

## **Biases and Heuristics in Individual Investment Decisions: An Experimental Study**

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### **Abstract:**

This study examines how biases and heuristics affect individual investment decisions under risk and uncertainty. Drawing on prospect theory, we argue that individuals making investment decisions under risk and uncertainty do not usually maximize expected utility. Rather, individual investment decisions are often suboptimal due to individual biases and the use of heuristics in decision making. To test this argument, we examine the influence of the “1/n heuristic” on individual investment decisions under risk and uncertainty. Specifically, we hypothesize that individuals facing multiple investment opportunities tend to allocate their resources equally across alternatives. To examine this argument, we collected data using a randomized between-subject design with experimental and control groups that included, in total, 162 academic personnel from a large university in Turkey. The empirical results provide strong support for our argument. Specifically, we find that the participants tend to naively diversify their portfolio of investments when allocating their resources across investment alternatives.

**Keywords:** Individual investment, decision making, naive diversification

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