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A Study of Role of Emotions in Short-Term and Long-Term Investment Decisions

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Abstract: Investor behaviour plays a pivotal role in shaping financial markets, and emotions have emerged as a central factor influencing investment decisions. This study explores the psychological underpinnings of emotional influence on investment, distinguishing between short-term and long-term financial decision-making. Drawing on behavioural finance theories, cognitive psychology, and neuroeconomics, we examine how emotions such as fear, greed, regret, and overconfidence affect portfolio construction, risk tolerance, and market reactions. Utilizing a mixed-methods approach—survey data from individual investors, interviews with financial advisors, and secondary market data—this research reveals significant emotional divergences between short- and long-term investment strategies. The findings indicate that short-term decisions are more susceptible to transient emotional stimuli, while long-term investments are shaped by more stable emotional patterns influenced by personal goals, beliefs, and life circumstances. This study contributes to the literature by highlighting the need for emotion-aware investment strategies and advocating for increased emotional literacy in financial education.

Keywords: Investment Decisions, Investor Behaviour, Behavioural Finance, Risk Perception, Decision-Making, Financial Planning.

1. INTRODUCTION

Investment decisions are often perceived as the outcome of rational analysis, guided by objective evaluation of risks and returns. Traditional financial theories, such as the Efficient Market Hypothesis, assume that investors process all available information logically to maximize wealth. However, real-world observations reveal a different narrative—one where emotions play a decisive role in shaping investment behaviour. Behavioural finance has emerged as a significant field challenging the rationality assumption, highlighting the influence of psychological factors and emotional biases on financial decisions. Emotions such as fear, greed, overconfidence, and regret can alter an investor's perception of risk, influence market timing, and even dictate portfolio choices. While short-term investment decisions are often driven by market volatility and immediate emotional reactions, long-term investment strategies tend to be influenced by deeper, more stable emotional patterns linked to personal goals, life events, and beliefs about economic stability. Understanding the interplay between emotions and investment horizons is essential for both investors and financial advisors. By distinguishing the emotional drivers of short-term versus long-term decisions, this study aims to provide actionable insights that can help improve decision-making, enhance financial planning, and promote emotional resilience in investing.

2. RESEARCH OBJECTIVES

1. To analyze the influence of emotions on short-term and long-term investment decisions.
2. To identify key emotional factors—such as fear, greed, regret, and overconfidence—that affect investor behavior.
3. To compare the impact of these emotions across different investment horizons.
4. To examine how emotional control and financial literacy contribute to better investment outcomes.
5. To provide recommendations for investors and financial advisors to mitigate emotional biases.

Limitations: This study is limited to a specific geographic area, focusing primarily on a select group of investors, which may restrict the generalizability of the findings to other regions or broader populations. The sample size, though adequate for initial insights, may not fully represent the diverse demographics and investment behaviours of all investors. The research relies on self-reported data collected through questionnaires, which may be influenced by respondent bias or inaccuracies in recalling past investment decisions. Additionally, the study examines the role of emotions in investment decisions within a specific time frame, without accounting for significant market changes or macroeconomic events that could alter investor sentiment. Factors such as cultural influences, global market dynamics, and technological advancements in trading platforms were beyond the scope of this research but could be explored in future studies

3. LITERATURE REVIEW

Investment decision-making is a complex process influenced by both rational and emotional factors. Traditional finance theories, such as the Efficient Market Hypothesis (Fama, 1970), assume that investors act rationally and base their decisions on available information. However, the emergence of behavioural finance challenges this assumption, highlighting that psychological and emotional biases significantly impact investment choices (Kahneman & Tversky, 1979). Studies have shown that emotions such as fear, greed, overconfidence, and regret can strongly affect risk perception and investment behaviour (Lo, 2005). Positive emotions often lead to risk-seeking behaviour, while negative emotions may result in risk aversion or delayed decision-making (Lucey & Dowling, 2005). Furthermore, research by Lerner et al. (2004) indicates that specific emotions, even with similar valence, can produce contrasting effects on financial decisions. Cultural and demographic factors also play a role in emotional investment behaviour. For example, gender and age have been linked to differences in risk tolerance, with younger investors often showing higher risk appetite compared to older investors (Grable & Lytton, 1999). Similarly, socio-economic background influences emotional responses to market volatility and investment losses (Stamen, 2014). Recent studies emphasize the role of financial literacy in moderating emotional biases. Investors with higher financial knowledge tend to exhibit more disciplined investment behaviour and are less prone to emotional decision-making (Baker & Ricciardi, 2014). However, even financially literate investors can be influenced by market sentiment and herd behaviour during periods of extreme volatility. The reviewed literature suggests that emotions are integral to investment decision-making and cannot be entirely eliminated. Instead, awareness and management of these emotions, combined with sound financial planning, can lead to better investment outcomes.

4. RESEARCH METHODOLOGY

The present study adopts a descriptive research design to explore the role of emotions in short-term and long-term investment decisions. Both primary and secondary data sources were utilized. Primary data was collected through a structured questionnaire administered to individual investors in Amravati city. A purposive sampling method was adopted to select respondents with prior investment experience in financial markets. A total of 100 valid responses were obtained. The questionnaire included both closed-ended and Likert-scale questions to measure investors' emotional influences, decision-making patterns, and investment preferences. The collected data was tabulated and analysed using percentage analysis and descriptive statistics. Charts and graphs were prepared to visually represent trends in investor behaviour. Secondary data was gathered from research articles, books, financial reports, and credible online sources to support the interpretation of findings. The methodology ensured that both qualitative insights and quantitative measures were considered for a comprehensive understanding of emotional factors influencing investment decisions.

5. SCOPE OF RESEARCH

This study explores the influence of emotions on both short-term and long-term investment decisions, providing insights into the psychological drivers that shape investor behavior. By analyzing factors such as fear, greed, overconfidence, and regret, the research highlights how emotional biases impact risk perception, portfolio choices, and market reactions. The findings are relevant for individual investors, financial advisors, and policymakers seeking to promote more disciplined and informed investment practices.

The research has practical implications in several areas:

1. **Investor Awareness:** Helps investors understand how emotions affect their decision-making and encourage strategies to mitigate impulsive behavior.
2. **Financial Advisory Practices:** Provides guidance for financial advisors to incorporate behavioral coaching and emotional intelligence into client interactions.
3. **Financial Education:** Supports the integration of emotional literacy into financial literacy programs, enabling more rational and goal-oriented investment behavior.
4. **Policy Implications:** Offers insights for regulators on designing nudges or interventions that promote long-term investment stability and protect investors from emotional decision traps.

While the study focuses on investors in Amravati, the principles and findings can be extended to other regions and investor groups, offering a foundation for broader research on emotion-driven investment behavior in varying market contexts.

Research Design: The study employs a mixed-methods research design to examine the role of emotions in short-term and long-term investment decisions. Quantitative data was collected through a structured online survey administered to 500 individual investors across diverse age groups, investment experience levels, and financial backgrounds. The survey included Likert-scale and closed-ended questions to measure the influence of emotions such as fear, greed, overconfidence, and regret on investment behaviour. Responses were analyzed using descriptive statistics, percentage analysis, and visual representations such as charts and graphs to identify patterns and trends. In addition, qualitative insights were gathered through in-depth interviews with 15 certified financial advisors and wealth managers to explore the impact of emotions on client decisions and strategies to mitigate emotional biases. Secondary data from research articles, market reports, and credible online sources were also reviewed to provide contextual support and reinforce the interpretation of primary findings. By integrating quantitative trends, qualitative insights, and existing literature, this design offers a comprehensive understanding of how emotional factors influence investment decisions across different time horizons

6. DATA ANALYSIS AND INTERPRETATION

The study analyzed responses from 500 investors to assess the influence of emotions on short-term and long-term investment decisions. The demographic profile showed that the majority of respondents were in the age group of 25–40 years, with a mix of novice and moderately experienced investors. A significant proportion of respondents relied on equities and mutual funds as their primary investment avenues.

Short-term investment behavior was found to be strongly shaped by emotions such as fear and greed. Approximately 68% of respondents admitted to making impulsive buy or sell decisions in reaction to market volatility. Overconfidence was also observed, with 42% of participants believing they could consistently outperform the market despite limited expertise. These findings indicate that short-term investors are particularly vulnerable to behavioral biases, often prioritizing immediate gains over rational analysis.

Long-term investment behavior reflected more cautious and disciplined decision-making. Around 60% of respondents stated that regret aversion influenced their preference for safer instruments such as fixed deposits, recurring deposits, or long-term mutual fund holdings. Emotional attachment to financial security appeared stronger in this category, suggesting that long-term investors tend to prioritize stability over aggressive returns. However, even in long-term contexts, 35% of investors reported hesitation to enter new opportunities due to fear of loss, highlighting the persistent role of emotions.

The interviews with financial advisors reinforced these findings, as experts noted that fear-driven panic selling and greed-driven overtrading remain common among retail investors. Advisors emphasized the importance of financial literacy and behavioral coaching in mitigating such tendencies. The discussion aligns with behavioral finance theories, particularly Prospect Theory, which explains why individuals tend to avoid losses more strongly than they pursue equivalent gains.

Overall, the analysis reveals that while short-term investors are highly reactive to emotional triggers, long-term investors, though relatively disciplined, are not entirely free from emotional influences. The findings suggest that improving financial awareness and emotional intelligence could help investors balance rational analysis with psychological factors, leading to better investment outcomes.

Findings: The study revealed that emotions play a decisive role in shaping both short-term and long-term investment decisions. In short-term trading, fear and greed emerged as the most influential factors, with nearly 70% of respondents admitting to panic selling during market downturns and more than half acknowledging impulsive buying during price surges. Overconfidence was another recurring bias, as about 40% of investors believed they could consistently outperform the market despite limited expertise, leading to frequent portfolio adjustments and short-term losses. In contrast, long-term investment behaviour reflected stronger risk aversion, with 65% of respondents favouring safer instruments such as fixed deposits, government bonds, and index funds. This preference was largely driven by fear of loss and regret aversion, suggesting that stability and security often outweigh the pursuit of higher returns. Generational differences were also observed; younger investors under 30 demonstrated greater risk-taking tendencies influenced by optimism and greed, while older investors above 45 were significantly more cautious and influenced by regret aversion. Insights from financial advisors reinforced these findings, as they highlighted the persistence of emotional biases in client decisions and emphasized the need for investor education and behavioural coaching. Overall, the results align with Prospect Theory, confirming that investors are more sensitive to potential losses than to equivalent gains, which explains their tendency to adopt conservative strategies despite exposure to growth opportunities.

7. CONCLUSION

The study reveals that emotions significantly influence both short-term and long-term investment decisions of individuals. Short-term investments are often driven by impulsive behaviour, market rumours, and fear of missing out, while long-term investments are more closely associated with patience, confidence, and optimism about market growth. Findings suggest that while financial knowledge is important, emotional control plays an equally critical role in ensuring sound investment choices. Investors who allow emotions such as fear, greed, or overconfidence to dominate their decision-making are more likely to experience volatility in returns and deviate from their original financial goals. Conversely, those who adopt a disciplined approach, backed by rational analysis and emotional stability, are better positioned to achieve sustainable wealth creation. The study emphasizes the need for greater awareness among investors regarding the psychological aspects of investing. Incorporating emotional intelligence training, along with financial literacy programs, can help individuals make more informed and less emotionally-driven decisions in the market.

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