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AI-Driven Investment Decision Making: A Study on the Application of Artificial Intelligence in Capital Markets

[1] Dr. M. Prince Rani, [2]B. Revathi, [3]N.Vijayalakshmi, [4]Mrs. M. Miniyammal

[1]Assistant Professor, Department of Commerce, Vivekananda College of Commerce and Sciences for Women (Autonomous), Tiruchengode-637205 Tamil Nadu, India

[2]Assistant professor, Department of Business Administration, Jamal Mohamed College (Autonomous) Trichy-620020 Tamilnadu, India

[3]Assistant Professor, Department of Commerce, SRM Trichy Arts and Science College, Trichy-621105 Tamil Nadu, India

[4]Assistant Professor, Department of Commerce, Vivekananda College of Commerce and Sciences for Women (Autonomous), Tiruchengode-637205 Tamil Nadu, India

ABSTRACT

The use of artificial intelligence (AI) in capital markets is examined in this paper, along with how it can improve investment decision-making. The study examines the level of AI adoption today, its advantages and disadvantages, and the particular AI technologies being used, such as deep learning, machine learning, and natural language processing. The results illustrate AI's potential to completely transform the financial sector by shedding light on how it affects risk management, portfolio optimization, and investment methods. In order to gather information about the use of AI in investing decision making, including risk management, stock selection, and portfolio optimization, the study polls investment professionals. The results provide insight into the particular AI technologies being used, such as deep learning, machine learning, and natural language processing.

Keywords: *AI, Investment, Decision Making, Application, Capital Markets*

INTRODUCTION

The way financial organizations handle and analyze enormous volumes of data is being completely transformed by artificial intelligence (AI). The capacity to effectively handle massive amounts of organized and unstructured data is essential for making well-informed investment decisions in today's data-driven financial environment.Due to the growing use of artificial intelligence (AI) in investment decision-making, the capital markets have seen a dramatic change in recent years. With the potential to completely transform how investors assess markets, spot opportunities, and control risk, AI-driven investment decision-making has become a major topic of focus. With an emphasis on its function in investment decision-making, this study attempts to investigate the use of AI in capital markets. The study aims to examine how AI is already being used in capital markets, the advantages and difficulties of using AI to make investment decisions, and the potential applications of AI in the investment sector going forward.

Source: www.ai.com

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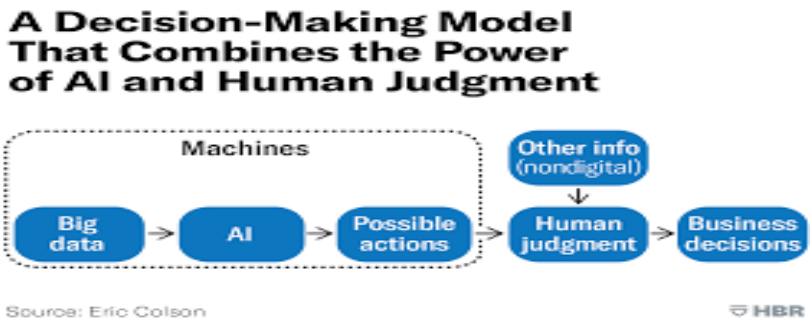
AI-DRIVEN INVESTMENT DECISION MAKING:

AI becomes more prevalent in investment decision-making, it becomes increasingly important to navigate the complicated world of regulatory compliance. AI can be crucial in making sure that investment choices are both data-driven and completely compliant with existing laws. AI is a vital tool for upholding legal compliance, from keeping an eye on transactions for questionable activity to guaranteeing compliance with international financial regulations.



- Automated Compliance Monitoring: Make use of AI to continuously monitor investment choices and actions, guaranteeing compliance with legal requirements. An AI system that continuously examines all investment transactions, for instance, might be used by a financial institution.
- Keep Up with Regulatory Changes: Make sure your investing plans are legally sound by implementing AI systems that can adjust to changing legislation and compliance needs. An AI tool can be used by an investing firm to monitor changes in global financial legislation.
- AI-based risk management: AI can be used to detect possible compliance issues and vulnerabilities, allowing for proactive measures to reduce legal difficulties. The AI may examine a number of variables, including geopolitical developments, market volatility, and corporate performance metrics.
- Accept Ongoing Learning and Adaptation: AI is an area that is always changing, with new innovations and technology appearing on a regular basis. Companies must promote a culture of lifelong learning and keep abreast of the most recent developments in AI techniques, tools, and trends.
- Invest in Robust AI Infrastructure and Talent: Investing in both infrastructure and talent is necessary to develop or improve your AI capabilities. Think about creating or collaborating with AI platforms that are suited to your particular investment plans and business models.

ARTIFICIAL INTELLIGENCE IN CAPITAL MARKETS

By analyzing variables including transaction and credit history, investing preferences, and income development, AI in capital markets can help organizations determine a client's creditworthiness. Investors restricted their holdings to reputable businesses and stock corporations even prior to the Covid-19 pandemic. The desire to buy well-known products was made worse by the pandemic's uncertainty, layoffs, and several closures. The capital market's manual legacy systems are inefficient and opaque. They hinder expansion options for smaller but promising entrepreneurs while also denying investors the necessary awareness of underrepresented enterprises.AI in the capital markets can foster diversity, inclusivity, and fair chances for businesses and investors.

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Source: www.capital market

- ❖ Robotic Process Automation (RPA): Costly and labor-intensive processes are involved in the trade lifecycle, including client onboarding and servicing, trade settlement, reconciliation, and regulatory compliance. Usually, businesses outsource these services to inexpensive areas.
- ❖ Cognitive computing: AI-driven cognitive technologies use RPA, ML, and NLP to automate difficult tasks that have historically required human thought, like anomaly identification, portfolio management, and financial advice.
- ❖ Sentiment analysis using NLP: In uncertain times, the capital market is driven more by emotion than by basic value. In sentiment analysis, NLP-powered AI applications perform better than conventional models to provide a more accurate picture of bullish or bearish tendencies.
- ❖ Deep learning: To find market trends and support algorithmic decision-making, deep learning models analyze vast volumes of data from many databases, including stock price movements, historical data, and consumer feedback. Deep learning applications can be used by businesses in a variety of fields, including fraud detection, portfolio management, and price forecasting.

AI USE CASES IN CAPITAL MARKET OUTSOURCING

- ➢ Risk analysis and management: By analyzing variables including transaction and credit history, investing preferences, and income development, AI in capital markets can help organizations determine a client's creditworthiness. By calculating starting margins and creating predictive models for price forecasting, data insights can also assist pre-trade and post-trade risk assessments.
- ➢ Algorithmic trading: AI is used by several reputable hedge funds to produce rapid and precise market evaluations that offer vital insights into consumer behavior, market circumstances, and emerging trends. This enables them to use trading algorithms to make better and quicker selections.
- ➢ Fraud prevention: Fraud protection is a critical issue for capital markets because money, reputation, and personal information all at risk. Large volumes of current and historical data may be processed by AI and ML-powered fraud detection models, which can then identify abnormalities, reject suspicious transactions, and instantly rate the probability of fraud.

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OBJECTIVES OF THE STUDY

- To explore the current state of AI adoption in capital markets
- To analyze the benefits and challenges of AI-driven investment decision making
- To investigate the role of AI in improving investment decision making

STATEMENT OF THE PROBLEM

Rapid globalization, technological improvements, and the constant influx of real-time financial information are making capital markets more complicated, volatile, and data-intensive. Due to their heavy reliance on human judgment, historical analysis, and traditional statistical models, traditional approaches to investment decision-making sometimes find it difficult to process large datasets effectively or react swiftly to abrupt changes in the market. These restrictions may result in delayed decisions, cognitive bias, information overload, and less-than-ideal investment outcomes. Artificial Intelligence (AI), which offers sophisticated features including machine learning, predictive analytics, algorithmic trading, sentiment analysis, and automated portfolio management, has been a game-changer in the capital markets in recent years. By evaluating vast amounts of organized and unstructured data in real time, AI-driven systems promise to improve risk assessment, increase decision accuracy, decrease human bias, and maximize returns. The efficacy, dependability, and usefulness of AI-based investment decision-making are still inconsistent and poorly understood despite its increasing use. In order to determine whether AI-driven methods greatly enhance decision quality, risk mitigation, and investment performance, this study will look at the scope, efficacy, and difficulties of using AI in capital market investment decision-making. By examining how AI is changing investment processes and identifying the critical elements impacting its effective deployment, the study aims to close the gap between technological potential and practical application.

REVIEW OF LITERATURE

- Kumar, S., & Ravi, V. (2019) this study reviews the current state of AI adoption in Indian capital markets. The authors discuss the various applications of AI in capital markets, including portfolio optimization, risk management, and predictive analytics.
- Rao, K. V., & Kumar, N. (2019) this study examines the application of AI in predictive modeling in the Indian stock market. The authors discuss the various AI techniques used in predictive modeling, including machine learning and deep learning.
- Jain, P. K., & Khan, M. A. (2020) this study provides a comprehensive review of the application of artificial intelligence (AI) in the Indian stock market. The authors discuss the current state of AI adoption in the Indian stock market, its benefits, and challenges.
- Mishra, A., & Dash, M. (2020) this study examines the application of AI in investment decision-making in Indian mutual funds. The authors discuss the benefits and challenges of using AI in investment decision-making.
- Singh, J., & Kumar, A. (2020) this study provides a comprehensive review of the application of AI in Indian capital markets. The authors discuss the opportunities and challenges of using AI in capital markets. A finding of the study highlights the potential of AI in improving investment decision-making, reducing costs, and enhancing risk management.

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METHODOLOGY

- Primary Data: The primary data was gathered by surveying analysts and financial professionals in Indian capital markets.
- Secondary Data: Secondary data is gathered from reliable sources, such as financial databases, industry reports, and scholarly journals.

Data Collection

- Survey: Primary data is gathered from analysts and investing professionals using a standardized questionnaire.

Sampling Methods

- Convenience Sampling: A non-probability sampling method is used to select investment professionals and analysts for the survey.
- Purposive Sampling: A non-probability sampling method is used to select financial databases and literature for the study.
- Sample Size: A sample size of 100 investment professionals and analysts is selected for the survey.

Data Analysis

- Descriptive Statistics: Mean, median, mode, and standard deviation, will be used to summarize the survey data.
- Survey Tool: Google Forms or Survey Monkey will be used to administer the survey.
- Data Analysis Software: SPSS will be used for data analysis.

ANALYSIS AND INTERPRETATION

Table No: 1: Descriptive Statistics

Gender	Respondents	Percentage	Mean	Median	Mode	Standard Deviation
a) Male	53	53%	1.47	1.00	1	.502
b) Female	47	47%				
What is your educational background?						
a) Bachelor's degree	28	28%	2.21	2.00	2	.998
b) Master's degree	36	36%				
c) Doctoral degree	23	23%				
d) Other	13	13%				
What is your role in the organization?						
a) Investment Analyst	31	31%	2.16	2.00	2	1.051
b) Portfolio Manager	39	39%				
c) Risk Manager	13	13%				
d) Other (please specify)	17	17%				
What is your level of experience in the investment industry?						
a) Less than 2 years	23	23%	2.48	2.00	3	1.020
b) 2-5 years	22	22%				
c) 5-10 years	39	39%				
d) More than 10 years	16	16%				
Total	100					

Source: primary data

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INTERPRETATION

The demographic analysis of the survey concludes that there is a balanced gender distribution, with 53% of the participants being men. The majority of responders (36%) had Master's degrees, according to their educational background. The majority of respondents work as portfolio managers and investment analysts (39%, respectively). The investing industry has a wide range of experience levels, with 39% having five to ten years. Additional information on the characteristics of the respondents can be found in the mean, median, mode, and standard deviation values.

TABLE NO: 2: AI-DRIVEN INVESTMENT DECISION MAKING

AI Adoption and Awareness	Respondents	Percentage	Mean	Median	Mode	Standard Deviation
Are you familiar with artificial intelligence (AI) and its applications in investment decision making?			1.35	1.00	1	.479
a) Yes	65	65%				
b) No	35	35%				
Has your organization adopted AI in any form for investment decision making?			1.43	1.00	1	.498
a) Yes	57	57%				
b) No	43	43%				
What specific AI technologies are being used.						
a) Machine learning	31	31%	2.15	2.00	2	1.048
b) Natural language processing	40	40%				
c) Deep learning	12	12%				
d) Other (please specify)	17	17%				
AI-Driven Investment Decision Making How important is AI in your investment decision-making process?						
a) Very important	25	25%	2.39	3.00	3	1.004
b) Somewhat important	24	24%				
c) Not very important	38	38%				
d) Not at all important	13	13%				
What specific investment decisions are influenced by AI						
a) Stock selection	28	28%	2.21	2.00	2	.998
b) Portfolio optimization	36	36%				
c) Risk management	23	23%				
d) Other (please specify)	13	13%				
How do you perceive the impact of AI on investment decision making?						
a) Positive	42	42%	1.77	2.00	1	.750
b) Negative	39	39%				
c) Neutral	19	19%				
Total	100					

Source: primary data

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- 65% of those surveyed are aware of AI and how it can be used to make investing decisions. The results show that the investment sector is becoming more conscious of and utilizing AI.
- 57% of businesses use AI in some way when making investment decisions. The high proportion of respondents who were familiar with artificial intelligence (AI) and its uses indicates that AI is becoming more and more significant when making investment decisions.
- At 40%, natural language processing is the second most popular AI technique.The most popular AI technologies are machine learning and natural language processing, probably because of their adaptability and suitability for a range of investment decision-making activities.
- AI is deemed "Not very important" by 38% of respondents when making investment decisions. There is a need for more education or proof of AI's worth because its significance is not widely recognized.
- Decisions about portfolio optimization are influenced by AI, according to 36% of respondents. With a sizable percentage of responders depending on AI for portfolio optimization, AI has a big impact on investment decisions.
- According to 42% of respondents, AI has a positive impact on investment decision-making. A considerable percentage of respondents acknowledged the advantages of AI as a useful tool for improving investment decision making.

CONCLUSION

The application of artificial intelligence (AI) in capital markets is examined in this study, which shows that AI is becoming more widely recognized and used in investment decision-making. The most popular AI technologies are machine learning and natural language processing, which are utilized in risk management, stock selection, and portfolio optimization. The report emphasizes AI's potential to influence how capital markets make investment decisions in the future, even though more adoption is still possible. The report did, however, also point out that more adoption and investigation of AI's possibilities in the investing sector are still possible. The results also point to the necessity for more instruction and proof of AI's benefits in order to allay certain respondents' doubts and worries.

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