IMPACT OF OVERCONFIDENCE AND HERDING BEHAVIOUR ON GRADUATE'S INVESTMENT DECISION; MEDIATING ROLE OF RISK PERCEPTION

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1. Introduction

Using two behavioral factors, overconfidence and herding behavior, and one mediating factor, risk perception, this study examines how those two behavioral factors affect the investment decision-making activities of graduates. This tries to investigate a specific issue within the context of the Sri Lankan investment market and how psychological biases affect the investment decisions of graduates. It also assesses the mediating effect of risk perception and how two main independent variables, overconfidence and herding behavior, directly and indirectly, affect investment decisions.

2. Research Methodology

The study uses a qualitative research strategy based on a structured questionnaire with a sample of 384 respondents. The purposive sampling method is used to select the sample, and SEM is used to analyze and possess the data using SPSS and AMOS statistical packages.

3. Findings and Discussion

The findings show that the direct effect of independent variables, overconfidence and herding behavior, with the dependent variable, investment decision, has a positive significant effect, and the mediating effect for both relationships has a significant effect. An overall mediating variable, risk perception, has a partial mediating effect on both independent variables.

4. Conclusion and Implications

The results indicate that overconfidence and herding behavior are the most relevant derived from graduates' investment decisions, while risk perception is an important mediator. This might imply specific financial literacy programs directed at addressing cognitive biases such as overconfidence and the influence of social factors in making effective investment decisions.

Keywords: Max behavioral finance, Overconfidence, Herding behavior, Risk perception