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BEHAVIORAL BIASES AND EQUITY INVESTORS INVESTMENT DECISIONS: MODERATION ROLE OF AGE AND MARITAL STATUS

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| <p>Dr. Muhammad Afzal Deputy Director QEC, Directorate of Quality Enhancement Cell, Khwaja Fareed University of Engineering and Information Technology, Rahim Yar Khan, Punjab, Pakistan Mafzalnoor041@gmail.com</p> <p>Dr. Muhammad Ishaq Secretary, Pakistan Agricultural Research Council (PARC), Punjab, Pakistan</p> <p>Dr. Waleed Khalid Assistant Professor, Institute of Business Administration, Khwaja Fareed University of Engineering and Information Technology, Rahim Yar Khan, Punjab, Pakistan</p> <p>Dr. Khalid Latif Associate Professor, Principal Government College University Faisalabad, Punjab, Pakistan</p> | <p>Abstract</p> <p>The study examines the Pakistani equity market, where many investors unknowingly fall prey to these biases, affecting both individual investment outcomes and the investor-advisor relationship. The study is carried out by considering that humans are not fully rational agents and their decision making is based on heuristic and shortcuts. Primary data were collected using a structured questionnaire from the 1015 individual equity investors. The data were analyzed by using the multivariate analysis, followed by the Confirmatory Factor Analysis (CFA) and Structural Equational Model (SEM). The results show that there is statistically significant effect of representative bias, overconfidence bias, anchoring bias, and availability bias on investment decision making whereas optimism bias is no effect of investment decision making. The results highlight the varying influence of demographic factors (Age and Marital Status) on the relationship between different biases and investment decision-making, providing valuable insights into the nuanced impact of individual characteristics on financial choices.</p> |
| <p>Keywords:</p> | <p>Behavioral Biases, Investment Decisions, Socio-Demographics, Pakistani Equity Market, Behavioral Finance, Pakistan Stock exchange.</p> |

1.0 INTRODUCTION

Behavior finance refers to the design of differences in decisions under various situations and irrationally interrupting given information (Adebambo & Yan, 2018). According to behavioral finance, the investor is normal rather than rational. Recent studies reveal that some biases affect investor decisions (Malik et al.,2021). After that, large numbers of biases find out like cognitive bias, representative bias, overconfidence bias, and loss aversion bias (Ishfaq et al.,2020).

In the Pakistani context, many equity investors are unaware of these biases, which not only result in poor investment choices but also strain the relationship between investors and financial advisors (Gulzar & Ali, 2023). To illustrate the need for more study across various investor categories, Saleem et al.,(2023) examined the impact of behavioral biases and financial knowledge on investment decisions made by individual investors in Pakistan.

Most of the equity investors unknowing indulge in behavioral biases during the investment decision making and due to this reason make suboptimal decision. It is need of the time to aware the behavioral biases to make optimal decision

To address these gaps, this research will explore the nexus between behavioral finance and investment decision-making, considering the moderating effects of socio-demographic variables and the mediating roles of risk tolerance, and financial literacy within the context of the Pakistan Stock Exchange. This study aims to provide a more nuanced understanding of how various factors interact to influence investment decisions in a developing country setting, offering insights that could inform both academic research and practical interventions in financial education.

The following are the objectives of the study:

1. To investigate the effect of behavioral biases (Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, and Optimism Bias) on investment decisions
2. To examine the moderating effect of age on investment decisions and biases (Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, and Optimism Bias)
3. To examine the moderating effect of marital status on investment decisions and behavioral biases (Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, and Optimism Bias)

The current study is valuable to a wide range of stakeholders, including financial advisers, portfolio managers, corporate decision-makers, legislators, educators, and firms that operate in financial markets or consumer finance sectors. By explaining the complex links between cognitive biases, and psychological mediators, the study provides a solid conceptual foundation for these actors to improve their practices and tactics. Financial professionals, for example, might use these data to create more sophisticated, individualized advice methods that anticipate and address investor biases as well as individual variations, boosting portfolio resilience and client trust. An evidence-based strategy not only improves decision-making results, but it also builds client-advisor relationships, which promotes company growth.

2.0 LITERATURE REVIEW

The general notion of representative bias arises from the human mind from time to time which affects individuals in taking their investment decisions. It happens when people make inference or make decision by the assimilation or similarity of an event, situation or person with stereotype or typical rather than processing statistical data, base rate (Kahneman & Tversky, 1979).

Perveen et al., (2020), analyzed the effects of representative bias on investment decisions of Pakistani investors. They illustrated that investors develop a bias when choosing investment instruments of investing in known or locally available opportunities like property or gold as compared to other securities that may be comparatively better in risk-adjusted manner.

Where by Hsu et al., (2021) recognize that in China, studies were done to establish the effects of overconfidence bias on stock market participation and trading. The study also revealed some behavioral biases that were exhibited by the Chinese investors for instance over confidence of the individual in his ability to select the right stock to invest resulted to high turnovers within their portfolio. However, this implies less actual performance on the average as compared to most other conservative investors. The authors proposed that interventions in the forms of improving Chinese investors' financial literacy and implementing behavioral remedies might effectively narrow the gap of overconfidence bias and thus enhance the investment performance (Hsu et al.,2021).

Riaz and Iqbal (2015) conducted research to determine the correlation between overconfidence bias and performance of individual investor. They found out that there was high positive significant between overconfidence and high-risk taking propensity among the Bangladeshi investors. The investors were overconfident and went out to invest even though majority of them lacked adequate financial knowledge as well as trading experience and thus ended up losing lots of money.

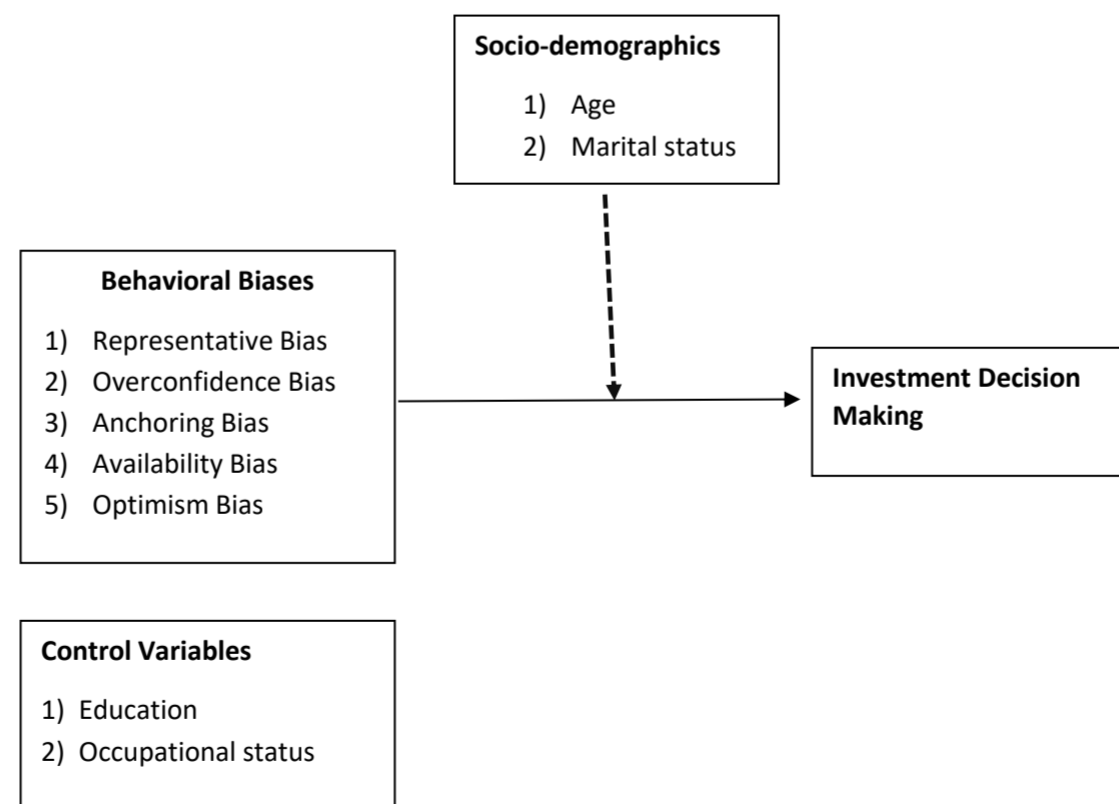
In a similar context, Kumari & Sar Kumar (2017) investigated the availability bias and its impact on investments, especially among retail investors in an emergent economy like India. It brought up different aspects of how the media and the tips that investors receive from friends, family, or colleagues may affect their decision-making process and, in turn, affect their decision in selecting the right security, creating market anomalies. The outcomes recognized the need to encourage the teaching and knowledge of information literacy and cognitive bias to improve the quality of decisions and investors.

Khan et al., (2017) also looked at the effects that availability bias exerts on the investment decisions of retail investors in Bangladesh. The researchers continue to note that the investors emphasize the recent events or information that are most memorable and, therefore, follow the herding behavior and momentum investment strategies. This paper pointed out the significance of engaging in investor education, endeavors, and policies to tackle availability bias to reduce its impact on the efficiency and welfare of the markets.

Optimism bias refers to a type of thinking where people, especially in their planning approach, think that the probabilities of positive outcomes are higher compared to negative occurrences, and this bias is central to the investment decision-making process. Various works, such as Azouzi and Anis (2012), Lather et al.,(2020)Lather et al., (2020), and Talwar et al.,(2021), have looked into the existence and effects of optimism bias on investors and the market to provide insight into its impact on financial decisions.

The body of research says that both age and marital status serve as critical demographic moderators influencing the interplay between cognitive biases and investment decision-making. Empirical findings suggest that younger investors exhibit a higher tolerance for risk and a propensity for cognitive biases, including overconfidence and availability bias. In contrast, older investors are typically characterized by greater risk aversion and caution, often attributable to their accumulated life experiences and historical financial outcomes (Katper et al., 2019). Furthermore, marital status emerges as a significant factor, with single individuals generally displaying elevated levels of risk-taking and overconfidence, while married investors tend to emphasize financial security, show increased risk aversion, and participate in collaborative decision-making owing to heightened familial responsibilities (LeBaron-Black et al., 2023). These moderating influences are particularly salient within Asian contexts, such as Pakistan and Malaysia, where age and marital status distinctly affect the manifestation of cognitive biases in investment decisions. The findings highlight the imperative for contextually relevant financial education and policy initiatives that cater to the specific behavioral patterns associated with varying age cohorts and marital statuses to enhance decision-making quality and market performance (Jabeen et al., 2020).

2.1 Research Model



2.2 Research Hypotheses

H1: Representative Bias significantly affect the Investment Decision

H1a: Overconfidence Bias significantly affect the Investment Decision

H1b: Anchoring Bias significantly affect the Investment Decision

H1c: Availability Bias significantly affect the Investment Decision

H1d: Optimism Bias significantly affect the Investment Decision

H2: Age moderates the relationship between representative bias and investment decision-making.

H2a: Age moderates the relationship between overconfidence bias and investment decision-making.

H2b: Age moderates the relationship between anchoring bias and investment decision-making.

H2c: Age moderates the relationship between availability bias and investment decision-making.

H2d: Age moderates the relationship between optimism bias and investment decision-making.

H2: Marital Status moderates the relationship between representative bias and investment decision-making.

H3a: Marital Status moderates the relationship between overconfidence bias and investment decision-making.

H3b: Marital Status moderates the relationship between anchoring bias and investment decision-making.

H3c: Marital Status moderates the relationship between availability bias and investment decision-making.

H3d: Marital Status moderates the relationship between optimism bias and investment decision-making.

3.0 RESEARCH METHODOLOGY

3.1 Data Description

The nature of the study is exploratory. This study is conducted to analyze behavioral biases and investment decisions and education and occupational status are the control variables. A target population is the individual group or entity that the research is being conduct by using the surveys. The population of this study was the total population of Punjab. As Punjab is Pakistan's biggest province, most equity investors belong to Punjab. The target population of such research was the individual equity investors who had invested in the Pakistan Stock Market and belonged to the province of Punjab.

A purposive sampling strategy is applied to obtain information from respondents. A sample of 1100 was taken in this study, and 1025 correct research questionnaires were used.

3.2 Research Methodology

Structural equation modeling (SEM) was used to evaluate the hypotheses in the research model, followed by confirmatory factor analysis (CFA) to decide value of the measurement model and convergent as well as discriminant legitimacy of the construct.

Smart PLS 4.0 software used to employ SEM. SEM remains a statistical technique for testing and examining their causal relationships.

3.3 Econometric Equations

a) Age used as moderator variable

Age is often recorded as a precise numerical value in research and clinical practice, which is essential for statistical analyses and adjusting confounding variables in epidemiological studies (World Health Organization, 2015).

$$IDM_i = \alpha + \beta_1 representativeness_i + \beta_2 overconfidence_i + \beta_3 anchoring_i + \beta_4 availability_i + \beta_5 optimism_i + \varepsilon_i \quad 1$$

$$\begin{aligned}
 IDM_i = & \alpha + \beta_1 representativeness_i + \beta_2 overconfidence_i \\
 & + \beta_3 anchoring_i + \beta_4 availability_i \\
 & + \beta_5 optimism_i + \beta_6 representativeness \times Age_i \\
 & + \beta_7 overconfidence \times Age_i + \beta_8 anchoring \times Age_i \\
 & + \beta_9 availability \times Age_i + \beta_{10} optimism \times Age_i + \varepsilon_i
 \end{aligned} \quad 2$$

Where?

IDM = Investment Decision Making = Dependent Variable

Age = Moderating Variable

Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, and Optimism Bias are the independent variables.

b) Marital Status used as moderating variable

Marital status: Based on the research by Nur Aini & Lutfi (2019), regarding the comparison of the ways of thinking such as overconfidence, overconfidence, and hatred of loss of single financiers and married financiers, it was revealed that single financiers were more overconfident and had more hatred of loss than married financiers. Marital status will be checked by using 1= married, 2= unmarried, 3= prefer not to say.

$$\begin{aligned}
 IDM_i = & \alpha + \beta_1 representativeness_i + \beta_2 overconfidence_i \\
 & + \beta_3 anchoring_i + \beta_4 availability_i + \beta_5 optimism_i + \varepsilon_i
 \end{aligned} \quad 3$$

$$\begin{aligned}
 IDM_i = & \alpha + \beta_1 representativeness_i + \beta_2 overconfidence_i \\
 & + \beta_3 anchoring_i + \beta_4 availability_i + \beta_5 optimism_i \\
 & + \beta_6 representativeness \cdot marital Status_i \\
 & + \beta_7 overconfidence \times marital Status_i \\
 & + \beta_8 anchoring \times marital Status_i \\
 & + \beta_9 availability \times marital Status_i \\
 & + \beta_{10} optimism \times marital Status_i + \varepsilon_i
 \end{aligned} \quad 4$$

Where?

IDM = Investment Decision Making = Dependent Variable

Marital-status = Moderate Variable

The broad independent variables that can be empirically tested in concert with this study are Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, and Optimism Bias.

4.0 DATA ANALYSIS AND RESULTS

4.1 Descriptive Statistics Analysis

Descriptive analysis helps in understanding the respondents and the general levels of the variables within the organization under study. Because descriptive analysis is helpful in drawing useful conclusions. Table shows the results of descriptive statistics.

Table 4.1: Descriptive Statistics

| N | Minimum | Maximum | Mean | Std. Dev | Skewness | Std. Error | Kurtosis |
|---|---------|---------|------|----------|----------|------------|----------|
|---|---------|---------|------|----------|----------|------------|----------|

| | | | | | | | | |
|---------------------|------|---|---|--------|--------|---------|--------|---------|
| Education | 1025 | 1 | 6 | 3.9333 | 1.1026 | 0.1356 | 0.3087 | -1.0155 |
| Age | 1025 | 1 | 4 | 1.6667 | 0.9508 | 1.2150 | 0.3087 | 0.3112 |
| Occupational status | 1025 | 1 | 3 | 1.6000 | 0.6162 | 0.5037 | 0.3087 | -0.5928 |
| Marital status | 1025 | 1 | 3 | 1.6667 | 0.6013 | 0.2867 | 0.3087 | -0.6073 |
| RB1 | 1025 | 1 | 5 | 3.000 | 1.2351 | -0.5025 | 0.3087 | -0.7880 |
| RB2 | 1025 | 1 | 5 | 3.1500 | 1.2327 | -0.9131 | 0.3087 | -0.5793 |
| RB3 | 1025 | 1 | 5 | 3.2167 | 1.1945 | -0.6206 | 0.3087 | -0.4358 |
| RB4 | 1025 | 1 | 5 | 3.1500 | 1.2327 | -0.9131 | 0.3087 | -0.5793 |
| RB5 | 1025 | 1 | 5 | 3.1667 | 1.1224 | -0.8610 | 0.3087 | -0.2997 |
| OB1 | 1025 | 1 | 5 | 3.0833 | 1.2391 | -0.6607 | 0.3087 | -0.6504 |
| OB2 | 1025 | 1 | 5 | 3.0000 | 1.1789 | -0.7063 | 0.3087 | -0.6137 |
| OB3 | 1025 | 1 | 5 | 3.0333 | 1.2208 | -0.7015 | 0.3087 | -0.8179 |
| OB4 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| AB1 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| AB2 | 1025 | 1 | 5 | 3.1333 | 1.2277 | -0.8879 | 0.3087 | -0.5947 |
| AB3 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| AB4 | 1025 | 1 | 5 | 3.1167 | 1.2363 | -0.7855 | 0.3087 | -0.6279 |
| AvB1 | 1025 | 1 | 5 | 3.1167 | 1.2363 | -0.7855 | 0.3087 | -0.6279 |
| AvB2 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| AvB3 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| OpB1 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| OpB2 | 1025 | 1 | 5 | 3.0833 | 1.2114 | -0.8155 | 0.3087 | -0.6238 |
| OpB3 | 1025 | 1 | 5 | 3.0167 | 1.2418 | -0.6368 | 0.3087 | -0.9851 |
| OpB4 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| OpB5 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| IDM1 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| IDM2 | 1025 | 1 | 5 | 3.0833 | 1.2114 | -0.8155 | 0.3087 | -0.6238 |
| IDM3 | 1025 | 1 | 5 | 3.1000 | 1.2171 | -0.8391 | 0.3087 | -0.6170 |
| IDM4 | 1025 | 1 | 5 | 3.1333 | 1.2277 | -0.8879 | 0.3087 | -0.5947 |
| Valid N (listwise) | 1025 | | | | | | | |

Table 4.1 provides descriptive statistics for various variables in a sample of 1025 participants. The variables include education, occupational status, and multiple items related to biases (Representative Bias - RB, Overconfidence Bias - OB, Anchoring Bias - AB, Availability Bias - AvB, Optimism Bias - OpB), and investment decision-making (IDM). For each variable, the table displays the minimum, maximum, mean, standard deviation, skewness, and kurtosis.

Education ranges from 2 to 6, with a mean of 3.9333 and a standard deviation of 1.1026. Age, ranging from 1 to 4, has a mean of 1.6667 and a standard deviation of 0.9508. Occupational status, on a scale of 1 to 3, has a mean of 1.6 and a standard deviation of 0.6162, while marital status, ranging from 1 to 3, has a mean of 1.6667 and a standard deviation of 0.6013.

The table also presents statistics for the various bias items (RB1 to RB5, OB1 to OB4, AB1 to AB4, AvB1 to AvB3, OpB1 to OpB5), risk tolerance (RT1 to RT5), and investment decision-making (IDM1 to IDM4). Each set of items shows consistent patterns of means, standard deviations, skewness, and kurtosis.

Overall, these descriptive statistics provide a comprehensive overview of the sample's characteristics and the distribution of variables, setting the foundation for further analyses and insights into the relationships between education, age, marital status, occupation status, biases (representative bias, overconfidence bias, anchoring bias, optimism bias, and availability bias), risk tolerance, financial literacy, and investment decision-making behaviors.

4.2 Multicollinearity Test

Table 4.2: Multicollinearity Statistics (VIF)

| Variables | Items | VIF |
|----------------------------|----------|-------|
| | AB1 | 1.344 |
| Anchoring Bias | AB2 | 1.585 |
| | AB3 | 1.581 |
| | AB4 | 1.455 |
| | AvB1 | 1.208 |
| Availability Bias | AvB2 | 1.487 |
| | AvB3 | 1.458 |
| | IDM1 | 1.248 |
| Investment Decision Making | IDM2 | 1.243 |
| | IDM3 | 1.282 |
| | IDM4 | 1.208 |
| | OB1 | 1.420 |
| Overconfidence Bias | OB2 | 1.494 |
| | OB3 | 1.582 |
| | OB4 | 1.526 |
| | OpB1 | 1.327 |
| Optimism Bias | OpB2 | 1.430 |
| | OpB3 | 1.777 |
| | OpB4 | 1.666 |
| | OpB5 | 1.441 |
| | RB1 | 1.394 |
| Representative Bias | RB2 | 1.435 |
| | RB3 | 1.665 |
| | RB4 | 1.628 |
| | RB5 | 1.536 |
| | Age | Age |
| Marital Status | M-status | 1.000 |

Table 4.2 provides collinearity statistics, specifically Variance Inflation Factor (VIF), for a set of variables in a dataset. Collinearity refers to the extent to which independent variables in a regression model are correlated. High collinearity can lead to issues in statistical analyses, such as inflated standard errors and difficulties in interpreting the effects of individual variables. The VIF measures the degree to which the variance of an estimated regression coefficient is increased due to collinearity.

In this table, each variable is associated with its respective items, and the VIF is reported for each item. The VIF values are low, ranging from 1.000 to 1.896, which suggests that multicollinearity is not a significant concern among the listed variables. Specifically, variables related to biases (Anchoring Bias, Availability Bias, Investment Decision Making, Overconfidence Bias, Optimism Bias, and Representative Bias,) exhibit VIF values below 2, indicating low collinearity.

The variables Age and Marital Status have VIF values of 1.000, suggesting no issues of collinearity among these demographic factors. Overall, the low VIF values indicate that the included variables in the analysis are not highly correlated, which enhances the reliability of regression analyses involving these factors. This would create a level of assurance to the researchers and analysts about the stability of the estimated coefficients and the possibilities of interpreting the findings of the regression analysis on the examined variables.

4.3 Measurement Model

As for the measurement model, PLS-SEM was conducted to verify the theories in this study, and the description of measures showed that the model was reliable and valid. Given that the study adopted PLS-SEM as the measurement model, the assessment was, therefore, most suitably done using Smart PLS 4.0 (Henseler et al.,2009).

This assessment is done based on factor loading, Cronbach alpha, composite reliability, average variance extracted (AVE), and discriminant validity.

Table 4.3: Item loadings, Cronbach's Alpha, Composite Reliability

| Variables | Items | Loadings | CA | CR |
|-----------------------------------|-------|----------|-------|-------|
| Representative Bias | RB1 | 0.801 | 0.816 | 0.868 |
| | RB2 | 0.813 | | |
| | RB3 | 0.885 | | |
| | RB4 | 0.811 | | |
| | RB5 | 0.833 | | |
| Overconfidence Bias | OB1 | 0.888 | 0.815 | 0.878 |
| | OB2 | 0.817 | | |
| | OB3 | 0.777 | | |
| | OB4 | 0.813 | | |
| Anchoring Bias | AB1 | 0.817 | 0.885 | 0.866 |
| | AB2 | 0.861 | | |
| | AB3 | 0.886 | | |
| | AB4 | 0.886 | | |
| Availability Bias | AvB1 | 0.777 | 0.868 | 0.836 |
| | AvB2 | 0.888 | | |
| | AvB3 | 0.888 | | |
| Optimism Bias | OpB1 | 0.778 | 0.878 | 0.857 |
| | OpB2 | 0.761 | | |
| | OpB3 | 0.881 | | |
| | OpB4 | 0.801 | | |
| | OpB5 | 0.884 | | |
| Investment Decision Making | IDM1 | 0.834 | 0.813 | 0.884 |
| | IDM2 | 0.861 | | |
| | IDM3 | 0.806 | | |

Source: Author

Regarding the various forms of biases or traits in the items, table 4.3 provides statistic loadings that indicate strength levels where various specific questions or indicators are related to the specific factor being measured. Third, the validity of the measurement scales that have been used in the survey has further been assessed through Cronbach's Alpha (CA), Composite Reliability (CR), and Average Variance Extracted (AVE), as presented in the table below.

That is the reason representative bias is evaluated and measured using five items, namely RB1 to RB5. The loadings of these items vary between 0.801 and 0.885, which are highly related to the BIAS factor. In the table, the reliability index, Cronbach's Alpha is 0.816, which is responsive to internal consistency. The Composite Reliability (CR) is computed to be 0.868, which suggests that the measure is reliable. The AVE of 0.716 means that the amount of variance accounted for by the construct can be estimated to be reasonable, considering the amount of variance in the items. These measurements are based on four items labeled OB1 to OB4, the loadings of which are 0.777, 0.788, 0.888, and 0.826, respectively. Internal consistency reliability is acceptable as the Cronbach's Alpha score for this variable is 0.815, and the CR is 0.878. The AVE is 0.801, which is quite high and can be interpreted such that a sizable portion of the variance is attributable to the overconfidence factor.

Anchoring bias consists of four items from AB1 to AB4, with a loading of 0.817 to 0.886. The obtained Cronbach's Alpha is 0.885; thus, internal consistency is very satisfactory, and the CR of 0.866 was obtained, which proves that this construct is adequately measured. However, in the case of the AVE, it stands at 0.589, which is lower, meaning that the items contribute less to explaining the variance than other biases. The reliability of the Availability bias is measured with three questions (AvB1 to AvB3), and all of these have loadings of 0.777, 0.888, and 0.888, respectively. It is evident that Cronbach's Alpha for the availability bias is 0.868, meaning that the results have substantial internal reliability. The CR stands at 0.836, thus supporting the reliability, while the AVE is at 0.788, showing a good amount of commonality that is captured by this factor.

The reliability estimate for optimism bias is determined with five items (OpB1 to OpB5), and the loadings of these items are as follows: 0.761- 0.884. Internal consistency is satisfactory: Cronbach's Alpha = 0.878, and CR is equal to 0.857. However, the AVE is 0.561, which is a comparatively low value, but it denotes that 56.1% of the variance is explained by the factors.

The construct investment decision-making has four items, namely IDM1 to IDM4, with the loadings attained being 0.806, 0.834, 0.847, and 0.861, respectively. The Cronbach's Alpha is 0.813, which shows satisfactory reliability between the test items. The CR of 0.884 signifies that the constructs have reliable data, and the AVE of 0.788 means that a considerable portion of data variance is accounted for by this construct. As indicated in Table 4.3, all the variables have internal consistency and reliability, as captured by Cronbach's Alpha and Composite reliability, which are higher than the acceptable standard of 0.7. Besides, most of the AVE values are greater than 0.5, which means that the items used reflect the variance of the corresponding construct adequately.

4.4 Convergent Validity

The convergent validity is found to be 0.716 by using the Average Variance extracted from the representative bias having the item RB1 to RB5, which ensures the convergent validity of more than 0.7.

The Convergent Validity was measured by using the Average Variance Extracted (AVE) of the overconfidence bias, with the items OB1 to OB4 being 0.801, which is more than 0.7. The AVE of 0.801 suggests a reasonable amount of variance is explained by the latent construct.

The Convergent Validity was measured by using the Average Variance Extracted (AVE) of the anchoring bias, with items AB1 to AB4 being 0.589, which is more than 0.5. The AVE of 0.589 suggests a reasonable amount of variance, which is explained by the latent construct.

The Convergent Validity was measured by using the Average Variance Extracted (AVE) of the availability bias, with the item AvB1 to AvB3 being 0.788, which is more than 0.7. The AVE of 0.788 suggests a reasonable amount of variance, which is explained by the latent construct.

The Convergent Validity was measured by using the Average Variance Extracted (AVE) of the optimism bias, with items AB1 to AB4 being 0.561, which is more than 0.5. The AVE of 0.561 suggests a reasonable amount of variance, which is explained by the latent construct.



The Convergent Validity was measured by using the Average Variance Extracted (AVE) of the investment decision-making, with the items FDM1 to FDM4 being 0.788, which is more than 0.7. The AVE of 0.788 suggests a reasonable amount of variance, which is explained by the latent construct.

Table 4.4: Convergent Validity

| Variables | Items | Loadings | AVE |
|-----------------------------------|--------------|-----------------|------------|
| Representative Bias | RB1 | 0.801 | 0.716 |
| | RB2 | 0.813 | |
| | RB3 | 0.885 | |
| | RB4 | 0.811 | |
| | RB5 | 0.833 | |
| Overconfidence Bias | OB1 | 0.888 | 0.801 |
| | OB2 | 0.817 | |
| | OB3 | 0.777 | |
| | OB4 | 0.813 | |
| Anchoring Bias | AB1 | 0.817 | 0.589 |
| | AB2 | 0.861 | |
| | AB3 | 0.886 | |
| | AB4 | 0.886 | |
| Availability Bias | AvB1 | 0.777 | 0.788 |
| | AvB2 | 0.888 | |
| | AvB3 | 0.888 | |
| Optimism Bias | OpB1 | 0.778 | 0.561 |
| | OpB2 | 0.761 | |
| | OpB3 | 0.881 | |
| | OpB4 | 0.801 | |
| | OpB5 | 0.884 | |
| Investment Decision Making | IDM1 | 0.834 | 0.788 |
| | IDM2 | 0.861 | |
| | IDM3 | 0.806 | |
| | IDM4 | 0.810 | |

4.5 Discriminant Validity

Table 4.5: Discriminant Validity through Fornell-Larcker Criterion Method

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|----------------------------|---------------|---------------|---------------|---------------|--------------|---------------|--------------|---|---|----|----|
| Age | 1.000 | | | | | | | | | | |
| Anchoring Bias | 0.000 | 0.767 | | | | | | | | | |
| Availability Bias | -0.001 | 0.520 | 0.784 | | | | | | | | |
| Investment Decision Making | -0.014 | 0.455 | 0.350 | -0.177 | | | | | | | |
| Marital status | -0.496 | -0.070 | -0.083 | -0.457 | 1.000 | | | | | | |
| Optimism Bias | 0.009 | 0.532 | 0.543 | -0.052 | 0.549 | -0.046 | | | | | |
| Overconfidence Bias | -0.028 | 0.472 | 0.366 | -0.183 | 0.370 | 0.449 | 0.020 | | | | |

Source: Author

Table 4.5 presents the results of a discriminant validity analysis using the Fornell-Larcker criterion method for various constructs. Each diagonal element represents the square root of the average variance extracted (AVE) for the corresponding latent variable, indicating the proportion of variance captured by the items measuring that construct. The absence of correlation values between different constructs (off-diagonal elements) or low correlations underscores the distinctiveness of each construct. Notably, the AVE for "Age" is 1.000, affirming its uniqueness. Variables such as "Anchoring Bias," "Availability Bias," "Financial Literacy," "Investment Decision Making," "Optimism Bias," "Overconfidence Bias," "Representative Bias," and "Risk Tolerance," also demonstrate discriminant validity, with AVE values higher than the correlations with other constructs. Conversely, "Marital Status" exhibits perfect discriminant validity with AVE values of 1.000, indicating clear separation from other constructs. Overall, the table provides convincing evidence for the discriminant validity of the measurement model, confirming that each variable is distinct and reliably measured in the study.

4.6 Hypotheses Testing

Table 4.6: Direct Effects

| Hypothesis | Relationship | Original sample | Mean | SD. | T Value | P values | Decision |
|------------|---|-----------------|-------|-------|---------|----------|----------|
| H1 | <i>Representative Bias -> Investment Decision Making</i> | 0.034 | 0.032 | 0.038 | 2.563 | 0.031 | Accept |
| H1a | <i>Overconfidence Bias -> Investment Decision Making</i> | 0.021 | 0.026 | 0.037 | 4.912 | 0.006 | Accept |
| H1b | <i>Anchoring Bias -> Investment Decision Making</i> | 0.112 | 0.112 | 0.038 | 2.951 | 0.003 | Accept |
| H1c | <i>Availability Bias -> Investment Decision Making</i> | 0.008 | 0.008 | 0.037 | 3.561 | 0.009 | Accept |
| H1d | <i>Optimism Bias -> Investment Decision Making</i> | 0.059 | 0.054 | 0.044 | 1.352 | 0.177 | Reject |

Note: P value is 5%.

Table 4.6 provides a comprehensive overview of the direct effects and the associated statistical significance in the examined hypotheses related to the influence of biases, financial literacy, risk tolerance, and self-efficacy on investment decision-making. Each hypothesis is scrutinized, considering the original sample statistics, including mean, standard deviation, T statistics, P values, and the ultimate decision regarding hypothesis acceptance or rejection.

The results reveal a nuanced pattern across different biases. Representative Bias (H1) is accepted, indicating the positive and significant impact on investment decision-making. The value of Beta is 0.034.

Overconfidence Bias (H1a) demonstrates a positive and significant impact on investment decision-making and the value of Beta is 0.021.

Anchoring Bias (H1b) indicating a significant positive influence on investment decision-making. The value of Beta is 0.112.

Availability Bias (H1c) has a positive and significant impact on investment decision-making and the value of Beta is 0.008.

Optimism Bias (H1d) is rejected in terms of its effect on investment decision-making and the value of Beta is 0.059.

Moderation Effect: Table 4.7

| Hypothesis | Moderating Effects | Original sample | Mean | SD. | T Value | P values | Decision |
|------------|--|-----------------|-------|-------|---------|----------|----------|
| H2 | Age x Representative Bias -> Investment Decision-Making | 0.012 | 0.010 | 0.035 | 0.353 | 0.724 | Rejected |
| H2a | Age x Overconfidence Bias -> Investment Decision-Making | 0.082 | 0.080 | 0.043 | 2.001 | 0.049 | Accepted |
| H2b | Age x Anchoring Bias -> Investment Decision-Making | -0.012 | 0.004 | 0.039 | 0.307 | 0.759 | Rejected |
| H2c | Age x Availability Bias -> Investment Decision-Making | 0.109 | 0.105 | 0.042 | 2.603 | 0.009 | Accepted |
| H2d | Age x Optimism Bias -> Investment Decision-Making | -0.186 | 0.188 | 0.044 | 4.197 | 0.000 | Accepted |
| H3 | Marital-status x Representative Bias -> Investment Decision-Making | 0.113 | 0.111 | 0.053 | 2.119 | 0.034 | Accepted |
| H3a | Marital-status x Overconfidence Bias -> Investment Decision-Making | -0.135 | 0.127 | 0.047 | 2.839 | 0.005 | Accepted |
| H3b | Marital-status x Anchoring Bias -> Investment Decision-Making | -0.063 | 0.059 | 0.041 | 2.845 | 0.002 | Accepted |
| H3c | Marital-status x Availability Bias -> Investment Decision Making | 0.032 | 0.029 | 0.048 | 4.268 | 0.001 | Accepted |
| H3d | Marital-status x Optimism Bias -> Investment Decision Making | -0.008 | 0.014 | 0.057 | 3.991 | 0.000 | Accepted |

Table 4.7 presents the moderation effects of age and marital status on the relationship between various biases (Representative Bias, Overconfidence Bias, Anchoring Bias, Availability Bias, Optimism Bias) and investment decision-making. Each hypothesis is evaluated based on the T statistic and P values.

Regarding age, H2a, H2c, and H2d show that the interactions between age and Overconfidence Bias, Availability Bias, and Optimism Bias, respectively, have significant effects on investment decision-making (Accepted). In contrast, H2 and H2b indicate non-significant moderation effects of age on Representative Bias and Anchoring Bias to investment decision-making (Rejected).

Marital status has mixed moderation effects. H3 and H3a suggest that the interactions between marital status, Representative Bias, and Overconfidence Bias significantly influence investment decision-making (Accepted). However, H3b, H3c, and H3d also indicate significant moderation effects of marital status on Anchoring Bias, Availability Bias, and Optimism Bias, respectively, to investment decision-making (Accepted).

In summary, these results highlight the varying influence of demographic factors on the relationship between different biases and investment decision-making, providing valuable insights into the nuanced impact of individual characteristics on financial choices.

4.7 Goodness of Fit Model

Table 4.8 presents various model fit indices comparing the saturated model and the estimated model in structural equation modeling. The Standardized Root Mean Square Residual (SRMR), a key measure of model fit, indicates the discrepancy between observed and predicted correlations. Both the saturated model (SRMR = 0.071) and the estimated model (SRMR = 0.075) fall within the acceptable threshold of 0.08, suggesting a good fit for both models.

The d_ULS (Unweighted Least Squares Discrepancy) and d_G (Geodesic Discrepancy) values measure overall model discrepancies, with lower values indicating better fit. The saturated model shows slightly lower d_ULS (4.108 vs. 4.593) and d_G (1.044 vs. 1.082) values compared to the estimated model, indicating a marginally better fit in the saturated model.

The Chi-square statistic assesses the difference between the observed and expected covariance matrices. The estimated model has a slightly higher Chi-square value (6214.778) than the saturated model (6087.474), suggesting that the saturated model fits the data better.

Finally, the Normed Fit Index (NFI), which ranges from 0 to 1 and reflects incremental improvement over a baseline model, shows low values for both models (NFI = 0.660 for the saturated model and NFI = 0.653 for the estimated model). These values indicate room for improvement in model fit, as an NFI closer to 0.90 is typically desirable.

Table 4.8: Goodness of Fit

| Test | Saturated model | Estimated model |
|------------|-----------------|-----------------|
| SRMR | 0.071 | 0.075 |
| d_ ULS | 4.108 | 4.593 |
| d_ G | 1.044 | 1.082 |
| Chi-square | 6087.474 | 6214.778 |
| NFI | 0.660 | 0.653 |

5.0 CONCLUSION

The findings show that, aside from optimism bias, the majority of behavioural biases have a statistically significant effect on investing decision-making. In particular, representational bias exhibits a tiny but substantial positive effect ($\beta = 0.034$, $t = 2.563$, $p = 0.031$), which results in H1's acceptance. Similarly, H2 is supported by overconfidence bias, which shows a substantial influence ($\beta = 0.021$, $t = 4.912$, $p = 0.006$). H3 is confirmed by the somewhat greater effect of anchoring bias ($\beta = 0.112$, $t = 2.951$, $p = 0.003$). Despite having a very small coefficient ($\beta = 0.008$), availability bias is statistically significant ($t = 3.561$, $p = 0.009$), which results in H4 being accepted. H5 is rejected because optimism bias does not significantly correlate with investment decision-making ($\beta = 0.059$, $t = 1.352$, $p = 0.177$). The age moderates between the availability bias, overconfidence bias optimism bias and decision making whereas age does not moderate between the representative bias, anchoring bias and decision making. The marital status moderates between the representative bias, overconfidence bias, availability bias, anchoring bias, optimism bias and decision making. Overall, the results indicate that while optimism bias had little effect on investment decisions in this study, cognitive biases including representativeness, overconfidence, anchoring, and availability do have a substantial role.

5.1 Future Research

The current study could be expanded upon in future research by examining other behavioural and psychological aspects, such as loss aversion, herding behaviour, and financial literacy, that may affect investing decision-making. To better understand how various groups react to behavioral biases, it would also be beneficial to investigate the moderating or mediating effects of demographic variables (such as, income, education, and investment experience). Furthermore, longitudinal designs may be used in future research to evaluate how these biases change over time and affect long-term investment performance.

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