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PSYCHOLOGICAL INFLUENCES AND INVESTOR BEHAVIOUR IN FINANCIAL DECISION-MAKING: INSIGHTS FROM FINANCIAL CRISES

UDC / UDK: 159.9:336.76:338.124.4

JEL classification / JEL klasifikacija: G41, G01, D91, D81

DOI: 10.17818/EMIP/2025/51

Review / Pregledni rad

Received / Primljeno: September 5, 2025 / 5. rujna 2025.

Accepted / Prihvaćeno: November 20, 2025 / 20. studenoga 2025.

Abstract

Traditional financial theory assumes that investors make decisions based on complete and objective information. However, not all information is available in the financial market, and investors are not completely rational; rather, they act under the influence of various emotional, cognitive, and social biases, as confirmed by behavioural finance. This is particularly evident during crises when, influenced by news, media, collective fear, panic, or excessive optimism investors make irrational decisions that negatively affect market indices. The aim of this paper is to investigate psychological factors and patterns of investor behaviour during historical financial crises. The methodological approach combines a theoretical overview of behavioural finance with a comparative analysis of five of the most significant financial crises: the Great Depression, Black Monday (1987), the Dot-



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com bubble, the Global Financial Crisis, and COVID-19. The analysis supports the hypothesis that investor behaviour in crises follows recurring patterns of bias. The findings confirm that various biases significantly influence investment decisions, making them important for explaining deviations from rational behaviour during periods of financial distress.

Keywords: *behavioural finance, biases, financial market, investors*

1. INTRODUCTION

Traditional finance, based on the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT), assumes rational investor behaviour and that market prices fully reflect all available information. According to Markowitz (1952), the concept of an optimally diversified portfolio depends on the assumption of rational behaviour by all market participants. In practice, this is not the case, especially during financial crises. At such times, irrational investor reactions can cause sudden price deviations from fundamental values and increased market volatility. This is when the concept of behavioural finance becomes prominent, as it examines how emotions, biases, and heuristics shape investment decisions, showing that investors are not guided solely by information or rationality (Zentai & Kovács, 2024).

Historical examples of financial crises, such as the Great Depression (1929) (Mohacsy & Lefer, 2007), Black Monday (1987) (Bogle, 2008; Kurz-Kim, 2019), the Dot-com bubble of the late 1990s (Xu, 2023; Suri, 2024), the Global Financial Crisis of 2008 (Grosse, 2010; Vasile Sebastian & Radu, 2011; Tharchen, 2012), and the COVID-19 pandemic (Al-Awadhi, Alsaifi, Al-Awadhi & Alhammedi, 2020; Liu, Manzoor, Wang, Zhang & Manzoor, 2020; Lyócsa, Baumöhl, Výrost & Molnár, 2020; Zhang, Hu & Ji, 2020), illustrate the irrationality and imperfections of financial markets and their participants. In these instances, investors made decisions driven by fear, panic, or excessive optimism, resulting in significant market shocks and increased volatility (Kwatra, 2020; Zhang & Giouvris, 2022). Thus, behavioural finance offers valuable insights into deviations in market behaviour that traditional financial models cannot fully explain.

The following chapters review the literature on investor psychology, behavioural biases, externalities, and historical episodes of market panics and bubbles..

2. METHODOLOGY

This paper examines psychological factors and patterns of investor behaviour during historical financial crises. The research question is: How do different forms of bias influence investor decisions during financial crises? Based on this, the following hypothesis is proposed: Investor behaviour during a crisis is characterised by a recurring pattern of bias, regardless of the crisis's cause.

The methodological approach is a theoretical qualitative analysis with a comparison of historical cases, supplemented by statistical indicators from available databases (Macrotrends, Statista). This approach links psychological and behavioural aspects with specific market movements, illustrating the interrelationship between emotions, attraction, and financial market dynamics. Five historically significant financial crises were selected for analysis: the Great Depression (1929), Black Monday (1987), the Dot-com bubble (1990s), the Global Financial Crisis (2008), and the COVID-19 pandemic (2020).

These crises were chosen because they: 1) have clearly documented key emotional, cognitive, and social biases; 2) offer available historical market data; 3) had a global or systemic impact on financial markets; 4) allow comparison of different patterns of investor behaviour; and 5) have been identified as the most significant in the largest number of scientific studies (Kindleberger, Manias & Crashes, 1996; Shiller, 2000; Carlson, 2006; Stiglitz, 2010; Eichengreen, 2015; Baker, Bloom, Davis, Kost, Sammon & Viratyosin, 2020). Therefore, these crises provide a consistent and informative framework for the comparative analysis of behavioural patterns across different economic periods.

Although the analysis is based on historical cases and available statistical data, the focus of the research is not on statistical modelling but on identifying patterns of behaviour and bias by comparing different crises. This is a limitation of this research, but the combination of theoretical and statistical analysis enables the identification of recurring patterns and allows conclusions to be drawn that extend beyond the scope of traditional review studies.

3. THEORETICAL FRAMEWORK: BIASES IN FINANCIAL DECISION-MAKING

This section reviews the most relevant contributions that have shaped the field of behavioural finance, with a particular focus on investor psychology and specific types of biases.

3.1. Review of key literature on investor psychology

Although behavioural finance developed more intensively in the 1970s and 1980s through the work of Kahneman, Tversky, Shiller, and Thaler, the recognition that psychological factors shape economic decision-making is much older. This historical continuity underlines the enduring relevance of behavioural finance. The foundations of this approach can be traced back to Daniel Bernoulli, who in 1738, in his work "*Specimen theoriae novae de mensura sortis*" introduced the concept of utility and argued that individuals maximise not expected value but expected utility (Bokulić & Polšek, 2010). His insights laid the groundwork for later theories of risk aversion (Modesti, 2024). Smith is best known for "*The Wealth of Nations*," (1776), but in "*The Theory of Moral Sentiments*," (1759) he

already analysed human emotions, empathy, and moral judgment as the foundation of social and economic interactions. In this sense, Smith recognized that people do not act purely rationally, but that emotions and social relationships shape their decisions. In his writings after the Great Depression, Irving Fisher emphasised that psychological expectations, optimism, and pessimism significantly influence consumption, investment, and market movements. His approach remained rational, yet was consciously aware of the emotional and subjective components within the economy (Barberis, 2018).

A significant contribution to the understanding of psychological aspects in economics was made by John Maynard Keynes in 1936, who in his work *“The General Theory of Employment, Interest and Money,”* introduced the term “animal spirits,” to describe the influence of instinct, intuition, and subjective expectations on economic behaviour. Thus, Keynes did not deviate from the economic framework but actively incorporated psychological impulses and uncertainty into the modeling of investment decisions (King, 2010). Friedman and Savage's 1948 paper, *“The Utility Analysis of Choices Involving Risk,”* is one of the most important theoretical foundations that influenced the later development of behavioural finance (CFA Institute, 2018), although the concept of behavioural finance had not yet been formalised at that time. The paper explains the paradoxical risk-taking behaviour, where individuals are simultaneously risk averse and risk seeking, by introducing a segmented utility function that changes depending on the level of wealth (Friedman & Savage, 1948). This suggests that financial decisions are not the result of stable preferences, but rather depend on the subjective perception of value, context and psychological motives such as the desire for upward mobility. Such an approach represents an early precursor to behavioural finance and anticipates later theories such as prospect theory and mental accounting.

A substantial increase in academic work on behavioural finance was recorded in the late 1990s, when the interdisciplinary link between economics and psychology became an increasingly frequent subject of scientific debate. Building on the findings of Tversky and Kahneman (1974), numerous studies have criticised the assumptions of traditional finance, confirming that various biases significantly influence investor behaviour under conditions of uncertainty (Tiwari and Sharma, 2024; Szyszka, 2013). However, the effects on investor behaviour are not always negative. Accordingly, Kalra Sahi (2017) concludes that certain biases, such as trust or reliance on expert judgement, can positively affect financial satisfaction. Bhutto, Nazeer, Saad, and Talreja (2025) confirm that clustering and disposition effects play a significant role in the Pakistani stock market, along with risk perception and dividend policy. Empirical evidence also suggests differences across markets. Thus, Hoffmann, Post, and Pennings (2013) confirm that overconfident investors often achieve lower returns due to overtrading, while Bogdan, Suštar, and Olgić Draženović (2022) report that psychological impacts during COVID-19 were more pronounced in developed European markets. These contributions highlight the importance of behavioural perspectives for

understanding investor decisions, especially during periods of increased uncertainty (Tian, 2024).

3.2. Psychological Determinants and Biases in Investment Decision-Making

Due to the significance of bias in investment decision-making, Raju, Prakash, and Kummata (2024) emphasise the need to study it. Sattar, Toseef, and Sattar (2020) identify four main groups of factors that influence investment decision-making in their research:

- Heuristic Behaviour
- Role of Personality
- Prospect Theory
- Feelings and Emotions.

Heuristic behaviour refers to simplified rules or „*rules of thumb*“ that individuals use to process information and make decisions. Although heuristics facilitate decision-making, they often lead to systematic biases (cognitive, emotional, or social) which influence investor behaviour (Schinckus, 2012; CFA Institute, 2018). The following table presents the most relevant biases in making investment decisions.

Table 1 Key cognitive, emotional, and social biases in investment decision-making

Category	Bias	Explanation
Emotional biases	Loss aversion	Losses are felt more strongly than equivalent gains
	Overconfidence	Excessive trust in own knowledge and abilities
	Regret aversion	Avoiding actions that could lead to future regret
	Status quo / Endowment effect	Preference for the current state or overvaluation of owned assets
	Self-control bias	Difficulty in controlling impulses
Cognitive biases	Affinity bias	Favouring the familiar or personally appealing
	Anchoring	Relying too heavily on an initial reference point
	Availability	Judging likelihood based on easily recalled information
	Representativeness	Concluding outcomes by similarity to stereotypes
	Confirmation	Seeking information that confirms prior beliefs
	Hindsight	Believing outcomes were predictable after they occurred
	Framing	Choices influenced by how information is presented
Social biases	Mental accounting	Treating money differently depending on mental categories
	Herding / Social proof	Following the majority, assuming it is correct
	Conformity	Adjusting views to fit group norms
	Career concern bias	Copying peers to avoid individual blame
	Information cascade	Ignoring own signals and repeating others' decisions

Source: According to Kahneman and Tversky, 1979; Thaler, 1999; Hirshleifer, 2001; De Bondt, Muradoglu, Shefrin and Staikouras, 2008; Goodwin, 2010; Brajković and Peša, 2015

Biases influence decision-making, with personality traits playing a significant role. Since individuals have different personalities, their decisions may differ significantly under the same conditions or when solving the same problem. However, rationality has a stronger influence than personality traits alone, as judgment, knowledge, and experience contribute significantly to the quality of decision-making.

Kahneman and Tversky's Prospect Theory (1979) offers a theoretical framework for understanding decision-making under uncertainty, particularly in relation to the perception of gains and losses (Brmalj, 2023). The theory asserts that a loss is experienced approximately twice as strongly as a gain of the same magnitude. This behaviour illustrates perceptual asymmetry and loss aversion. As previously noted, emotions play a significant role in investors' assessments of potential risks and returns, and loss aversion further influences their decisions. Investment decisions are shaped by various factors; thus, climatic conditions, biological rhythms, and the social environment can indirectly affect stock price movements, as changes in these factors influence investors' risk perceptions. Therefore, a deeper understanding of the psychological aspects of investor emotions can improve market assessment, optimize decision-making processes, and lead to more effective investment outcomes.

3.3. Market anomalies

The existence of market anomalies indicates deviations from the efficient market hypothesis (EMH), that is, they confirm that asset prices do not reflect all available information.

Osterrieder and Seigne (2023) identify four types of anomalies:

1. Firm-specific anomalies (Size Effect, Book-to-Market Effect)
2. Event-based anomalies (Post-Earnings Announcement Drift (PEAD), Post-Merger Performance)
3. Calendar and seasonal anomalies (Day-of-the-Week Effect, „January Effect“, „Halloween Effect“)
4. Investor sentiment-related anomalies (Seasonal Affective Disorder (SAD) Effect, Weather Effect).

Firm-specific and event-based anomalies are most often due to information inefficiencies, whereas calendar and sentiment-related anomalies are linked to behavioural factors. For example, calendar anomalies such as the January effect or the Halloween effect demonstrate seasonal patterns in returns (Griffiths & White, 1993; Jacobsen & Visaltanachoti, 2009), while mood-related anomalies such as the Seasonal Affective Disorder (SAD) effect and the weather effect highlight the influence of psychology and external conditions on investor behaviour (Rohan, Sigmon & Dorhofer, 2003; Gerlach, 2007).

4. THE ROLE OF EXTERNAL FACTORS IN INVESTOR BEHAVIOUR

In financial decision-making, external factors such as economic shocks, regulatory and political changes, market behaviour, media influence, social climate, and other sources of uncertainty that shape investors' environments play a significant role in risk perception, return expectations, and investment choices (Phan & Zhou, 2014). Unlike internal factors, which reflect personality or experience, external factors are unpredictable and largely beyond individual control. Gaiesu and Chaâbaneu (2024) identify market instability, price volatility, and reduced liquidity as key external drivers that negatively affect investor behaviour, especially during crises. Investors often react defensively by reducing or postponing investments, even when this is not justified. Similarly, Klepacki (2025) argues that panic, collective fear, and "*fear of missing out*" (FOMO) arise from external events and internal psychological mechanisms. This interaction leads to deviations from rational behaviour and creates conditions for market anomalies. Chang, McAleer and Wang (2020) support this, finding that investors became more sensitive to asset losses after the global financial crisis, which increased the likelihood of herd behaviour in the stock market. They also note that during the SARS and COVID-19 outbreaks, investors often reacted with panic, resulting in irrational and premature asset sales.

4.1. Media influence and the role of financial news in shaping investor sentiment

Scientific research confirms that the content and tone of news in the media significantly affect investor expectations and market outcomes. Bollen, Mao, and Zeng (2011) investigated sentiment on the social network Twitter and concluded that certain patterns of collective sentiment predict movements in stock market indices. Similarly, Zhang and Skiena (2010) found that blog posts and financial news can be quantified and used as indicators of market sentiment. They observed that a negative news tone generally precedes a decline in stock prices. In an analysis of the daily columns of the Wall Street Journal, Tetlock (2007) pointed out that excessive pessimism in the financial press significantly increases market volatility, especially for small and illiquid stocks. These findings confirm that media information not only reflects market conditions but also shapes investors' risk perceptions and expectations. The quality and expertise of sources, frequency of publication, and emotional rhetoric can further increase or reduce the influence of the media on investor decisions.

4.2. Collective fear and irrational market reactions

During market crises, fear, panic, and euphoria spread among investors like a "*psychological contagion*", leading to sudden and illogical market reactions.

To describe the collective response to Black Monday in 1987, Shiller (1987) uses the term “*fear contagion*”. During this period, investors began panic selling assets, influenced by the behaviour of others, without considering fundamental market factors. Barberis and Thaler (2003) argue that biases and heuristics create cycles of overreaction, resulting in bubbles or significant market declines. De Bondt and Thaler (1985) identify the overreaction bias, where markets overreact to bad news, causing excessive price corrections. Even minor negative stimuli can trigger chain reactions of selling, especially when fuelled by emotions and media influence. This dynamic confirms that collective fear, anxiety, and uncertainty create conditions for market anomalies.

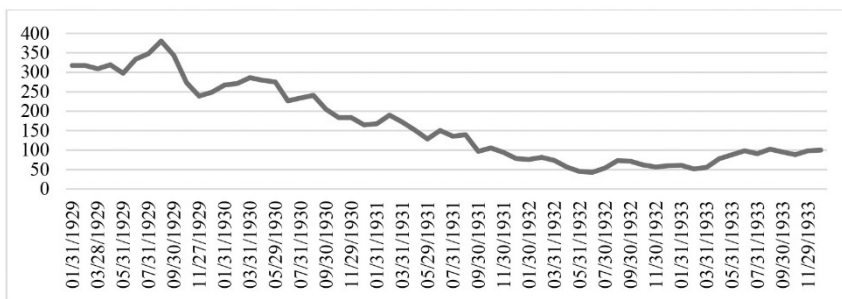
5. HISTORICAL EXAMPLES OF MARKET ANOMALIES DRIVEN BY BIASES

The previous sections have shown that deviations from rational investor behaviour are especially pronounced during financial crises. Therefore, the following will analyse five of the most historically significant crises: the Great Depression, Black Monday 1987, the Dot-com bubble, the Global Financial Crisis, and the COVID-19 crisis, highlighting specific biases that influenced the formation of market anomalies and price movements.

The Great Depression was one of the most severe and prolonged economic crises in modern history. According to the Federal Reserve Bank of St. Louis (n.d.), between 1929 and 1933, real US GDP fell by 29%, unemployment reached 25%, more than 11,000 credit institutions (including 7,000 banks) failed, while industrial production fell by 45% (Statista, 2025). Calomiris (1993) states that the crisis was caused and intensified by the preceding financial expansion, the indebtedness of households and companies, the fall in real estate values, and the breakdown of financial markets. Monetary shocks due to reduced money supply, bank failures, and an inadequate response by the Federal Reserve also played a significant role (Friedman and Schwartz, 1970). Unexpected deflation increased the real value of debt and reduced credit capacity, while insufficient regulation of financial markets further increased systemic vulnerability. According to Federal Reserve History (2013), by the end of October 1929, investors were showing signs of panic and a massive sell-off of securities occurred. On Black Monday, 28 October 1929, the Dow Jones Industrial Average fell by about 13%. This put significant pressure on the banking system, and the loss of confidence resulted in a bank run. All of this suggests that, along with widespread panic, there was a strong sense of distrust and pronounced herd behaviour. The sudden and sharp decline in stock prices created a “self-fulfilling catastrophe” effect, where fear fuelled further selling and deepened the decline.

Figure 1 shows the movement of the Dow Jones Industrial Average (DJIA) during the Great Depression.

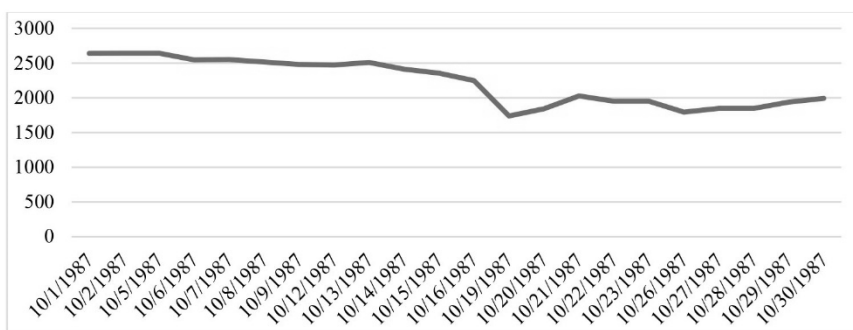
Figure 1 Dow Jones Industrial Average (DJIA) during the Great Depression (1929–1932)



Source: Authors according to Macrotrends (2025a)

The data presented above confirm the long-term market collapse that triggered panic selling, herd behaviour, and loss avoidance, leading to the sale of stocks despite market fundamentals. Mohacsy and Lefer (2007) state that fear and loss of confidence among investors, who withdrew funds and reduced spending, further deepened the recession. In addition to Black Monday in 1929, history also records the stock market crash on Black Monday, 19 October 1987, when the DJIA fell by 23% (Figure 2). Although the date is described as a sudden crisis and market crash, the United States had experienced economic slowdowns and weaker exports in previous years. Rising oil prices and inflation, as well as tensions between the United States and Iran, also prompted investors to be cautious and protect their gains (Goldman Sachs, n.d.). The first warning signs of a crisis appeared on 14 October, when the Dow Jones fell by 4% (Figure 2). This movement fuelled fearmongering and herd behaviour as panic spread rapidly among investors.

Figure 2 Daily movements of the Dow Jones Industrial Average (DJIA) around Black Monday, October 1987.



Source: Authors according to StatMuse (n.d.)

According to Kurz-Kim (2019), the behaviour of institutional investors amplified market shocks, while liquidity effects further intensified the decline in the financial market. Shiller (1987), in his analysis of the stock market crash of October 1987, highlights the presence of fear contagion, or its transmission among investors. His analysis shows that 23% of individual investors and 40% of institutional investors reported being influenced by other market participants.

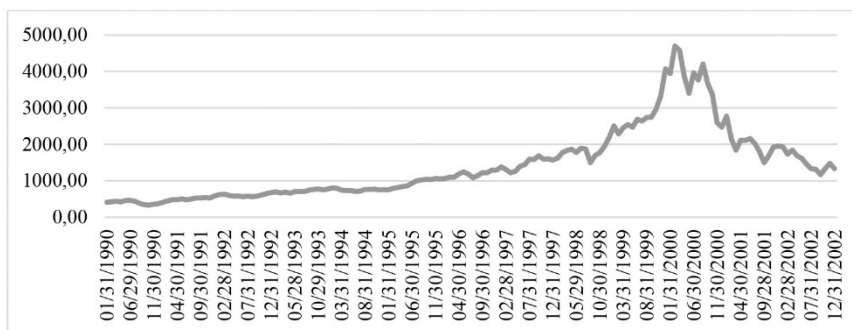
The presence of strong psychological contagion is also confirmed by Bogle (2008), who reports that only 5% of individual investors and 31% of institutional investors were actively buying or selling stocks on the day of the crash. More than 35% of respondents compared the situation to the Great Depression of 1929, emphasising the importance of historical events in shaping market expectations. About two-thirds of investors considered the market decline psychological rather than fundamental, and more than a third relied on technical analysis. This indicates reactive behaviour based on market patterns rather than real indicators of value. The price drop triggered further asset sales, creating a vicious cycle and intensifying panic. Although portfolios were expected to be hedged and strategies involving the sale of futures contracts were anticipated, only 5.5% of institutional investors used such mechanisms. Many relied on their own stop-loss rules, such as stop-loss orders, which had a similar effect and further accelerated panic-driven selling.

In addition to the previously observed spread of fear and herd behaviour that strongly characterised this crisis, the analysis also suggests the presence of other elements of behavioural finance. Investors' heuristics and intuition played an important role in predicting market reversals. Anchoring was evident due to reliance on and comparison with the Great Depression of 1929, which shaped investor expectations. Overconfidence bias emerged in the belief of many investors that they could predict market movements. Loss aversion was reflected in efforts to limit losses, which led to automatic selling. Status quo bias was present among investors who refrained from acting despite high levels of stress, demonstrating resistance to behavioural change.

Xu (2023) argues that herd behaviour creates market bubbles, with the Dot-com bubble serving as a prime example. It was triggered by the rise of the Internet in the early 1990s and the rapid expansion of Internet companies in the late 1990s and early 2000s. Investment in start-ups was further fuelled by low interest rates, abundant capital, and the rise of venture capital, angel investors, and incubators. Initial public offerings (IPOs) became the dominant method of raising capital, although many companies lacking viable business models. During the speculative euphoria, the stock prices of Internet companies rose dramatically, often unrelated to their revenues or profits.

The NASDAQ index rose from 1,006 points in July 1995 to a record 5,046 in March 2000. However, after the U.S. Federal Reserve raised interest rates six times between 1999 and 2000, from 5% to 6.5%, the bubble burst on March 13, 2000. Within just a few weeks, the NASDAQ lost 40% of its value. This is shown in figure 3.

Figure 3 NASDAQ Composite Index during the Dot-com Bubble (1990-2002)

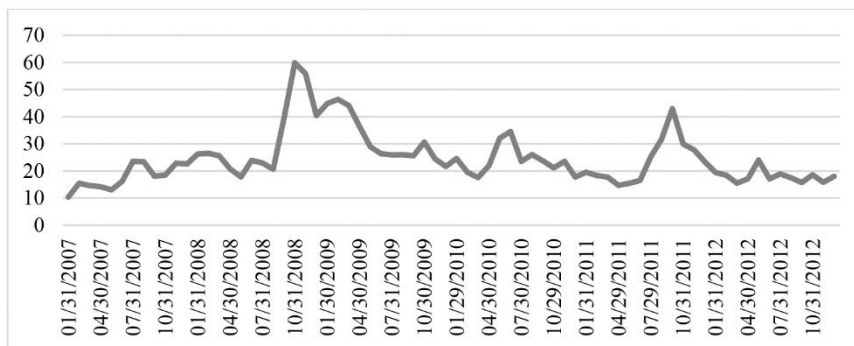


Source: Authors according to *Macrotrends (2025b)*

The rapid and extreme rise of the NASDAQ, followed by its sharp collapse, clearly reflects investors' excessive optimism and the FOMO effect, which created unrealistic market expectations (Suri, 2024). In line with this, investors collectively entered the market during the growth phase, only to panic and withdraw after the bubble burst. Accordingly, the dominant biases during this crisis were overconfidence, herd behaviour, availability heuristic, and information cascade. The Global Financial Crisis, which began in the United States in 2007, was the result of long-standing deregulation that increased the riskiness of credit institutions, the growth of subprime lending, the popularity of complex instruments such as CDOs, higher financial leverage, and the low interest rates of the Federal Reserve. By early 2008, the crisis had spread to Europe (Grosse, 2010). This debt crisis, which initially manifested in poor macroeconomic indicators (declining GDP and rising unemployment) (Vasile et al., 2011), was accompanied in most countries by a systemic banking crisis. According to Laeven and Valencia (2012), in most EU member states, the crisis persisted until 2012. Edey (2009) notes that investor behaviour before the Global Financial Crisis was characterised by mass euphoria, risk aversion, and irrational optimism regarding price growth expectations. The collapse of Lehman Brothers marked a turning point, followed by panic and a sudden loss of confidence, leading to mass capital withdrawals, emergency asset sales, and a flight to quality real estate. This behaviour highlights key patterns: overconfidence, mental accounting, and herd behaviour.

Figure 4 shows the movement of the VIX index during the Global Financial Crisis. The sudden increase in volatility demonstrates that heightened uncertainty and loss aversion escalated into panic among investors.

Figure 4 VIX Index during the Global Financial Crisis (2007-2012)

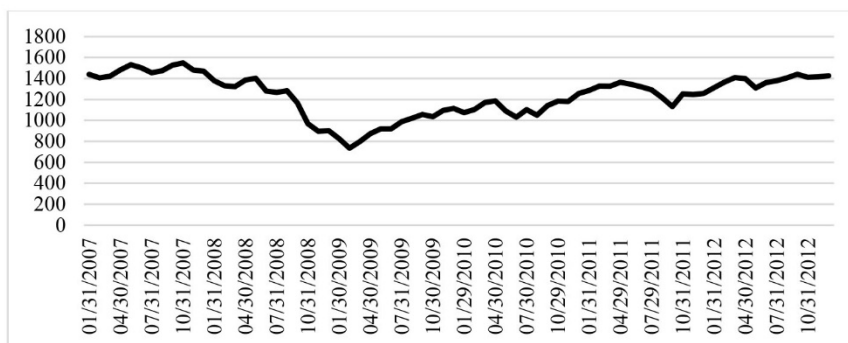


Source: Authors according to Macrotrends (2025c)

The VIX index, also known as the “fear index,” represents the expected volatility of the stock market over the next 30 days. The VIX began to rise significantly in the summer of 2007 (exceeding a value of 20). Its peak was reached on November 20, 2008, when it climbed to 80.86. Since the index is linked to the S&P 500, the following section illustrates its movement along with the DJIA between 2007 and 2012. It is evident that all three indices followed the same trend, with the sharpest declines in the S&P 500 and DJIA occurring in late 2008 and early 2009. The steep rise in the VIX during 2008 demonstrates how the increase in uncertainty was directly transmitted into volatility. Investors exhibited strong loss aversion, which led to a “flight to quality”, a withdrawal from risky instruments and a shift toward safer asset classes.

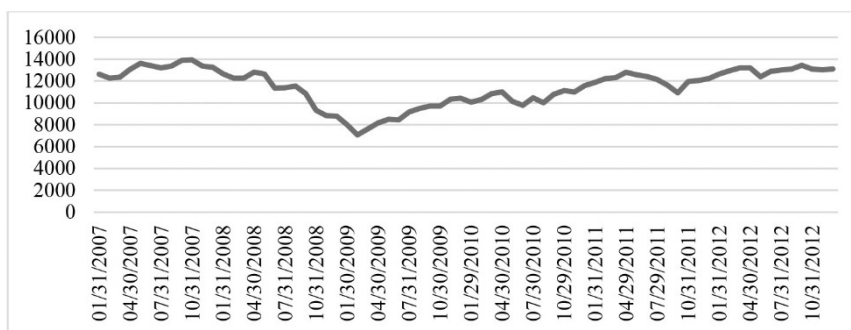
Figures 5 and 6 show the performance of the S&P 500 and DJIA indices during the Global Financial Crisis. Their simultaneous decline mirrors the surge in the VIX index, confirming how uncertainty translated into widespread market sell-offs.

Figure 5. S&P 500 Index during the Global Financial Crisis (2007-2012)



Source: Authors according to Macrotrends (2025d)

Figure 6 Dow Jones Industrial Average (DJIA) Index during the Global Financial Crisis (2007-2012)



Source: Authors according to Macrotrends (2025a)

The coordinated movement of the S&P and DJIA further confirms the strong influence of psychological factors: *fear*, *mental accounting*, and *status quo bias*. Before the World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020, global stock markets experienced significant declines. According to CNBC (2020), on 27 February 2020, the DJIA fell by 1,191 points, or 4.4%, marking the largest single-day decline in its trading history. The S&P 500 also fell by 4.4%, ending the day below 3,000 points, while the Nasdaq Composite dropped by 4.6%. ElFayoumi and Hengge (2021) note that the COVID-19 crisis highlighted a significant reallocation of capital from risky to safer asset classes (from stocks to bonds) in the early phase of the pandemic, particularly in emerging markets. This confirms the safety-seeking behaviour of investors and the presence of herd behaviour. Markets recovered quickly and exceeded pre-crisis levels due to rapid monetary and fiscal policy responses that supported financial markets and the broader economy. This is confirmed by the developments shown in Figure 7.

After a significant withdrawal of investors from the capital markets, a strong FOMO effect ensued, resulting in excessive investor returns to the markets.

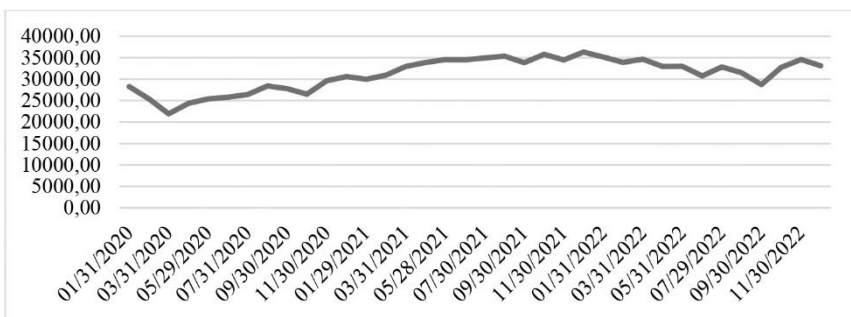
The COVID-19 pandemic caused a systemic shock, resulting in a sharp increase in global volatility (Liu et al., 2020). Panic-driven investor behaviour and overreactions further amplified these fluctuations. Certain sectors, such as the pharmaceutical and technology industries, demonstrated greater resilience during this period (Lyócsa et al., 2020). The pandemic also introduced a new level of market interconnectedness and risk transfer (Zhang et al., 2020), while emotions such as fear and panic played a decisive role, overriding rational economic fundamentals (Kwatra, 2020).

COVID-19 had a lasting psychological impact on investors, prolonging the period of heightened volatility and instability (Zhang and Giouvris, 2022). The

media played a significant role in this. Haroon and Rizvi (2020) state that stock market volatility increased in proportion to the frequency of negatively toned news. Such news further fuelled uncertainty and collective investor reactions. Similar findings are reported by Li, Su, Li, and Umar (2023), who emphasise that markets reacted more strongly to perceptions and emotions shaped by the media than to actual epidemiological indicators. Moreover, an asymmetric effect was observed: negative news caused a greater price drop than positive news caused a price increase.

Figure 7 shows the performance of the Dow Jones Industrial Average (DJIA) during the COVID-19 pandemic. The index recorded one of the largest declines in history in March 2020, indicating loss aversion, panic selling, and a strong influence of the media on investor sentiment and behaviour.

Figure 7 Dow Jones Industrial Average (DJIA) during the COVID-19 pandemic (2020-2022)



Source: Authors according to Macrotrends (2025a)

As shown in the previous figure, in March 2020, the stock market declined by more than 30% within a few weeks. Although macroeconomic indicators revealed the extent of the crisis only later, the market reacted impulsively, driven by media perception, emotions, and fear of the unknown.

Table 2 presents the dominant biases observed during the crises described above. Comparing different historical contexts reveals recurring psychological patterns that appear regardless of the specifics of each crisis. For example, loss aversion and herd behaviour are evident in almost all the crises analysed.

Table 2 Dominant Biases in Crises (1929, 1987, 2000, 2008, 2020)

Crisis	Dominant Biases	Explanation
Great Depression (1929)	Contagion of fear, Loss aversion, Status quo bias	Mass withdrawals of deposits, collective panic, avoidance of action despite losses
Black Monday (1987)	Contagion of fear, Anchoring, Status quo bias	Panic triggered by psychological "contagion"; investors refer to 1929; inaction
Dot-com Bubble (2000)	Overconfidence, Herd behaviour, Information cascade	Irrational optimism and buying by imitation without analysing intrinsic value
Global Financial Crisis (2008)	Loss aversion, Mental accounting, Overreaction	Delayed reaction, panic selling, neglect of risks during market growth
COVID-19 (2020)	Framing effect, Media bias, FOMO	Perception shaped by media framing; reactions inconsistent with fundamentals

Source: Authors

As previously mentioned, the analysis of historical crises, from the Great Depression to the COVID-19 pandemic, confirms the recurrence of investor behaviour patterns during specific phases of a crisis. In the initial phase, uncertainty and inactivity generally prevail. Following a sudden shock, panic reactions and impulsive decisions occur, driven more by emotion than rational analysis. Over time, markets stabilise, but investors continue to show selective perception of information and a tendency towards excessive optimism. This is illustrated in more detail in Table 3. The synthesis of investor behaviour across the phases of a crisis links theory and historical evidence, providing a structured overview of the progression from uncertainty to recovery.

Table 3 Investor behaviour during phases of market crises

Crisis Phase	Emotional Reaction	Typical Investor Behaviour	Dominant Behavioural Biases
Initial Uncertainty	Uncertainty, caution	Observing the market without action ("waiting for a signal")	Status quo bias, risk aversion
Sudden Market Shock	Fear, disorientation	Rapid asset sell-off, shift to cash or safe assets	Loss aversion, contagion of fear, availability heuristic
Peak of Panic	Panic, irrational anxiety	Mass selling, blind imitation of others, loss of trust in the system	Herd behaviour, mental accounting, framing effect
Stabilization Phase	Cautious optimism	Selective entry into "resilient" sectors, focus on familiar information	Confirmation bias, anchoring, recency bias
Recovery Period	Euphoria, unrealistic expectations	Late return to the market, neglect of risks, overinvestment	Overconfidence, hindsight bias, disposition effect

Source: Authors according to Kahneman and Tversky (1974), Thaler and Shiller (1987), Edey (2009), Haroon and Rizvi (2020), ElFayoumi and Hengge (2021), Xu (2023), Li et al. (2023)

The previous table shows that investor reactions to crises follow recurring phases, which can help investors, regulators, and educators anticipate irrational

behaviour and devise timely responses. Based on the historical case studies analysed above and the synthesis presented, a conceptual framework for investor behaviour during financial crises can be formulated. It demonstrates that, regardless of the initial cause of the crisis (whether a macroeconomic shock, financial deregulation, a technology bubble, or a health crisis), investors typically experience a recurring series of phases. Each phase is marked by specific emotional reactions and dominant biases, confirming that investor behaviour patterns display universal features. The framework identifies five phases:

1. Initial uncertainty
2. Sudden shock
3. Panic phase
4. Stabilisation
5. Recovery.

Initial uncertainty is dominated by status quo bias, with investors observing the market and reluctant to act. The sudden shock phase is characterised by fear and loss of confidence, during which investors sell assets and move to safer options. The panic phase is associated with herd behaviour and psychological contagion; rapid selling increases volatility and destabilises the market.

During stabilisation, investors gradually regain confidence, selectively invest in more resilient sectors, and rely on prior information and confirmation bias. The recovery phase is characterised by euphoria and excessive optimism, during which investors underestimate risks and overconfidence prevails.

6. CONCLUSION

An analysis of five of the most historically significant financial crises (the Great Depression, Black Monday, the Dot-com bubble, the global financial crisis, and the COVID-19 pandemic) shows that, despite differing causes and historical contexts, investor behaviour during crises tends to follow a recurring pattern. In all cases, dominant biases such as loss of confidence, panic, herding, over-optimism, and impaired rational risk assessment were observed. This confirms the paper's hypothesis that investor behaviour in times of crisis is characterised by recurring patterns of bias, regardless of the initial trigger.

The paper links theoretical concepts from behavioural finance with historical indicators of market dynamics and identifies common patterns across different crises. Of particular value is the systematisation of crisis phases and related psychological reactions, which enables a deeper understanding of market behaviour and provides useful guidelines for regulators, investors, and educators. The research suggests that timely recognition and communication of biases can mitigate the consequences of irrational decisions and contribute to financial stability. Although the study is limited by its primarily theoretical and qualitative approach, relying on available statistical indicators rather than advanced empirical

methods or calculations, the identified patterns provide a solid basis for future research that could further validate them using sophisticated statistical models.

Author Contributions: Conceptualization, S.S.N., B.O.D. and A.N.; Methodology, S.S.N.; Software, S.S.N., B.O.D. and A.N.; Validation, S.S.N., B.O.D.; Formal Analysis, S.S.N., B.O.D. and A.N.; Investigation, S.S.N., B.O.D. and A.N.; Resources, B.O.D.; Data Curation, S.S.N., B.O.D. and A.N.; Writing – Original Draft Preparation, S.S.N., B.O.D. and A.N.; Writing – Review & Editing, S.S.N. and B.O.D.; Visualization, A.N.; Supervision, S.S.N. and B.O.D.; Project Administration, S.S.N. and B.O.D.; Funding Acquisition, S.S.N.

Funding: The research presented in the manuscript did not receive any external funding.

Conflict of interest: None.

Acknowledgement of AI or AI-assisted tools use: During the preparation of this paper, the authors used Instatext in order to improve the linguistic structure of the English text. After using the tool, the authors reviewed and edited the content as needed and take full responsibility for the content of the published article.

Acknowledgement: This paper has been written within the scope of the project „Regulation and Sustainability in Finance: Challenges and Opportunities for the Stability of the Financial System“ (uniri-iz-25-33), funded by European Union – NextGenerationEU via the Croatian National Recovery and Resilience Plan 2021-2026, in conjunction with the University of Rijeka, Faculty of Economics and Business Programme Financing. The views and opinions expressed are solely those of the authors and do not necessarily reflect the official position of the European Union or the European Commission. Neither the European Union nor the European Commission can be held responsible for them.

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PSIHOLOŠKI UTJECAJI I PONAŠANJE ULAGATELJA U FINANCIJSKOM ODLUČIVANJU: UVIDI IZ FINANCIJSKIH KRIZA

Sažetak

Tradicionalna financijska teorija pretpostavlja da ulagatelji donose odluke na temelju potpunih i objektivnih informacija. Međutim, nisu sve informacije dostupne na financijskom tržištu, a ulagatelji nisu potpuno racionalni, već djeluju pod utjecajem različitih emocionalnih, kognitivnih i društvenih pristranosti, što potvrđuju i bihevioralne financije. To je posebno vidljivo tijekom kriza kada, pod utjecajem vijesti, medija, kolektivnog straha, panike ili pretjeranog optimizma, ulagatelji donose iracionalne odluke koje negativno utječu na tržišne indekse. Cilj je ovog rada istražiti psihološke čimbenike i obrasce ponašanja ulagatelja tijekom povijesnih financijskih kriza. Metodološki pristup kombinira teorijski pregled bihevioralnih financija s komparativnom analizom pet najznačajnijih financijskih kriza: Velike depresije, Crnog ponedjeljka (1987.), dot-com balona, globalne financijske krize i COVID-19. Analiza podupire hipotezu da ponašanje ulagatelja u krizama slijedi ponavljajuće obrasce pristranosti. Nalazi potvrđuju da različite pristranosti značajno utječu na investicijske odluke, što ih čini važnima za objašnjenje odstupanja od racionalnog ponašanja tijekom razdoblja financijskih poteškoća.

Ključne riječi: bihevioralne financije, pristranosti, financijsko tržište, ulagatelji.

JEL klasifikacija: G41, G01, D91, D81.