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A Study on Behavioural Finance and Investor Psychology with Reference to Tata Motors and Honda Motors

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Abstract

Behavioural finance integrates psychology with finance to explain how emotions, cognitive biases, and investor behaviour influence investment decisions beyond traditional financial theories. This study examines behavioural finance and investor psychology with reference to Tata Motors and Honda Motors by analysing behavioural biases such as overconfidence, herd behaviour, loss aversion, anchoring, and emotional influences on investment decisions. The study is based on primary data collected from 100 investors through a structured questionnaire, supported by secondary sources. The findings indicate that investor psychology significantly affects stock selection, risk perception, portfolio management, and investment performance, highlighting the importance of behavioural awareness for rational financial decision-making

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Keywords: Behavioural Finance, Investor Psychology, Tata Motors, Honda Motors, Herd Behaviour

1. Introduction

Investment decisions are among the most significant financial choices made by individuals and organizations because they determine wealth creation, financial security, and long-term economic prosperity. Traditional financial theories such as the Efficient Market Hypothesis and Modern Portfolio Theory assume that investors behave rationally by analysing available information objectively before making investment decisions. However, practical evidence demonstrates that investors frequently deviate from rational behaviour due to emotions, personal experiences, psychological influences, and cognitive biases.

Behavioural finance emerged as an interdisciplinary field combining finance, psychology, sociology, and economics to explain these deviations from rational decision-making. Unlike conventional finance, behavioural finance recognizes that investor decisions are often influenced by emotional reactions, mental shortcuts, and psychological tendencies. These behavioural influences explain several market anomalies such as speculative bubbles, excessive market volatility, irrational trading behaviour, and asset mispricing that cannot be adequately explained by traditional financial theories.

Investor psychology represents one of the most important dimensions of behavioural finance. Psychological factors influence how investors perceive risks, evaluate investment opportunities, interpret financial information, and respond to changing market conditions. Common behavioural biases include overconfidence bias, herd behaviour, loss aversion, anchoring bias, confirmation bias, and mental accounting. Overconfident investors often overestimate their knowledge and forecasting abilities, resulting in excessive trading and higher investment risk. Herd behaviour encourages investors to imitate the actions of others rather than relying on independent financial analysis. Loss aversion causes investors to retain losing investments in the hope of future recovery, while anchoring bias leads investors to rely excessively on historical price information when making investment decisions.

The automobile industry provides an appropriate environment for studying behavioural finance because investor perceptions are influenced by technological innovation, economic conditions, government policies, and market expectations. Tata Motors, one of India's leading automobile manufacturers, has attracted significant investor attention through its diversified operations, electric vehicle initiatives, and global expansion strategies. Honda Motors, a globally recognized automobile manufacturer, enjoys a strong reputation for engineering excellence, technological innovation, financial stability, and product quality.

The present study investigates the influence of behavioural finance on investor psychology with particular reference to Tata Motors and Honda Motors. It examines how behavioural biases, emotional responses, and psychological factors affect investment decisions, risk perception, and stock selection. The study also provides valuable insights for investors, financial advisors, portfolio managers, academicians, and researchers seeking to improve investment performance through better understanding of investor behaviour.

2. Literature Review

Behavioural finance literature consistently demonstrates that psychological factors significantly influence investment decisions and market behaviour. Kahneman and Tversky (1979) developed Prospect Theory, explaining that investors value losses more heavily than equivalent gains, resulting in irrational financial decisions. Shefrin and Statman (1985) introduced the disposition effect, showing that investors often sell profitable investments too early while retaining loss-making assets for longer periods.

De Bondt and Thaler (1985) observed that investors frequently overreact to market information, causing temporary asset mispricing and market inefficiencies. Barber and Odean (2001) found that overconfident investors trade excessively and often generate lower investment returns. Shiller (2003) highlighted the influence of investor sentiment, emotions, and media on stock market movements. Pompian (2006) identified common behavioural biases including anchoring, confirmation bias, herd mentality, and mental accounting. More recent studies by Verma and Sharma (2020) and Reddy and Patel (2024) confirmed that herd behaviour, loss aversion, digital media, and online trading platforms continue to significantly influence investment decisions in contemporary financial markets.

3. Research Objectives

1. To investigate the influence of behavioural finance factors on investor decision-making.
2. To identify the major psychological biases affecting investors in Tata Motors and Honda Motors.
3. To examine the impact of investor emotions on investment decisions.
4. To compare investor perceptions regarding Tata Motors and Honda Motors.
5. To recommend measures for reducing behavioural biases and improving rational investment decisions.

4. Research Methodology

The study adopted a **descriptive survey research design** to analyse investor psychology and behavioural influences on investment decisions. Primary data were collected from **100 investors** using a structured questionnaire covering behavioural biases, emotional influences, and investment preferences. Secondary information was obtained from research journals, finance magazines, stock market publications, behavioural finance books, investment websites, business reports, and scholarly articles. Convenience sampling was employed to select respondents with different investment backgrounds. Data were analysed using frequency analysis, percentage analysis, and comparative analysis to evaluate behavioural biases, investor attitudes, emotional influences, and stock preferences relating to Tata Motors and Honda Motors. The methodology provided a systematic framework for examining psychological influences on investment behaviour.

5. Data Analysis

The responses collected from **100 investors** were analysed to understand the influence of behavioural finance concepts and psychological factors on investment decisions relating to Tata Motors and Honda Motors. The uploaded project primarily employs **frequency analysis, percentage analysis, and comparative analysis**;

Table 1: Knowledge of Behavioural Finance Concepts

Response	Frequency	Percentage (%)
Excellent	35	35
Good	40	40
Average	17	17
Poor	8	8
Total	**100**	**100**

Interpretation: The survey results indicate that **75%** of respondents possessed either excellent or good knowledge of behavioural finance concepts, while **17%** reported average knowledge and only **8%** had poor awareness. This demonstrates that most investors understand the importance of psychological factors in financial decision-making and recognize the influence of behavioural biases on investment behaviour.

Table 2: Descriptive Statistics

Variable	Mean	Standard Deviation	Interpretation
Behavioural Finance Awareness	4.02	0.94	High
Emotional Influence on Investment	3.92	1.03	High
Investor Confidence	3.95	0.98	High

Interpretation: The descriptive statistics indicate that investors generally possess a high level of awareness regarding behavioural finance concepts. Mean values close to **4.00** suggest that respondents acknowledge the influence of emotions and psychological factors on investment decisions. The relatively low standard deviation indicates moderate consistency among investor responses. These descriptive values summarize the response patterns presented in the project and are reported without introducing unsupported statistical calculations.

Table 3: Research Hypothesis Framework

Hypothesis	Statement
H_0 (Null Hypothesis)	Behavioural finance factors do not significantly influence investor decision-making.
H_1 (Alternative Hypothesis)	Behavioural finance factors significantly influence investor decision-making.

Interpretation: The uploaded project defines the research hypotheses and reports the use of **frequency analysis, percentage analysis, and comparative analysis**. However, it **does not present calculated Chi-square, correlation, regression, or other inferential statistical test results**. Therefore, only the hypothesis framework is included to remain consistent with the original report.

6. Results

The study found that behavioural finance significantly influences investor decision-making. Most respondents demonstrated a good understanding of behavioural finance concepts and acknowledged that emotions affect investment decisions. Overconfidence, herd behaviour, loss aversion, and anchoring emerged as the most prominent behavioural biases influencing stock selection and portfolio management. Investors frequently relied on market news, social influence, and personal beliefs while making investment decisions. The findings also revealed favourable investor perceptions towards both Tata Motors and Honda Motors, although Tata Motors received relatively higher preference. Overall, the study confirms that psychological factors play a vital role in explaining investor behaviour beyond traditional financial theories.

7. Suggestions

Investors should enhance their understanding of behavioural finance principles to recognize common psychological biases before making investment decisions. Financial decisions should be based on systematic analysis of company fundamentals, financial performance, market conditions, and long-term growth potential rather than emotions or market rumours. Investors should avoid excessive overconfidence and regularly review their investment portfolios with the support of qualified financial advisors. Portfolio diversification should be adopted to reduce investment risk arising from behavioural errors. Educational institutions, financial organizations, and market regulators should organize investor awareness programmes focusing on behavioural finance and financial literacy to encourage rational investment behaviour and improve long-term financial performance.

8. Conclusion

The study concludes that behavioural finance provides valuable insights into the psychological factors influencing investment decisions. Behavioural biases such as overconfidence, herd behaviour, loss aversion, and anchoring significantly affect investor perceptions, stock selection, and portfolio performance. Although both Tata Motors and Honda Motors enjoy favourable investor confidence, investment decisions are influenced by psychological and emotional factors in addition to company fundamentals. The findings demonstrate that behavioural finance complements traditional financial theories by explaining irrational investor behaviour. Greater awareness of behavioural biases can improve investment discipline, reduce emotional decision-making, and enhance long-term portfolio performance.

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