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Title: The Role of Psychology and Behavioural Biases in Financial Markets and Investment Decisions

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Abstract:
This research paper explores the role of psychology and behavioural biases in financial markets and investment decisions. It synthesises relevant references to provide a comprehensive understanding of the topic. The paper discusses the impact of cognitive and psychological biases on investment decision-making, the relationship between financial literacy and behavioural biases, and the influence of investor personality traits on investment performance. It also examines the effects of economic uncertainty and the COVID-19 pandemic on financial markets. The findings highlight the importance of understanding and managing behavioural biases in order to make rational investment decisions and improve market efficiency.

Introduction:
Psychology and behavioural biases play a significant role in financial markets and investment decisions. Investors are not always rational decision-makers, as they are influenced by cognitive biases such as overconfidence, regret aversion, and herding behaviour (Dhungana et al., 2022; Kumar & Goyal, 2015). These biases can lead to suboptimal investment choices and market inefficiencies (Shah et al., 2018). Understanding the impact of these biases is crucial for investors, financial professionals, and policymakers.

Impact of Cognitive and Psychological Biases on Investment Decision-Making:
Research has shown that cognitive biases, such as the overconfidence effect and regret aversion, can significantly impact investment decision-making (Dhungana et al., 2022). Overconfidence leads investors to overestimate their abilities and take excessive risks, while regret aversion causes them to avoid making decisions that may result in regret (Dhungana et al., 2022). These biases can lead to suboptimal investment strategies and poor portfolio performance.

Relationship between Financial Literacy and Behavioural Biases:
Financial literacy has been found to be related to behavioural biases in investment decision-making (Baker et al., 2019). Investors with higher financial literacy are more likely to make rational decisions and avoid common biases (Baker et al., 2019). However, more research is needed to fully understand the relationship between financial literacy and behavioural biases.

Influence of Investor Personality Traits on Investment Performance:
Investor personality traits, such as the Big Five personality traits, can also influence investment performance (Akhtar & Das, 2020). Psychological biases, such as financial risk tolerance and financial overconfidence, mediate the relationship between personality traits and investment performance (Akhtar & Das, 2020). Understanding these relationships can help investors and financial professionals tailor investment strategies to individual personality traits.

Effects of Economic Uncertainty and the COVID-19 Pandemic on Financial Markets:
Economic uncertainty, including the impact of the COVID-19 pandemic, has been shown to affect financial market volatility (Ali et al., 2020). Studies have found that economic uncertainty increases market volatility and can lead to irrational investor behavior (Ali et al., 2020). Understanding the effects of economic uncertainty on financial markets is crucial for investors and policymakers in managing risk and making informed investment decisions.

Conclusion:
Psychology and behavioural biases play a crucial role in financial markets and investment decisions. Cognitive biases, such as overconfidence and regret aversion, can lead to suboptimal investment choices. Financial literacy and investor personality traits also influence investment decision-making and performance. Economic uncertainty, including the COVID-19 pandemic, can significantly impact financial markets. Understanding and managing these biases and factors is essential for making rational investment decisions and improving market efficiency.

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