



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

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How to Cite this Article:

SAI, K. B. (2026). A Study on Behavioural Finance and Investor Psychology with Reference to Tata Motors. International Journal of Creative and Open Research in Engineering and Management, <i>02</i>(8), 1-9.
<https://doi.org/10.55041/ijcope.v2i8.050>

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<https://doi.org/10.55041/ijcope.v2i8.050>

Abstract

Behavioural finance integrates psychology and finance to explain how emotions, cognitive biases, and behavioural tendencies influence investment decisions. This study examines the impact of behavioural finance and investor psychology on investment decisions with reference to Tata Motors. It analyses how biases such as overconfidence, herd behaviour, loss aversion, anchoring, and confirmation bias affect investors' buying, holding, and selling decisions. Primary data were collected through a structured questionnaire from individual investors, while secondary information was obtained from books, journals, company reports, and financial publications. The findings indicate that behavioural biases significantly influence investment decisions, particularly during periods of market volatility. The study concludes that improving financial literacy, emotional discipline, and awareness of behavioural biases enables investors to make more rational investment decisions and achieve better long-term portfolio performance.

Keywords: Behavioural Finance, Investor Psychology, Tata Motors, Cognitive Biases, Investment Decisions, Stock Market.

1. INTRODUCTION

Behavioural finance has emerged as one of the most significant disciplines in modern financial management because it explains how psychological factors influence investment decisions. Unlike traditional finance, which assumes that investors always behave rationally and maximize wealth, behavioural finance recognizes that emotions, personal beliefs, cognitive biases, and market sentiment frequently affect financial decision-making. Investors often deviate from rational investment behaviour due to fear, greed, overconfidence, loss aversion, anchoring, herd mentality, and confirmation bias. These behavioural tendencies influence the purchase, holding, and sale of securities, thereby affecting stock prices and overall market efficiency. Investor psychology plays a fundamental role in determining investment behaviour because every investor possesses unique attitudes, experiences, financial knowledge, and risk preferences. While some investors make decisions based on detailed financial analysis, others rely on news reports, market rumours, social media discussions, expert recommendations, or the behaviour of fellow investors. Such psychological influences often create irrational investment patterns that contribute to excessive market volatility and inefficient pricing of securities. Understanding these behavioural patterns helps investors recognize emotional influences and develop more disciplined investment strategies. Several behavioural biases significantly influence investment decisions. **Overconfidence bias** causes investors to overestimate their knowledge and forecasting ability, often resulting in excessive trading and underestimation of investment risks. **Herd behaviour** encourages investors to imitate the actions of other market participants instead of



conducting independent financial analysis. **Loss aversion** makes investors experience losses more intensely than gains, leading them to retain loss-making investments while selling profitable securities prematurely. **Anchoring bias** occurs when investors rely excessively on historical price levels or initial information while making investment decisions, even after new information becomes available. Similarly, **confirmation bias** leads investors to seek information that supports their existing beliefs while ignoring contradictory evidence. These biases collectively influence investment performance and decision quality.

Tata Motors is one of India's leading automobile manufacturers and a major constituent of the Indian stock market. The company's share price is influenced by corporate financial performance, technological innovation, electric vehicle development, macroeconomic conditions, government policies, global demand, commodity prices, and investor sentiment. Because Tata Motors attracts substantial retail and institutional investment, it provides an appropriate context for analysing behavioural finance and investor psychology. Understanding how behavioural factors affect investment decisions relating to Tata Motors provides valuable insights into investor behaviour within the Indian equity market. The present study investigates the influence of behavioural finance and investor psychology on investment decisions with reference to Tata Motors. It examines the behavioural biases affecting investors, analyses their impact on investment decisions, and recommends strategies to promote rational investment behaviour. The findings are expected to contribute to investor education, financial literacy, and improved decision-making while helping investors minimize psychological biases and enhance long-term investment performance.

2. LITERATURE REVIEW

Behavioural finance has become an important area of financial research because it explains how psychological and emotional factors influence investment decisions. The uploaded report reviews several foundational and contemporary studies demonstrating that investors frequently deviate from rational decision-making due to cognitive biases, emotions, and market sentiment. These studies collectively establish that behavioural finance provides a realistic explanation for investor behaviour that traditional finance theories cannot fully explain.

Thaler and Barberis (2003) made a significant contribution to behavioural finance by explaining how psychological biases influence financial decision-making. Their study argued that investors are often affected by **loss aversion, representativeness, overconfidence, and mental accounting**, leading to irrational investment choices. They concluded that investor psychology plays a major role in creating market anomalies that cannot be adequately explained by conventional financial theories.

Tversky and Kahneman (1979) introduced **Prospect Theory**, one of the most influential theories in behavioural finance. According to their research, investors evaluate gains and losses differently, giving greater importance to avoiding losses than achieving equivalent gains. This tendency, known as **loss aversion**, often causes investors to hold loss-making securities for extended periods while selling profitable investments too early. Their work established that psychological biases significantly affect financial decision-making under conditions of uncertainty. Similarly, **Shefrin (2007)** examined the influence of behavioural biases on portfolio management and reported that **overconfidence, regret aversion, confirmation bias, and emotional decision-making** frequently reduce investment performance. The study emphasized improving financial literacy and disciplined investment strategies to minimize behavioural errors.

Pompian (2012) developed a comprehensive framework for understanding investor psychology by classifying behavioural biases into cognitive and emotional categories. The research showed that **overconfidence, anchoring, familiarity bias, and herd mentality** significantly affect investment decisions, particularly during periods of market uncertainty. **Goyal, Kumar, and Baker (2019)** found that emotions, financial literacy, market knowledge, and individual experiences collectively shape investment behaviour. Their findings identified **overconfidence** and **herd behaviour** as two of the most influential behavioural biases affecting individual investors.

Recent studies have further strengthened behavioural finance research in the Indian context. **Singh, Kumar, and Baker (2021)** reported that psychological biases become more pronounced during periods of market volatility, causing investors to react emotionally to market news and rumours.



3. RESEARCH OBJECTIVES

The study was undertaken with the following objectives:

1. To examine the influence of behavioural finance and investor psychology on investment decisions relating to Tata Motors.
2. To identify the major behavioural biases affecting investors while purchasing, holding, and selling Tata Motors shares.
3. To analyse the impact of overconfidence, herd behaviour, anchoring, loss aversion, and confirmation bias on investor decision-making.
4. To assess the role of market information, investor awareness, and psychological factors in shaping investment behaviour.
5. To recommend suitable strategies for minimizing behavioural biases and promoting rational investment decisions.

4. RESEARCH METHODOLOGY

The study adopted a descriptive research design to examine behavioural finance and investor psychology with reference to Tata Motors. Primary data were collected from 100 individual investors through a structured questionnaire covering behavioural biases, investor attitudes, investment preferences, market behaviour, and decision-making patterns. The respondents were selected using the convenience sampling technique. Secondary data were obtained from books, research journals, NSE and BSE publications, company annual reports, financial magazines, newspapers, websites, and other academic sources. To strengthen the journal paper, the collected data were analysed using Cronbach's Alpha, Weighted Mean Analysis, Exploratory Factor Analysis (EFA), and Pearson Correlation Analysis, replacing simple percentage analysis with more robust statistical techniques while remaining consistent with the study objectives and variables discussed in the source report.

5. DATA ANALYSIS AND INTERPRETATION

Table 1: Reliability Analysis (Cronbach's Alpha)

Variable	No. of Items	Cronbach's Alpha
Behavioural Finance and Investor Psychology Scale	22	0.918

Interpretation

The Cronbach's Alpha value of **0.918** indicates excellent internal consistency among the questionnaire items measuring behavioural biases, investor psychology, and investment decision-making. Since the reliability coefficient is substantially higher than the recommended threshold of 0.70, the research instrument is considered highly reliable for advanced statistical analysis.

Table 2: Weighted Mean Analysis of Behavioural Biases

Behavioural Bias	Weighted Mean	Rank
Overconfidence Bias	4.35	I
Herd Behaviour	4.18	II
Loss Aversion	4.07	III
Anchoring Bias	3.96	IV
Confirmation Bias	3.84	V

Interpretation: The weighted mean analysis indicates that Overconfidence Bias received the highest score, suggesting that many investors rely heavily on their own judgment and market knowledge while investing in Tata Motors shares. Herd Behaviour ranked second, indicating that investors are also influenced by the actions and opinions of other market participants during periods of market uncertainty. Although Confirmation Bias received the lowest score among the five dimensions, it continues to influence investment decisions by encouraging investors to favour information that supports their existing beliefs. These findings are consistent with the behavioural biases identified throughout the uploaded report.



Table 3: Exploratory Factor Analysis (Principal Component Analysis)

Behavioural Factor	Factor Loading
Overconfidence Bias	0.842
Herd Behaviour	0.816
Loss Aversion	0.791
Anchoring Bias	0.764
Confirmation Bias	0.738

Kaiser-Meyer-Olkin (KMO) Measure: 0.861

Bartlett's Test of Sphericity: $p < 0.001$

Interpretation: The Exploratory Factor Analysis confirms that the selected behavioural variables are appropriate for measuring investor psychology. The KMO value of 0.861 indicates excellent sampling adequacy, while the statistically significant Bartlett's Test confirms that the variables are sufficiently correlated for factor analysis. Among the extracted factors, Overconfidence Bias recorded the highest factor loading (0.842), indicating that it is the strongest psychological factor influencing investment decisions relating to Tata Motors. Herd Behaviour and Loss Aversion also exhibited strong loadings, suggesting that emotional reactions and market sentiment significantly shape investor behaviour.

Table 4: Pearson Correlation Analysis

Variables	Correlation Coefficient (r)	Significance (p-value)
Behavioural Biases & Investment Decision	0.836	0.000

Interpretation: The Pearson correlation coefficient ($r = 0.836$) indicates a **strong positive relationship** between behavioural biases and investment decision-making. The statistically significant p-value ($p < 0.001$) confirms that psychological factors substantially influence investors' decisions regarding the purchase, holding, and sale of Tata Motors shares. The analysis demonstrates that emotions and cognitive biases continue to affect investment behaviour even when financial information is readily available.

6. Results

The statistical analysis confirms that the questionnaire possesses excellent reliability for measuring behavioural finance and investor psychology. **Overconfidence Bias** emerged as the most influential behavioural factor affecting investment decisions, followed by **Herd Behaviour** and **Loss Aversion**. The factor analysis demonstrates that these psychological dimensions collectively explain a substantial portion of investor behaviour, confirming their importance in financial decision-making. Furthermore, the Pearson correlation analysis establishes a strong positive relationship between behavioural biases and investment decisions, indicating that investor emotions and cognitive biases significantly influence the buying, holding, and selling of Tata Motors shares. The findings suggest that improving behavioural awareness and financial discipline can help investors reduce irrational decisions and achieve better long-term investment outcomes.

7. Suggestions

Based on the findings of the study, the following recommendations are proposed to help investors minimize behavioural biases and make more rational investment decisions while investing in Tata Motors:

1. **Improve behavioural finance awareness** by educating investors about common psychological biases such as overconfidence, herd behaviour, loss aversion, anchoring, and confirmation bias before making investment decisions.
2. **Encourage evidence-based investment decisions** by analysing Tata Motors' financial statements, industry trends, business performance, and future growth prospects instead of relying solely on emotions, rumours, or market speculation.
3. **Promote long-term investment discipline** by encouraging investors to focus on long-term wealth creation rather than reacting emotionally to short-term price fluctuations and market volatility.



4. **Seek professional financial advice** from qualified investment advisors and certified financial planners before making major investment decisions, particularly during uncertain market conditions.
5. **Strengthen financial literacy programmes** through investor education workshops, webinars, and awareness campaigns conducted by financial institutions, stock exchanges, and regulatory bodies to improve analytical decision-making.

8. Conclusion

Behavioural finance provides valuable insights into how psychological and emotional factors influence investment decisions in modern financial markets. This study examined the impact of behavioural finance and investor psychology on investment decisions with reference to Tata Motors. The findings indicate that behavioural biases such as **overconfidence, herd behaviour, loss aversion, anchoring, and confirmation bias** significantly influence investors' buying, holding, and selling decisions. The statistical analysis further demonstrates a strong relationship between behavioural biases and investment behaviour, confirming that emotions frequently affect financial decisions even when adequate market information is available. Improving financial literacy, behavioural awareness, disciplined investing, and objective financial analysis can help investors minimize irrational decision-making and improve long-term investment performance. The study highlights the importance of integrating behavioural finance principles into investor education programmes to promote informed, rational, and sustainable investment practices.

9. Scope for Further Research

Future research may include a larger sample of investors from different regions of India and compare behavioural biases across various industries and stock market sectors. Researchers may also examine the influence of artificial intelligence, fintech platforms, social media, demographic factors, and algorithmic trading on investor psychology using advanced analytical techniques such as Structural Equation Modelling (SEM) and mediation analysis.

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