

## Research Article

# Connecting Minds and Machines: Integrating Artificial Intelligence with Behavioral Finance

Dr Sanya Dawer<sup>1</sup> and Dr Ramanpreet Kaur<sup>2</sup>

<sup>1</sup>Assistant Professor, Department of Business Administration, CGC-College of Engineering, CGC Landran

<sup>2</sup>Assistant Professor, Department of Business Administration, CGC-College of Engineering, CGC Landran

### \*Corresponding Author

Dr Sanya Dawer  
([sanya.8381@cgc.edu.in](mailto:sanya.8381@cgc.edu.in))

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### Abstract:

Behavioral finance came about because people realized that the old ways of thinking about money were not entirely accurate. The old ways of thinking about money assumed that people make choices when it comes to money. However the truth is that people's feelings and thoughts have an impact on the financial decisions they make. At the time Artificial Intelligence has changed the finance world in a way. Artificial Intelligence does this by using data analysis, machine learning and predictive analytics. When you combine finance with Artificial Intelligence you get an understanding of how people make investment decisions. You can also forecast what the market will do and learn from mistakes when making decisions. This research paper looks at how behavioral finance and Artificial Intelligence are connected. It explores how machine learning models, natural language processing and robo-advisors can help understand how people think and make choices. The paper also talks about how Artificial Intelligence can help find biases in peoples thinking such as being too confident being afraid to lose money following what others do and relying much on the first piece of information they get. The research paper also looks at how these ideas used in the real world, such as managing investment portfolios using algorithms to make trades giving people personalized financial advice and evaluating financial risks. Even though using Artificial Intelligence in finance has its benefits it also raises concerns, about fairness, transparency and privacy. In the end the paper says that combining Artificial Intelligence and behavioral finance can lead to decision-making, in finance. It can also make the market work efficiently and create financial solutions that are tailored to individuals. However it is crucial to use Artificial Intelligence in an ethical way. Behavioral finance and Artificial Intelligence can work together to achieve these goals. This is what the paper ultimately argues.

**Keywords:** behavioral finance, artificial intelligence, machine learning, investor behavior, cognitive bias, robo-advisors.

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## INTRODUCTION

The Indian investment scene has a lot of different plans for people. It looked like investors have a lot of options when it comes to these schemes. Indian investors have a hard time finding the right balance between making money, having cash on hand, and taking risks with their investments.

The main idea behind the old way of thinking about money is that people are smart. Most theories of finance are since they believe buyers are smart and the stock market work swell. But, in behavioral finance it is not always the case. Behavioral finance look sathowinvestors understand and use knowledge to make smart choices about investments.

Behavioralfinanceis anewareaoffinancethat triestofigureouthowpeople'sactionsaffect choices they make about investments (Subash,2012). Looking at the relationship between a person's personal traits and the investments they make is what it basically means.

## BEHAVIORAL FINANCE IS THE BRIDGE BETWEEN FINANCE AND PSYCHOLOGY.

In the few years Artificial Intelligence has changed the financial markets really fast. Artificial Intelligence is being used more and more for things like figuring out what will happen with money finding fraud deciding who gets credit and making the investment plans. This is because of technologies like machine learning, deep learning and natural language processing. These tools help banks and other financial institutions look at a lot of data and find patterns that they would not have found otherwise (Sharma & Singh 2025).

The field of study that brings together finance and Artificial Intelligence is really interesting. Artificial Intelligence can figure out the biases that people have. It can tell us how investors will react to things that happen in the market. It does this by looking at how people trade and what's in the news and what people are saying on social media. By combining finance and Artificial Intelligence we can make better decisions about money and reduce the effect of psychological biases on how people invest in things like stocks and bonds. Artificial Intelligence is really good at finding these biases. It can help us make choices about our money. The use of Artificial Intelligence in finance is a deal and it will keep changing the way we think about money and investments. Artificial Intelligence will keep helping us make decisions, about our money.

### OBJECTIVES OF THE STUDY:

- ❖ To appreciate how artificial intelligence influences financial markets.
- ❖ To find out how artificial intelligence can spot and lessen behavioral prejudices in financial decisions.

### Research Methodology

This study uses a secondary research approach. The information comes from publications on finance and artificial intelligence.

It also comes from financial technology reports and academic journals. The approach is to look at publications on intelligence in financial markets and behavioral finance theories. The study looks at models and industry standards such as trading systems and robo-advisory platforms. To understand how artificial intelligence connects to investor psychology the study uses sources like research papers and academic journals, on artificial intelligence and behavioral finance. The study is based on intelligence and its applications. Artificial intelligence is used to study investor behavior. The study reviews intelligence models. Behavioral finance and artificial intelligence are connected in this study.

## CONCEPT OF BEHAVIORAL FINANCE

Cognitive psychological theory and standard finance are mixed together in behavioral finance tries to figure out why people make bad decisions about their money.

### These are some ways to describe behavioral finance:

The field of behavioral finance combines traditional economics and finance with psychology and the study of how people make decisions.

Behavioral finance tries to explain some of the strange things that have been seen and written about in the finance literature. Behavioral finance is the study of how investors regularly make bad decisions, also known as "mental mistakes." (Chaudhary, 2013)

One way to see the scope of behavioral finance is to look at how it affects people's and businesses' financial decisions. Within behavioral finance, it is thought that knowledge can change both people's investment choices and the way the market works.

Human nature is complex. Human behavior is part of one's personality and is difficult to change. When people make financial decisions, their brains process information quickly and emotionally. Most of the investors assume that they are making smart choices even though they aren't. Behavioral finance can help you perfectly guess what will happen in the market, find stocks with prices that are easy to change, and figure out how other people who use the shop act. Behavioral finance is a new way to think about money about money that tries to figure out and predict how psychological decisions will affect the stock market. Standard finance is still a part of the new concept of behavioral finance.

Instead, it adds to the normal theory of finance. On top of that, it says that the current model can be true up to a point. The standard finance model can better explain how markets work in today's changing times with the help of behavioral finance. According to behavioral finance, people can make better financial decisions by using psychological and economic concepts. Shefrin wrote a book called "Beyond Greed and Fear" about behavioral finance and EMH (Shefrin, 2002). This book talks about the different ways buyers make mistakes. The main idea that this research showed was that people are "imperfect processors" of information, meaning they make mistakes

,are skewed, and have trouble understanding what they are seeing.

## **BEHAVIORAL BIASES IN FINANCIAL DECISION-MAKING:**

### **Overconfidence Bias**

Being able to predict where the markets are going is one of the most important skills in business and investing. As a whole, most market experts think their analytical skills are above average in this field. Overconfidence bias causes people to perceive investing decisions as being less risky than they are.

### **Loss Aversion**

Loss fear means that people strongly prefer decision that help them avoid losses over those that help them win (Polman, 2012). It was first shown by the famous Daniel Kahneman and Amos Tversky were psychologists.. A lot of research on loss phobia shows that people feel twice as strongly about losing something as they do about gaining something. This idea is at the heart of The Prospect Theory, a branch of behavioral economic that tries to explain how people decide between likely options that come with risk. The main idea behind the hope theory is that a loss is seen as bigger than a gain of the same size.

### **Herd Behavior**

This phrase refers to the way investors often do what other investors do. Mostly people act on how they feel and their gut feelings of thinking things through and doing their own research.

Many businesses didn't have plans but investors still gave them money just because others were doing it too. You often see people just following what the experts say without questioning it. When we go against the crowd, it can hurt us physically or mentally. This is something we should be very aware of.

Herding is a well-known thing that happens in the stock market when huge amounts of money are sold off and then bought back. When these investors make decisions, they don't do a lot of in-depth study. Instead, they just go with what the crowd thinks, whether that's good or bad.

### **Anchoring Bias**

Anchoring bias is a feeling that buyers have when they put too much weight on emotionally charged and statistically random factors that lead them to make decisions that aren't really based on logic (Tseng & Yang, 2011; Zahera & Bansal, 2018). Another way to describe anchoring bias is an investor's tendency to focus on something that doesn't make sense when making an investment decision. Anchoring bias means that traders don't take any risks when they trade (Ofir, 2012).

### **Availability Bias**

When you make decisions about the future, you tend to base them on knowledge that is quick and easy to remember. We refer to this as the availability bias. Quickly remembered examples are sometimes regarded as more typical than they actually are. This is called the availability bias.

The availability bias can make people make bad decisions because memories that are easy to remember aren't always enough to figure out how likely something is to happen again in the future. The person making the choice is then left with bad information on which to base their decision.

## **ARTIFICIAL INTELLIGENCE IN FINANCE:**

Artificial intelligence is about computer systems that can do things that people usually do. This includes learning from information finding patterns and making decisions. Financial markets are using intelligence more and more. Financial organizations use intelligence for things like figuring out what the market will do checking credit scores finding fraud looking at risk and managing investments.

Artificial intelligence systems can look at a lot of data to find trends and patterns that can help predict what will happen in the market. Artificial intelligence systems are always learning from information and getting better at making predictions. So, for institutions that want to make better decisions and work more efficiently artificial intelligence is a very important tool. Artificial intelligence helps these institutions make decisions and work smarter.

### **Combining artificial intelligence with behavioral finance:**

- ❖ Understanding how investors behave is really helped by mixing finance with intelligence.
- ❖ AI systems can look at lots of data about how people behave and their finances. This helps find patterns that show biases.
- ❖ For example machine learning algorithms can look at trading data. They find patterns where investors are too confident or follow the crowd.
- ❖ Also language processing can look at media posts and financial news. This helps see how investors are feeling. By

combining insights into behavior with data-driven technologies AI systems can make predictions, about finances. They can also give investment advice.

- ❖ Behavioral Finance Uses of Artificial Intelligence:
- ❖ Robo-advisors
- ❖ Robo-advisors are computer programs that use intelligence to help manage investments and give financial advice. They look at how people behave with money how risk they are willing to take and what they want from investing. These systems then suggest investment plans that're just right for each person.
- ❖ Robo-advisors provide management of investment portfolios. They are based on analysis of what the investors prefer. The Robo-advisors platforms also consider how risk the investors can tolerate. The Robo-advisors use this information to propose investment strategies that are tailored to each investor and the Robo-advisors.

### **Examining sentiments**

AI technologies read news articles and social media to see what investors think about things. This gives investors an idea of how people're feeling about the market right now. AI technologies can then use this information to try to figure out what the market might do next and what makes investors feel confident. Investor confidence is really important. AI technologies help investors understand it.

### **Trading Using Algorithms**

Algorithmic trading systems use models to make trades based on specific plans and predictions. These systems help people make trades without getting upset about it. They just follow the plan. Algorithmic trading systems can react quickly to changes in the market. This is good because it helps people using trading systems make decisions faster. Algorithmic trading systems are really good at this. They can look at the market. Make trades when they need to which is helpful, for people who use algorithmic trading systems.

### **Evaluation of Behavioural Risk**

AI systems can see when investors are doing things that do not make sense. For example they might sell their stocks fast when they get scared or trade too much. Financial companies can use this information to help investors make decisions. They can give investors advice on how to behave when it comes to their money. AI systems are good, at finding these patterns in investor activity like selling in a panic or trading much and financial companies can use that to offer investors behavioral guidance with the help of AI systems.

### **Customized Financial Planning:**

Artificial intelligence helps financial institutions make investment plans that are just right for a person. These plans are based on how the person handles their money and what they want to achieve. The plans also consider how risk the person is willing to take. Artificial intelligence looks at all this information to create investment strategies. These investment strategies are tailored to the person's behaviour, their goals and their risk tolerance. Artificial intelligence is really good at making these investment strategies, for institutions.

### **SCOPE FOR THE FUTURE:**

Artificial intelligence is really interesting. The way people make decisions is also very interesting. People who study intelligence are working hard on making systems that are easy to understand. These systems will give people advice about money. Artificial intelligence can really help people learn more about money. It can also help people learn how to make investments. Artificial intelligence will keep getting better. New developments, in blockchain and big data analytics will make artificial intelligence more helpful. This will make it easier for people to make financial decisions. Artificial intelligence and the way people make decisions will keep improving.

### **Final Thoughts:**

Behavioral finance has really helped us understand how peoples thoughts and feelings affect the choices they make. Artificial intelligence has changed the markets by giving us powerful tools to analyze and predict what will happen. Using intelligence and behavioral finance together gives us new ways to look at how investors behave cut down on mistakes and make better financial decisions.

Financial institutions can use intelligence to create investment plans that are tailored to each person find out where people are making mistakes and make the markets work better. This is because artificial intelligence is helping financial institutions to do things in a way.

Behavioral finance and artificial intelligence are useful tools that can help us make better financial choices and reduce the risks that people take when they invest their money. Artificial intelligence technologies have a lot of issues that need to be fixed. These issues are about being transparent protecting people's privacy and doing what is right. We have to deal with these issues so that artificial intelligence technologies are used in a way.

If we do things the way and have control over artificial intelligence it can work well with behavioral finance. This means that artificial intelligence and behavioral finance can be combined to make decisions that are more reliable and efficient, in the future. Artificial intelligence will make a difference when it is used with behavioral finance to make financial decisions.

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