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

1. **M. NARESH** (24UJ1E0036) Student of 2nd Year MBA,
Malla Reddy Engineering College and Management Sciences, Medchal, Hyderabad – 501 401.

2. **Dr Arshia Sulthana**, Assistant Professor Dept of MBA,
Malla Reddy Engineering College and Management Sciences, Medchal, Hyderabad – 501 401.

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Abstract

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

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

1. INTRODUCTION

Investment decisions play a significant role in wealth creation, financial security, and long-term economic growth. Traditional financial theories such as the Efficient Market Hypothesis and Modern Portfolio Theory assume that investors always behave rationally by analysing available information objectively before making investment decisions. However, practical observations reveal that investor behaviour is often influenced by emotions, personal experiences, psychological factors, and cognitive biases, resulting in decisions that deviate from rational financial principles.

Behavioural finance emerged as an interdisciplinary field combining finance, psychology, sociology, and economics to explain these deviations. Unlike traditional finance, behavioural finance recognises that investors frequently rely on emotions and mental shortcuts while evaluating investment opportunities. These behavioural tendencies explain several market anomalies such as excessive volatility, speculative bubbles, market overreactions, and irrational trading behaviour that cannot be adequately explained by conventional financial theories.

Investor psychology is a central concept in behavioural finance. Psychological influences affect how investors perceive risk, interpret market information, evaluate investment opportunities, and respond to economic events. Common behavioural biases include overconfidence bias, herd behaviour, loss aversion, anchoring bias, confirmation bias, and mental accounting. Overconfident investors often overestimate their abilities and engage in excessive trading, while herd behaviour encourages investors to imitate others instead of conducting independent analysis. Loss aversion causes investors to avoid recognising losses, whereas anchoring bias leads investors to rely excessively on previous price information.

The automobile industry provides an ideal environment for studying behavioural finance because investor perceptions are influenced by technological innovation, economic conditions, government policies, and market expectations. Tata Motors and Honda Motors are two globally recognised automobile companies that attract substantial investor attention owing to their market reputation, financial performance, and future growth prospects. While Tata Motors has established a strong presence in India with significant investments in electric vehicles and commercial transportation, Honda Motors enjoys global recognition for technological innovation and engineering excellence.

The present study investigates how behavioural finance influences investor psychology with particular reference to Tata Motors and Honda Motors. It evaluates the impact of behavioural biases, emotional responses, and psychological factors on investment decisions and provides valuable insights for investors, portfolio managers, financial advisors, researchers, and policymakers 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 behaviour. Kahneman and Tversky (1979) introduced Prospect Theory, explaining that investors value losses more heavily than equivalent gains. Shefrin and Statman (1985) identified the disposition effect, where investors sell profitable investments too early while retaining losing assets. De Bondt and Thaler (1985) found that investors frequently overreact to market information, resulting in temporary market inefficiencies.

Barber and Odean (2001) established that overconfident investors trade excessively and often earn lower returns. Shiller (2003) highlighted the influence of emotions, media, and social interactions on stock market behaviour. Pompian (2006) identified common behavioural biases including anchoring, herd mentality, confirmation bias, and mental accounting. Gupta (2008) observed that investor emotions strongly influence investment decisions in the Indian stock market, while Verma and Sharma (2020) confirmed that herd behaviour and loss aversion remain dominant behavioural biases among retail investors. Recent research by Reddy and Patel (2024) further emphasised the growing influence of digital media and investor sentiment on financial decision-making.

3. RESEARCH OBJECTIVES

1. To investigate the influence of behavioural finance on investor decision-making.
2. To identify major psychological biases affecting investors in Tata Motors and Honda Motors.
3. To examine the influence 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 research design to analyse investor behaviour and psychological influences on investment decisions. Primary data were collected from **100 investors** through a structured questionnaire covering behavioural biases, emotional influences, and investment preferences. Secondary information was obtained from scholarly journals, finance magazines, stock market publications, behavioural finance books, business reports, investment websites, and research publications. Convenience sampling was used to select respondents from different investment backgrounds. Responses were analysed using frequency analysis, percentage analysis, and comparative analysis. The methodology enabled systematic evaluation of behavioural biases, investor attitudes, emotional influences, and stock preferences relating to Tata Motors and Honda Motors.

5. DATA ANALYSIS

The responses collected from **100 investors** were analysed to understand the influence of behavioural finance concepts, investor psychology, emotional reactions, and cognitive biases on investment decisions relating to Tata Motors and Honda Motors. The original project primarily employed descriptive statistical techniques;

Table 1: Percentage Analysis of Investor Awareness of Behavioural Finance

Category	**Frequency**	**Percentage (%)**
Highly Aware	36	36
Aware	34	34
Neutral	14	14
Unaware	10	10
Highly Unaware	6	6
Total	**100**	**100**

Interpretation: The findings indicate that **70%** of respondents were either highly aware or aware of behavioural finance concepts. This suggests that most investors recognize the influence of psychological factors on investment decisions. Only **16%** reported low awareness, while **14%** remained neutral, highlighting the growing acceptance of behavioural finance among investors.

Table 2: Descriptive Statistics

Variable	**Mean**	**Standard Deviation**	**Interpretation**
Behavioural Finance Awareness	3.84	1.11	High
Emotional Influence	3.83	1.13	Positive
Investor Confidence	3.82	1.12	High

Interpretation: The descriptive statistics demonstrate that investors generally acknowledge the influence of behavioural finance and psychological factors on investment decisions. Mean scores above **3.80** indicate favourable awareness and recognition of behavioural influences, while the standard deviation reflects moderate variation among respondents. These values summarize the descriptive response patterns reported in the source 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 presents the research hypotheses and explains the use of descriptive statistical techniques but **does not report calculated hypothesis test results such as Chi-square, correlation, or regression values**. Therefore, only the hypothesis framework is included to accurately reflect the source document.

6. Results

The study reveals that behavioural finance plays an important role in shaping investment decisions. Most respondents acknowledged that emotions, cognitive biases, and psychological influences significantly affect stock selection and portfolio management. Overconfidence, herd behaviour, loss aversion, and anchoring emerged as the dominant behavioural biases influencing investors. Market news and emotional responses also had a considerable impact on investment behaviour. Investors expressed favourable perceptions towards both Tata Motors and Honda Motors, although individual investment preferences varied according to psychological beliefs and personal experiences. The findings confirm that behavioural finance provides valuable insights for understanding investor behaviour beyond traditional financial theories.

7. Suggestions

Investors should improve their understanding of behavioural finance concepts to recognize common psychological biases before making investment decisions. Financial decisions should be based on objective analysis of company fundamentals, financial performance, industry outlook, and long-term growth potential rather than emotions or market rumours. Investors should avoid excessive overconfidence and regularly review their portfolios with the assistance of financial advisors when necessary. Diversification strategies should be adopted to reduce investment risk arising from behavioural errors. Educational institutions, financial organisations, and market regulators should conduct behavioural finance awareness programmes to improve financial literacy and promote rational investment behaviour among retail investors.

8. Conclusion

The study concludes that investor psychology significantly influences financial decision-making in the stock market. Behavioural biases such as overconfidence, herd behaviour, loss aversion, and anchoring affect investor perceptions, stock selection, and portfolio performance. Both Tata Motors and Honda Motors receive favourable investor attention; however, investment decisions are influenced not only by company fundamentals but also by psychological and emotional factors. The findings demonstrate that behavioural finance complements traditional financial theories by explaining irrational investment behaviour. Improving investor awareness of behavioural biases can enhance investment discipline, reduce emotional decision-making, and support better long-term portfolio performance.

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