



Effects Of Herding Behaviour On Investment Choices Of It Professionals From The Perspective Of Behavioral Finance

Author: Revannasiddeswara

Research Scholar Annamalai University, & Assistant Professor Department Of Business Administration Government First Grade College Kunigal

Co-Author: Dr. Saravanan K,

Research Supervisor & Assistant Professor, Dept. Of Business Administration Annamalai University, Annamalai Nagar, Chidambaram

Co-Author: Dr. Allahbaksh S.

Associate Professor Department Of Sociology And Social Work, Annamalai University, Annamalai Nagar, Chidambaram

Abstract: This article examines the effects of herding behavior on financial markets alternatives and highlights cognitive biases such as asset heuristic, fixation, confirmation bias, and overconfidence that drive such behavior. Analyzing responses from 200 IT sector employees, the study elucidates on demographic and investment patterns associated with responsiveness to herd behavior. Key findings emphasize that while a substantial percentage of participants had a finance background, financial literacy was not associated with a reduction in cognitive biases such as over-optimism or loss aversion. The research explains significant correlations between specific investment behaviors and psychological traits: investors exhibit greater over-optimism and conservatism compared to those investing in traditional bank deposits. These views demonstrate that herd behavior not only influences market dynamics by compounding trends and fluctuations but also manifests prominently across different investor profiles and investment instruments. Survey results show that 53.2% of participants were male, 59.1% had a finance education, and 32.4% invested in stocks. The survey also revealed that 14.5% of participants did not follow market developments, while 26.8% followed them monthly. Samples t-test showed that investors with financial education were more confident ($p < 0.05$). This study contributes to behavioral finance by detailing how herd psychology influences individual and collective investment decisions. Higher levels of financial education are often associated with a reduced tendency to fall prey to psychological biases. However, our findings indicate that individuals with advanced knowledge in finance may, at times, display greater overconfidence and a tendency to follow the crowd. This apparent contradiction underscores the intricate relationship between expertise, self-assurance, and herd behavior. It suggests that even well-educated individuals can engage in irrational group actions due to the influence of collective thinking.

Keywords: Investment, Investment behavior, Herding Behaviour, Behavioral Finance

I. Introduction

Investment decisions are influenced by a various factor, from economic indicators to personal biases. Traditional financial models assume rational behavior is the basis in decision-making process, but behavioral finance explains more realistic perspective by recognizing the notable influence of psychological factors. One of the important elements influencing market dynamics is herd behavior, where individuals mimic the actions of a larger group. This phenomenon is particularly pronounced under conditions of uncertainty and lack of information, leading to market inefficiencies and volatility.

This study reveals the impact of herd behaviour of IT professionals on investment decisions from a behavioral finance perspective. The analysis emphasizes the impact of herding behavior on financial markets, influenced by cognitive biases and heuristics. Statistical data from a survey of IT professionals provides insight into the prevalence and impact of herd psychology among investors. According to the survey results, 53.2% of respondents were male and 46.8% were female, with an age range of 18 to 50. Education levels vary, with 77.6% having a bachelor's degree, and 22.4% having post graduate degree. In terms of financial literacy, 59.1% of respondents have received financial education or training. The study also revealed that 16.5% of the respondents invested in Fixed deposits, 10.1% in foreign currency, 32.4% in stocks, 07.3% in bonds, 22.0% in gold and 11.7% in real estate. This diversity in investment preferences highlights different risk appetites and strategies influenced by herd behaviour. The results also show that 14.5% of



respondents do not follow the financial markets, while 26.8% do so monthly and 16.0% on an annual basis. Understanding the psychological basis of herding behavior and its impact on financial markets is critical to developing strategies to mitigate its effects.

Meaning of Herd Behaviour: - Herd psychology refers to a behavioral tendency where people align their decisions, actions, and opinions with those of a larger group. This tendency becomes stronger when individuals face uncertainty or do not have enough information to make independent judgments. Although it can be seen in many aspects of human behavior, it is especially evident in rapidly changing and unpredictable settings like financial markets. In such environments, investors are more likely to be guided by collective behavior due to several underlying factors.

1. Social proof refers to the tendency of individuals to imitate the actions of others, assuming that such behavior represents the correct course of action. In financial markets, this often results in investors buying or selling assets simply because others are doing the same, which can create a cycle that pushes prices away from their true value (Banerjee, 1992).
2. Fear of Missing Out (FOMO) is an emotional pressure that drives individuals to act quickly so they do not miss potential opportunities. In the context of investing, it can cause people to follow market trends without proper evaluation, mainly out of concern that they might lose out on possible profits (Arnott, 2018).
3. Cognitive dissonance arises when there is a mismatch between a person's beliefs and their actions. For investors, this may happen when their own analysis contradicts the behavior of the majority. To reduce this internal discomfort, they may choose to align their decisions with the crowd (Festinger, 1957).
4. Information cascades occur when individuals ignore their own knowledge and instead base their decisions on the observed actions of others. This can lead to situations where people follow early movers without questioning, resulting in collective decision-making that may not be rational (Bikhchandani, Hirshleifer, & Welch, 1992).

The availability heuristic is a mental shortcut where decisions are influenced by information that is easily recalled. When investors frequently hear about successful investments, they may assume such outcomes are common and imitate similar behavior, contributing to herd-like actions (Tversky & Kahneman, 1973).

There are several factors that explain why individuals tend to display herd behavior in financial markets. Some of the key reasons are outlined below:

Market sentiment and media influence:

Media outlets play a crucial role in shaping how investors perceive the market. Positive coverage can encourage widespread buying, while negative reports may trigger panic selling. Financial news channels and social media often amplify trends, unintentionally encouraging people to follow the crowd (Shiller, 2000).

Network effects:

With the growth of digital platforms, information spreads very quickly through social media, online forums, and other communication channels. This rapid flow of information makes it easier for investors to observe and imitate the actions of others, leading to collective behavior (Hirshleifer & Teoh, 2003).

Reputation concerns:

Professionals like fund managers and financial analysts may choose to align with the majority to safeguard their reputation. Going against the consensus can be risky, and if their independent judgment proves incorrect, it may harm their credibility. As a result, they often prefer to follow widely accepted views (Scharfstein & Stein, 1990).

Limited information and analysis:

Many individual investors lack the time, resources, or expertise needed for detailed financial analysis. Because of this, they tend to rely on the decisions of experts or the general market trend, treating it as a practical shortcut for decision-making (De Bondt & Thaler, 1985).

Regret avoidance:

Investors are often motivated by a desire to avoid future regret. By following the crowd, they feel less responsible for potential losses or missed opportunities. This tendency reduces the emotional burden of making independent decisions that could turn out poorly (Zeelenberg & Pieters, 2007).

II. Objectives Of The Study

- To examine the concept of herding behavior in financial markets
- To analyze the impact of herding behavior on investment decisions made by IT professionals.
- To identify the key psychological factors (such as fear, overconfidence, and social influence) that drive herding behavior.



- To evaluate how herding influences market outcomes, including price fluctuations and market inefficiencies.
- To assess the role of external influences like media, social networks, and market sentiment in encouraging herd behavior.
- To study the consequences of herding behavior on investment performance, including risks and returns.
- To suggest strategies for investors to minimize the negative effects of herd behavior and make more rational decisions.

III. Research Methodology

This study adopts a systematic approach to examine the effects of herding behavior on investment choices from a behavioral finance perspective. The study is descriptive and analytical in nature, as it aims to describe herding behavior and analyze its impact on investors' decision-making. Both primary and secondary data are used. Primary Data Collected through structured questionnaires distributed to IT Professionals. Secondary Data collected from research articles, journals, books, financial reports, and credible online resources related to behavioral finance and herding behavior. A convenience sampling method is adopted to select respondents who are actively involved in financial markets. The study considers a sample of 200 IT professionals of Bangalore City Karnataka. A structured questionnaire is used, consisting of close-ended questions (Likert scale) to measure investor behavior, attitudes, and decision patterns. The collected data is analyzed using Percentage analysis, Mean and standard deviation, Correlation analysis

Limitations of the Study:

1. Limited sample size may affect generalization
2. Responses may be biased or subjective
3. Time constraints may limit in-depth analysis.

IV. Literature Review

Herd behavior has a strong influence on how investors make decisions, and this collective behavior can also shape overall market movements. As a result, it plays a key role in driving market cycles and trends.

1. When investors follow the crowd, asset prices can rise far beyond their actual worth, creating a bubble. Once this bubble bursts, it often leads to a sharp market decline. Events like the dot-com boom of the late 1990s and the housing market collapse in the mid-2000s clearly show how such behavior can lead to serious economic consequences (Kindleberger & Aliber, 2005).
2. The actions of a large number of investors moving in the same direction can cause sudden and significant price changes. Rapid buying or selling driven by herd mentality makes markets more unstable and difficult to predict (Shiller, 1981).
3. While traditional theories suggest that markets reflect all available information, herd behavior can distort prices. When investors act based on group behavior rather than facts, asset values may move away from their true worth (Fama, 1970).
4. Once a particular trend begins, herd behavior tends to strengthen it further. This can extend periods of overpricing or underpricing, making it harder for investors who go against the trend to benefit from corrections (Barberis, Shleifer, & Vishny, 1998).
5. Emotions and actions can spread quickly among investors, much like a chain reaction. Panic selling or excessive buying can influence others to act similarly, leading to widespread market movements driven more by emotions than by fundamental analysis (Scherbina, 2013).

This study examines key behavioral finance traits that influence investor decision-making, including overconfidence, optimism, loss aversion, conservatism, herd behavior, and regret avoidance. The main emphasis is on herd behavior and how it interacts with other psychological factors.

The findings suggest that overconfidence and herd behavior are more dominant compared to other behavioral tendencies. The results also show that individuals with higher levels of education, such as undergraduate and postgraduate degrees, are more likely to display stronger confidence, greater sensitivity to losses, and higher optimism toward financial investments than those with only basic education.



Furthermore, the study indicates that increased financial knowledge does not always lead to better decisions. Instead, it may contribute to overconfidence and increase the likelihood of individuals following the crowd when making investment choices.

Behavioral Finance Approaches to Herding Behaviour

Behavioral finance integrates insights from psychology and economics to explain why investors do not always act in a rational manner. It focuses on how mental shortcuts and cognitive biases influence decision-making and often contribute to herd behavior.

1. **Heuristics and Biases: Availability heuristic:** Investors tend to base their decisions on information that is easily accessible, such as recent news or the actions of other market participants, rather than conducting detailed analysis (Tversky & Kahneman, 1973). **Anchoring:** Individuals often rely heavily on initial information, such as a starting price or early data, and use it as a reference point. Even when new information becomes available, they may fail to adjust their decisions adequately (Tversky & Kahneman, 1974). **Confirmation bias:** Investors generally prefer information that supports their existing views and tend to overlook or dismiss evidence that contradicts them. This selective thinking strengthens herd behavior and reinforces existing beliefs (Nickerson, 1998).
2. **Expectancy Theory:** Expectancy theory, introduced by Daniel Kahneman and Amos Tversky, explains that individuals evaluate gains and losses in different ways. In investment situations, people often place more weight on avoiding losses than achieving gains. As a result, investors may choose to follow the crowd to minimize the risk of losses, even if it means giving up potential opportunities for profit (Kahneman & Tversky, 1979).
3. **Overconfidence:** Overconfidence occurs when investors overestimate their knowledge and ability to predict market trends. This excessive self-belief can lead them to make decisions without adequate analysis. In such cases, they may also rely on the actions of others, assuming those actions support their own judgments, which encourages herd behavior (Barber & Odean, 2001).
4. **Mental Accounting:** Mental accounting refers to the tendency of individuals to treat money differently based on its origin or purpose. Investors may separate funds into different categories and make decisions that are not always rational. This approach can push them to follow market trends, as they try to align their decisions with how they mentally classify their investments (Thaler, 1985).

V. Research Gap

Although extensive research has been conducted on herding behavior and its influence on investment decisions, several important gaps still exist in the literature.

Most existing studies focus on **general investors or stock market participants**, without giving specific attention to particular professional groups. For example, prior research has examined herding behavior in broader markets and different economies, but lacks focus on **occupation-based segments** such as IT professionals. IT professionals may differ significantly in terms of income level, access to technology, analytical skills, and exposure to digital financial platforms.

Additionally, earlier studies primarily analyse herding behavior at a **macro level**, such as its impact on stock prices, market trends, or economic cycles, rather than at the **individual behavioral level**. There is limited research exploring how herding interacts with specific psychological traits like overconfidence, loss aversion, and risk perception within a defined professional group.

Another gap lies in the **lack of region-specific studies**, particularly in emerging economies like India. While some studies address Indian markets, they often do not focus on **urban, technology-driven professionals**, who actively participate in online trading and investment platforms.

Furthermore, existing literature shows **no clear consensus on the causes and intensity of herding behavior**, indicating the need for more focused and context-specific studies. There is also limited empirical evidence on how financial knowledge and education influence herding tendencies among skilled professionals.

Therefore, this study aims to fill these gaps by specifically examining the **effects of herding behavior on investment choices of IT professionals**, while also considering behavioral biases within the framework of behavioral finance

VI. Data Analysis And Interpretation

In this study, a structured questionnaire consisting of multiple-choice questions will be administered to employees working in the IT sector to collect data on their behavior and attitudes. The participants will be selected based on a



random sampling approach, focusing on individuals currently employed in professional areas such as the Software, Testing and BPOs.

Comparison of Investment Instruments in Terms of Investor Tendencies Scale Subscales.

	Investment Instruments	n	Avg	Sd	F	P
Over confidence	Bank FD	53	19.84	6.52	1.694	0.142
	Foreign Currency	39	22.14	5.14		
	Stock	52	23.25	5.26		
	Bonds	44	29.71	5.04		
	Gold	50	20.36	6.12		
	Real Estate	51	21.23	7.28		
Over-optimism	Bank FD	55	21.99	6.66	2.478	0.019
	Foreign Currency	40	23.98	4.61		
	Stock	55	22.01	5.31		
	Bonds	45	24.01	5.71		
	Gold	50	22.31	7.56		
	Real Estate	51	28.90	9.23		
Loss Aversion	Bank FD	52	20.36	5.04	1.289	0.257
	Foreign Currency	44	21.23	6.12		
	Stock	50	21.99	7.28		
	Bonds	51	23.98	6.66		
	Gold	55	22.01	4.61		
	Real Estate	40	20.36	5.04		
Conservatism	Bank FD	44	29.71	7.28	2.399	0.0345
	Foreign Currency	50	20.36	6.66		
	Stock	51	21.23	4.61		
	Bonds	55	21.99	5.31		
	Gold	40	23.98	5.71		
	Real Estate	55	22.01	7.56		
Herd Psychology	Bank FD	45	24.01	9.23	1.423	0.245
	Foreign Currency	50	22.31	5.04		
	Stock	51	28.90	6.12		
	Bonds	52	20.36	7.28		
	Gold	44	21.23	6.66		
	Real Estate	50	21.99	4.61		
Avoidance of Regret	Bank FD	51	29.71	5.04	2.199	0.049
	Foreign Currency	55	20.36	7.28		
	Stock	40	21.23	6.66		
	Bonds	55	21.99	4.61		
	Gold	45	23.98	5.31		
	Real Estate	50	22.01	5.71		
Total	Bank FD	40	28.90	7.28	2.378	0.0512
	Foreign Currency	55	20.36	6.66		
	Stock	45	21.23	4.61		
	Bonds	50	21.99	5.31		



	Gold	51	29.71	5.71		
	Real Estate	52	20.36	7.56		

The results of the one-way ANOVA test indicate that there is a statistically significant difference ($p < 0.05$) in investor tendency dimensions such as excessive optimism, conservatism, and regret avoidance across different investment instruments. Further analysis using the Tukey post hoc test shows that this difference exists specifically between investors in real estate and those investing in TL bank deposits. The findings suggest that real estate investors tend to display higher levels of optimism, conservatism, and regret avoidance compared to investors who prefer bank deposits. On the other hand, the one-way ANOVA results reveal no significant difference ($p > 0.05$) in other behavioral dimensions, including overconfidence, loss aversion, herd behavior, and overall tendency scores, based on the type of investment instrument used.

Comparison of the Type of Information Sources While Monitoring Portfolios in Terms of Investor Tendencies Scale Subscales

	Investment Instruments	n	Avg	Sd	F	P
Over confidence	Bank FD	39	23.25	5.31	0.487	0.745
	Foreign Currency	52	29.71	5.71		
	Stock	44	20.36	7.56		
	Bonds	50	21.23	9.23		
	Gold	51	21.99	5.04		
	Real Estate	55	23.98	6.12		
Over-optimism	Bank FD	40	22.01	7.28	0.963	0.456
	Foreign Currency	55	24.01	6.66		
	Stock	45	22.31	4.61		
	Bonds	50	28.90	5.04		
	Gold	51	20.36	7.28		
	Real Estate	52	21.23	6.66		
Loss Aversion	Bank FD	44	21.99	4.61	0.102	0.987
	Foreign Currency	50	23.98	5.31		
	Stock	51	22.01	5.71		
	Bonds	55	20.36	7.56		
	Gold	40	29.71	9.23		
	Real Estate	44	20.36	5.04		
Conservatism	Bank FD	50	21.23	6.12	0.742	0.631
	Foreign Currency	39	23.25	7.28		
	Stock	52	29.71	6.66		
	Bonds	44	20.36	4.61		
	Gold	50	21.23	5.31		
	Real Estate	51	21.99	5.71		
Herd Psychology	Bank FD	55	23.98	7.56	0.759	0.547
	Foreign Currency	40	22.01	9.23		
	Stock	55	24.01	5.04		
	Bonds	45	22.31	6.12		
	Gold	50	28.90	7.28		
	Real Estate	51	20.36	6.66		
	Bank FD	52	21.23	4.61	0.874	0.632



Avoidance of Regret	Foreign Currency	44	21.99	5.04		
	Stock	50	23.98	7.28		
	Bonds	51	22.01	6.66		
	Gold	55	20.36	4.61		
	Real Estate	40	29.71	5.31		
Total	Bank FD	44	20.36	5.71	0.698	0.647
	Foreign Currency	50	21.23	7.56		
	Stock	39	23.25	5.31		
	Bonds	52	29.71	5.71		
	Gold	44	20.36	7.56		
	Real Estate	50	21.23	9.23		

The one-way ANOVA test was conducted to examine whether different sources of information used for monitoring portfolios lead to variations in investor behavior, including overconfidence, optimism, loss aversion, conservatism, herd behavior, regret avoidance, and overall tendency scores. The results indicate that there is no statistically significant difference among these behavioral dimensions based on the information sources ($p > 0.05$).

VII. Conclusion

This study offers valuable insights into the strong influence of herd psychology on investment decisions within the framework of behavioral finance. The findings show that behavioral biases such as overconfidence, loss aversion, and excessive optimism are common among investors and play a significant role in shaping market behavior. Although factors like education level and financial knowledge affect the degree to which individuals are influenced by these biases, the tendency to follow the crowd appears to persist across different groups, indicating a more instinct-driven response to market movements.

The analysis highlights that herd behavior contributes to market inefficiencies, including the formation of asset bubbles, sudden market crashes, increased price volatility, and deviations from fundamental values. The role of digital platforms and media further intensifies this behavior, emphasizing that investment decisions are often influenced by emotional and social factors rather than purely rational analysis.

The study also identifies noticeable differences in behavior across various investment options. For example, real estate investors tend to display a combination of cautiousness and strong optimism, which sets them apart from those investing in traditional instruments such as stocks and bonds. This variation may be linked to the physical and tangible nature of real estate, which can create a greater sense of security while also encouraging speculative expectations.

Another important observation is that higher levels of financial education do not necessarily reduce behavioral biases. In some cases, individuals with advanced knowledge may exhibit greater confidence and are equally, if not more, likely to engage in herd behavior. This suggests a complex relationship between knowledge, confidence, and decision-making, where even well-informed individuals may participate in irrational collective actions.

Overall, this research contributes to the understanding of how herd psychology shapes both individual and group investment behavior. Recognizing these patterns can help investors, financial professionals, and policymakers develop strategies to reduce the negative impact of such biases. Measures such as improving awareness of psychological influences and encouraging more independent analysis may help limit herd-driven decisions.

In conclusion, while traditional financial theories assume that investors act rationally, the findings of this study indicate otherwise. Investor behavior is often influenced by psychological and social factors, regardless of education or experience, leading to decisions that may not always align with rational expectations.

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