach's alpha, and composite reliability (CR) all surpassed the 0.7 threshold, confirming internal consistency (Hair et al., 2019). Discriminant validity was evaluated using the Fornell–Larcker criterion and the Heterotrait–Monotrait ratio (HTMT). Table 04 shows that the square root of each construct's AVE is greater than its correlations with other constructs, while Table 05 indicates that all HTMT values fall below the stricter thresholds of 0.90, indicating that participants clearly distinguished among the constructs (Fornell & Larcker, 1981; Henseler et al., 2015).

7.2 Review of Structural Model

Following the validation of the measurement model, the structural model was assessed to examine the relationships between behavioural factors and investment performance.

According to the results, R squared (coefficient of determination) and adjusted R squared values are 0.406 and 0.402 respectively. It indicates that 40.2% of the observed variance in investment performance is explained by behavioural factors. Furthermore, the model's predictive relevance was confirmed by a Stone-Geisser Q^2 value of 0.393, which exceeds zero and indicates adequate predictive capability of the model.

7.2.1 Path Coefficients and Significance

Hypothesis testing was conducted using bootstrapping procedures. The results in Table 06 reveal that anchoring ($\beta = 0.312$, $p < 0.001$), availability bias ($\beta = 0.264$, $p < 0.001$), herding behaviour ($\beta = 0.131$, $p < 0.001$), and representativeness ($\beta = 0.118$, $p < 0.001$) exert significant positive effects on investment performance. Conversely, loss aversion ($\beta = -0.143$, $p < 0.001$), overconfidence ($\beta = -0.165$, $p < 0.001$), and regret aversion ($\beta = -0.209$, $p < 0.001$) reveal significant negative effects. Mental accounting ($\beta = 0.009$, $p > 0.05$) was found to be statistically insignificant. These findings indicate the dual role of behavioural biases, where

certain cognitive heuristics may improve investment performance, whereas emotional biases tend to impair performance of investments.

Table 6: Results of Structural Model

Hypothesis	Path	Original sample (O)	Sample mean (M)	Standard deviation (SD)	T statistics	P values	Decision
H_1	ANC -> IVP	0.312	0.311	0.028	11.048	0.000	Support
H_2	AVB -> IVP	0.264	0.264	0.029	9.218	0.000	Support
H_3	Her -> IVP	0.131	0.131	0.029	4.432	0.000	Support
H_4	LOS -> IVP	-0.143	-0.142	0.029	4.879	0.000	Support
H_5	MEA -> IVP	0.009	0.011	0.024	0.378	0.705	Not Support
H_6	OVC -> IVP	-0.165	-0.165	0.028	5.953	0.000	Support
H_7	REA -> IVP	-0.209	-0.210	0.032	6.449	0.000	Support
H_8	RES -> IVP	0.118	0.118	0.031	3.775	0.000	Support

Source: Author's Own Creation

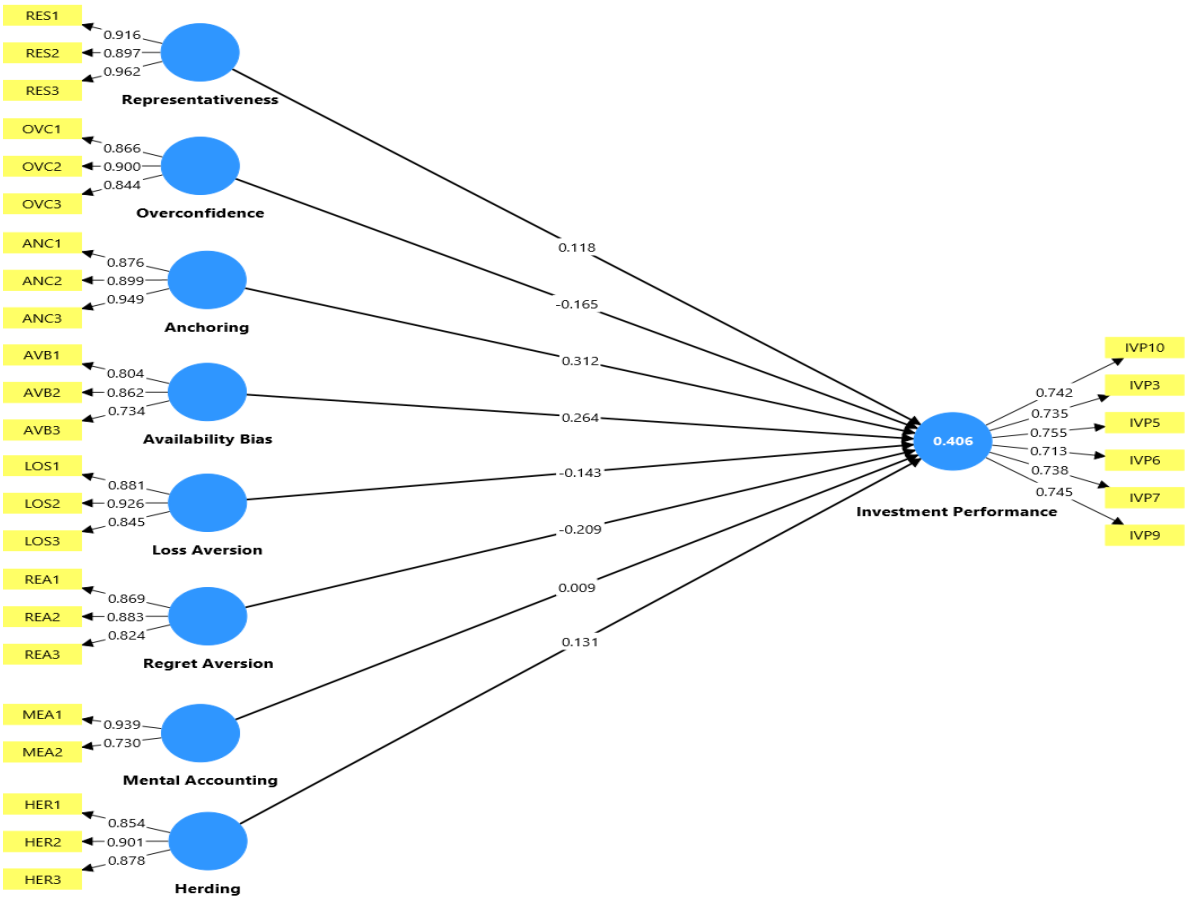

Figure 01: Bootstrapping Results of the Structural Model

Source: Developed by the Author

8. Discussions on Findings

The findings of this study offer strong empirical support for the relevance of behavioural finance in explaining investment performance. Households in the study region provide more emphasis for saving but not in converting those savings into effective investments. They may fail to provide proper attention for searching necessary information which are essential for investment decision making. In most of the situations, they don't know the full list of investment options available for them. Due to these reasons, their investment decisions are based on the easily available information and their primary sources of information for investment decisions are their friends and relatives. In addition, in the study region, the availability of sources for financial information regarding the various investment options are also limited. The regional and local newspapers fail to publish adequate updated information or articles in this regard. These restrictions forced them to invest their money in investment options which are familiar to them only.

Regret aversion behaviour indicates that when making investment decisions investors anticipate the possibility of regrets which may arise from a wrong selection and this fear of regret induce people to change their decisions. The results of the study reveal the significant negative impact of regret aversion behaviour on investment performance. Paudel and Yedgarian (2024) also confirmed the negative influence of regret aversion on performance. According to the results, respondents provided more emphasis for possible regrets which may arise due to their investment decisions and for avoiding those regrets; resulted in poor investment performance. Generally, the people in the study region exhibit a habit of saving and investing for the purpose satisfying certain long term and life-based goals such as meeting the higher education and marriage expenses of their sons and daughters. In addition, they provide more attention in protecting the value of their money earned by them through hard work. In this background, the negative outcomes which may arise from their wrong investment decisions would be very sensitive one for them. The regret aversion bias may lead to poor investment performance through decision paralysis, tendency to hold losing investments for too long, premature selling of winning investments, risk-avoidant behaviour, over-reliance on past decisions and experiences and poor learning and adaptability.

Moreover, this study found the significant negative influence of loss aversion bias on investment performance and this finding is consistent with the findings of Radha et al. (2026) and Bodnaruk and Simonov (2016). The notion of loss aversion states that losses are weighted about twice as heavily as gains. In other words, a loss always appears larger than a gain of equal size. The results indicated that respondents provide more weights for losses than gains. The same rationale behind the regret aversion behaviors is applicable in the case of loss aversion behaviour too. The higher level of sensitivity among the respondents in achieving their aforementioned life goals forced them to provide more attention in protecting their saved money from losses. Disposition effect, selling winning investments too early, excessive risk avoidance, poor portfolio rebalancing, short-term oriented decision-making, panic reactions, unwillingness to learn from mistakes may be the possible reason for the negative impact of loss aversion bias on investment performance.

The overconfidence effect is a cognitive bias in which someone believes subjectively that his decision is better or more reliable than it objectively is. The results of the study reveal that

overconfidence bias plays a significant negative role in investment performance, and it is in agreement with the findings of Nabeshima et al. (2025), Kumar and Kumar (2024), Hoffmann and Shefrin (2014) and Kengatharan and Kengatharan (2014). The higher level of educational qualifications of people in the study area may be a reason behind the overconfidence bias. Particularly, overconfidence bias result in poor performance through underestimation of risk, poor information processing, inadequate diversification, ignoring expert advice, delayed recognition of mistakes, short-term oriented behaviour, illusion of control and excessive trading activities.

According to the results of the study representativeness bias positively influences investment performance and this finding is consistent with the findings of Kanojia et al. (2023) and Menike et al. (2015). Since households in the study area are not ready to spend adequate time and effort in making investment decisions, they tend to use small number of past experiences as a basis for their investment decisions. In addition, lack of other relevant information and lack of knowledge and awareness on various investment decision making techniques and tools also force investors to depend on recent past experiences to make investment decisions. Generally, representativeness bias is often considered as a source of mistakes, but under certain conditions it can have a positive impact on investment performance, mainly in environments where quick judgment and pattern recognition are valuable. Representativeness permits investors to simplify complex information by comparing present situations with known scenarios and make faster investment decisions under uncertainty. Thus, it is possible to reduce decision time and can offer an advantage of capturing short-term opportunities. In addition, representativeness supports experience-based learning and screening efficiency; and facilitates early identification of opportunities. However, it is important to consider that the positive influences of representativeness are context dependent.

The results indicate a positive influence of herd behaviour on performance and Apochi et al. (2024), Menike et al. (2015) and Ranjbar et al. (2014) also confirmed this relationship. Herd behavior refers to the tendency of individuals to follow and imitate the actions and decisions of a larger group instead of depending on their own independent judgment. Lack of knowledge on investment and investment decision making, lack of adequate essential information and lack of self-confidence force households to follow the investment decisions of others. In addition, they also believe that the decisions of a larger number of people would not be wrong. Potential for information aggregation and avoiding extreme individual errors, reduction in information costs, psychological comfort and confidence and quick response to changes in market and other conditions may be the possible reasons for positive influence of herding behaviour on performance. Particularly, in a condition of information asymmetry, herding may serve as a rational behaviour.

A positive association between anchoring and investment performance was observed by this study in line with Pervez et al. (2025), Menike et al. (2015) and Kengatharan and Kengatharan (2014). Anchoring behaviour can positively impact investment performance by providing structured reference points, reducing decision complexity and promoting consistency and when implemented in an appropriate manner, it can improve investment decision efficiency and thereby investment outcomes. In this regard, experience-based anchoring may play a significant role. Investors often depend on past experiences or information as anchors. When

these experiences are appropriate and precisely interpreted, they can improve quality of investment decisions and result in enhanced investment performance.

The results reveal the positive influence of availability bias on investment performance and faster decision-making under uncertainty, focus on relevant and accurate recent events, reduction of information overload, leveraging socially shared information and quick adaptation to market changes contribute to the positive impact of availability bias on performance. Nizar and Daljono (2024) also confirmed the positive effect of availability bias on investment performance.

9. Recommendations

Based on the findings, this study suggests the following recommendations. Households should be stimulated to improve their awareness on behavioural biases and implement investment approaches that minimize the negative impact of regret, loss aversion, and overconfidence biases. Concurrently, household investors may improve their investment performance by strategically adopting positive cognitive biases, such as anchoring and representativeness, by using past experiences and appropriate reference points to guide decisions.

Households should allocate adequate time and efforts for making investment decisions and they should try to collect the all-relevant information. They should attempt to identify and know the full list of investment options available to them and their associated features. It is also necessary to develop their knowledge and skills on the investment decision making approaches, tools and techniques. Households can achieve the above aspects with the support of internet facilities and assistances of financial advisers. They can also participate in investment training and awareness programs which are conducted by Colombo Stock Exchange and other relevant bodies.

The bias of regret aversion supports investors to make cautious decisions. However, excessive concern on regrets may result in loosing of good investment and profit earning opportunities. Thus, investors should understand that entire investment activities carry certain level of risks and in order to earn more return those risks should be tolerated by them. Further, in order to handle those risks investors can diversify their portfolio and can make investment decisions with the support of adequate and reliable information and investment analysis techniques. In the case of overconfidence bias, it should be handled in a proper manner. In order to avoid the negative outcomes of this bias, household investors should be open to experience, and they should find a real understanding of their own abilities. Further, investors should analyze the entire information carefully and if it is necessary they should obtain advice from experts and consultants. Regarding the loss aversion bias, investors should not provide too much weight for previous losses in subsequent decision making and they should consider current information carefully.

In order to improve the awareness, knowledge and skills of households regarding investment decision making, investment training and awareness programs should be conducted and the content of these programs should include the investment related concepts and rational investment decision making process and approaches. Particularly, most of the investors have little or no knowledge in quantitative investment analysis and decision-making techniques and

fail to adopt them. Similarly, a considerable percentage of households don't have adequate knowledge and awareness on various kinds of investment options available to them and their unique characteristics. Thus, those aspects should also be covered. These training and awareness programs should mainly focus on female household investors, households with lower level of education and income, and households from rural areas. In addition, for the benefits of future generations in order to provide knowledge and awareness on investment at the early stage of their life, above-mentioned topics should be added to the student curricula at the secondary and tertiary levels. Overall, incorporating these behavioural insights into investment planning can support improved investment decision-making, optimize portfolio outcomes, and promote long-term financial well-being for households.

10. Conclusion

The findings of this study offer significant empirical evidence supporting the role of behavioural finance in shaping investment performance among individual households. The results indicate that behavioural factors exert both positive and negative influences on investment performance. Cognitive heuristics such as anchoring, representativeness, and herding behaviour can improve investment performance by simplifying complex decision-making, promoting consistency, and facilitating faster, experience-based judgments. Conversely, emotional biases, including regret aversion, loss aversion, and overconfidence, tend to impair performance by inducing risk-averse behaviour, poor portfolio management, decision paralysis, and overestimation of personal judgment. The insignificant effect of mental accounting suggests that compartmentalizing funds does not significantly change investment performance in the study context. Overall, the study highlights the dual nature of behavioural biases, indicating that while some heuristics can be leveraged to improve decision-making, emotional tendencies may undermine the effectiveness of investment strategies.

11. Directions for Future Researches

This study focuses specifically on household investors in the Jaffna District; therefore, future studies can broaden the geographical scope by including other regions of Sri Lanka, such as urban centers like Colombo or rural districts. A comparative regional examination would support to identify whether behavioural biases differ across socio-economic, cultural, and demographic contexts. Moreover, this study primarily includes selected behavioural factors; however, future research can include additional variables such as financial literacy, emotional intelligence, risk perception, and technological influences as mediators or moderators.

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