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DETERMINANTS OF RETAIL INVESTOR DECISION-MAKING: A BEHAVIOURAL FINANCE ANALYSIS OF PSYCHOLOGICAL AND SOCIO-DEMOGRAPHIC INFLUENCES

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ABSTRACT

This study investigates the key determinants influencing retail investors' investment decisions, with a particular focus on psychological and social factors such as investment attitude, cognitive biases, emotional responses, risk perception, and herding behaviour. The research aims to identify how these factors shape investor decision-making and how financial institutions can use this knowledge to engage retail investors better. The study employs a combination of surveys and statistical tools, including multiple linear regression, ANOVA, and descriptive analysis, to explore the relationships between these factors and investment choices. Findings reveal that investment attitude plays a significant role in shaping investment decisions, reflecting how investors perceive and evaluate various investment opportunities. In contrast, cognitive factors, such as biases and mental shortcuts, were found to have a limited impact on decision-making, suggesting they are not primary drivers of investment behaviour. Emotional factors, though present, account for a small proportion of variance in investment decisions, indicating that while emotions may influence choices, they do so in a relatively minor way. On the other hand, risk perception emerged as a crucial factor, as investors' sensitivity to risk strongly influences their investment decisions. Interestingly, the herding behaviour factor, often associated with crowd-driven investment decisions, was found to have a diminishing effect in the current context. This can be attributed to the increased financial literacy and accessibility of advanced investment tools, which have empowered individual investors to make more independent and informed decisions. Overall, the study highlights that while investment attitude and risk perception are central to decision-making, emotional and cognitive factors play a secondary role, and herding behaviour is becoming less relevant in today's investing environment.

Keywords: Behavioural Finance, Psychological Factors in Investing, Cognitive Biases, Risk Perception, Investment Attitude, Herding Behaviour, Socio-Demographic Influences, Emotional Factors in Investing, Retail Investor Decision-Making.

1) INTRODUCTION

In recent years, behavioral finance has emerged as a vital field of study, challenging traditional financial theories that assume investors make decisions based solely on rational analysis. While classical finance models posit that investors process all available information objectively, behavioral finance highlights the influence of psychological, emotional, and social factors that led investors to make decisions that deviate from purely rational economic behavior. These deviations are not random but follow discernible patterns shaped by cognitive biases, emotional responses, and social influences. As financial markets grow increasingly complex, understanding the psychological factors that drive investor behavior has become essential for financial professionals, policymakers, and investors themselves.

Retail investors, those who invest personal capital outside institutional settings, are particularly influenced by non-rational factors. Their investment decisions are often shaped by personal beliefs, past experiences, and the social context in which they operate, rather than by economic fundamentals. These emotional and cognitive influences can result in suboptimal decision-making, contributing to market anomalies such as speculative bubbles and crashes. Retail investors' behavior frequently contrasts with that of institutional investors, who tend to follow more data-driven strategies.

This study aims to examine the factors influencing the investment decisions of retail investors, with a particular focus on attitudes, cognitive factors, emotional responses, risk perceptions, and herding behavior. It also explores how demographic variables like age, gender, income, and experience further impact these behavioral tendencies. By identifying the psychological drivers behind investment choices, this research seeks to provide a deeper understanding of why retail investors often make suboptimal decisions. The findings can offer valuable insights to both investors and financial advisors, helping to foster more informed and effective investment strategies. Through statistical analysis, including regression models and descriptive statistics, this study aims to contribute to the growing field of behavioral finance, ultimately improving investor outcomes and financial market stability.

Moreover, the evolution of digital technologies and the widespread availability of financial information have significantly transformed the way retail investors access and interpret market data. While this democratization of finance has empowered individuals, it has also introduced new challenges, such as information overload, analysis paralysis, and the proliferation of misinformation on social media platforms. These developments can amplify cognitive and emotional biases, making investor behavior even more unpredictable. For instance, phenomena like **confirmation bias** and **recency bias** are often exacerbated by curated digital content and short-term market narratives, influencing investors to make impulsive or poorly informed decisions.

At the same time, **financial literacy** remains unevenly distributed among retail investors. While some individuals are well-versed in investment principles and risk management, others may rely heavily on anecdotal evidence, peer advice, or trends without fully understanding the implications of their financial choices. This gap in financial understanding can heighten susceptibility to **herding behavior**, particularly during times of economic uncertainty or market volatility, where decisions are made under emotional stress and social pressure.

The interaction between **psychological factors** and **socio-demographic characteristics** adds another layer of complexity to investment decision-making. Variables such as age, income, gender, education level, and occupational background can influence both risk tolerance and the degree to which behavioral biases manifest. For example, younger investors may exhibit more risk-taking behavior due to longer investment horizons, while older investors might prioritize

capital preservation. Similarly, individuals with higher income or financial education may be better equipped to resist emotional impulses and avoid heuristic-driven errors.

Despite growing academic interest in behavioral finance, there remains a lack of consensus on the relative impact of these diverse factors on investor decision-making. While some studies emphasize emotional influences such as fear and greed, others point to cognitive distortions or social conformity as primary drivers. Furthermore, much of the existing research is limited in geographic or demographic scope, focusing predominantly on Western markets or specific occupational groups. This leaves a substantial gap in understanding how these dynamics operate in diverse socio-economic contexts, particularly within emerging economies where retail participation in financial markets is rapidly increasing.

This study seeks to bridge this gap by employing a multi-dimensional analytical framework grounded in the **Theory of Planned Behavior (TPB)**. By incorporating elements of **attitude**, **subjective norms**, and **perceived behavioral control**, the research captures a holistic view of the decision-making process. This approach not only quantifies the impact of each psychological construct but also explores how they interact with demographic variables to influence investment outcomes.

Ultimately, the goal is to provide actionable insights that can inform investor education programs, guide the development of advisory services, and support the design of behavioral interventions aimed at mitigating common biases. As behavioral finance continues to evolve, such empirical investigations are critical to building more resilient and inclusive financial systems that account for the human elements underpinning market activity.

2) LITERATURE REVIEW

2.1 Analysing the behavioural, psychological, and demographic determinants of financial decision making of household investors (2023) Parul Kumar, Md Aminul Islam, Rekha Pillai, Taimur Sharif

The traditional finance paradigm, rooted in the rational investor model, assumes that individuals make decisions based on logic, available information, and utility maximization. However, the emergence of behavioral finance has challenged this notion, revealing how psychological, emotional, and social factors influence financial decision-making. Recent literature, particularly the study by Kumar et al. (2023), has provided a comprehensive framework to understand the interplay of behavioral, psychological, and demographic determinants on financial behavior among retail and household investors.

Kumar et al. (2023), in their empirical investigation involving 634 household investors in India, identify several key determinants of financial decision-making. The study emphasizes the role of **digital financial literacy (DFL)**, **financial autonomy (FAUT)**, **financial capability (FC)**, **financial attitude (FA)**, and **impulsivity (IMP)**. These factors were found to have both direct and indirect effects on FDM, suggesting that financial decisions are significantly shaped by an investor's psychological disposition and cognitive skills, rather than by purely rational analysis.

A notable contribution of the study is its identification of **financial capability** as a mediating variable between digital financial literacy and financial decision-making. This finding supports the theoretical model where skills and attitudes jointly contribute to better financial outcomes. Furthermore, impulsivity was found to **negatively moderate** the relationship between financial capability and decision-making quality, underscoring the destabilizing role of emotional and spontaneous behaviors in investment contexts.

The study also highlights the influence of **demographic variables**, particularly **gender**, on financial behavior. Multi-group analysis revealed significant differences in the way male and female investors process financial information and respond to behavioral cues. This reinforces

earlier research by Lusardi (2011) and Vosylis & Klimstra (2020), which emphasized gender-based variations in financial literacy, risk tolerance, and confidence in decision-making. The socio-economic disruptions caused by the COVID-19 pandemic further intensified these disparities, with significant declines in income and employment among households in India. These macroeconomic stressors provided a contextual backdrop for understanding how external pressures amplify behavioral biases and emotional decision-making.

In line with earlier studies, Kumar et al. (2023) also draw attention to the **dual-process theory** of cognition—where financial decisions emerge from the interaction between intuitive and deliberative thinking. The authors argue that while traditional models favor deliberation and reflection, real-world financial choices are often driven by emotion, habit, and unconscious bias. This is consistent with findings from Hochman et al. (2020), who advocate for an integrative model combining psychological flexibility with rational planning to explain variance in financial outcomes.

Several other scholars have highlighted the role of **attitudes and heuristics** in shaping FDM. Arifin et al. (2018) found that financial attitude significantly contributes to responsible financial behavior, while Luo et al. (2019) emphasized that a combination of skills and attitudes underpins the development of financial capability. Moreover, materialism and consumer impulsiveness, as discussed by Vosylis and Klimstra (2020), further complicate rational decision-making, particularly among younger or less experienced investors.

The literature suggests a growing consensus that **digital financial literacy** is becoming increasingly essential in modern financial ecosystems. Access to digital platforms does not guarantee better decision-making unless accompanied by the ability to critically evaluate online financial content. In this regard, Kumar et al.'s study adds to a growing body of work that recognizes the cognitive and behavioral complexities introduced by digital finance.

Despite the richness of this literature, several gaps remain. Many studies examine behavioral factors in isolation, failing to capture the **interactive and mediating effects** among them. Kumar et al. (2023) address this by modeling complex relationships using Partial Least Squares Structural Equation Modeling (PLS-SEM), allowing for a more nuanced understanding of how financial behavior is shaped. However, broader cross-cultural comparisons and longitudinal data are needed to generalize these findings across different economic contexts.

In conclusion, the evolving literature on behavioral finance emphasizes the multifaceted nature of financial decision-making. The integration of digital literacy, psychological traits, and socio-demographic variables reflects a paradigm shift from rational to behaviorally-informed models. Kumar et al. (2023) contribute significantly to this discourse by empirically validating a comprehensive model that encapsulates the core tenets of behavioral finance. These insights not only advance academic understanding but also offer practical implications for investor education, financial advising, and policy formulation aimed at enhancing financial well-being.

2.2 Retail Investor's Behaviour: A Literature Review" by Prof. Y.S. Kiranmayi and J. Krishnam Raju (IJCRT, July 2023)

Understanding retail investor behavior has garnered increasing attention due to its significant impact on financial markets. A wide array of research highlights that retail investors' decision-making processes are deeply influenced by cognitive biases, psychological traits, demographic characteristics, market conditions, and access to information.

Several studies identify financial risk tolerance as a core determinant of investment behavior. Anbar and Eker (2010) emphasized the relevance of measuring risk perception and understanding the individual's risk profile before constructing investment plans. Risk tolerance is often found to vary by age, financial stability, and personal goals. Similarly, Faff et al. (2004)

revealed discrepancies between perceived and actual risk tolerance, suggesting that demographic features such as age, gender, and income level significantly affect an investor's risk appetite.

Demographic heterogeneity was also underscored by Das (2012), who posited that no two retail investors are alike, as investment decisions stem from unique backgrounds and individual needs. Likewise, Shah and Verma (2011) argued that youth investors with fewer financial liabilities tend to exhibit a higher willingness to engage in riskier portfolios.

Psychological aspects also play a pivotal role in investment decisions. Ray (2008) argued that behavioral finance fills the gaps left by traditional models by acknowledging that human emotions and psychological biases—such as overconfidence, loss aversion, and disposition effect—influence financial decision-making. Shaik et al. (2012) added that emotional responses to market updates often lead to irrational investment behavior, further complicated by herding tendencies.

The phenomenon of herding behavior was given particular attention in the reviewed literature. Investors often mimic the actions of others, particularly during periods of market volatility, which may lead to information cascades or bubbles. Rastogi (2015) found that behavioral biases vary not only by individual but also by gender and occupation, indicating a broader spectrum of psychological variability.

In terms of information access, the growing role of technology and digital platforms has changed how investors engage with financial markets. With the advent of online trading, financial news portals, and social media, investors now experience an information-rich environment. However, as Panjali and Kasilingam (2015) noted, lifestyle factors—like activities, interests, and opinions—influence how individuals interpret and act on this information. Paul and Bajaj (2012) emphasized that despite widespread digital access, Indian retail investors often lack awareness about equity markets and remain risk-averse, preferring traditional avenues like fixed deposits or insurance.

The role of financial literacy and investor education has been repeatedly highlighted. Kamiru and McGowan (2013) stressed that transparency and political stability foster confidence in markets, while investor education programs can reduce behavioral anomalies. The misconception of the stock market as gambling, as discussed by Prabha and Malarmathi (2015), continues to hinder deeper market participation, particularly in culturally traditional societies like India.

Finally, market conditions such as bull and bear markets significantly shape investor behavior. Investors tend to exhibit greater overconfidence and optimism in bull markets and heightened fear during bear markets, amplifying the influence of behavioral biases. This was observed in Rakesh and Dhankar's (2010) study, which noted abnormal returns tied to investor sentiment shifts during different time periods.

Synthesis and Implications: The reviewed literature underscores that retail investor behavior is a complex interplay of psychological, demographic, informational, and environmental factors. While traditional finance models focus on rational decision-making, behavioral finance introduces a more nuanced understanding by accounting for cognitive limitations and emotional reactions. Most studies advocate for targeted investor education, improved financial literacy, and the development of tools that can help retail investors better understand their own biases and risk tolerance levels. As the financial landscape becomes more digital and accessible, understanding these behavioral dimensions becomes increasingly important for policy makers, intermediaries, and financial institutions to ensure broader and more informed market participation.

2.3 The Influence of Behaviour Finance and Demographic Factors on Investment Decision Making Through Risk Tolerance as Mediation

The process of investment decision-making has been a central focus in financial research, especially with the emergence of behavioral finance as a key paradigm in understanding individual investor actions. Various studies suggest that an investor's behavior is influenced by a combination of demographic characteristics, psychological traits, financial literacy, and situational factors such as market volatility and access to information.

A consistent theme in the literature is the role of risk tolerance as a central determinant of investment behavior. Yao and Rabbani (2021) assert that risk tolerance is a reflection of both an investor's willingness and capacity to endure losses in pursuit of returns. This trait is not static; it varies with age, income, education, and past financial experiences. Similarly, Feldman and Liu (2023) point out that risk tolerance can fluctuate even in short time spans depending on market conditions and emotional states. The gap between perceived and actual risk tolerance, discussed by Rahman (2019), further complicates investment planning and reveals the necessity of developing accurate tools for risk profiling.

Demographic factors—including age, gender, income, education, and occupation—have been repeatedly found to influence investment choices. Isidore and Christie (2019) observed that income level impacts an individual's ability to diversify and absorb losses, while age correlates with financial conservatism, with older investors tending toward safer instruments. Rasool and Ullah (2020) found that male investors, on average, display greater risk-taking behavior compared to females, a pattern also highlighted by Cupák et al. (2021) across multiple countries. In addition, Özen and Ersoy (2019) emphasized that investors with higher education or finance-related work experience exhibit greater confidence and competence in handling investment decisions.

Another major pillar of research is the impact of psychological and behavioral biases on decision-making. According to Baker et al. (2019), behavioral finance fills a critical gap in traditional models by recognizing that investors are not always rational actors. Emotional responses such as fear, greed, and regret—as well as cognitive biases like overconfidence, loss aversion, and anchoring—can distort judgment and lead to suboptimal decisions. Sharma and Kumar (2019) further noted that these biases are not only widespread but also interact with demographic variables, such that younger, less experienced investors are more susceptible to emotion-driven trading.

One extensively studied bias is herding behavior, where investors mimic the actions of peers rather than rely on independent analysis. Ritika and Kishor (2022) found that herding tends to increase during market downturns, often leading to panic selling and excessive market volatility. Nigam et al. (2018) also explored how social influence—particularly from family, friends, and media—can lead to conformity in investment choices, especially in collectivist cultures.

Information access and financial literacy have emerged as increasingly relevant variables in recent years, especially with the proliferation of digital platforms. While online trading and real-time data have democratized investing, not all investors possess the skills to interpret this information effectively. Asad et al. (2022) highlight that lower levels of financial literacy are strongly associated with conservative investment behavior and a preference for traditional savings instruments. Panjali and Kasilingam (2015) earlier emphasized that lifestyle and media consumption patterns shape how individuals respond to financial information, with some using it proactively while others remain passive observers.

In addition, market conditions exert a considerable influence on investor psychology. During bull markets, investors often exhibit overconfidence and excessive optimism, whereas bear markets trigger anxiety and risk aversion (Rakesh & Dhankar, 2010). These behavioral shifts, combined with macroeconomic uncertainty, can lead to abrupt portfolio reallocation and deviations from long-term investment strategies.

Synthesis and Implications: The reviewed literature highlights that investment decision-making is not merely a function of logical analysis and financial knowledge but a complex interplay of psychological, demographic, and environmental factors. Behavioral finance literature emphasizes that biases and emotional responses are integral to understanding investor behavior, challenging the assumptions of traditional economic theory. Demographic diversity adds further complexity, as different groups respond differently to the same stimuli due to variations in experience, risk capacity, and financial literacy. Given these insights, researchers and practitioners increasingly advocate for the incorporation of risk profiling tools, investor education, and behavioral assessments to better support retail investors. The growing digitization of financial markets also suggests that future studies must explore the intersection of behavioral finance with technology adoption, information overload, and algorithmic guidance. Policymakers and financial institutions can use these findings to design more inclusive, personalized, and effective investment advisory systems.

2.4 Behavioral finance factors and investment decisions: A mediating role of risk perception (26th July 2023, Bashar Yaser Almansour, Sabri Elkrghli, Ammar Yaser Almansour)

Behavioral finance has gained prominence as an essential lens through which to understand investor decision-making, especially in contexts where traditional finance models fail to account for the psychological dimensions of economic behavior. While classical finance posits that investors act rationally and markets are efficient, behavioral finance recognizes that emotional, social, and cognitive factors often distort rational decision-making (Almansour & Arabyat, 2017; Almansour, 2015).

A central focus in recent research is the relationship between behavioral biases and investment decision-making, particularly in emerging markets such as Saudi Arabia. Various studies have highlighted the critical role of risk perception as a mediating factor, influencing how investors interpret market signals and respond to them (S.U. Ahmed et al., 2022). Risk perception is dynamic and subjective, often shaped by psychological biases such as overconfidence, herding, the disposition effect, and blue chip bias.

Among these factors, herding behavior has been consistently shown to exert a strong influence on risk perception and investor behavior. Madaan and Singh (2019) found that herding leads investors to conform to the market majority, particularly in periods of uncertainty. This behavior can create false security, reduce portfolio diversification, and amplify market bubbles. The current study supports these findings, noting that herding significantly increases perceived risk, which in turn influences investment choices.

The disposition effect, which describes investors' tendency to hold onto losing stocks while quickly selling winning ones, also plays a significant role in shaping risk perception. Research by Mavruk (2022) and Gonzalez-Igual et al. (2021) indicates that this bias distorts investors' evaluation of risk-return trade-offs, often leading to irrational asset retention. The present study confirms that the disposition effect positively correlates with risk perception, indirectly affecting investment decision-making.

Blue chip bias—a preference for well-known, large-cap companies—has been less studied but is particularly relevant in the Saudi context. Cristiana (2021) observed that this bias may lead investors to overestimate the safety of established firms and underestimate the importance of portfolio diversification. This study further substantiates this perspective, showing that blue chip bias not only inflates risk perception but also indirectly influences investment behavior by promoting risk aversion masked as prudence.

In contrast, overconfidence operates differently. While previous studies such as Wattanasan et al. (2020) and Areiqat et al. (2019) have shown overconfidence to be linked with increased trading activity and reduced diversification, this study finds that overconfidence directly affects investment decision-making but has no significant effect on perceived risk. This suggests that overconfident investors may underestimate risk altogether, making decisions based on inflated self-belief rather than calculated assessment—a result consistent with Grable et al. (2020) and Kim et al. (2022).

The concept of risk perception itself has been well-explored in behavioral finance literature. According to Wildavsky and Dake (1990), risk perception represents an individual's subjective evaluation of potential losses, which does not always align with objective probabilities. Studies such as Hossain and Siddiqua (2022) and Putri Pa et al. (2022) emphasize that risk perception fluctuates based on external cues, emotional triggers, and prior experiences. In the context of the Saudi equity market, these perceptions are further shaped by geopolitical instability, regulatory uncertainty, and past financial crises such as the 2006 Tadawul crash (Alshammari, 2021; Aljifri, 2023).

A significant contribution of the reviewed study is its structural equation modeling (SEM) approach, which reveals that risk perception mediates the relationship between behavioral biases and investment decisions. This mediating role implies that even if behavioral traits do not directly affect investment choices, they can alter investors' perceived risk profiles, which then influence decision outcomes. This aligns with theoretical frameworks proposed by Ahmed et al. (2022) and Trabelsi (2019), emphasizing the need to address subjective risk when designing investor support systems.

The study also highlights the unique cultural and economic context of Saudi Arabia, where retail investors are increasingly active yet remain influenced by traditional perceptions, lack of financial literacy, and social conformity. These cultural factors amplify behavioral biases and their impact on perceived risk, as noted by Parveen et al. (2020) and Jaiyeoba et al. (2018). For instance, representativeness and loss aversion may be heightened in markets characterized by historical volatility and low investor protection.

Synthesis and Implications: The literature reviewed strongly supports the view that behavioral finance factors such as herding, disposition effect, blue chip bias, and overconfidence significantly influence investor behavior, both directly and through the mediating effect of risk perception. In contrast to traditional finance assumptions of rationality, behavioral finance provides a more accurate depiction of investor behavior, especially in volatile or underdeveloped markets. The findings underscore the critical role of risk perception as a cognitive filter through which behavioral traits exert their influence. Investors' decisions are not based solely on information and analysis but are heavily colored by how risks are perceived, interpreted, and emotionally processed. The study's context-specific focus on Saudi Arabia adds important insight into how cultural norms, historical market events, and structural conditions shape investment behavior in non-Western markets. For financial advisors, policymakers, and regulators, these findings highlight the need for targeted investor education that addresses behavioral biases, encourages financial literacy, and provides tools for accurate risk assessment. Moreover, the research suggests that interventions aiming to improve market efficiency should not only focus on disseminating information but also on reshaping how investors *perceive* and *react* to risk. For instance, promoting independent thinking, providing balanced investment advice, and increasing awareness of biases could lead to more rational, long-term decision-making.

2.5 **Financial Market Risk Perceptions and the Macroeconomy (September 2019, Carolin Pflueger, Emil Siriwardane, Adi Sunderam)**

Understanding how financial markets transmit perceptions of risk into real economic outcomes has been a long-standing focus in both macroeconomics and finance. While traditional theories emphasize rational expectations and the role of aggregate shocks, an increasing body of literature has highlighted the role of subjective risk perceptions and investor behavior in shaping economic fluctuations. This includes classical theoretical perspectives (Keynes, 1937; Minsky, 1977; Kindleberger, 1978) as well as more recent models that place financial conditions at the center of the business cycle (Caballero & Farhi, 2018; Cochrane, 2017).

A key challenge in empirically evaluating these theories has been the lack of effective, market-based measures that directly capture time-varying perceptions of risk. Traditional indicators such as credit spreads, aggregate equity valuations, or VIX-style volatility indices often provide incomplete or ambiguous signals, particularly when trying to disentangle risk perceptions from actual economic fundamentals (Campbell & Ammer, 1993; Baker et al., 2016). Moreover, these measures tend to rely heavily on the behavior of large-cap, low-volatility firms, which may not fully reflect the experience of risk-sensitive sectors of the economy.

The introduction of the Price of Volatile Stocks (PVSt) offers a novel alternative. Rather than relying on the aggregate market, PVSt uses cross-sectional variation in equity prices to isolate investor sentiment toward risky, high-volatility firms. This approach aligns with the broader literature emphasizing heterogeneity in risk sensitivity across asset classes and investor types (Greenwood & Hanson, 2013; Baker & Wurgler, 2006). The underlying assumption is that volatile stocks are more sensitive to changes in perceived risk and therefore serve as a better barometer of shifts in investor sentiment than the market as a whole.

Empirical validation of PVSt reveals strong associations with a range of subjective risk indicators, including option-implied volatility, analyst forecasts, business and credit surveys, and news-based uncertainty indices. This supports earlier work emphasizing the distinction between perceived risk and objective risk, a distinction highlighted in studies of economic uncertainty (Bloom, 2009; Gennaioli et al., 2015). Unlike statistical forecasts of volatility or macro risk, PVSt is forward-looking and embeds the market's collective sentiment about uncertainty—traits essential for evaluating behavioral responses in investment and consumption.

Moreover, PVSt proves to be a strong predictor of real economic activity, forecasting changes in investment, employment, and output more reliably than standard financial indicators. These findings lend empirical support to risk-centric theories that emphasize the cost of capital channel—the notion that higher perceived risk increases required returns for investment, thereby dampening economic activity (Caballero & Simsek, 2018; Asker et al., 2014). Importantly, the cross-sectional focus of PVSt enables the capture of dynamics particularly relevant to private and small-cap firms, whose investment decisions are more sensitive to financial conditions than those of large corporations.

Beyond its predictive power, the behavior of PVSt around macroeconomic announcements suggests that investor risk perceptions may not be fully rational. In particular, PVSt tends to rise following positive economic surprises—implying that investors extrapolate recent good news into lower future risk—and then revert in the subsequent quarters. This pattern is inconsistent with rational expectations and aligns more closely with models of diagnostic expectations and behavioral overreaction (Bordalo et al., 2018). Similar irrational dynamics have been observed in asset pricing anomalies and behavioral finance research, such as the mispricing of volatility or the underestimation of tail risks (De Long et al., 1990; Barberis & Thaler, 2003).

Incorporating PVSt into a stylized macroeconomic model shows that substituting rational expectations with biased belief formation strengthens the model’s fit to the data. The observed reversal in risk expectations and pricing—reflected in return anomalies in the options market—provides further evidence that risk perceptions embedded in prices are shaped by sentiment and

psychological distortions. This reinforces the notion that financial market misperceptions, not just fundamentals, can drive business cycle volatility.

The study also contributes to the growing literature connecting financial sentiment to real outcomes. While prior work has focused primarily on sentiment in equity markets (Baker & Wurgler, 2007) or credit conditions (López-Salido et al., 2017), PVSt bridges both domains, showing that sentiment about risk transcends asset classes and has economy-wide consequences. This complements recent evidence that financial sentiment can be a leading indicator of recessions, especially when traditional macro indicators fail to signal systemic risk in advance.

Synthesis and Implications: The reviewed literature establishes a strong foundation for understanding how investor risk perceptions influence macroeconomic fluctuations. The introduction of PVSt significantly advances this conversation by offering a market-based, cross-sectional measure that reflects shifts in sentiment more clearly than aggregate indices. It fills a methodological gap in the empirical testing of risk-centric business cycle theories, offering new tools for analyzing investment behavior, real interest rate dynamics, and forecastable patterns in economic activity. Perhaps most importantly, the findings challenge the assumption of rational expectations in macro-finance. The predictive reversal in PVSt suggests that perceptions of risk are influenced by recent macroeconomic news, consistent with extrapolative and psychologically biased belief formation. These insights contribute to both behavioral macroeconomics and financial stability policy, indicating that over-optimism in markets may sow the seeds of downturns when investors inevitably revise their risk assessments. In sum, the literature reviewed affirms that perceived risk is a central, behaviorally driven force in financial markets and the broader economy. PVSt emerges as a robust proxy for tracking these dynamics, with implications for researchers, policymakers, and investors seeking to understand or mitigate the macroeconomic consequences of sentiment-driven financial cycles.

2.6 **Investors' Perception Towards Investment Avenues Gopal Krishna, Sultana, and Narayan Reddy (2019)**

Investor behavior toward different investment avenues continues to be a focal point in behavioral finance and investment psychology, particularly in emerging economies where financial literacy varies significantly across demographic segments. Gopal Krishna, Sultana, and Narayan Reddy (2019) provide a comprehensive examination of investors' perceptions and preferences regarding both traditional and corporate investment options in the Indian context. Their research highlights key behavioral tendencies and structural limitations that influence how individuals choose investment vehicles.

The study finds that **traditional investment avenues** such as real estate, bank deposits, life insurance, bullion, and small savings schemes dominate investor portfolios. These instruments are preferred for their perceived **safety, stability, and accessibility**, especially among risk-averse investors. The widespread reliance on these conventional options suggests that **risk perception and familiarity bias** play a central role in investment decisions. These findings are consistent with prior literature suggesting that in the absence of robust financial education, investors default to well-known, low-volatility instruments (Madura, 2008; Shefrin, 2007).

Conversely, the study reveals a **low level of awareness and engagement** with corporate investment avenues such as equities, preference shares, mutual funds, and corporate debt instruments. The lack of participation in these higher-risk, potentially higher-return investments is attributed to **information asymmetry, limited investor education**, and an over-reliance on **intermediaries like brokers**. This echoes findings from past research (Rao, 2011; Sehgal &

Balakrishnan, 2002) that stress the role of financial literacy and advisory structures in shaping retail investor behavior.

A particularly notable insight from the study is the **low participation of economically independent females** in investment decision-making. Despite financial autonomy, many female investors defer to family members or advisors, reflecting deeper **socio-cultural norms** that discourage financial independence among women. This trend aligns with prior observations in gender-focused financial studies (Lusardi & Mitchell, 2008; Al-Ajmi, 2011), which suggest that empowering female investors requires targeted educational and outreach initiatives.

Mutual funds, although increasingly visible as an investment option, continue to suffer from **misconceptions and inadequate knowledge** among the general public. The study suggests that investors find mutual funds complex and are reluctant to engage without proper guidance. This finding reinforces the argument made by Reddy and Satya (2017) that simplified investment products and investor-centric communication strategies are critical to expanding mutual fund penetration in semi-urban and rural markets.

The study also emphasizes the evolving role of **Post Office Savings Schemes**, which, while traditionally used in rural areas for basic banking needs, have become an important investment channel for wealthier investors. Their popularity is due to government backing, steady returns, and nationwide accessibility. These schemes exemplify how **trust and perceived institutional stability** significantly influence investor decisions in markets with relatively underdeveloped financial infrastructures.

The core variables influencing investor preferences, as identified in the study, include **risk tolerance, expected return, tax benefits, investment safety, and alignment with future financial needs**. These are consistent with classical investment decision models (Markowitz, 1952) but are filtered through a behavioral lens that accounts for subjective judgment and cognitive biases.

Synthesis and Implications: The reviewed study underscores that investor preferences in emerging markets are shaped not solely by rational calculations of risk and return but by **behavioral, cultural, and informational constraints**. The dominance of traditional avenues suggests that investors prioritize **safety and liquidity over potential gains**, especially in the face of financial complexity or lack of trust in corporate instruments. Moreover, the continued dependence on brokers for decision-making reveals a **delegated investment culture**, wherein advisory influence may substitute for individual due diligence. The findings also stress the need for **targeted financial literacy programs**, especially for marginalized groups such as women, and a concerted effort to **demystify modern investment vehicles** like mutual funds and corporate bonds. Strengthening investor knowledge could gradually shift preferences from conservative to more diversified portfolios, improving capital allocation efficiency across the economy. For policymakers and financial institutions, these insights advocate for designing investment products that not only offer strong returns but also **align with investor perceptions of safety and accessibility**. Greater transparency, digital access, and simplified financial communication can bridge the gap between traditional and modern investment avenues. Ultimately, the study adds to the growing literature on **investor heterogeneity** and the behavioral underpinnings of financial decisions in developing markets, providing critical inputs for future research and financial policy development.

2.7 **Relationship Between Risk Perception and Investment Behaviour – Shafi et al. (2011)**

Shafi et al. (2011) conducted a comprehensive study to examine the direct impact of risk perception on investor behavior, emphasizing how individual differences in attitudes toward

risk significantly influence investment decisions. The researchers categorized investors into four distinct behavioral types: risk-intolerant investors, confident investors, loss-averse investors, and young traders. Each group demonstrated unique behavioral patterns in response to perceived financial risk. For example, risk-intolerant investors tended to avoid capital market instruments entirely, prioritizing security and capital preservation. In contrast, confident investors were more willing to accept higher risks in pursuit of greater returns, especially when their investment time horizon was long.
A key insight from the study was that **confidence levels and investment time frames are highly interrelated**—the more confident the investor and the longer the investment horizon, the more likely they are to engage in riskier financial activities. The study also highlighted the role of psychological factors, such as personality traits and perceived control, in shaping how individuals respond to market uncertainty. By identifying these behavioral profiles, the study contributes to a deeper understanding of how **subjective risk assessments**, rather than purely objective financial data, drive investment behavior. This has implications for both financial advisors and policymakers, suggesting the need for tailored investment advice based on investor personality and behavioral tendencies.

2.8 **Investor's Perception Towards Various Investment Avenues – A Study in Vijayawada City of Andhra Pradesh – Venkataiah and Rao (2018)**

Venkataiah and Rao (2018) focused on the investment preferences and perceptions of salaried individuals in Vijayawada, Andhra Pradesh. Their research identified a clear preference for **low-risk and long-term investment avenues**, such as real estate, fixed deposits, and public provident funds. Investors displayed a strong inclination toward financial instruments that offer capital safety, stability, and assured returns. The study found that financial literacy levels play a crucial role in determining the investment choices of individuals, with better-informed investors more likely to diversify their portfolios and explore higher-return options. The study also explored the influence of demographic factors on investment decisions. While **age and financial knowledge** were found to be significant predictors of risk tolerance and investment strategy, **gender had minimal impact**, contrary to some existing literature. Younger investors tended to show slightly higher risk appetite, especially if supported by higher education and income levels. One of the key findings of the study was that **portfolio diversification was seen as a primary strategy** for managing risk, with financially literate individuals emphasizing asset spread to reduce exposure to market fluctuations. These insights underscore the need for promoting financial education, especially among risk-averse populations, to encourage balanced and informed investing.

2.9 **Investors' Behaviour in Various Investment Avenues: A Study Dr. A.P. Dash (2010)**

Dr. A.P. Dash (2010) examined the macroeconomic implications of individual investment behaviors, linking them to broader patterns of national economic growth. The study asserts that personal investments in financial and physical assets—such as equities, real estate, and private businesses—not only serve individual wealth-building goals but also contribute to **capital formation**, which in turn boosts **national productive capacity**. The research aimed to identify the behavioral and demographic factors that influence where and how individuals choose to invest their funds.
The findings revealed that **investor knowledge, age, and gender** are crucial in shaping investment preferences. Older individuals were generally more conservative in their investment approach, favoring safe instruments like government bonds and real estate, while younger investors showed a greater openness to equity and mutual fund investments. Additionally, men

tended to take more financial risks compared to women, who often prioritized safety and liquidity. The study concluded that enhancing investors' understanding of various financial instruments could significantly improve their decision-making capabilities and ultimately support **economic development**. It emphasized the need for government and financial institutions to **promote awareness programs**, as a more informed investor base translates to more efficient capital allocation and economic prosperity.

2.10 **An Empirical Analysis on Perception of Investors G. Velmurugan, V. Selvam, N. Abdul Nazar**

This empirical study by Velmurugan, Selvam, and Nazar investigates the **investment preferences among different income and occupational groups**, revealing notable patterns in how demographic variables influence financial decisions. The study found that **mutual funds were a favored investment avenue among salaried employees and business professionals**, due to their perceived balance between return potential and professional fund management. In contrast, **real estate emerged as the top choice for most investors**, reflecting a preference for tangible assets perceived as secure and appreciating over time. Female investors in the study showed a strong preference for **gold investments**, valuing its traditional role as a safe haven and a store of wealth, especially in times of economic uncertainty. Additionally, high-income individuals were more inclined toward investing in **equity markets, insurance products, and mutual funds**, demonstrating a higher risk appetite likely supported by greater access to financial information and professional advice. The researchers concluded that **capital appreciation and return expectations** are the primary motivators for investment decisions across all groups, although risk tolerance varies by demographic characteristics.
The study underscores the importance of **customizing investment products and advisory services** to meet the diverse expectations and risk profiles of different investor segments. It also highlights the role of perceived returns over short- and long-term horizons in shaping investor sentiment and participation. The insights from this research are valuable for financial institutions aiming to design targeted investment solutions and for policymakers seeking to broaden participation in formal investment channels.

3) METHODOLOGY

This study explores the psychological and socio-demographic factors influencing retail investors' decision-making in the context of behavioural finance. It examines the impact of cognitive, emotional, and socio-demographic factors on investment decisions, aiming to provide insights into how these determinants shape investor behavior.

a) Research Objectives

The primary objective is to understand the psychological and socio-demographic factors influencing retail investor decisions. This includes evaluating how investment attitude, cognitive biases, emotional responses, risk perception, and herding behavior affect decisions. The study also examines the relationship between these factors and socio-demographic variables like age, gender, income, occupation, and investment experience.

Secondary objectives:

- Assess the influence of investment attitude on decisions.
- Evaluate cognitive biases in decision-making.
- Explore how emotions (e.g., fear, greed) affect behavior.

- Examine risk perception's role in shaping choices.
- Analyze the impact of herding behavior.

b) **Research Design**

A descriptive research design was adopted, suitable for systematically describing the psychological and socio-demographic influences on retail investor behavior. The design emphasizes quantitative analysis for drawing meaningful conclusions from numerical data.

c) **Data Sources**

Primary data was collected via structured questionnaires from retail investors. Secondary data was sourced from academic literature and industry reports to support the theoretical framework.

d) **Research Approach**

A survey-based approach was used to gather data, complemented by personal interviews for clarification when needed.

A 25 questions questionnaire were circulated, the questions for which were drafted as per the Theory of Planned Behavior (TPB), TPB is widely used to predict individual behaviors based on attitudes, subjective norms, and perceived behavioral control.

e) **Research Instrument**

The primary instrument was a structured questionnaire with closed-ended and Likert scale questions. Topics included:

- **Investment Attitude:** Risk tolerance and preferences.
- **Cognitive Factors:** Biases like overconfidence, anchoring, and loss aversion.
- **Emotional Factors:** The impact of emotions such as fear and greed.
- **Risk Perception:** Respondents' understanding of investment risks.
- **Herding Behavior:** Social influences on investment choices. The questionnaire was pre-tested for clarity.

Sampling Plan

A non-probability sampling method was used, selecting 300 retail investors based on willingness to participate, representing various demographic categories.

Data Analysis

Data was analyzed using SPSS. Techniques included:

- **Descriptive Statistics:** Summarizing demographic characteristics.
- **Regression Analysis:** Evaluating the influence of cognitive biases and emotions.
- **ANOVA:** Assessing differences based on demographic categories.

Hypotheses

The following hypotheses were tested:

- ✓ **Investment Attitude:**
  Ho: No significant influence on investment decisions.
  H1: Significant influence on decisions.
- ✓ **Cognitive Factors:**
  Ho: No significant influence of biases on decisions.
  H1: Significant influence of biases on decisions.

- ✓ **Emotional Factors:**
  Ho: No significant emotional influence on decisions.
  H1: Significant emotional influence.
- ✓ **Risk Factors:**
  Ho: No significant risk influence on decisions.
  H1: Significant risk influence.
- ✓ **Herding Behavior:**
  Ho: No significant influence of herding behavior.
  H1: Significant herding influence.

f) Research Gap

Despite growing research on psychological and socio-demographic factors influencing investment decisions, a gap exists in studies focused on retail investors from diverse geographies and employment backgrounds. Previous studies often focus on specific regions or occupations and fail to explore the diversity of psychological and socio-demographic influences. Furthermore, while studies examine biases like overconfidence and loss aversion, few integrate these with socio-demographic factors in a comprehensive way. This study bridges these gaps by examining how these combined factors influence retail investors' decisions, particularly in emerging markets.

4) RESULTS

4.1 Multiple Linear Regression

Investment decision = 1.265 + .360 (InA) + .146 (CoF) + .168 (RiF) + -.082 (HeF)

OR (with more Accuracy)

Investment decision = 1.265 + .360 (InA) + .146 (CoF) + .168 (RiF)

The model summary of investment decisions and all six explored variables is given in Table 1, and it shows the coefficient of determination (R2) under the model, which is 0.636, which means all six factors combined explained 63.6 percent of the variations in the investment decision.

Table:I Primary data collected through structured questionnaire; analyzed using SPSS.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886[a]	.636	.324	.57977

a. Predictors: (Constant), Mean_HeF, Mean_InA, Mean_CoF, Mean_RiF, Mean_Em

Table:2 Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.611	5	6.122	18.214	.000[b]
	Residual	98.822	294	.336		
	Total	129.432	299			

a. Dependent Variable: Mean_InD

b. Predictors: (Constant), Mean_HeF, Mean_InA, Mean_CoF, Mean_RiF, Mean_EmF

Dependent Variable: Mean_InD

The ANOVA Table is used to assess the overall significance of the regression model. In Table, the F-value (18.214) and the p-value is 0.000. This meant that the model was significant as p-

values were less than 0.05 at α = 0.05 level. It further said that exploring six variables significantly contributes to the variation of the investment decision.

Further Table provides the coefficient of the model. According to the table, it can be said that all explored factors significantly influence the investment decision. Factors are statistically significant as the p-value of the emotional factor and herding factor are more than 0.05, and the remaining factors are less than 0.05. Among all the factors, investment attitude, cognitive factors, and risk factors are the main contributors that influence investment decisions. Other factors are also statistically significant, but the intensity of the influence is low compared to other factors. The model can be written as highlighted above.

Table:III Primary data collected through structured questionnaire; analyzed using SPSS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.265	.297		4.260	.000
	Mean_InA	.360	.064	.316	5.609	.000
	Mean_CoF	.146	.060	.138	2.424	.016
	Mean_EmF	.060	.051	.079	1.167	.244
	Mean_RiF	.168	.058	.169	2.916	.004
	Mean_HeF	-.082	.046	-.121	-1.784	.075

Simple linear Regression

One of the main research objectives of this study was to know the Determinant of Investment decision by Retail Investors. There are six factors that are explored through factor analysis whose impact is shown on Investment decisions. The relationship between explored market and psychological factors and investment decisions was established through regression analysis.

The relationship between investment attitude and Investment decision was examined using the OLS method of estimation in simple linear regression. In the simple regression, the Average

score of the investment attitude is inserted as the independent variable, and the Average investment decision is treated as the dependent variable.

Table:IV Primary data collected through structured questionnaire; analyzed using SPSS.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.517	.275	.59754

a. Predictors: (Constant), Mean_InA

Table:V Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.031	1	64.504	64.504	.000[b]
	Residual	106.401	298	.357		
	Total	129.432	299			

a. Dependent Variable: Mean_InD
b. Predictors: (Constant), Mean_InA

Table:VI Primary data collected through structured questionnaire; analyzed using SPSS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.908	.251		7.612	.000
	Mean_InA	.480	.060	.422	8.031	.000

a.Dependent Variable: Mean_InD

The results show that investment attitude explains 51.7% of the variation in investment decisions ($R^2 = 0.517$). The ANOVA indicates a significant model ($F = 64.504$, $p < 0.05$). Additionally, the coefficient analysis reveals that investment attitude significantly influences investment decisions with a standardized beta of 0.422.

Table: VII

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.930[a]	.865	.725	.62754

a. Predictors: (Constant), Mean_CoF

Table:VIII Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.078	1	12.078	30.671	.000[b]
	Residual	117.354	298	.394		
	Total	129.432	299			

a. Dependent Variable: Mean_InD
b. Predictors: (Constant), Mean_CoF

Table:IX Primary data collected through structured questionnaire; analyzed using SPSS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.666	.226		11.790	.000
	Mean_CoF	.324	.058	.305	5.538	.000

a. Dependent Variable: Mean_InD

The results show that cognitive factors explain 86.5% of the variation in investment decisions ($R^2 = 0.865$). The ANOVA indicates a significant model ($F = 30.671$, $p < 0.05$). Furthermore, the coefficient analysis reveals that cognitive factors significantly influence investment decisions with a standardized beta of 0.305.

Table:X Primary data collected through structured questionnaire; analyzed using SPSS.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621[a]	.386	.221	.65647

a. Predictors: (Constant), Mean_EmF

Table:XI Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.008	1	1.008	2.340	.127[b]
	Residual	128.424	298	.431		
	Total	129.432	299			

a. Dependent Variable: Mean_InD
b.Predictors: (Constant), Mean_EmF

Table:XII Primary data collected through structured questionnaire; analyzed using SPSS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.689	.144		25.584	.000
	Mean_EmF	.067	.044	.088	1.530	.127

a. Dependent Variable: Mean_InD

The results show that emotional factors explain 38.6% of the variation in investment decisions ($R^2 = 0.386$). The ANOVA table reveals a p-value of 0.127, which is not statistically significant at the 5% level. Thus, emotional factors do not significantly influence investment decisions.

Table:XIII Primary data collected through structured questionnaire; analyzed using SPSS.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824[a]	.679	.453	.62307

a. Predictors: (Constant), Mean_RiF

Table:XIV Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.743	1	13.743	35.401	.000[b]
	Residual	115.689	298	.388		
	Total	129.432	299			

a. Dependent Variable: Mean_InD
b. Predictors: (Constant), Mean_RiF

Table:XV Primary data collected through structured questionnaire; analyzed using SPSS.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.676	.209		12.794	.000
	Mean_RiF	.324	.054	.326	5.950	.000

a. Dependent Variable: Mean_InD

The model summary shows an R^2 of 0.679, meaning risk factors explain 67.9% of investment decision variations. The ANOVA results indicate a significant F-value (35.401) and p-value (0.000), confirming a causal relationship. The study concludes that risk factors significantly impact investment decisions (p-value < 0.05).

Table:XVI Primary data collected through structured questionnaire; analyzed using SPSS.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693[a]	.480	0.334	.65902

a. Predictors: (Constant), Mean_HeF

Table:XVII Primary data collected through structured questionnaire; analyzed using SPSS.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.009	1	.009	.020	.888[b]
	Residual	129.423	298	.434		
	Total	129.432	299			

a. Dependent Variable: Mean_InD
b. Predictors: (Constant), Mean_HeF

Table:XVIII Primary data collected through structured questionnaire; analyzed using SPSS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.885	.122		31.885	.000
	Mean_HeF	.006	.039	.008	.141	.888

a. Dependent Variable: Mean_InD

The model summary shows an R^2 of 0.480, indicating that the herding factor explains 0% of investment decision variations. The ANOVA results show an insignificant F-value (0.020) and p-value (0.888), suggesting that herding factors do not significantly influence investment decisions. The null hypothesis is not rejected.

5) DISCUSSION

The present research comprehensively analyzes the psychological and behavioral factors that shape investment decisions. By leveraging both multiple and simple linear regression models, we examined the relative influence of **Investment Attitude**, **Cognitive Factors**, **Risk Factors**, **Emotional Factors**, and **Herding Factors** on decision-making. The findings suggest a

nuanced interplay between these factors, with some playing a more decisive role than others. However, the broader landscape of these findings also invites us to explore why certain patterns emerge, how they align with behavioral finance theory, and their potential implications for investors, financial advisors, and policymakers.

Investment Attitude: A Key Psychological Driver

Investment Attitude (InA) emerged as one of the most significant contributors to investment decision-making. The strong association found between a positive investment attitude and investment outcomes (with a p-value of 0.000 and Beta of 0.422) suggests that an investor's mindset has profound implications for their financial choices. A positive, proactive outlook likely influences an investor's willingness to engage in the market, take calculated risks, and maintain a long-term perspective—critical behaviors for successful investing.

Why might this be the case? The **psychological concept of "self-efficacy"** provides some insight here. Investors with a strong belief in their ability to make informed decisions are more likely to take action when presented with investment opportunities. A person's confidence in their judgment can result in a higher propensity to seek out beneficial financial opportunities, pursue diversification, and act on new information. Financial platforms and advisory services can leverage this by not just focusing on knowledge dissemination but also building **emotional confidence** and **self-efficacy** through psychological education or tailored guidance. This approach can foster a greater sense of agency among investors, leading to more autonomous and effective decision-making.

Cognitive Factors: Beyond Knowledge—A Matter of Mental Framework

Cognitive Factors (CoF), with an R^2 of 0.865, strongly correlated with investment decisions. Cognitive aspects include the ability to process information, assess risks, and understand financial principles—skills that are fundamental to good decision-making. Interestingly, the relationship between **cognitive ability and investment success** is often undersold in behavioral finance models, which tend to focus on emotions, heuristics, and biases.

However, the findings from this research suggest that **cognitive clarity** plays a crucial role in investment outcomes. This aligns with the **"dual-process theory"** in psychology, which posits that decision-making occurs through both intuitive (System 1) and deliberate (System 2) thought processes. Successful investors are likely adept at engaging both systems: they trust their intuition when the situation calls for it, but they also apply deliberate, analytical thinking when evaluating complex financial decisions. Given this, cognitive training—through simulations, case studies, and access to real-time data—can enhance investor performance. **Behavioral nudges**, like providing digestible summaries of complex financial data, could help boost cognitive processing efficiency, leading to better decisions.

Risk Factors: The Thrill of Risk-Taking

Risk Factors (RiF), with an R^2 of 0.679, were also strongly correlated with investment decisions, reaffirming that an investor's **risk tolerance** plays a vital role in shaping their financial choices. High-risk tolerance correlates with greater investment in volatile assets, potentially leading to higher returns (but also higher losses). **Prospect Theory**, a cornerstone of behavioral finance, suggests that people are often more sensitive to potential losses than equivalent gains, but those who are more comfortable with risk might better capitalize on market fluctuations.

However, the finding that **risk tolerance directly influences decision-making** may also point to the ongoing **evolution of investor behavior**, especially as more self-directed investors participate in online trading platforms. In recent years, investors have become more comfortable with risk, likely driven by the rise of **retail trading platforms** and the growing familiarity with volatile assets like cryptocurrencies. This shift may reflect broader societal changes, such as a more **entrepreneurial culture** and the increasing democratization of financial knowledge through social media and online communities.

From a practical standpoint, financial institutions should focus not only on assessing risk profiles but also on educating investors about **risk management** and the importance of diversification. Effective tools for **risk visualization**—such as risk tolerance calculators and historical performance simulations—could empower investors to make decisions that align with their comfort levels.

Emotional and Herding Factors: Limited Role in Decision-Making

Interestingly, **Emotional Factors (EmF)** and **Herding Behavior (HeF)** were found to have relatively minimal influence on investment decisions. Emotional factors, such as fear and greed, were expected to have a larger role in influencing decision-making, especially given the volatility of financial markets. However, with a p-value of 0.127 for Emotional Factors and 0.888 for Herding Behavior, the results suggest that **modern investors** may be increasingly guided by rational, self-reflective processes rather than impulsive emotional reactions or social influence.

This observation could be interpreted in several ways. One explanation might be the **rise of financial literacy** among individual investors. With more readily available educational resources and data-driven investment tools, modern investors are arguably better equipped to make decisions based on **reasoned analysis** rather than emotional impulses. Furthermore, the **reduction of herd mentality** in the context of rising **retail investing platforms** (such as robo-advisors and trading apps) could explain why people are less likely to follow the crowd. This shift is also amplified by the **anonymity** and **individualistic approach** that online platforms provide, allowing investors to make more independent decisions without succumbing to social pressures.

While this decline in emotional and herding influence is a positive indicator of a more mature investor base, financial advisors must still be vigilant. Emotional biases and herding behavior can still become prominent during market downturns or periods of uncertainty. Therefore, investors must be equipped with tools and support that help them stay grounded during volatile times.

Demographic Factors: A Changing Landscape

The study also explored the role of demographic factors such as **gender**, **age**, **family income**, and **occupation** in shaping investment decisions. Notably, **none of these factors** exhibited a significant influence on investment decisions, as evidenced by the p-values being consistently above 0.05. This result challenges traditional assumptions in finance and psychology, where factors such as gender or age were often seen as key determinants in shaping financial behavior.

6) PRACTICAL IMPLICATION

a.The findings of this study hold several practical implications for financial advisors, investment platforms, policymakers, and investor education providers. First, the clear influence of investment attitude and risk perception on investor decision-making highlights the need for tailored advisory services that assess and address individual behavioral profiles. Financial advisors can improve client outcomes by incorporating behavioral assessments into their advisory frameworks, enabling more personalized investment strategies.

b.The limited role of cognitive and emotional biases, while not dominant, suggests that retail investors are increasingly rational in their approach, potentially due to better access to information and tools. Investment platforms and fintech applications can build on this trend by offering features that promote disciplined, data-informed decision-making, such as risk tolerance tools, scenario analysis, and bias-alert nudges.

c.Third, the diminishing role of herding behavior indicates a shift toward independent investing. This reinforces the importance of continuing efforts in financial literacy programs, which have likely empowered investors to rely more on personal analysis than social cues. Policymakers and financial institutions should invest in sustaining and expanding these

educational initiatives, especially in semi-urban and rural regions where information asymmetry still exists.

7) FINDINGS

The findings of this study hold several practical implications for financial advisors, investment platforms, policymakers, and investor education providers. First, the clear influence of investment attitude and risk perception on investor decision-making highlights the need for tailored advisory services that assess and address individual behavioral profiles. Financial advisors can improve client outcomes by incorporating behavioral assessments into their advisory frameworks, enabling more personalized investment strategies.
Second, the limited role of cognitive and emotional biases, while not dominant, suggests that retail investors are increasingly rational in their approach, potentially due to better access to information and tools. Investment platforms and fintech applications can build on this trend by offering features that promote disciplined, data-informed decision-making, such as risk tolerance tools, scenario analysis, and bias-alert nudges.
Third, the diminishing role of herding behavior indicates a shift toward independent investing. This reinforces the importance of continuing efforts in financial literacy programs, which have likely empowered investors to rely more on personal analysis than social cues. Policymakers and financial institutions should invest in sustaining and expanding these educational initiatives, especially in semi-urban and rural regions where information asymmetry still exists.
Finally, recognizing the socio-demographic differences in investor behavior can help create more inclusive financial products. For example, younger investors may benefit from digital-first investment solutions with gamified learning tools, while older investors may prefer simplified interfaces with conservative portfolios. Gender-sensitive and income-sensitive products should also be developed to better engage underserved segments of the retail investment population.
Finally, recognizing the socio-demographic differences in investor behavior can help create more inclusive financial products. For example, younger investors may benefit from digital-first investment solutions with gamified learning tools, while older investors may prefer simplified interfaces with conservative portfolios. Gender-sensitive and income-sensitive products should also be developed to better engage underserved segments of the retail investment population.

8) LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

While this study offers meaningful insights into the psychological and socio-demographic determinants of retail investor decision-making, several limitations should be acknowledged. First, although the questionnaire was developed based on the Theory of Planned Behavior (TPB) and pre-tested for clarity, the complete raw data set required to perform formal reliability analysis (e.g., Cronbach's Alpha) was lost. This limits the ability to confirm the internal consistency of the measurement scales. Future research should ensure that reliability testing is conducted and reported to enhance the validity of findings.
Second, the study employed a non-probability sampling method, relying on voluntary responses from retail investors. While the sample was diverse in terms of demographics, the findings may not be generalizable to the broader population of retail investors. Future studies could adopt probability sampling techniques to improve representativeness.
Third, the data was collected at a single point in time, which may not fully capture evolving investment behavior or the influence of market dynamics. Longitudinal studies can better track behavioral shifts and provide stronger causal inferences.

Finally, while this study focused on key psychological constructs such as investment attitude, cognitive and emotional biases, and risk perception, other potentially influential variables—such as financial literacy, social media influence, or cultural values—were not explored in depth. Future research can expand the model to include these additional dimensions for a more comprehensive understanding of retail investor behavior.

9) CONCLUSION

This research examined the impact of family income, investor experience, and occupation on factors such as investment attitude, cognitive biases, emotional responses, risk perception, and herding behavior. One-way ANOVA tests showed that none of the independent variables—family income, investor experience, and occupation—had a significant effect on the dependent variables. The p-values for all factors, including investment attitude, cognitive biases, emotional responses, risk perception, and herding behavior, exceeded the 0.05 significance level, leading to the acceptance of the null hypotheses.

These findings suggest that demographic characteristics like income, experience, and occupation may not strongly influence investment decisions. Furthermore, emotional and cognitive biases, risk preferences, and herding behavior appeared unaffected by these variables. Other factors, such as financial literacy, psychological traits, or market conditions, could be more critical in shaping investment decisions.

Future research could investigate these other influences for a deeper understanding of investment decision-making.

AUTHOR'S BIO

Jeevan Hira works as an Associate Consultant at KPMG Global Services Pvt. Ltd. He applies his financial expertise to support strategic projects and deliver results. He is eager to leverage his analytical skills to drive growth and create impact in a dynamic financial institution. With a strong record of academic excellence, Jeevan combines knowledge with practical insights to tackle complex financial challenges. His experiences have strengthened his ability to analyze data and contribute to business-critical decisions. Jeevan brings a disciplined and strategic approach to every task, focused on delivering value and successful outcomes.

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