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Impact Of Emotional Intelligence, Social Influence, And Investor Sentiment On Financial Decisions: A Behavioral Finance Study Of Active And Passive Investors In Jaipur Across Various Age Groups

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ABSTRACT

Making sound financial decisions is essential to both personal happiness and overall economic stability. These choices are impacted by social and emotional elements in addition to logical analysis in India's heterogeneous socioeconomic context. By combining psychology and financial theory, behavioral finance sheds light on how social dynamics, emotions, and cognitive biases influence financial behavior. In order to comprehend their influence on investing choices, this study looks at three crucial behavioral finance elements: investor sentiment, social influence, and emotional intelligence. The study also examines behavioral biases and financial literacy, emphasizing their roles in irrational financial behavior. The study emphasizes the significance of behavioral aspects in influencing investment results, given the impact of peer networks and the media in India's changing financial landscape.

INTRODUCTION

Making sound financial decisions is essential to both national economic stability and personal financial security. These choices are influenced by social and emotional considerations in addition to logical analysis in India's varied and changing financial environment.

Conventional finance presumes rational behavior, but social influences and psychological biases frequently cause real-world judgments to diverge. By examining the ways in which emotions, cognitive biases, and outside factors affect financial decisions, behavioral finance attempts to solve these abnormalities.

This study focuses on three behavioral characteristics that have a major impact on investment behavior: investor sentiment, social influence, and emotional intelligence. Avoiding rash actions and controlling stress are made easier with emotional intelligence. The influence of peers, the media, and cultural norms is reflected in social influence. The tone of the entire market is reflected in investor sentiment, which frequently fuels volatility and mispricing.

Decision-making is further influenced by financial literacy, which is increasingly influenced by digital platforms and financial influencers that have the power to both inform and deceive. Overconfidence, loss aversion, herd mentality, and anchoring are common behavioral biases that also lead to less than ideal financial results. Improving financial behavior in India's intricate economic environment requires an understanding of these elements.

KEY CONCEPTS

Emotional Intelligence

Emotional Intelligence is the capacity to identify, control, and navigate social situations. In the world of finance, it helps investors manage their impulses, remain calm during market swings, and make logical decisions rather than emotional ones.

Social Influence

Societal norms, family, friends, and peer groups affect an individual's behavior and choices. In investing, social influence is reflected in the trends and pressures to invest in popular stocks or copy successful investors.

Investor Sentiment

The general mood or attitude of investors toward the market, which often causes price movements. Positive sentiment creates bullish markets, while negative sentiment causes downturns, even when the

fundamentals are good.

- **Financial Literacy and Financial Decision Making**

The ability to comprehend and use financial concepts like debt management, investing, saving, and budgeting is known as financial literacy. By giving people the ability to assess investment opportunities and risks, it serves as the cornerstone for making wise financialdecisions. Effective decision-making involves a balance between analytical skills, emotional control, and long-term planning.

- **Behavioral Finance**

In order to understand why people frequently stray from sound financial judgments, behavioral finance integrates psychology and economics. It investigates the emotions, heuristics, and biases that affect people's actions in marketplaces.

- **Active Investors**

Active Investors frequently buy and sell assets based on market analysis and personal judgment. They aim for higher returns but face increased risk and transaction costs due to constant trading.

- **Passive Investors**

Those who adopt a long-term strategy by investing in diversified portfolios, such as index funds or ETFs, to minimize risk and costs. Passive investors usually rely on market performance rather than trying to outperform it.

- **Financial Influencers (Finfluencers)**

Individuals who use online material to give investment ideas and financial advice. They make difficult financial subjects understandable to a wide range of people. Their counsel might not always be correct or regulated, even though they have the ability to inform and sway choices.

- **Behavioural Biases**

Cognitive shortcuts or emotional reactions that diverge from logical decision-making are known as behavioural biases. These biases have a big impact on investment decisions and frequently result in less-than-ideal outcomes.

RESEARCH OBJECTIVES

- To Examine the Role of Emotional Intelligence in Financial Decision Making
- To Understand the Influence of Social Factors on Investment Behaviour
- To Analyse the Impact of Investor Sentiment on Financial Decision Outcomes
- To Compare Financial Decision-Making Between Active and Passive Investors
- To Investigate the Role of Age and Demographics in Behavioural Finance Traits
- To Identify and Analyse Behavioural Biases in Investment Decisions
- To Provide Recommendations for Improving Financial Decision-Making.

REVIEW OF LITERATURE

1. The study, "The influence of emotional intelligence and behavioral biases on mutual fund churning frequency: Evidence from India," The study uses data from 499 mutual fund participants and concludes that emotional intelligence, especially self-motivation, increases the disposition effect and herding bias. According to the study, overconfidence has a beneficial effect on how frequently mutual fund portfolios churn. Additionally, emotional intelligence may unintentionally exacerbate some behavioral biases while simultaneously mitigating others, indicating a complex relationship. Overall, investors and financial advisors can maximize mutual fund investing strategies by comprehending emotional intelligence and its ramifications. (Annapurna & Basri, 2024)
2. The study "Effect of Emotional Intelligence on Investment Decision Making With a Moderating Role of Financial Literacy," uses data from 160 investors to concludes that financial literacy greatly strengthens the beneficial association between emotional intelligence (EI) and investing decisions. The results demonstrate that investors who possess greater financial literacy and emotional intelligence are better able to regulate their emotions, make wise judgments, and attain better financial results. (Hadi, 2017)
3. In the study, titled "Do Emotions Benefit Investment Decisions? Anticipatory Emotion and Investment

Decisions in Non-professional Investors," researchers measured emotional arousal using skin conductance responses (SCR) and examined how 30 individuals distributed fictitious income in various trade situations. The results showed that anticipatory emotions had a contextual impact on trading success, improving certain stock trend outcomes while degrading others. Though not influenced by prior successes or failures, emotional reactions were linked to risk aversion and decision-making. The study emphasizes how complicated emotions are in investing behaviour and how strategically controlling them might improve trading results. (Hinvest, Alsharman, Roell, & Fairchild, 2021)

4. Emotional intelligence (EI), artificial intelligence (AI), and investment decisions (ID) are examined in the paper "Minds and Machines: Impact of Emotional Intelligence on Investment Decisions with Mediating the Role of Artificial Intelligence." The study shows, using Structural Equation Modeling (SEM), that EI has a direct impact on ID, with AI serving as a partial mediator. Decision-making is greatly influenced by key EI aspects, including self-awareness, empathy, motivation, self-regulation, and social skills. AI amplifies these impacts by reducing emotional biases and facilitating data-driven tactics. The results highlight how combining AI technology with human emotional intelligence can maximize investment decision-making in intricate financial contexts. (Rehman, Dhiman, & Cheema, 2024)

5. The study, "The Finfluencer Appeal: Investing in the Age of Social Media," highlights how social media is becoming a more important source of investment advice for Gen-Z investors, who sometimes lack formal financial knowledge. According to the findings, influencers can be useful instructional tools, but their content usually lacks clarity regarding legislation and the validity of financial advice, which could hurt consumers. The study highlights the need for influencers to reveal their credentials and the type of recommendations they make, and it calls for stronger regulatory frameworks. (Espeute & Preece, 2024)

6. According to the study, "Is Social Influence Affect Investment Decisions: A Study on Potential Investors" peer pressure and societal trends are two examples of social influence that have a big impact on people's financial decisions. It highlights how crucial social settings are in influencing investing habits and shows how people are frequently influenced by the beliefs and deeds of people in their social networks. By showing that judgments are not only based on logical analysis but are also greatly impacted by social dynamics, this study contributes to our understanding of behavioral finance. (Fatima, 2021)

7. In "The Impact of Behavioral Biases on Individuals' Financial Choices under Uncertainty: An Empirical Approach," the study examines the ways in which different behavioral bias categories that include: Impressionistic Assimilation (anchoring, confirmation, recency, overconfidence), Affective Engineering (loss aversion, risk aversion, status quo bias, endowment effect), and Subjective Anatomization (gambler's fallacy, hindsight bias, house money effect, herding) affect financial judgment in financial market of a culturally diverse country like India. It illustrates how different investor profiles are produced by the interaction of various prejudices and how, for better investment choices, it is critical to identify and eliminate these biases. (Banerji, Kundu, & Alam, 2022)

8. The literature in "Human Behaviors Lead to Inefficiencies," examines the psychological biases that influence market behavior and investment choices. It talks about the idea of "anchoring," which comes from studies conducted by psychologists Amos Tversky and Daniel Kahneman and shows how arbitrary information affects judgement. According to the study, investors frequently use recent performance as an anchor or reference point, which might result in stock pricing errors. It also draws attention to "myopic loss aversion," in which investors prioritize short-term assessments above long-term performance because they fear losses more than they value profits. Due to the confluence of these biases, securities are mispriced based on psychological considerations rather than their intrinsic value, which exacerbates market inefficiencies. (Kahneman & Tversky, 2019)

HYPOTHESIS

Hypothesis – I

- H0 - There does not exist a positive relationship between emotional intelligence and rational financial decision-making among investors in Jaipur.
- H1 - There exists a positive relationship between emotional intelligence and rational financial

decision-making among investors in Jaipur.

Hypothesis – II

- H0 - Social influence does not affect the financial decisions of investors in Jaipur, with the impact differing between active and passive investors.
- H1 - Social influence significantly affects the financial decisions of investors in Jaipur, with the impact being different between active and passive investors.

Hypothesis – III

- H0 - Investor sentiment does not have any impact on financial decision-making, and its influence varies across different age groups in Jaipur.
- H1 - Investor sentiment has a significant impact on financial decision-making, and its influeces varies across different age groups in Jaipur.

SCOPE OF RESEARCH STUDY

The psychological and social elements influencing financial decision-making are examined in the paper "Impact of Emotional Intelligence, Social Influence, and Investor Sentiment on Financial Decisions: A Behavioral Finance Study of Active and Passive Investors in Jaipur Across Different Age Groups." The research, which has its roots in behavioral finance, examines how both active and passive investors are impacted by non-rational factors like emotions, biases, and social influences. Three age categories are identified by the study: those under 30 (risk-seeking, socially influenced), those between 30 and 50 (balanced and responsible), and those beyond 50 (risk-averse, emotionally motivated by retirement concerns).

The study contrasts active investors, who trade regularly and rely on market analysis, with passive investors, who employ long-term, low-intervention methods, with a focus on Jaipur because of its diversified investor base and economic activity. It uses a mixed-methods approach, utilizing quantitative tools such as pivot tables and bar graphs for pattern analysis, surveys and interviews for data gathering, and qualitative insights to evaluate the social and emotional aspects of decision-making.

PRACTICAL IMPLICATIONS OF STUDY

- For financial advisors and portfolio managers tailor strategies based on clients' emotional intelligence, social influence sensitivity and behavior.
- To design policies that counter behavioral biases and promote informed investor decisions.
- For financial literacy and education programs that guide the integration of emotional and social factors into financial education to enhance relevance and impact.
- To increase self-awareness among individual investors, helping them recognize and manage their own behavioral tendencies.
- For financial technology firms towards development of tech solutions that address user behavior patterns for smarter financial decision making.
- To enable investment product creators to design offerings that align with investors' psychological and emotional profiles.
- To contribute empirical data and behavioral insights for expanding the field of behavioral

LIMITATIONS OF STUDY

- **Geographic Limitation**

The results may not accurately reflect investor behavior in other markets or geographies because the study is restricted to Jaipur.

- **Sample Representation**

The variety and complexity within each age group and investment type may not be adequately represented by the participants chosen.

- **Self-Reported Data Bias**

Because of individual perceptions or memory errors, relying solely on surveys and interviews may result in replies that are skewed or incorrect.

- **Behavioral Measurement Challenges**

Emotions, social influence, and sentiment are complex and difficult to quantify with full accuracy.

- **Limited Behavioral Scope**

By concentrating on just three behavioral dimensions, the study may be ignoring other important variables that affect financial decisions.

RESEARCH METHODOLOGY

SAMPLE SIZE

- The study collected responses from a total of 150 investors.
- Respondents were grouped according to important demographic criteria, such as age groups (below 30, 30–50, and over 50), gender, income levels, educational background, and investment experience, in order to guarantee a thorough analysis. This categorization made it possible to comprehend in detail how various investor profiles differ in behavioral aspects including investor mood, social influence, and emotional intelligence.

DATA COLLECTION

- **Primary data** for the study was collected using a systematically designed **questionnaire** comprising multiple-choice questions, ranking items, and Likert scale statements. The questionnaire was distributed both **offline and online** to ensure a broad reach and capture diverse investor insights. It was structured to assess key areas including **demographic information** for contextual understanding, **emotional intelligence (EI)** and its role in financial decisions, the extent of **social influence** from family, peers, advisors, and media, and the impact of **investor sentiment** on market-related behavior.
- The study employed **convenience sampling**, selecting participants who were easily accessible and willing to respond, enabling efficient and timely data collection within the scope of the research.

STATISTICAL ANALYSIS AND INTERPRETATION

Questions Considered:

Emotional Intelligence: Lower the score on a scale more the Emotional Intelligence.

How often do you let emotions (fear, excitement, anxiety) influence your investment decisions? (Likert Scale: 1 = Never, 5 = Always)

Decision Making:

Financial Losses:

When faced with a financial loss, how do you react? (Multiple Choice, select one)

Ranking from 1 to 4 based on rationality and sound decision-making in handling an investment loss scenario:

1. **I stay calm and analyze the situation before making further decisions.**
2. **I seek advice from others before making a decision.**
3. **I immediately take action to cut losses and exit the investment.** 4. **I hold onto the investment, hoping for recovery.**

Lesser the score more the rational decision while facing losses.

Logic Guided Choices:

"I make financial decisions based on logic and analysis rather than emotions." (Likert Scale: 1 = Strongly Disagree, 5 = Strongly Agree)

More the score more the rational decision.

(The reverse scores are used to indicate more rational decision with respect to given scale)

Conflicting Information:

When faced with conflicting information about an investment, what is your usual approach? (Multiple Choice, select one)

1. **I rely on my own research and analysis. 2. I seek advice from financial experts.**
3. I follow market sentiment and trends.
4. I delay making a decision until I feel more confident.

Lesser the score more the rational decision under the situation of conflict.

HYPOTHESIS – I {EFFECT OF EMOTIONAL INTELLIGENCE}

H0 - There does not exist a positive relationship between emotional intelligence and rational financial decision-making among investors in Jaipur.

H1 - There exists a positive relationship between emotional intelligence and rational financial decision-making among investors in Jaipur.

Correlation Analysis:

The total score for the rational decision is obtained by taking the sum of the scores of Loss, Logic guided choices and Approach to Conflicting ideas.

Kendall's Tau-b:

	EI and Loss	EI and Logic Guided Choice	EI and Approach to Conflicting Ideas	EI and Rational Decision
Correlation Coefficient	.182**	.205**	-.040	.132*
P-value	.009	.003	.565	.042

Interpretations:

EI and Loss (r = 0.182, p = 0.009): There is a **significant positive relationship** between emotional intelligence and rational handling of investment losses. This suggests that emotionally intelligent investors are more likely to manage losses calmly and logically.

EI and Logic-Guided Choices (r = 0.205, p = 0.003): There is a **stronger positive and significant relationship** between EI and logical decision-making. This implies EI supports analytical and reason-based choices.

EI and Approach to Conflicting Ideas (r = -0.040, p = 0.565): This relationship is **not statistically significant** and is slightly negative, indicating no meaningful association between EI and how investors handle conflicting ideas.

EI and Overall Rational Decision Score (r = 0.132, p = 0.042): There is a **significant but modest positive relationship** between emotional intelligence and overall rational financial decision-making.

Conclusion (based on the hypothesis test):

Since the correlation between EI and Rational Decision Score is positive and statistically significant ($p = 0.042 < 0.05$), we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). There exists a positive relationship between emotional intelligence and rational financial decision-making among investors in Jaipur.

SECTION 4: INVESTOR SENTIMENT AND MARKET TRENDS

Investor Sentiment: (Higher score more sentimental reaction)

How do you typically react to market downturns? (Multiple Choice, select one)

- I stay invested and wait for market recovery. (2-moderate sentiments)
- I invest more, seeing it as an opportunity to buy at lower prices. (1-Lowest Sentiments)
- I seek professional advice before taking action. (3-Highest Sentiments)

How do you react when an investment performs better than expected? (Multiple Choice, select one)

- I sell immediately to secure profits. (2-Moderate)
- I hold onto it for future growth based on analysis (1-Lowest).
- I reinvest the profits in higher-risk assets. (3-High)

 I let emotions (e.g., excitement) drive my next move. (4 - Very High Sentiment)

Financial Decision Making: (Higher score better fnancial decision making)

Trend Following Behaviour

NO, I make independent investment decisions.	1
SOMETIMES, but I do my own research before investing.	2
YES, I follow market trends as they indicate profitable opportunities.	3

What is your primary investment strategy? (Multiple Choice, select one)

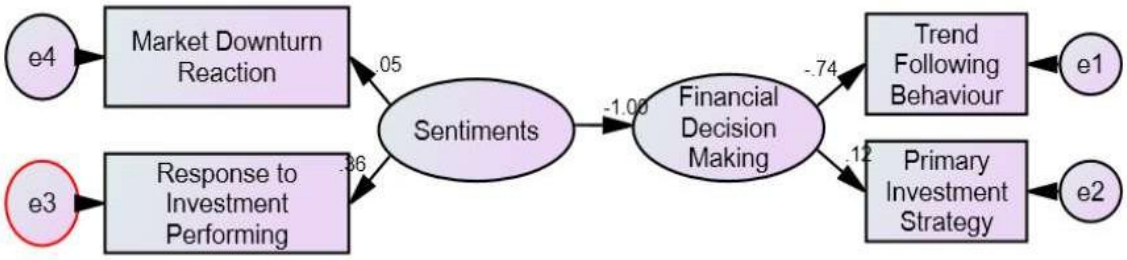
- Long-term investments (buy and hold) (2)
- Short-term trading (frequent buying and selling) (1)
- Diversified portfolio (balancing risk across different assets) (4)
- High-risk, high-reward strategies (e.g., cryptocurrency, options trading) (3)

HYPOTHESIS – III {EFFECT OF INVESTOR SENTIMENT}

H0 - Investor sentiment does not have any impact on financial decision-making, and its influence varies across different age groups in Jaipur.

H3 - Investor sentiment has a significant impact on financial decision-making, and its influence varies across different age groups in Jaipur.

The analysis is done using Structural equation modelling to test the hypothesis.



Key Model Fit Summary

Chi-Square/DF (CMIN/DF) = 0.610, p = 0.543 : Excellent fit. A ratio below 2 and non-significant p-value indicate that the model fits the data well

GFI = 0.996, AGFI = 0.979 : Both values are above 0.95, showing a very good overall and adjuste model fit.

CFI = 1.000, TLI = 1.295 : Both indices exceed 0.95, indicating excellent comparative fit against a null model.

RMSEA = 0.000, PCLOSE = 0.652: RMSEA of 0.000 with a high PCLOSE confirms no significant approximation error—an ideal result.

AIC = 17.220: Lower than the saturated and independence models, suggesting the default model has better predictive performance.

Hoelter(0.05) = 732: Sample size is more than adequate to support the model's stability.

CONCLUSION:

Based on these fit indices, the model demonstrates excellent fit with the data. Therefore model can be used for testing hypothesis.

Regression coefficients:

	Unstanderdized Estimate	Standerdized Estimate	p-value
Sentiment on Financial Decision Making	-0.4	-1.09	0.291

Conclusion:

The regression analysis shows that there is negative impact of sentiments on Financial Decision Making but the impact is not significant for investor sentiment on financial decision-making at the 5% significance level. Thus, the data does not support alternate, and H_0 is retained. Therefore we conclude that Investor sentiment does not have any impact on financial decision-making, and its influence varies across different age groups in Jaipur.

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