

# Confirmation Bias and Anchoring Bias in Investment Decision-Making: A Systematic Review and Synthesis of Behavioural Finance Literature

Samarth Nebhani<sup>1</sup> Dr. Ketan Vira<sup>2</sup>

<sup>1</sup>Research Scholar, VIVA Institute of Management & Research, Virar  
E-mail ID: [samarth.nebhani@gmail.com](mailto:samarth.nebhani@gmail.com), Contact No.: 9769050002

<sup>2</sup>Research Guide and Director, Pillai HOC Institute of Management Studies & Research, Rasayani  
Contact info: [ketanvira@rediffmail.com](mailto:ketanvira@rediffmail.com) Contact No.: 7710075500

## Abstract:

Conventional financial frameworks posit that investors operate with rationality, making choices informed by comprehensive data and logical assessments. Conversely, research in behavioral finance has established that psychological predispositions exert a substantial influence on financial decision-making processes. Prominent among these predispositions are confirmation bias and anchoring bias, which significantly shape investors' perceptions, their methods of processing information, and ultimately, their selection of investment portfolios. This investigation undertakes a thorough review and consolidation of existing literature in behavioral finance to scrutinize the impact of confirmation bias and anchoring bias on investment decision-making. The study examines empirical investigations into investor conduct, with a particular emphasis on individual investors operating within financial markets. The outcomes suggest that investors frequently depend on pre-existing convictions and initial benchmarks when assessing prospective investments, thereby leading to predictable divergences from rational decision-making paradigms. Confirmation bias compels investors to selectively interpret information that substantiates their established beliefs, whereas anchoring bias leads them to place undue reliance on historical price levels or established reference values. These biases commonly result in market mispricing, tardy responses to novel information, and suboptimal portfolio construction. The study underscores the critical necessity of investor education, heightened awareness of behavioral tendencies, and enhanced financial advisory structures to ameliorate the detrimental consequences of cognitive biases. The findings augment the expanding body of literature in behavioral finance by synthesizing prior research and delineating significant lacunae for subsequent scholarly inquiry.

Keywords: Behavioural Finance, Confirmation Bias, Anchoring Bias, Investor Behaviour, Investment Decision-Making, Cognitive Biases

## 1. Introduction:

### 1.1 Background of Behavioural Finance

In the realm of wealth accumulation, safeguarding financial well-being, and fostering enduring economic stability, strategic investment choices hold paramount importance. Conventional financial paradigms posit that investors operate with rationality, making determinations informed by comprehensive data and dispassionate scrutiny. Theoretical constructs, including the Efficient Market Hypothesis (EMH), posit that investors effectively process all pertinent information, thereby facilitating judicious investment selections and precise asset valuations. Nevertheless, empirical findings indicate that investors frequently depart from purely rational conduct, influenced by psychological and cognitive constraints. Behavioral finance has thus emerged as a complementary analytical framework, synthesizing principles from psychology and economics to elucidate these observed divergences. This discipline emphasizes the impact of affective states, mental shortcuts, and cognitive predispositions on the process of financial decision-making. The ascendancy of behavioral finance is notably attributed to the seminal contributions of researchers such as Kahneman and Tversky, who empirically established that individuals resort to cognitive heuristics in situations of uncertainty. These heuristic strategies, while often efficient, can precipitate predictable errors, commonly referred to as cognitive biases. Within the context of financial markets, these biases can manifest in altered trading patterns, skewed asset appraisals, and distorted perceptions of risk.

### **1.2 Importance of Investor Psychology**

Individual investors have more access to investing options than ever before in today's financial markets. Participation in capital markets has increased due to technological advancements, financial innovation, and rising financial literacy. However, investors are also more vulnerable to psychological biases due to the growing complexity of financial products and information overload.

Financial behavior is significantly influenced by investor psychology. Subjective judgments rather than objective analysis frequently influence decisions about risk tolerance, stock selection, and asset allocation. Therefore, it is crucial to comprehend these behavioral patterns in order to improve market efficiency and investment outcomes.

### **1.3 Confirmation Bias and Anchoring Bias**

Confirmation bias and anchoring bias are two of the many behavioral biases found in financial decision-making that are especially important. The tendency for people to look for, evaluate, and retain information that supports their preexisting ideas while disregarding contradicting

data is known as confirmation bias. The propensity to base decisions or judgments primarily on an initial point of reference is known as anchoring bias.

These biases can have a big impact on how investors assess information and choose their portfolios. For instance, investors could selectively perceive financial news that supports their investment positions or use historical stock prices as anchors when projecting future values.

#### **1.4 Research Objectives**

The objectives of this study are:

1. To systematically review and synthesize existing behavioural finance literature on confirmation bias and anchoring bias in investment decision-making.
2. To identify key patterns, relationships, and research gaps in the literature and suggest directions for future research.

## **2. Theoretical Background**

By integrating psychological insights into economic decision-making, behavioral finance questions the presumptions of conventional financial theories. It acknowledges that while making judgments in the face of uncertainty, investors frequently rely on heuristics or mental shortcuts.

Prospect Theory, one of the fundamental theories of behavioral finance, contends that people are loss averse and assess outcomes in relation to a reference point. Depending on the situation, investors may be risk-averse or risk-seeking since they tend to value losses more than comparable gains.

The framework of heuristics and biases is another important idea in behavioral finance. This concept posits that people use heuristics like representativeness, availability, and anchoring to simplify difficult decision-making processes. Although these shortcuts facilitate speedy decision-making, they may also result in systemic mistakes.

Investment behavior can be greatly impacted by cognitive biases. Investors could follow market trends without conducting adequate analysis, depend on scant information, or exaggerate their level of expertise. Because of this, financial markets frequently display abnormalities that conventional financial theories are unable to account for.

### **3. Conceptual Explanation of Biases**

#### **3.1 Confirmation Bias**

The propensity for people to ignore contradicting data in favor of information that confirms their preexisting opinions is known as confirmation bias. This bias causes investors to selectively perceive financial data in a way that supports their expectations when making investment decisions.

For instance, an investor who thinks a certain stock will do well can ignore warning signs and just pay attention to good news about the business. Poor investment choices and a delayed reaction to shifting market conditions might result from this selective information processing.

Additionally, investors' assessments of research reports and financial advice may be influenced by confirmation bias. Investors may steer clear of information sources that contradict their beliefs and favor those that support them. As a result, they could overlook crucial facts and neglect to take into account different viewpoints.

#### **3.2 Anchoring Bias**

When people base a lot of their decisions on a single piece of information, this is known as anchoring bias. Even if it has no bearing on the decision-making process, this anchor, or reference point, affects later assessments.

Investors in the financial markets frequently base their expectations on historical returns, stock prices, or analyst projections. For instance, even if the company's fundamentals have changed, an investor can view a stock as inexpensive just because its current price is less than its prior peak.

Inaccurate price expectations and ineffective portfolio allocation might result from anchoring bias. Because they are anchored to the purchase price or past highs, investors may retain losing equities for an extended period of time. In a similar vein, they can be reluctant to purchase equities that seem pricey in comparison to previous levels.

### **4. Methodology**

The impact of confirmation bias and anchoring bias on investment decision-making is examined in this study using a Systematic Literature Review (SLR) methodology. The SLR

approach guarantees a methodical, clear, and repeatable procedure for locating, assessing, and synthesizing pertinent material.

#### **4.1 Research Design**

The study follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to ensure methodological rigor and transparency. The review process consists of four stages:

1. Identification of relevant studies
2. Screening of studies based on inclusion and exclusion criteria
3. Eligibility assessment
4. Final selection of studies for analysis

This structured approach minimizes selection bias and ensures the inclusion of high-quality and relevant studies.

#### **4.2 Data Sources and Search Strategy**

The literature search was conducted using multiple academic databases to ensure comprehensive coverage. The primary databases used include:

- Scopus
- Web of Science
- Google Scholar
- ScienceDirect

The search strategy involved the use of keywords and Boolean operators such as:

- “confirmation bias” AND “investment decision”
- “anchoring bias” AND “investor behaviour”
- “behavioural finance” AND “cognitive biases”
- “heuristics” AND “financial decision-making”

The search was limited to studies published between 2000 and 2025, ensuring inclusion of both foundational and recent contributions to behavioural finance literature.

### **4.3 Inclusion and Exclusion Criteria**

To ensure relevance and quality, the following criteria were applied:

#### **Inclusion Criteria**

- Peer-reviewed journal articles and conference papers
- Studies focusing on behavioural biases in investment decision-making
- Research related to confirmation bias and anchoring bias
- Studies involving retail or individual investors
- Articles published in English

#### **Exclusion Criteria**

- Non-peer-reviewed sources (blogs, reports, etc.)
- Studies unrelated to financial decision-making
- Duplicate articles
- Articles without full-text access

### **4.4 Study Selection Process (PRISMA Flow)**

The study selection process followed a systematic filtering procedure:

- Initial search identified approximately 320 studies
- After removal of duplicates: ~250 studies
- After title and abstract screening: ~120 studies
- After full-text assessment: ~70 studies
- Final studies included in the review: 50 studies

This stepwise selection ensured that only the most relevant and high-quality studies were included.

### **4.5 Data Extraction and Coding**

Data from selected studies were systematically extracted and organized using the following parameters:

- Author(s) and year
- Country of study
- Sample characteristics
- Research methodology
- Type of behavioural bias studied
- Key findings

The extracted data were coded into thematic categories to facilitate comparative analysis.

#### **4.6 Data Analysis and Thematic Synthesis**

The selected studies were analysed using **thematic analysis**, which involves identifying recurring patterns and relationships across the literature.

The studies were categorized into the following themes:

- Confirmation bias in investment decision-making
- Anchoring bias in financial markets
- Interaction of behavioural biases
- Behavioural biases and financial literacy
- Behavioural biases in emerging markets

The synthesis of these themes enabled the identification of common patterns, inconsistencies, and research gaps in behavioural finance literature.

### **5. Thematic Literature Review:**

#### **5.1 Confirmation Bias in Investment Decision-Making**

Confirmation bias is one of the most prominent behavioural biases influencing investor decision-making. It occurs when investors seek, interpret, and remember information that supports their existing beliefs while ignoring contradictory evidence.

Shruti Chaudhary (2022) examined the influence of behavioural biases on retail investors in India and found that confirmation bias significantly affected investment decision-making. Investors tended to search for information that validated their prior expectations regarding

stock performance, which often resulted in irrational investment behaviour and delayed responses to negative information.

Similarly, Nidhi Saini (2022) analysed behavioural factors affecting investment decisions among individual investors and reported that confirmation bias leads investors to selectively interpret financial information. The study found that investors often rely on limited information sources that reinforce their beliefs, thereby restricting objective decision-making.

Megha Maheshwari (2023) investigated behavioural biases among retail investors and observed that confirmation bias often results in overconfidence in personal judgments. Investors were found to ignore contradictory signals from the market and rely excessively on previously formed opinions.

Shrivastava (2023) studied behavioural biases in stock market participation and concluded that confirmation bias significantly affects portfolio diversification. Investors who strongly believe in certain stocks tend to ignore alternative investment opportunities.

Kadakol (2023) explored behavioural biases among Indian investors and highlighted that confirmation bias leads investors to depend on selective financial news and analyst opinions that align with their investment expectations.

Similarly, Periwal (2023) found that confirmation bias encourages investors to seek validation for their investment choices rather than objectively evaluating financial performance indicators.

Thogaram (2023) examined behavioural finance among Indian armed forces personnel and identified confirmation bias as one of the key psychological factors affecting investment decisions despite the respondents having disciplined professional backgrounds.

Sahu (2023) reported that confirmation bias significantly influences investment behaviour in emerging markets, particularly among inexperienced investors who rely on informal information sources.

Gayathiri (2024) analysed behavioural finance factors affecting investment behaviour and found that confirmation bias often interacts with overconfidence and herd behaviour, leading investors to maintain losing positions longer than rational models would predict.

Similarly, Rahman (2024) concluded that confirmation bias leads investors to favour optimistic financial forecasts and ignore risk indicators.

Parveen (2025) examined behavioural finance biases among retail investors and identified confirmation bias as a major determinant of irrational investment behaviour.

Sanjana (2025) also reported that investors tend to rely heavily on information that supports their initial beliefs, which prevents them from updating their expectations in response to new market developments.

Collectively, these studies demonstrate that confirmation bias significantly affects investor decision-making by limiting objective information processing and reinforcing existing beliefs.

## **5.2 Anchoring Bias in Financial Decision-Making**

Anchoring bias refers to the tendency of investors to rely heavily on an initial reference point when making financial judgments. In investment contexts, this reference point may include historical stock prices, purchase prices, or analyst forecasts.

Shruti Chaudhary (2022) found that investors frequently anchor their expectations to past stock prices when making investment decisions. This reliance on historical price levels often leads investors to misjudge the intrinsic value of financial assets.

Similarly, Kappal (2022) examined behavioural biases among investors and concluded that anchoring bias significantly affects stock price evaluation. Investors tend to use previously observed prices as benchmarks for future valuation.

Megha Maheshwari (2023) also found that anchoring bias influences investors during periods of market volatility, where investors rely on past market performance rather than updated financial information.

Mansuri (2023) reported that anchoring bias leads investors to hold underperforming assets because they remain attached to the initial purchase price.

Dodwani (2023) studied investment decision-making behaviour and concluded that anchoring bias significantly influences trading behaviour, particularly among retail investors who rely on past trends.

Nair (2023) found that anchoring bias affects mutual fund investors who often compare current net asset values (NAVs) with historical values before making investment decisions.

Singh (2024) examined behavioural biases in emerging financial markets and reported that anchoring bias leads investors to depend heavily on previous market benchmarks rather than objective financial analysis.

Similarly, Tian (2024) identified anchoring bias as a major psychological factor influencing price expectations in financial markets.

Nathaerwin (2024) and Thaicharo (2024) also observed that investors frequently rely on anchoring heuristics when estimating asset values, which often leads to systematic pricing errors.

Alam (2025) analysed behavioural finance factors affecting trading behaviour and found that anchoring bias often results in delayed selling decisions because investors expect prices to return to previously observed levels.

Sharma (2025) reported that anchoring bias significantly affects investment strategies among retail investors, particularly during uncertain market conditions.

Goswami (2025) also concluded that investors frequently anchor their expectations to historical price movements, leading to biased valuation judgments.

These findings indicate that anchoring bias can significantly distort investment decision-making by causing investors to rely on irrelevant or outdated reference points.

### **5.3 Interaction of Behavioural Biases**

Behavioural biases rarely operate independently. Instead, they often interact with one another, reinforcing irrational decision-making patterns among investors.

Altaf (2025) examined behavioural biases among individual investors and found that confirmation bias and anchoring bias frequently interact with overconfidence bias, leading investors to overestimate their ability to predict market trends.

Similarly, Jain (2025) reported that behavioural biases collectively influence investment behaviour, particularly among salaried individuals who often rely on heuristics due to limited financial knowledge.

Kavya (2025) studied behavioural biases among young investors and observed that confirmation bias and anchoring bias often occur simultaneously, resulting in overreliance on historical price levels and personal beliefs.

Umar Sadeeq (2025) analysed behavioural finance among retail investors and concluded that multiple biases interact to influence investment decision-making.

Dasinapa (2025) identified that anchoring bias combined with herd behaviour often leads investors to follow market trends without conducting independent analysis.

Similarly, Sardana (2025) reported that confirmation bias strengthens herd behaviour by encouraging investors to follow information that aligns with popular market opinions.

Othman (2024) found that behavioural biases often overlap in financial decision-making processes, making it difficult for investors to recognize their irrational behaviour.

Shaji (2024) observed that confirmation bias interacts with loss aversion, causing investors to avoid selling losing stocks even when market conditions change.

Khare (2024) reported that anchoring bias combined with overconfidence leads investors to make aggressive trading decisions.

Muralidhar (2024) also found that behavioural biases interact significantly in emerging markets, particularly among inexperienced investors.

Nath (2023) concluded that investors who exhibit confirmation bias are also more likely to display anchoring behaviour in their price expectations.

Similarly, Gupta (2019) earlier highlighted that behavioural biases tend to reinforce one another, creating persistent patterns of irrational investment behaviour.

These studies demonstrate that behavioural biases often operate collectively rather than independently, making investor behaviour complex and difficult to predict.

#### **5.4 Behavioural Biases and Financial Literacy**

Financial literacy plays a crucial role in shaping investor behaviour and moderating the influence of behavioural biases in financial decision-making. Several studies have highlighted that investors with higher levels of financial knowledge are better equipped to evaluate financial information objectively and are therefore less susceptible to psychological biases.

Annu (2025) examined the relationship between financial literacy, artificial intelligence-based advisory systems, and behavioural biases among Indian investors. The study found that investors with higher financial literacy were more capable of identifying irrational decision-making patterns and were less influenced by confirmation bias and anchoring bias. The

research also suggested that digital financial advisory tools can help reduce the impact of behavioural biases by providing objective data-driven recommendations.

Similarly, Jain (2025) investigated the investment behaviour of salaried individuals in Rajasthan and reported that limited financial knowledge often leads to reliance on heuristics when making investment decisions. The study found that investors with lower levels of financial literacy were more likely to rely on informal advice from friends, family members, or social media sources, which increased the likelihood of biased investment decisions.

Pankhuri (2025) analysed retirement preparedness from a behavioural finance perspective and found that behavioural biases such as anchoring and present bias significantly affect long-term financial planning. The study highlighted that investors with insufficient financial knowledge often rely on past experiences or familiar financial products rather than exploring diversified investment options.

Similarly, Sowmya (2025) examined the influence of emotional and spiritual intelligence on investment behaviour and found that investors with higher awareness and financial knowledge were better able to control behavioural biases such as confirmation bias and overconfidence.

Sanjana (2025) studied behavioural biases among retail investors and concluded that financial literacy plays a critical role in reducing the influence of cognitive biases. The research indicated that investors with greater knowledge of financial markets were more likely to evaluate information objectively and diversify their investment portfolios.

Rahman (2024) also reported that investors with higher levels of financial education demonstrated more rational investment behaviour and were less likely to rely on heuristics such as anchoring or confirmation bias when evaluating financial assets.

Similarly, Gayathiri (2024) found that financial literacy significantly influences investment decision-making. The study suggested that investors who possess greater financial knowledge are more likely to conduct systematic analysis of financial information rather than relying on subjective judgments.

Othman (2024) observed that financial education programs play an important role in reducing behavioural biases among investors by improving their understanding of risk, diversification, and long-term investment strategies.

Kadakol (2023) examined the relationship between financial awareness and investment behaviour and found that investors with limited financial literacy often depend on past experiences and informal advice when making investment decisions.

Shrivastava (2023) similarly concluded that financial literacy significantly affects stock market participation and investment decision-making among retail investors.

Periwal (2023) found that investors with higher financial knowledge are more likely to revise their expectations when new information becomes available, thereby reducing the impact of confirmation bias.

Collectively, these studies suggest that financial literacy plays a critical role in moderating behavioural biases in investment decision-making. Investors with higher financial knowledge are better able to process financial information objectively and are therefore less likely to rely on cognitive shortcuts when making investment decisions.

### **5.5 Behavioural Biases in Emerging Markets**

Behavioural biases in investment decision-making have been widely observed in emerging financial markets. Compared to developed markets, investors in emerging economies often face greater information asymmetry, limited financial literacy, and higher levels of market volatility, which can increase the influence of psychological biases.

Dawer (2025) examined behavioural biases among individual investors in the Indian stock market and found that biases such as anchoring, overconfidence, and herd behaviour significantly influence trading decisions. The study highlighted that investors frequently rely on historical price trends and informal information sources when making investment decisions.

Similarly, Altaf (2025) analysed behavioural biases affecting investment behaviour in emerging financial markets and concluded that psychological factors often play a more significant role than fundamental financial analysis in shaping investor behaviour.

Umar Sadeeq (2025) examined behavioural biases among retail investors and found that confirmation bias and anchoring bias significantly affect stock selection and portfolio management decisions in emerging markets.

Kavya (2025) studied the investment behaviour of young investors and found that many investors rely heavily on social media, peer opinions, and market rumours when making

investment decisions. This reliance on informal information sources increases the likelihood of confirmation bias.

Sardana (2025) found that herd behaviour combined with confirmation bias frequently influences investment decisions in emerging markets, particularly during periods of high market volatility.

Similarly, Sharma (2025) reported that anchoring bias significantly affects stock valuation among retail investors, as investors frequently rely on past price levels when estimating the future performance of financial assets.

Dasinapa (2025) observed that investors in emerging markets often follow collective market behaviour, which can amplify behavioural biases such as anchoring and herd behaviour.

Nathaerwin (2024) and Thaicharo (2024) also reported strong evidence of anchoring bias among investors in emerging financial markets. Their study found that investors frequently rely on previous price benchmarks when estimating asset values.

Similarly, Muralidhar (2024) found that behavioural biases significantly influence financial decision-making in emerging markets where investors often face limited access to reliable financial information.

Nair (2023) reported that mutual fund investors in emerging markets frequently rely on past net asset values and historical performance when selecting investment options.

Dodwani (2023) examined retail investor behaviour and concluded that behavioural biases play a major role in shaping trading behaviour in developing financial markets.

Mansuri (2023) also found that anchoring bias and confirmation bias significantly influence stock market participation among individual investors.

Overall, the reviewed studies indicate that behavioural biases are particularly prevalent in emerging markets where investors often rely on informal information sources and heuristic-based decision-making. These findings highlight the importance of financial education, regulatory policies, and improved information transparency in reducing the impact of behavioural biases in emerging financial markets.

## **6. Thematic Synthesis of Behavioural Finance Literature**

While specific research on behavioral biases in investment decision-making were covered in the preceding section, a review of the literature indicates a number of recurrent themes and patterns. Deeper understanding of how confirmation bias and anchoring bias affect investor behavior in various circumstances and investor groups may be gained from these patterns.

The review of literature on confirmation bias and anchoring bias in investment decision-making reveals several recurring patterns across studies. These patterns highlight how cognitive biases influence investor behaviour, information processing, and financial decision-making in different contexts.

### **6.1 Reliance on Heuristics Instead of Rational Analysis**

Investors commonly use heuristics or mental shortcuts instead of performing thorough financial research, which is one of the most recurring trends seen in the evaluated studies. According to behavioral finance studies, investors frequently use cognitive shortcuts to simplify complicated financial decisions, which can lead to systemic biases.

When assessing investment prospects, investors frequently rely on preconceived notions and instinctive judgments, according to a number of studies in the reviewed literature. Many investors rely on readily available information sources, such as prior experiences, financial news, or peer opinions, rather than analyzing financial statements, market indicators, or macroeconomic factors. Confirmation bias is the result of this propensity, where investors dismiss contradicting evidence in favor of information that confirms their preexisting ideas.

In a similar vein, anchoring bias occurs when investors base their assessment of financial assets on beginning reference points like past stock prices or historical returns. This pattern implies that even if historical market values may not be pertinent to the state of the market now, investors frequently utilize them as anchors when projecting future performance.

The assumptions of conventional financial theories are called into question by this reliance on heuristics, which suggests that many investors do not act as totally rational actors.

### **6.2 Selective Information Processing**

Selective information processing by investors is another significant trend found in the research. Investors do not process financial information objectively, according to numerous research. Rather, individuals use their preexisting expectations and ideas to filter information.

This pattern heavily relies on confirmation bias. Investors typically disregard unfavorable or contradicting information in favor of information that confirms their investing choices. Because of this, investors could keep holding underperforming assets even when fresh data indicates that their expectations were wrong.

Investors' interpretation of financial news and analyst reports is also influenced by selective information processing. According to studies, investors frequently rely on information sources that support their already opinions, which causes them to interpret market signals in a biased way.

Because investors may take longer to respond to fresh information that challenges their preconceived notions, this trend contributes to sluggish market movements.

### **6.3 Anchoring to Historical Prices and Reference Points**

The significant impact of past price levels and reference points on investor decision-making is a recurrent theme in the literature. When assessing financial assets, investors that suffer from anchoring bias tend to depend significantly on preliminary data, such as historical stock prices, purchase prices, or analyst projections.

According to a number of studies, investors often compare a stock's current price to either its previous peak or the price at which they first bought it. Investors who engage in this behavior frequently make irrational holding decisions, refusing to sell assets until their initial acquisition price is reached.

Price expectations and valuation assessments are also impacted by anchoring. Even when fundamental evidence indicate otherwise, investors may view a stock as inexpensive solely because its current price is lower than a historical benchmark.

This trend implies that anchoring bias may contribute to market inefficiencies by causing systematic mispricing and delayed market reactions.

### **6.4 Greater Susceptibility Among Retail Investors**

Retail investors are more prone to behavioral biases than institutional investors, which is another significant pattern found in the literature. Strong evidence of confirmation bias and anchoring bias influencing individual investors' decision-making processes has been shown in numerous research.

Retail investors rely more on heuristics since they frequently lack access to expert financial guidance, have little financial understanding, and have inferior analytical skills. As a result, while making investing decisions, people could rely on informal information sources, peer judgments, and prior experiences.

In contrast, institutional investors typically have access to expert research instruments and analytical frameworks, which lessens the impact of psychological biases.

This pattern suggests that information access and financial literacy are important factors in reducing behavioral biases.

### **6.5 Interaction of Multiple Behavioural Biases**

Additionally, research shows that behavioral biases seldom happen in isolation. Rather, they frequently interact and support one another, increasing their influence on investment choices.

Confirmation bias, for instance, can reinforce anchoring behavior when investors look for data to back up their anchored price predictions. In a similar vein, overconfidence bias can cause investors to think that their assessments are accurate, which makes them less inclined to change their expectations even in the face of fresh facts.

These effects may be exacerbated by additional biases like loss aversion and herd mentality. Investors might tie their expectations to past price levels while also following market movements or depending on consensus.

Traditional financial models are unable to adequately explain the complex behavioral patterns produced by this interplay of biases.

### **6.6 Influence of Demographic and Psychological Factors**

The examined research also emphasize how psychological qualities and demographic features affect behavioral biases. Investor sensitivity to cognitive biases is strongly influenced by variables like age, education level, investment experience, and financial literacy.

Due to their lack of financial knowledge and experience, younger and less seasoned investors are typically more prone to display behavioral biases. In a similar vein, investors who are less financially literate might rely more on heuristics.

Investment behavior is also influenced by psychological characteristics including risk tolerance, confidence, and emotional reactions to market swings.

Programs for behavioral awareness and investor education may be able to lessen the effects of cognitive biases, according to this trend.

### **Key Patterns Identified in the Literature**

The synthesis of the reviewed studies highlights the following major patterns:

1. Investors frequently rely on heuristics and mental shortcuts rather than rational analysis.
2. Selective information processing leads investors to favour information that confirms their beliefs.
3. Investors commonly anchor their expectations to historical price levels or purchase prices.
4. Retail investors are more vulnerable to behavioural biases than institutional investors.
5. Behavioural biases interact with each other, amplifying irrational investment behaviour.
6. Demographic factors and financial literacy significantly influence the extent of behavioural biases.

Together, these trends show how confirmation bias and anchoring bias significantly influence investor behavior, frequently resulting in departures from logical financial decision-making.

## **7. Research Gap**

There are still a number of gaps in the growing body of research on behavioral finance. First, while emerging markets like India are still largely unexplored, many studies concentrate mostly on mature markets.

Second, individual biases are frequently the focus of current study. Research on how various behavioral biases interact and affect investment decisions collectively is scarce.

Third, there aren't many long-term studies that look at how investor behavior changes over time. Future studies could examine how technological developments and financial education affect financial market behavioral biases.

## **8. Implications**

### **8.1 Theoretical Implications**

By summarizing previous studies on confirmation bias and anchoring bias, this paper adds to the body of knowledge in behavioral finance. The results underline the significance of

psychological aspects in financial decision-making and draw attention to the shortcomings of conventional rational models.

## **8.2 Practical Implications**

The results have significant ramifications for financial counselors, investors, and legislators. Programs for investor education can assist people in identifying and reducing behavioral biases. To enhance investment results, financial advisers can also integrate behavioral data into their advice procedures.

## **9. Conclusion**

The study's conclusions demonstrate how confirmation bias and anchoring bias significantly influence investor behavior and lead to departures from logical financial decision-making. Investors make systemic mistakes in judgment because they rely too much on heuristics, preconceived notions, and reference points. Additionally, the study highlights how financial literacy might help reduce these prejudices. In order to lessen bias-driven decision-making, future research should concentrate on behavioral interventions and technology-driven advising systems. Resolving these problems can greatly improve market stability and investment efficiency.

## **References**

- Alam, M. (2025). Behavioural finance factors influencing investment decisions among retail investors. *International Journal of Finance and Economics*, 10(2), 45–58.
- Altaf, M. (2025). Behavioural biases and stock market participation among individual investors. *Journal of Behavioural Finance*, 26(1), 15–29.
- Arora, K. T. (2022). Behavioural biases and investment decision-making among textile retailers in India. *Asian Journal of Finance and Accounting*, 14(3), 78–92.
- Baker, H. K., & Nofsinger, J. R. (2002). Psychological biases of investors. *Financial Services Review*, 11(2), 97–116.
- Baker, H. K., & Nofsinger, J. R. (2010). *Behavioral finance: Investors, corporations, and markets*. Wiley.
- Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *Quarterly Journal of Economics*, 116(1), 261–292.

- Barber, B. M., & Odean, T. (2008). All that glitters: The effect of attention on the buying behavior of individual and institutional investors. *Review of Financial Studies*, 21(2), 785–818.
- Barberis, N., Shleifer, A., & Vishny, R. (1998). A model of investor sentiment. *Journal of Financial Economics*, 49(3), 307–343.
- Benartzi, S., & Thaler, R. H. (1995). Myopic loss aversion and the equity premium puzzle. *Quarterly Journal of Economics*, 110(1), 73–92.
- Bikhchandani, S., & Sharma, S. (2001). Herd behavior in financial markets. *IMF Staff Papers*, 47(3), 279–310.
- Chaudhary, S. (2022). Behavioural biases influencing investment decisions of retail investors in India. *International Journal of Management Studies*, 9(1), 55–68.
- Daniel, K., Hirshleifer, D., & Subrahmanyam, A. (1998). Investor psychology and security market under- and overreactions. *Journal of Finance*, 53(6), 1839–1885.
- Dasinapa, R. (2025). Behavioural biases and their impact on financial decision-making in emerging markets. *Global Finance Journal*, 12(2), 102–118.
- De Bondt, W. F. M., & Thaler, R. H. (1985). Does the stock market overreact? *Journal of Finance*, 40(3), 793–805.
- Dodwani, S. (2023). Behavioural finance and investment decision-making among retail investors. *Indian Journal of Finance*, 17(4), 32–44.
- Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *Journal of Finance*, 25(2), 383–417.
- Fama, E. F. (1998). Market efficiency, long-term returns, and behavioral finance. *Journal of Financial Economics*, 49(3), 283–306.
- Gayathiri, R. (2024). Psychological biases and their impact on financial investment decisions. *Journal of Behavioural Economics*, 15(2), 65–79.
- Gigerenzer, G., & Todd, P. M. (1999). *Simple heuristics that make us smart*. Oxford University Press.
- Glaser, M., & Weber, M. (2007). Overconfidence and trading volume. *Geneva Risk and Insurance Review*, 32(1), 1–36.

- Goswami, P. (2025). Anchoring bias and stock market valuation behaviour among retail investors. *International Journal of Financial Research*, 11(3), 90–104.
- Grinblatt, M., & Keloharju, M. (2001). What makes investors trade? *Journal of Finance*, 56(2), 589–616.
- Gupta, S. (2019). Behavioural biases in financial markets: Evidence from emerging economies. *Journal of Financial Behaviour*, 6(1), 22–38.
- Hirshleifer, D. (2001). Investor psychology and asset pricing. *Journal of Finance*, 56(4), 1533–1597.
- Hong, H., & Stein, J. C. (1999). A unified theory of underreaction, momentum trading, and overreaction. *Journal of Finance*, 54(6), 2143–2184.
- Jain, R. (2025). Behavioural finance and investment behaviour of salaried individuals in India. *International Journal of Financial Studies*, 13(1), 45–59.
- Kadakol, R. (2023). Behavioural finance and cognitive biases affecting investment decisions. *Journal of Finance and Investment Analysis*, 12(2), 88–101.
- Kahneman, D. (2011). *Thinking, fast and slow*. Farrar, Straus and Giroux.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291.
- Kaustia, M., & Knüpfer, S. (2008). Do investors overweight personal experience? *Journal of Finance*, 63(6), 2679–2702.
- Kavya, S. (2025). Behavioural biases influencing young investors in emerging financial markets. *Journal of Behavioural Finance*, 27(1), 66–80.
- Lakonishok, J., Shleifer, A., & Vishny, R. (1994). Contrarian investment, extrapolation, and risk. *Journal of Finance*, 49(5), 1541–1578.
- Lucey, B. M., & Dowling, M. (2005). The role of feelings in investor decision-making. *Journal of Economic Surveys*, 19(2), 211–237.
- Maheshwari, M. (2023). Behavioural biases among retail investors and their impact on investment decisions. *International Journal of Economics and Finance*, 15(2), 102–115.

- Mansuri, F. (2023). Behavioural finance and decision-making biases in stock markets. *Journal of Applied Financial Studies*, 8(3), 72–85.
- Mittal, M., & Vyas, R. K. (2011). A study of psychological reasons for gender differences in investment decision-making. *IUP Journal of Behavioral Finance*, 8(3), 45–60.
- Muralidhar, P. (2024). Cognitive biases and investment behaviour in emerging markets. *Asian Economic Review*, 66(1), 88–103.
- Nair, S. (2023). Anchoring bias in mutual fund investment decisions. *Indian Journal of Financial Research*, 14(2), 57–71.
- Nathaerwin, C., & Thaicharo, K. (2024). Anchoring bias and investor expectations in financial markets. *Journal of International Financial Markets*, 19(2), 110–124.
- Nofsinger, J. R. (2005). Social mood and financial economics. *Journal of Behavioral Finance*, 6(3), 144–160.
- Odean, T. (1998). Are investors reluctant to realize their losses? *Journal of Finance*, 53(5), 1775–1798.
- Othman, M. (2024). Behavioural finance and psychological factors influencing investment behaviour. *International Journal of Behavioural Economics*, 9(2), 44–59.
- Parveen, N. (2025). Behavioural biases and investment decision-making among retail investors. *Journal of Behavioural Investment Research*, 10(1), 21–36.
- Periwal, V. (2023). Confirmation bias and financial decision-making in stock markets. *Journal of Economic Psychology*, 41(3), 76–89.
- Pompian, M. M. (2012). *Behavioral finance and wealth management*. Wiley.
- Rahman, A. (2024). Behavioural biases and financial market anomalies. *Global Journal of Financial Studies*, 7(2), 50–65.
- Ricciardi, V., & Simon, H. K. (2000). What is behavioral finance? *Business, Education and Technology Journal*, 2(2), 1–9.
- Ritter, J. R. (2003). Behavioral finance. *Pacific-Basin Finance Journal*, 11(4), 429–437.
- Sahu, R. (2023). Behavioural biases affecting retail investor behaviour in emerging markets. *International Journal of Behavioural Finance*, 6(2), 61–75.

- Saini, N. (2022). Behavioural factors influencing investment decisions among individual investors. *Indian Journal of Finance*, 16(3), 45–59.
- Sanjana, P. (2025). Investor psychology and behavioural biases in stock market investment. *International Journal of Financial Behaviour*, 9(1), 33–47.
- Sardana, V. (2025). Herd behaviour and confirmation bias in financial markets. *Journal of Behavioural Economics and Finance*, 14(1), 67–82.
- Shaji, T. (2024). Behavioural biases and loss aversion in investment decision-making. *Asian Journal of Behavioural Finance*, 8(2), 95–108.
- Sharma, A. (2025). Anchoring bias and portfolio decision-making among retail investors. *International Journal of Financial Markets*, 12(2), 54–69.
- Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long. *Journal of Finance*, 40(3), 777–790.
- Shiller, R. J. (2000). *Irrational exuberance*. Princeton University Press.
- Shiller, R. J. (2003). From efficient markets theory to behavioral finance. *Journal of Economic Perspectives*, 17(1), 83–104.
- Shleifer, A. (2000). *Inefficient markets: An introduction to behavioral finance*. Oxford University Press.
- Shrivastava, P. (2023). Behavioural finance and stock market participation in India. *Journal of Financial Economics and Policy*, 11(2), 98–112.
- Statman, M. (2008). What is behavioral finance? *Handbook of Finance*, 2, 79–84.
- Statman, M. (2014). Behavioural finance: Finance with normal people. *Borsa Istanbul Review*, 14(2), 65–73.
- Thaler, R. H. (1985). Mental accounting and consumer choice. *Marketing Science*, 4(3), 199–214.
- Thaler, R. H. (1999). Mental accounting matters. *Journal of Behavioral Decision Making*, 12(3), 183–206.
- Thogaram, R. (2023). Behavioural biases among defence personnel investors in India. *International Journal of Financial Behaviour*, 8(1), 72–84.

Tian, Y. (2024). Anchoring bias in financial forecasting and investor behaviour. *Journal of Financial Decision Making*, 13(2), 44–58.

Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185(4157), 1124–1131.

Umar Sadeeq, M. (2025). Behavioural biases and financial decision-making in emerging financial markets. *Journal of Behavioural Investment Studies*, 9(3), 101–118.