

CONCEPTUALISATION OF INDIVIDUAL INVESTORS' HEURISTICS ON INVESTMENT DECISION MAKING

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Abstract

This paper conceptualizes heuristics identified in behavioural finance in relation to the individual investment decision making. Though modern finance relies on the assumption investors are rational, the counter argument postulates that investors are not always rational. Thus, the decisions are impacted by behavioural heuristics and biases of investor psychology. Heuristic theories identify representativeness, availability, anchoring and emanating overconfidence, enumerate systematic biases in decision making. Therefore, this paper aims to conceptualize the constructs of behavioural heuristics along with individual investor decision making, which will be later employed in a survey study in the Colombo Stock Exchange. This study ascertains heuristics identified in behavioural finance, specifically; representativeness, availability and overconfidence and develop specific definitions for each heuristic through literature. Next, it develops a conceptual model along with the dependent construct, investment decision making. The definitions of each construct are utilized to identify the specific dimensions of each of them, which can be measurable in a stock market. This study provides a comprehensive measurement of the heuristics along with its dimensions and elements using literature in both behavioural and standard finance. This conceptual framework will provide a foundation for future research on investor decision-making of behavioral finance in Sri Lanka.

Keywords: Availability, Behavioral finance, Investment decision making, Overconfidence, Representativeness