



IMPACT OF OVERCONFIDENCE BIAS ON INVESTMENT BEHAVIOUR OF INDIVIDUAL EQUITY INVESTORS IN INDIA

Mr. Matheswaran S¹, Dr.K. Sarulatha²

¹Ph. D(PT) Research Scholar, Dept. of MBA , Sankara College of Science and Commerce, Coimbatore, TamilNadu, India.

²Assistant Professor, Dept. of Management, Sri Krishna Arts & Science College Sungunapuram, Coimbatore

Article DOI: <https://doi.org/10.36713/epra29018>

DOI No: 10.36713/epra29018

ABSTRACT

The traditional finance perspective assumes that investors make rational investment decisions by objectively evaluating available information, risk and expected returns. However, behavioural finance demonstrates that psychological and cognitive biases can significantly influence investment behaviour. Among these biases, overconfidence is particularly important because investors may overestimate their knowledge, investment ability and capacity to predict market movements, potentially resulting in irrational investment behaviour. The present study examines the impact of overconfidence bias on the investment behaviour of individual equity investors in India. The study specifically focuses on whether overconfidence influences excessive trading, risk-taking, portfolio concentration and short-term investment orientation. A quantitative research design is proposed, with primary data to be collected from individual equity investors in India using a structured questionnaire based on a five-point Likert scale. The study proposes the use of descriptive statistics, reliability and validity analysis, correlation analysis and multiple regression to examine the relationships between overconfidence and investment behaviour. Structural equation modelling may additionally be employed to assess the proposed relationships among the constructs. Financial literacy and investment experience are incorporated as potential moderating variables to examine whether they influence the relationship between overconfidence and investment behaviour. The review of literature from 2020 to 2025 indicates that existing studies have established significant relationships between overconfidence and investment decision-making; however, comparatively limited research has examined the specific behavioural manifestations of overconfidence among individual equity investors in India. The study therefore seeks to address this gap by distinguishing investment behaviour into multiple dimensions rather than treating investment decision-making as a single construct. The proposed research is expected to contribute to behavioural finance literature by providing a more comprehensive understanding of how excessive confidence translates into observable investment behaviour. The findings may assist individual investors, financial advisers, investor-education institutions and securities-market regulators in developing strategies to reduce the adverse consequences of behavioural biases and promote more disciplined investment decisions.

KEYWORDS: Overconfidence Bias; Investment Behaviour; Individual Equity Investors; Retail Investors; Behavioural Finance; Excessive Trading; Risk-Taking; Portfolio Concentration; Financial Literacy; Investment Experience; India.

INTRODUCTION

Investment decision-making has traditionally been explained through the assumption that investors are rational and capable of processing available information objectively. Classical financial theories suggest that investors evaluate expected returns, risks and available information before selecting investment alternatives that maximize their expected utility. The Efficient Market Hypothesis further assumes that security prices reflect available information and that investors cannot consistently obtain abnormal returns by using publicly available information. Under this traditional perspective, investment behaviour is expected to be systematic, information-driven and consistent with the risk-return preferences of investors.

However, the actual behaviour of individual investors frequently differs from the assumptions of rational finance. Investors may make decisions based on emotions, personal beliefs, past experiences, market sentiments and psychological shortcuts rather than solely on fundamental and objective information. They may trade excessively, follow other investors, react disproportionately to market movements, hold

poorly diversified portfolios or attempt to predict short-term price movements. These deviations from rationality have contributed to the development of behavioural finance, which integrates psychological and cognitive factors into the study of financial decision-making.

Among the various behavioural biases identified in behavioural finance, overconfidence bias has received considerable attention because of its potential influence on individual investment behaviour. Overconfidence refers to an individual's tendency to overestimate his or her knowledge, abilities, judgement or accuracy of predictions. In the context of financial markets, an overconfident investor may believe that personal investment knowledge and stock-selection ability are superior to those of other market participants. Such investors may also develop excessive confidence in their ability to forecast stock-price movements and identify profitable investment opportunities.

The consequences of overconfidence can be particularly significant in equity markets. An investor who is excessively confident in his or her investment ability may trade more frequently, attempt to time the market, take greater risks and



concentrate investments in a limited number of securities. Excessive trading may increase transaction costs, while inadequate diversification may expose investors to greater unsystematic risk. Overconfidence may also cause investors to place excessive reliance on personal judgement and disregard information that contradicts their existing beliefs. Consequently, high confidence in investment ability does not necessarily result in superior investment outcomes.

The empirical literature provides considerable evidence regarding the relationship between overconfidence and investor behaviour. Barber and Odean's influential study of individual investors demonstrated that households that traded most actively earned substantially lower returns than the market, highlighting the potential adverse consequences of excessive trading. Their findings contributed significantly to the development of subsequent research examining overconfidence as an important explanation for active trading behaviour.

Research in the Indian context also demonstrates the relevance of behavioural biases in individual investment decisions. Raut, Das and Mishra examined the behaviour of individual investors in the Indian stock market and found significant influence of behavioural factors including overconfidence, herding, anchoring, representativeness and information cascades on investment decision-making. Their study demonstrated that Indian individual investors do not always conform to the assumptions of fully rational investment behaviour.

The relevance of overconfidence has continued to increase with the expansion of retail participation and digital access to financial markets in India. Online brokerage platforms, mobile trading applications and rapid dissemination of financial information have made it easier for individual investors to independently analyse and trade securities. While these developments have improved market accessibility, they may also facilitate frequent trading and strengthen investors' perceptions of their own ability to identify short-term market opportunities.

Recent research further confirms that overconfidence remains relevant in the Indian equity market. A 2026 study published in IIMB Management Review examined overconfidence and disposition effects through return-volume relationships in the Indian stock market across pre-COVID, COVID and post-COVID periods. The study found evidence of behavioural biases across market conditions and reported stronger overconfidence effects under certain high-volume trading conditions.

Despite the growing literature on behavioural biases, there remains scope for further investigation of how overconfidence specifically influences the actual investment behaviour of individual equity investors in India. Existing studies often examine behavioural biases collectively or use investment decision-making as a broad dependent variable. A more focused examination of overconfidence can provide deeper insight into specific behavioural outcomes such as excessive trading, risk-taking, portfolio concentration and short-term investment orientation.

Furthermore, the relationship between overconfidence and investment behaviour may not be uniform across investors. Factors such as financial literacy and investment experience may influence the extent to which overconfidence translates into actual investment behaviour. An investor may possess

substantial financial knowledge but still exhibit excessive confidence in personal investment ability. Similarly, investment experience may either reduce overconfidence through learning or reinforce confidence through repeated successful investment outcomes. These possibilities require empirical examination.

Against this background, the present study focuses on the impact of overconfidence bias on the investment behaviour of individual equity investors in India. The study seeks to examine whether overconfidence significantly influences trading frequency, risk-taking, portfolio concentration and investment horizon. By focusing specifically on overconfidence and its behavioural consequences, the study aims to contribute to the growing literature on behavioural finance and provide useful insights for individual investors, financial advisers, investor-education programmes and securities-market regulators.

The study is particularly relevant because understanding the psychological factors underlying investment behaviour can help distinguish between confidence based on genuine investment competence and excessive confidence that may lead to irrational financial decisions. Identifying this distinction can contribute to the development of more effective investor-education and behavioural-intervention strategies and ultimately promote more disciplined and informed participation in the Indian equity market.

REVIEW OF LITERATURE

Kanagasabai and Aggarwal (2021) examined the relationship between personality traits and irrational investment decision-making among individual investors in India. The study collected data from 203 individual investors in Chennai and employed PLS-SEM. The researchers found that overconfidence played an important mediating role between personality characteristics and irrational investment decision-making. In particular, overconfidence fully mediated the relationships between extraversion/neuroticism and irrational investment decisions and partially mediated the relationship involving openness. The study demonstrates that overconfidence is not only a direct behavioural bias but may also arise from individual psychological characteristics.

Suresh and colleagues / Indian retail-investor literature (2021–2022) Recent Indian behavioural-finance studies during this period increasingly examined the influence of cognitive and emotional biases on individual investment decisions. Overconfidence was repeatedly identified as one of the important behavioural variables explaining irrational investment choices.

The literature generally indicates that investors who have excessive confidence in their own knowledge and investment ability are more likely to rely on personal judgement rather than objective information. This may lead to active trading, greater risk exposure and insufficient diversification.

Rao and Lakkol (2022) investigated the relationship between the HEXACO personality model and overconfidence among retail investors. The study surveyed 208 retail investors investing in equity, mutual funds and bonds. The findings showed a significant positive association between openness to experience and high overconfidence, while honesty-humility, emotionality, agreeableness and conscientiousness were



negatively associated with high overconfidence. Extraversion was not found to have a significant effect.

The study contributes to behavioural-finance research by demonstrating that personality characteristics can influence the level of overconfidence among retail investors.

Kumar and Prince's 2022 empirical study, Overconfidence bias in the Indian stock market in diverse market situations, examined overconfidence in the Indian stock market across different market conditions. The research was published in the International Journal of System Assurance Engineering and Management and specifically investigated whether overconfidence could be observed under diverse market situations.

The study is particularly important because it indicates that overconfidence can be examined through market behaviour and may differ according to the prevailing market environment.

Chauhan, Mishra, Bhardwaj, Kumar, Singh and Vishwakarma (2024) examined the impact of cognitive biases on investment decision-making among individual investors in India. The study collected data from 402 Indian retail investors using multi-stage stratified random sampling. The researchers employed PLS-SEM together with artificial neural network analysis. The study examined overconfidence, representativeness, availability, confirmation and anchoring biases. The results showed a significant positive relationship between overconfidence and investment decision-making.

Singh, Malik and Jha (2024) conducted a systematic review titled "Overconfidence Bias among Retail Investors: A Systematic Review and Future Research Directions." The researchers reviewed 137 Scopus-indexed publications and used the ADO-TCM framework to analyse antecedents, decisions, outcomes, theories, contexts and methodologies in the overconfidence literature.

The review demonstrates that overconfidence is a well-established behavioural-finance construct and has been linked with investment decisions and market outcomes. At the same time, the review identifies opportunities for research involving different investor contexts, behavioural outcomes and methodological approaches.

Sengupta and Mitra (2024) investigated the impact of overconfidence bias on investment decision-making among women investors in India. The study focused on behavioural factors influencing women's participation in the Indian stock market and examined the relationship between overconfidence, risk tolerance and investment choices. The findings indicated a relationship between overconfidence, risk tolerance and investment decisions.

Chaturvedi, Shukla, Tripathi, Mishra and Azami (2024) examined behavioural biases and investment decision-making among individual investors in the Indian stock market. The study investigated representativeness, anchoring, herding, overconfidence and loss aversion. Primary data were collected from individual stock-market investors in five major cities in Uttar Pradesh.

The study contributes to the understanding of multiple behavioural biases influencing Indian investors.

Dave and Vaid (2025) examined the influence of overconfidence and loss aversion on investment decision-making among stock investors in India. The study specifically considered the relative importance of these behavioural variables in the stock-investment decision-making process. The

authors noted that research focusing on behavioural finance in the local Indian context remains comparatively limited.

REFERENCES

1. Kanagasabai, B., & Aggarwal, V. (2021). Personality traits and irrational decision-making of individual investors: Evidence from India using PLS-SEM approach. *International Journal of Indian Culture and Business Management*, 23(1), 1–22. DOI: 10.1504/IJICBM.2021.115387.
2. Rao, A. S., & Lakkol, S. G. (2022). Influence of HEXACO personality model on overconfidence among retail investors. *Journal of Positive School Psychology*, 6(3).
3. Kumar, J., & Prince, N. (2022). Overconfidence bias in the Indian stock market in diverse market situations: An empirical study. *International Journal of System Assurance Engineering and Management*, 13(6), 3031–3047. DOI: 10.1007/s13198-022-01792-1.
4. Kumar, J., & Prince, N. (2023). Overconfidence bias in investment decisions: A systematic mapping of literature and future research topics. *FIIB Business Review*.
5. Nair, P. S., & Shiva, A. (2024). Specifying and validating overconfidence bias among retail investors: A formative index. *Managerial Finance*, 50(5), 1017–1036. DOI: 10.1108/MF-04-2023-0237.
6. Chauhan, B., Mishra, S., Bhardwaj, P., Kumar, S., Singh, D., & Vishwakarma, K. (2024). Examining the impact of cognitive biases on investment decision making of individual investors in India: An integrated SEM-ANN method. *Journal of Informatics Education and Research*.
7. Singh, D., Malik, G., & Jha, A. (2024). Overconfidence bias among retail investors: A systematic review and future research directions. *Investment Management and Financial Innovations*, 21(1), 302–316. DOI: 10.21511/imfi.21(1).2024.23.
8. Sengupta, S., & Mitra, S. (2024). Is there any impact of overconfidence bias on investment decision making? An investigation among the women investors of India. *International Journal of Reviews and Research in Social Sciences*, 12(4). DOI: 10.52711/2454-2687.2024.00039.
9. Chaturvedi, S., Shukla, N., Tripathi, S., Mishra, S., & Azami, A. R. (2024). Behavioral biases in investment decision: An empirical study determining the behaviour of individual investors in stock market in India. *Educational Administration: Theory and Practice*, 30(1). DOI: 10.53555/kuey.v30i1.9067.
10. Dave, N., & Vaid, A. (2025). The influence of overconfidence and loss aversion factors in investment decision making: Evidence on stock investors in India. *Journal of Informatics Education and Research*, 5(2). DOI: 10.52783/jier.v5i2.2750.
11. Azam, M. Q. (2025). The investment behaviour with overconfidence bias: Impact on volume and volatility in Indian stock market. *South Asian Journal of Social Studies and Economics*, 22(10), 13–24. DOI: 10.9734/sajsse/2025/v22i101171.