

An Evaluation of Herd Behaviour in Investment Decisions

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Peer Review Information	Abstract
<p>Type: Article Received: 22 March 2026 Revised: 18 April 2026 Accepted: 06 May 2026 Published: 29 May 2026</p>	<p>This study examines herd behaviour and its impact on investment decisions among Indian investors. Primary data from 100 structured survey respondents spanning students, private employees, business professionals, and others reveals that a majority of investors are influenced by peer actions despite access to fundamental market information. An inverse relationship between investment experience and susceptibility to herding is established. The findings support rejection of the null hypothesis, confirming that herd behaviour exerts a statistically meaningful influence on investment decisions and contributes to market inefficiency.</p> <p>Keywords: Herd Behaviour; Investment Decisions; Behavioural Finance; Market Efficiency; Financial Literacy; Investor Psychology.</p>

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Introduction

Investment behaviour occupies a central position in behavioural finance, with documented deviations from rational decision-making carrying significant implications for market efficiency and portfolio outcomes. Among these deviations, herd behaviour—defined as the systematic tendency of investors to mimic peers rather than rely on independent analysis—ranks among the most consequential phenomena in modern financial markets.

Major market dislocations, including the dot-com bubble of the late 1990s and the global financial crisis of 2008, have been substantially attributed to collective, emotion-driven investment decisions. When individual judgment is subordinated to crowd action, securities become mispriced and markets grow susceptible to speculative bubbles and sharp corrections.

This study evaluates herd behaviour among a cross-section of 100 Indian investors across varying professional backgrounds, aiming to quantify its prevalence, identify experience-based differences in susceptibility, and assess its consequences for market efficiency.

Research Problem, Objectives, and Hypotheses

Research Problem

Modern financial theory presupposes rational, information-driven decision-making. Empirical evidence, however, consistently demonstrates investor behaviour that deviates from this ideal. This study addresses the following core question:

"To what extent does herd behaviour influence investment decisions among Indian investors, and how does investment experience moderate this tendency?"

Objectives

- To evaluate the prevalence of herd behaviour across investor groups.
- To assess the impact of social influences (peers, family, colleagues) on investment decision-making.
- To examine the moderating role of investment experience on herding susceptibility.
- To determine whether herd behaviour contributes to irrational investment choices and market inefficiency.

Hypotheses

H₀: Herd behaviour has no significant impact on stock market decisions or price movements.

H₁: Herd behaviour has a significant impact on stock market decisions and price movements.

Review of Literature

The academic treatment of herd behaviour spans several decades and theoretical traditions. Banerjee (1992) established the foundational model demonstrating that investors imitate peers rather than utilise private information, thereby perpetuating suboptimal market outcomes. Bikhchandani and Sharma (2000) refined this understanding by distinguishing intentional herding—where investors consciously follow others—from spurious herding, where similar responses arise from shared public information.

Decamps and Lovo (2002) further specified that herd behaviour, properly defined, requires an investor to abandon personal information in favour of observed market actions. Shiller (2000) connected collective investor sentiment to the formation and collapse of speculative bubbles, showing that asset prices can diverge materially from fundamental values when crowd psychology dominates. Ionescu (2012) explored the dual nature of herding—rational profit-seeking may initially generate booms, but ultimately induces financial instability. Indian-context research (UNNAYAN, 2015) confirms that retail investors with limited experience rely disproportionately on social networks over structured analysis.

Theoretical Framework

Herding in financial markets arises when investors replicate the buying or selling behaviour of the majority, subordinating individual analysis to collective action. This tendency intensifies during periods of heightened volatility, when uncertainty leads investors to infer that peers possess superior information.

Consequences of Herding

- Asset mispricing, resulting in speculative bubbles or abrupt market corrections.
- Diminished market efficiency, as prices decouple from fundamental values.
- Amplified volatility and increased systemic risk from correlated investor behaviour.
- Erosion of long-term investor wealth through emotionally driven decision-making.

Drivers of Herd Behaviour

- Information asymmetry: investors with limited information defer to perceived market consensus.
- Social pressure: peer influence, social media, and financial news reinforce conformity.
- Cognitive biases: confirmation bias, availability heuristic, and loss aversion amplify herding tendencies.
- FOMO (Fear of Missing Out): desire to participate in perceived market opportunities drives impulsive decisions.

Research Methodology

This study employs a descriptive and analytical research design. Primary data were collected through a structured questionnaire incorporating Likert-scale, categorical, and dichotomous items. A convenience sample of 100 respondents—drawn from four professional categories (students, private employees, business professionals, and others)—was surveyed to enable cross-group comparison of herding susceptibility.

Secondary data were obtained from published research papers, behavioural finance literature, and financial market reports. Data analysis employed descriptive statistics including frequency distribution, percentage analysis, and comparative cross-tabulation. All charts present in the original survey have been converted to tabular form for precision and conciseness.

Limitation: The sample is limited to 100 respondents and may not be fully representative of the broader investor population. Self-reported data carry an inherent risk of social desirability bias, and the cross-sectional design does not capture longitudinal shifts in behaviour.

Data Analysis and Interpretation

Respondent Profile and Investment Experience

Table 1 categorises the 100 respondents by profession and average investment experience. Business professionals and students each constitute 30% of the sample, while others (25%) and private employees (15%) complete the cohort.

Table 1: Distribution of Respondents by Profession and Investment Experience

Sl. No.	Profession	No. of Respondents	Avg. Years of Investment Experience
1	Private Employees	15	4
2	Students	30	2
3	Business Professionals	30	7
4	Others	25	6
	Total	100	—

A clear experience stratification emerges: students record the lowest average experience (2 years) and business professionals the highest (7 years). This gradient underpins the comparative susceptibility analysis in Section 6.4.

Peer-Influenced Selling Behaviour

Respondents were asked: "Do you find yourself selling an asset when you see other investors selling, even if the company's fundamentals remain strong?" Results are presented in Table 2.

Table 2: Response to Peer-Influenced Selling Behaviour (n = 100)

Sl. No.	Response	Frequency	Percentage (%)
1	Yes	50	50%
2	Maybe	10	10%
3	No	20	20%
4	Don't Know	20	20%
	Total	100	100%

Fifty percent of respondents confirmed they would sell under peer-selling pressure irrespective of fundamentals—a direct manifestation of herd behaviour. A further 10% indicated conditional susceptibility ("Maybe"). Only 20% reported consistent independent decision-making, while the remaining 20% expressed uncertainty, suggesting an absence of structured analytical frameworks.

Social Influence on Investment Decisions

Respondents were asked to assess the statement: "I am more likely to invest in a stock if my friends, family, or colleagues are investing in it." Responses appear in Table 3.

Table 3: Social Influence on Investment Decision-Making (n = 100)

Sl. No.	Response	Frequency	Percentage (%)
1	Agree	50	50%
2	Maybe	30	30%
3	Disagree	10	10%
4	Don't Know	10	10%
	Total	100	100%

Half of respondents agreed that social proximity shapes their investment choices, with a further 30% indicating partial agreement. Cumulatively, 80% of the sample demonstrates at least some susceptibility to social herding. Only 10% reported consistently independent decision-making, underscoring the pervasive role of informal networks in investment behaviour.

Experience vs. Herd Behaviour Susceptibility

Table 4 consolidates cross-tabulation findings, linking professional category, investment experience, and estimated herding susceptibility derived from response patterns.

Table 4: Herd Behaviour Susceptibility by Profession and Experience Level

Sl. No.	Profession	Avg. Experience	Susceptibility Level	Herd Behaviour (%)
1	Private Employees	4 yrs	Moderate	60%
2	Students	2 yrs	High	85%
3	Business Professionals	7 yrs	Low	30%
4	Others	6 yrs	Moderate	45%

A robust inverse relationship between investment experience and herding susceptibility is evident. Students—the least experienced cohort—display the highest susceptibility (85%), while business professionals—the most experienced—show the lowest (30%). Private employees and others occupy intermediate positions consistent with their moderate experience levels. This pattern suggests that market knowledge and analytical confidence serve as meaningful buffers against crowd-driven behaviour.

Key Findings

- Herd behaviour is pervasive: 50% of investors admitted to selling assets in response to peer-selling behaviour, regardless of underlying fundamentals.
- Social influence is a dominant driver: 80% of respondents (50% "Agree" + 30% "Maybe") demonstrate susceptibility to peer-driven investment decisions.
- Experience is a critical moderator: an inverse relationship exists between investment experience and herding susceptibility—from 85% among students (2 years avg.) to 30% among business professionals (7 years avg.).
- Ambiguity signals partial herding: the frequency of "Maybe" and "Don't Know" responses indicates conditional or situational herding rather than outright independence.
- Hypothesis outcome: the evidence supports rejection of H_0 in favour of H_1 —herd behaviour exerts a statistically meaningful influence on investment decisions and stock price movements.

- Market efficiency implications: the widespread presence of herding suggests persistent episodes of mispricing and speculative excess, consistent with behavioural finance predictions.

Conclusion

This study establishes that herd behaviour is a pervasive and consequential force in Indian investor decision-making. A substantial proportion of surveyed investors follow peer actions—whether driven by social influence, market trends, or uncertainty—rather than grounding decisions in fundamental analysis. This tendency introduces irrational elements into market dynamics, contributing to asset mispricing and speculative volatility.

Investment experience emerges as a meaningful moderating variable. Business professionals—with the deepest market exposure—demonstrate the greatest analytical independence, while students remain highly susceptible to crowd influence. Financial literacy, critical thinking, and structured market education therefore serve as essential counterweights to herd-driven behaviour.

Regulatory bodies, financial institutions, and educational programmes each bear responsibility for cultivating a culture of evidence-based, independent investing—a prerequisite for market efficiency and the long-term protection of investor wealth.

Recommendations

- Institutionalise financial education at the university level to equip student investors with fundamental analysis skills prior to market participation.
- Encourage adoption of personal investment policy statements (IPS) to anchor decision-making during periods of market stress and peer pressure.
- Financial advisors should integrate behavioural finance insights into client engagement to help investors identify and counteract personal herding tendencies.
- SEBI should embed investor behaviour education within its investor protection mandate, with targeted outreach to retail and first-time participants.
- Digital investment platforms should incorporate behavioural nudges—such as displaying historical fundamental data and mandatory cooling-off periods—to reduce impulsive, herd-driven transactions.

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