International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 05 Issue: 04 | April – 2026 DOI:10.55041/ISJEM06023
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

Behavioural Finance Approach to Investor Biases in India's Crypto Market

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Abstract

The impact of psychological biases on investment behavior in the Indian cryptocurrency market is examined in this study. Despite the fact that cryptocurrencies are often portrayed as cutting-edge financial assets, trading decisions in this sector are often more influenced by emotions and mental shortcuts than by careful consideration. The study examines availability bias and the impact of social media platforms like Twitter, WhatsApp, and other online forums using ideas from behavioral finances. Because these platforms tend to make certain information more visible, investors may overreact to rumors, news, and price changes. The study identified the key participants in the cryptocurrency trading scene in India using secondary demographic data on age, gender, and education. The results show that young, educated men make up the majority of investors, but they also have high levels of FOMO, herd mentality, and speculative risk-taking. These findings imply that psychological biases may affect even highly educated investors, particularly in the volatile and mainly unregulated cryptocurrency market.

Keywords: Behavioural Finance, Cryptocurrency, Investor Biases, Availability Bias, Social Media.

Introduction

The premise that investors are rational agents who impartially assess all available information and make decisions that maximize wealth forms the basis of conventional finance theory. This idea is the foundation of traditional models such as Modern Portfolio Theory and the Efficient Market Hypothesis. However, a plethora of empirical evidence has shown that real investor behavior frequently deviates from this idealized rationality. Instead, financial decisions are often influenced by psychological factors, emotional responses, cognitive limitations, and social interactions, leading to systematic and predictable errors. These variations serve as the foundation for behavioral finance, a field that integrates insights from economics, sociology, and psychology to better understand how investors actually act in financial markets. According to behavioral finance, investors employ heuristics—mental shortcuts that simplify complex decisions when confronted with uncertainty. Although these can be useful, they often result in cognitive biases like overconfidence, herding, loss aversion, and confirmation bias. These biases may cause investors to misinterpret information, overreact to market news or follow the herd, all of which could lead to less than ideal financial outcomes. In unstable and information-rich environments, these biases exacerbate speculative bubbles and market inefficiencies. Cryptocurrency markets provide a particularly powerful setting for witnessing behavioral biases in action. Unlike traditional financial assets, cryptocurrencies operate in a largely decentralized and loosely regulated environment where values are determined more by online debate, mood, and narratives than by basic valuation metrics. Influencer recommendations, online discussion boards, and social media platforms all have a significant impact on investor sentiment, which can result in abrupt price changes. Because of the prevalence of speculative trading, 24/7 market access, and extreme price volatility, which exacerbate emotional responses like fear, greed, and FOMO, cryptocurrency markets are especially susceptible to psychologically driven decision making. India has seen a sharp increase in cryptocurrency investment in recent times, especially among young, tech people drawn by the possibility of significant profits and financial independence. Despite legal ambiguity and inadequate investor protection, participation in cryptocurrency markets is growing, primarily due to peer pressure and digital platforms. However, investors are more likely to rely on behavioral cues rather than objective analysis when they lack financial literacy and are subjected to market rumors and social media excitement. Therefore, studying how psychological and demographic factors interact to influence investment behavior is a good use for Indian

cryptocurrency investors. In light of this, the current study examines investor biases in India's cryptocurrency market using a behavioral finance methodology. In particular, it looks at the relationships between important behavioral biases like herding behavior, overconfidence, and FOMO and demographic traits like age, gender, and educational attainment. This research attempts to enhance knowledge of investor behavior in developing digital asset markets by identifying the trends and underlying causes of these biases. It will also offer data that legislators, financial educators, and market participants can utilize to encourage more informed and prudent investment choices.

Objectives:

1. Psychological biases are made stronger by social media and online make irrational, emotionally driven investment decisions rather than logical, well reached ones.
2. This research aims to uncover practical findings that help us understand better about how and why Indian crypto investors develops unique psychological patterns and biases.

3. To study the relationship between behavioural finance principles and investor behavior in India's crypto currency market, mainly focusing on identifying the psychological reasons and social media driven enhancement of investment biases.

2 Literature Review

Prior research indicates that psychological biases play a significant role in cryptocurrency investment.

[1] Yadav and Rai (2021) identified overconfidence, loss aversion, and fear of missing out as significant influences on investor decisions in the crypto market. Their work implies that market entry and exit decisions often stem from emotional responses rather than strategic long-term planning.

[2] Skwarek (2020) investigated investor behavior across emerging and cryptocurrency markets, observing that demographic attributes like age, gender, and education influence information processing. This study noted a higher propensity for risk-taking among younger investors. Interestingly, greater educational attainment occasionally correlated with increased overconfidence, rather than leading to more sound decision-making.

[3] Researchers such as Song and Bathia et al. (2022) have similarly demonstrated a strong impact of investor sentiment on cryptocurrency price fluctuations. Their results point to collective emotions and expectations, rather than economic fundamentals, as frequent drivers 2 of price shifts.

3 Research Methodology

3.1 Research Design

In order to provide a comprehensive and methodical understanding of the traits and preferences of Indian cryptocurrency investors, the study uses a descriptive research design. This design is suitable because the study's goal is to characterize current investor behavior patterns rather than determine causal relationships. The study attempts to provide an accurate picture of how investors interact with the bitcoin market by concentrating on observable trends in demographics and behavioral biases. Herding, overconfidence, and FOMO are examples of common biases that can be identified in the investor population using the descriptive technique.

3.2 Data Sources

The secondary data used in the study was gathered from reliable, publicly accessible sources. These include industry-wide cryptocurrency market reports, peer-reviewed academic publications on behavioral finance and digital asset markets, and CoinSwitch's yearly investor reports. These sources were chosen because they offer trustworthy, comprehensive data on Indian market trends, trading patterns, and investor demographics. Instead of being restricted to a small sample, the use of secondary data guarantees that the study reflects actual market conditions and widespread investor engagement.

3.3 Method of Analysis

The data was evaluated using descriptive statistical techniques to create a helpful summary and illustration of investor characteristics. Metrics like frequencies and percentages were used to analyze the distribution of investors by gender, age, and educational attainment. Cross tabulation was used to illustrate the differences and similarities between investment groups by contrasting these demographic characteristics with behavioral patterns. Tables and charts were used to present the results in order to improve clarity and make the patterns easier to understand. This approach makes it easier to evaluate investor behavior in the Indian bitcoin market in an impartial and open manner.

4 Data Analysis and Findings

4.1 Age Distribution

According to analysis, the majority of cryptocurrency users in India are younger, with about 75% of investors being under 35. This concentration implies that younger generations, who are more accustomed to digital platforms, mobile trading apps, and online financial services, are the ones who find cryptocurrency trading most appealing. This age group is more open 3 to experimenting with new financial instruments like cryptocurrencies because they are more adaptive to technological innovation. Additionally, younger investors generally have a higher tolerance for financial risk and uncertainty than older age groups. Their exposure to social media, online forums, and cryptocurrency influencers has a big influence on their investment choices. Market trends, viral success stories, and quick price changes can all cause FOMO and excitement, which encourages frequent trading and speculative activity. However, participation sharply declines after 45, indicating that older investors are generally more cautious and prefer more traditional, stable financial products.

Table 1: Cryptocurrency Investor Distribution by Age Group

Age Group	Percentage (%)
18–25 years	37.6%
26–35 years	37.3%
36–45 years	17.8%
46 years and above	7.3%

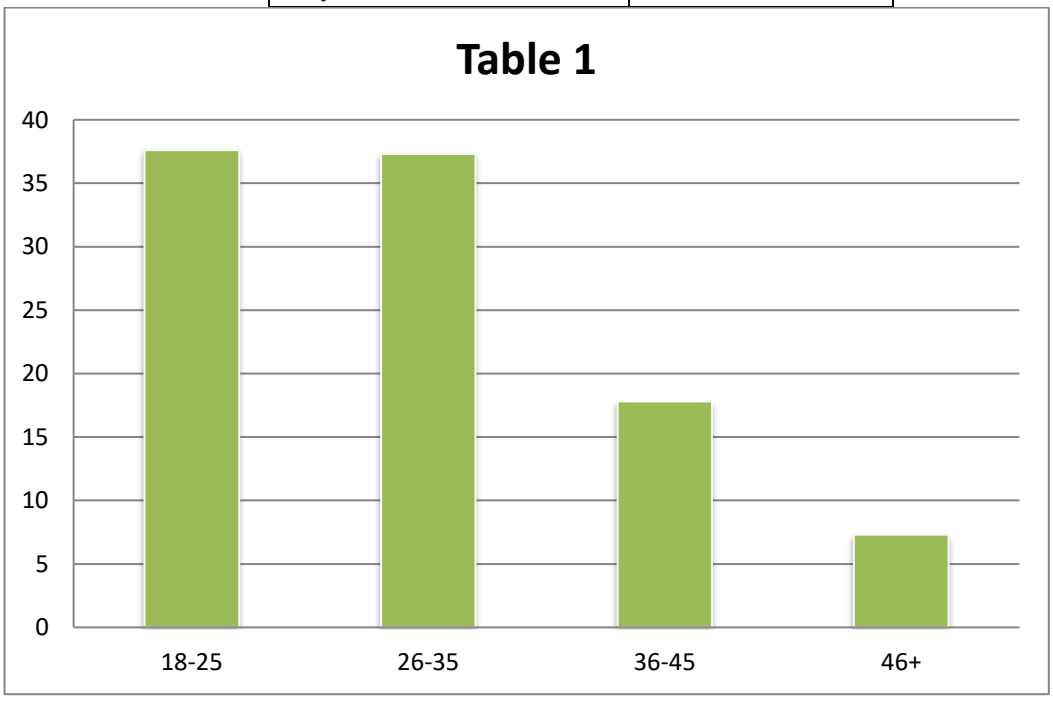

Figure 1: Visual Representation of Age Distribution

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4.2 Education Levels

The education data shows that the majority of cryptocurrency investors have at least a basic formal education, and 80% have professional, postgraduate, or undergraduate degrees. This implies that people who can access, comprehend, and make use of digital financial platforms and investment information are the main forces behind cryptocurrency participation in India. High levels of education, however, don't seem to lessen risky behavior in the cryptocurrency market. Conversely, knowledgeable investors can boost their self-assurance in their capacity to recognize market patterns and forecast price shifts. Investors may become overconfident as a result, underestimating risks and overestimating their own decision-making skills. As a result, they might trade speculatively, disregard warning signs, and make large investments based more on short-term market swings than long-term fundamentals.

Table 2: Cryptocurrency Investor Distribution by Education

Category	Description	Percentage
Educated	School/Diploma/Undergraduate	45%
Highly Educated	Postgraduate & Professional Degrees	35%
Uneducated	No formal education	20%

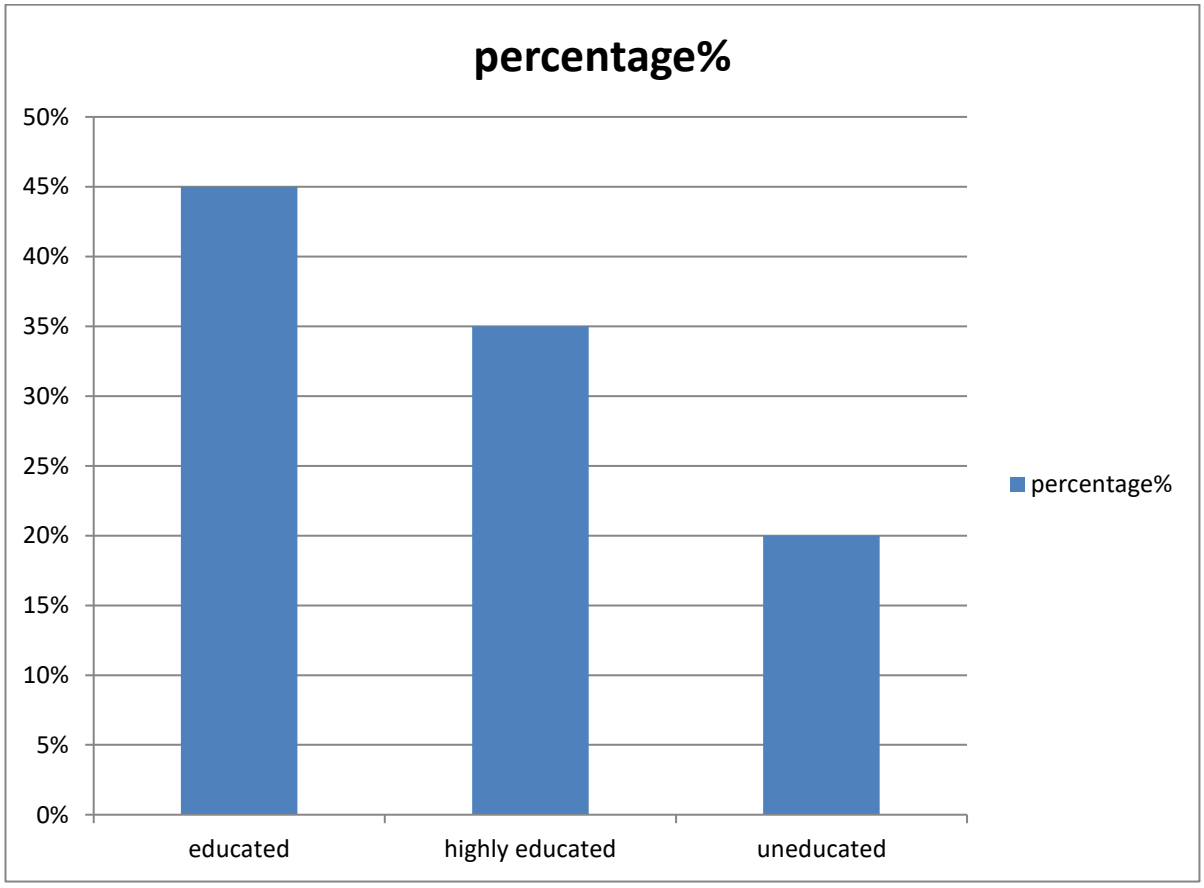

Figure 2: Education Level of Investors

4.3 Gender Distribution

According to the gender distribution, men make up 63% of cryptocurrency users in India, while women make up 37%. This disparity is indicative of larger trends in the financial markets, where men are typically more involved in speculative and high-risk investments. In line with the erratic nature of cryptocurrency markets, men are also more likely to trade frequently and take aggressive investment positions. In the meantime, a significant percentage of female investors claim that cryptocurrency markets are growing more inclusive and accessible. However, the same behavioral factors—like

market euphoria, peer conversations, and social media trends—affect both male and female investors. Women are equally susceptible to herding and FOMO, particularly during times of extreme price spikes, even though men may display higher levels of overconfidence and risk-taking. This suggests that investors of all genders are impacted by psychological biases, albeit to differing degrees and in different ways.

Table 3: Cryptocurrency Investor Distribution by Gender

Gender	Percentage%
Male	63%
Female	37%

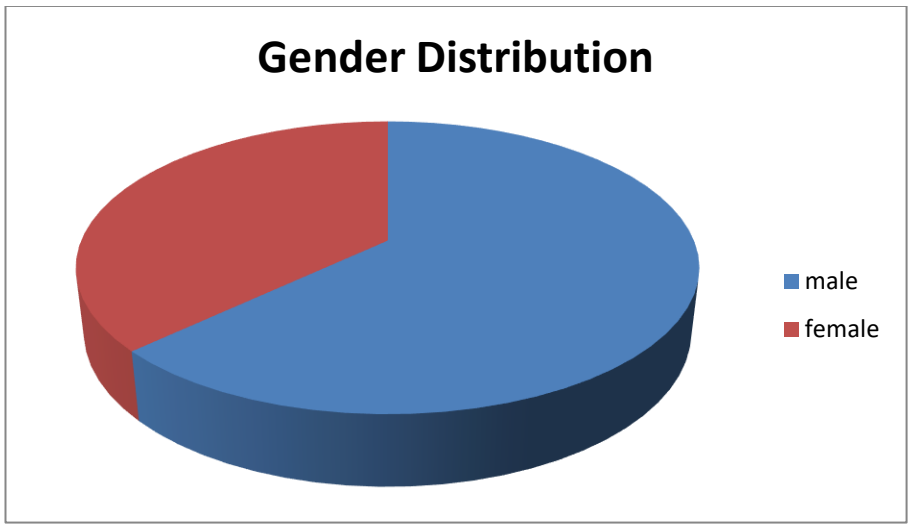

Figure 3: Gender Distribution

5 Discussion

The results of the study demonstrate how important behavioral factors are in shaping investment choices in the Indian bitcoin market. The preponderance of younger investors, especially those under 35, indicates a strong correlation between cryptocurrency trading, risk tolerance, and technological familiarity. Because they use social media and digital platforms more frequently, younger investors are more exposed to market narratives, popular tokens, and speculative discussions. Herding behavior is encouraged in this scenario because investment decisions are more impacted by other people's actions than by independent analysis. The high level of education among investors suggests that formal education is not always a prerequisite for making wise financial decisions. Rather, investors may become overconfident as a result of education, thinking they are better informed or able to forecast changes in the market. In cryptocurrency markets, where values are mostly set by sentiment and outside excitement rather than intrinsic value, this delusion of control is especially risky. Because they think they can get out of the market before downturns happen, knowledgeable investors might take excessive risks. Gender-based differences also exhibit significant behavioral patterns. Despite the fact that men make up the majority of cryptocurrency investors, the number of female investors is steadily increasing, suggesting greater financial inclusion. However, prior research suggests that male investors are generally more inclined to overconfidence and speculative risk-taking, which is consistent with the higher trading activity observed among men. Even though they are fewer in number, female investors may be more cautious when making investments, but they are still vulnerable to market sentiment and social influence during very turbulent times. Overall, the data suggests that the Indian bitcoin market is not primarily driven by long-term investment plans or intrinsic valuation. Instead, it is heavily impacted by psychological elements like herd mentality, fear of missing out, and optimism during market booms. By causing price volatility, sudden market booms, and swift corrections, these biases contribute to the cryptocurrency ecosystem's instability

. 6 Conclusion and Suggestions

This study shows how deeply embedded behavioral biases are in the investment strategies of Indian bitcoin investors. Many investors are influenced more by peer behavior, social media narratives, and emotional reactions than by in-depth financial research, despite their youth and limited education. The prevalence of herding, overconfidence, and FOMO demonstrates that psychological factors take precedence over logical evaluation in a market characterized by uncertainty and rapid information flow. The research indicates that there is a clear need for increased investor awareness and financial education programs that focus on behavioral biases. It is necessary to expand traditional fi6 nancial literacy programs to include topics like risk perception, emotional regulation, and the psychological pitfalls common in speculative markets. If investors are helped to recognize their own biases, they can make more deliberate and cautious decisions. More specific regulations for influencer marketing and bitcoin advertising should be considered by legislators and regulators. False or exaggerated claims have the potential to significantly distort market behavior because many investors rely on social media and online content for investment cues. Trading driven by misleading information would decrease with greater transparency and accountability in digital financial communication. Finally, bitcoin exchanges and trading platforms can play a big part by providing risk alerts, educational materials, and decision-support tools that encourage more thoughtful investing. Features like volatility alerts, portfolio diversification tools, and behavioral nudges may help investors avoid rash trades. In conclusion, even though cryptocurrencies present new chances for financial engagement in India, their sustainability and success rely on investors' capacity to control psychological biases. Therefore, a behavioral finance perspective is necessary to comprehend and enhance decisionmaking in this quickly changing digital industry.

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