

Abstract

Individual investors trading on the Colombo Stock Exchange behave irrationally despite the available objective finance models introduced by noteworthy scholars and finance professionals. The current research paper attempted to investigate whether behavioural finance factors affect individual investor's investment performance on the Colombo Stock Exchange. Moreover, this study extended to examining whether stock broker's recommendations as a contextual factor and individual investor's existing knowledge of the stock market as a demographic factor have moderating effects on the relationship between behavioural finance factors and individual investor's investment performance. Thereby, behavioural finance factors: heuristic behaviour, prospect behaviour and market factors were considered as independent variables in measuring their impact on individual investor's investment performance, which form first objective of this study. As second and third objective, respectively, stock broker's recommendations and individual investor's existing knowledge of the stock market were introduced as moderators, based on empirical studies, in developing a coherent model to measure their impact on individual investor's investment performance. Investor behaviour stemming from behavioural finance factors was measured through the 6-point Likert scale while the investor behaviour stemming from contextual as well as demographic factors were measured through the 5-point Likert scale. Correspondingly, individual investor's investment performance was measured using the identical 6-point Likert scale. Accordingly, six key hypotheses were developed, and the results of the study produced significant evidences supportive of every hypothesis. To test the hypotheses, data were collected during the second half of 2018 through 221 completed self-completion questionnaires from individual investors trading on the Colombo Stock Exchange, and the analysis was performed using SPSS Statistics and SPSS AMOS. As such, the researcher of this paper adopted the quantitative approach to execute the study. The results revealed that market information and past trends of stocks as market factors were the most influential on investment decision making, while the cumulative effect of heuristics, prospect and market maintained the greatest impact on individual investor's investment performance. Two novel findings, as per the researcher's knowledge, were reported in this study. Firstly, when individual investors alongside imitating other investors' trading behaviour, traded on stock broker's recommendations, they received inferior financial returns. Similarly, when such investors traded on market factors and

follow stock broker's recommendations simultaneously, they received lower financial returns. Secondly, if individual investors utilised their knowledge while following other investors' decisions to outperform the market, the investors received mediocre financial returns. Likewise, when such investors traded on market factors and utilised their knowledge simultaneously, such investors suffered with financial losses. In stating the significance of this paper from a management perspective, the implication for the stock brokerage firms is, this study could indicate the future direction of the stock market as behavioural finance forces may possibly determine market trends.

Keywords: Behavioural finance factors; Stock broker's recommendations; Individual investor's existing knowledge of the stock market; Individual investor's investment performance; Colombo Stock Exchange; Sri Lanka