

**Impact of Behavioral Biases Including Representative Bias,
Anchoring Bias, and Home Bias on Individual Investment
Decisions with the Moderating Role of Investor Experience**



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Impact of Behavioral Biases Including Representative Bias, Anchoring Bias and Home Bias on Individual Investment Decisions with the Moderating Role of Investor Experience

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A thesis submitted in partial fulfillment of the requirements for the Degree of Master of
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DEDICATION

I dedicate this thesis to my parents and my supervisor whose support has enabled me to complete this research study successfully.

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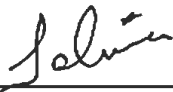
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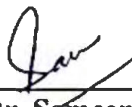
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Abstract

With technological development, there has been a vital increase in the number of individual investors. The rise of fintech platforms and investment apps has made it easier for individuals to access financial markets and execute trades. These platforms offer user-friendly interfaces, research tools, and real-time market data, making investing more accessible to a wider audience. In individual investment decisions, behavioral biases affect a lot. This is a quantitative research in which data has been collected through a questionnaire. Individual Investment decisions are negatively affected by behavioral biases in the context of Pakistan as shown by the result of the data. Financial literacy and investor experience help in reducing the affect of behavioral biases on investment decisions. The implications of the findings for researchers, policymakers, educators, and individual investors are also discussed.

Keywords: Individual investment decision, home biases, anchoring biases, representative biases, and financial literacy.

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Chapter 1: Introduction

1.1 Back ground:

Individual investments play a crucial role in economic growth. Individual investments, such as starting a business, expanding an existing one, or investing in stocks and bonds, contribute significantly to a country's economic growth. These investments create job opportunities, increase productivity, and stimulate overall economic activity. Individual investments help in the formation of capital which supports businesses with the resources needed for expansion within the country (Dinh et al., 2019). When individuals invest their savings or financial resources, they provide the necessary capital for businesses to invest in new machinery, research and development, and infrastructure, all of which contribute to economic development. Diversified individual investments across various sectors help in reducing a country's dependence on specific industries. This diversification makes the economy more resilient to fluctuations and changes in global market conditions (Gherghina et al., 2020). Moreover, diversified investment across multiple sectors helps to mitigate the risk of dependency on specific industries, thereby enhancing the economy's ability to global market fluctuations(Ritter., 2003)

Covid-19 created a high level of uncertainty in financial markets and the economy, reshaping individual investment behaviors. Many individuals became more risk-averse and cautious about investing their money due to concerns about potential losses and market volatility. Financial markets experienced extreme volatility during the early stages of the pandemic. This volatility led some investors to reevaluate their investment strategies and, in some cases, caused them to exit the market or shift to safer assets like bonds and cash. Certain sectors were disproportionately affected by the pandemic, such as travel, hospitality, and entertainment. Investors in these sectors faced significant losses, leading them to reassess their investment portfolios and potentially reallocate their assets (Naseem et al., 2021). On the other hand, Covid-19 accelerated the adoption of technology and increased demand for healthcare-related investments. Investors started to focus on sectors such as technology and healthcare that showed resilience or growth potential during the crisis (Hamad et al., 2021).

In traditional finance, it is considered that the investor is always rational and decides based on available information. On the other hand, behavioral finance investors are not rational because some behavioral biases exist in behavioral finance, and these biases affect investment decision-making (Sharma & Sarma, 2022). Different factors affect individual investment decisions. Emotions, such as fear and greed, can heavily influence investment decisions. FOMO, (Fear of missing out) may cause hasty buying decisions. Similarly, fear of losses may cause individuals to sell during market downturns. These biases can hinder an individual's ability to make rational, well-informed investment decisions. Recognizing and managing these biases is essential for successful investing. So, the result shows that individual investment decisions are affected by biases (Rahman & Gan, 2020).

Biasness in individual investment decision-making refers to the presence of cognitive, emotional, or behavioral biases that influence an individual's investment choices. These biases can lead an investor to make suboptimal decisions that may not align with their long-term financial goals. Biasness can arise from various psychological factors and can have a significant impact on investment outcomes. Most studies have found the understanding of market participants with

behavior biases when investors are dealing with investment decisions. These types of biases have been researched under cognitive psychology, (Madaan & Singh, 2019).

The three investment biases that are researched in this study are: anchoring bias, home bias, and representative bias. Tversky and Kahneman (1986) mentioned the anchoring bias in their study. It is a bias when people prefer to give weightage to only one aspect and they tend to ignore the significance of other aspects. It happens when the decision-making is based on prior knowledge or experience. The individual investors having anchoring bias focus only on their already set targets based on their past experiences and at the same time, they ignore the present market scenario. It affects the investors with high experience or knowledge in this field area. They decide based on their experience or the previous information that they have.

The second bias that is studied is home bias, which is when people buy home securities compared to the foreign securities in their investment portfolio. Sometimes it is also called the "equity home bias puzzle", according to the study of Kumar & Goyal (2014). Lastly, representative bias is the investor's bias based on recent good/bad performance. In this bias, investors decide to invest in high-priced securities, expect to gradually increase this investment, and ignore the poorly performing securities (Verma, 2016).

Investor experience plays a crucial role in reducing biases in investment decision-making for individuals. When individuals have good investment experience, they are better equipped to understand financial concepts, evaluate investment options more objectively, and make more informed decisions. Investment-experienced individuals are more likely to recognize and mitigate cognitive biases which include representative bias, anchoring bias, and home bias. They can critically assess information and make investment decisions based on data and analysis rather than emotions or preconceived beliefs (Song, Mellon & Shen, 2020).

A better understanding of economic factors, investment instruments, and financial markets is acquired by individuals when they have good investment experience. Cognitive biases are reduced by informed decision-making. Risk tolerance among individuals is better when individuals have good investment experience. Investors who have experienced market ups and downs are often more aware of their emotional responses to risk, which can lead to more balanced decision-making. Experienced investors often develop a longer-term perspective, which can reduce the impact of short-term bias. They are more likely to focus on their investment goals and strategies rather than reacting impulsively to daily market fluctuations (Pompian, 2012).

1.2 Theoretical Background:

Prospect theory developed by Kahneman and Tversky (1979), serves as the theoretical underpinning for this study. The theory challenges rational decision-making. Prospect theory further explored by Daniel et al, (1998) is a cornerstone in behavioral economics that explains how people make decisions under conditions of uncertainty. The theory challenges traditional finance assumptions of rational decision-making, suggesting that individuals evaluate outcomes to a benchmark and not viewing them in absolute terms. This benchmark is often determined by the individual's prior experiences or expectations, and it is used to determine whether an outcome is perceived as a gain or a loss. For example, if an individual expects a certain return on their investment and receives a lower return, they perceive it as a loss. In contrast, if the return is higher than expected, they perceive it as a gain (Edwards, 1996). The central aspect of Prospect Theory

is “loss aversion” which suggests that losses carry on more significant psychological impact on individuals than equivalent gains. As a result, individuals exhibit risk-averse behavior when facing potential gains and risk-seeking behavior when striving to avoid losses (Tversky & Kahneman, 1991; Wakker, 2010). In other words, individuals are more likely to take risks when faced with potential losses, as they are willing to gamble on the chance of avoiding the loss (Wakker, 2010). Prospect theory is considered a leading theory in economic psychology, which explains individuals' tendencies to take risks for potential profits but to be more risk-averse when faced with potential losses. Filbeck et al. (2005) noted that this theory is subjective and contrasts with the rational approach of expected utility theory, especially regarding investment decision-making. Loss aversion is an important element of prospect theory. Prospect theory suggests that individuals are subject to various psychological biases impacting their investment decision-making. However, investor experience helps mitigate these biases by providing individuals with the knowledge and skills needed to make more rational and informed investment decisions.

Representativeness bias causes investors to rely on perceived patterns, such as expecting a high-performing stock to continue rising, often resulting in overconfidence, poor diversification, and greater risk (Tversky & Kahneman, 1983). Anchoring bias causes individuals to rely on initial reference points. This reflects Prospect Theory's reference dependence, where initial frames hinder adaptation to new information (Baker & Ricciardi, 2014). Home bias, a widespread behavioral bias, reflects that investors tend to prefer local securities over foreign securities due to familiarity and perceived safety. While this preference provides emotional comfort, it hinders portfolio diversification and exposes investors to localized risks (Kumar & Goyal, 2014). Prospect Theory explains this tendency through loss aversion and reference dependence, as domestic investments align with familiar reference points, lowering perceived risk and easing the discomfort of navigating unfamiliar foreign markets. Prospect Theory emphasizes that the imbalance between perceived gains and losses, combined with the subjective framing of outcomes, intensifies these behavioral deviations. For instance, loss aversion prompts investors to hold onto losing assets to avoid realizing a loss, even at the expense of long-term portfolio health (Wakker, 2010). These biases not only alter decision-making patterns but also highlight the psychological complexity of financial choices.

1.3 Research Problem:

A country's financial system is made up of different financial instruments, markets, and financial institutions. These include banks, insurance companies, investment companies, and brokerage houses. The major purpose of the stock market is to provide long-term capital financing to the corporate sector. However, in Pakistan, there is a low percentage of stock ownership. Apparently, this is because Pakistan is a developing country and the general population has low per capita income. The people generally have small incomes and are not willing to take risks. Those who invest in the stocks abundantly experience behavioral biases mainly due to their lack of information and experience. These behavioral biases thus prove to be a hindrance in getting expected capital gains for the investors and a hindrance for the corporate sector to get the much-required investments from the individual investors. The significance of the investors' role can not be denied for the success of an economy. With time, investor decision-making is increasing due to their usage and importance. It is therefore unavoidable to understand the behavioral factors that

affect investment decision-making.

It is a reality that the equity culture in Pakistan has still a long way to go. People hesitate to hold stocks. Furthermore, due to low literacy rates and less experience in stocks, those who invest substantially experience behavioral biases due to which individual investment decisions get affected. Therefore the effects of behavioral biases that affect individual investment decisions still need to be researched for exploring the reasons behind these biases with context to Pakistani markets.

1.4 Research Gap:

An economy does not only comprise of financial institutions, markets, technologies, and factories, all tangible. Along with all these tangible and real aspects, there is an intangible aspect of human beliefs, guiding and being guided by all the tangible aspects of the economy. The behavioral biases investigated in this study represent this intangible human belief system that impact decision-making.

Behavioral biases are not static, they develop or diminish with time and are influenced by advancements in technology, cultural norms, socio-economic shifts, and the expanding role of fintech solutions. Gomber et al., (2017) also argued that the swift advancement of technology in financial systems and the emergence of digital investment platforms have further intensified the impact of behavioral biases on individual investment decisions. The passing of time, the evolution in technology, the increased use of fintech, and many other reasons are there that suggest that this area needs to be explored further. This study, therefore, further enhances the literature on the effects of behavioral biases on investment decisions along with the moderating impact of investor experience.

Adil et al. (2021) researched the effect of behavioral biases on investment decisions taking into account the difference between the decisions taken by the two genders, males and females. In their study they examined the effects of risk aversion bias, overconfidence bias, and herding bias on investment decisions amongst genders, taking along the moderating role of financial literacy. While this work provided meaningful insight into the gender aspect of investment decisions, it also revealed the gap in understanding other critical biases like home bias, anchoring bias, and investment bias which are still inadequately examined in the context of individual investment behavior.

Moreover, prior studies neglected the moderating role of investor experience, a critical factor in understanding biases manifest at different stages of an investor's journey. Experienced investor shows a different level of susceptibility compared to novice investors as knowledge of the market and decision-making process can mitigate the impact of certain biases (Shefrin, 2000).

To address these research gaps, this study investigates the impact of behavioral biases including home bias, anchoring bias, and representative bias on individual investment decisions, while considering the moderating role of investor experience. Focusing on the context of Pakistan, this research builds upon previous literature by integrating insights into a modern, technology-driven financial environment. The study aims to contribute to the existing body of knowledge by offering a deeper understanding of behavioral biases within an emerging market. In emerging markets, investor behaviors and finances are shaped by economic factors and cultural dynamics.

1.5 Research Objectives:

- 1) To determine the impact of representative bias on individual investment decisions.
- 2) To determine the impact of anchoring bias on individual investment decisions.
- 3) To determine the impact of home bias on individual investment decisions.
- 4) To determine the moderating role of investor experience on the relationship between behavioral biases and individual investment decisions.

1.6 Research Questions:

- 1) What is the impact of representative bias on individual investment decisions?
- 2) What is the impact of home bias on individual investment decisions?
- 3) What is the impact of anchoring bias on individual investment decisions?
- 4) Whether the investor experience moderate the relationship between behavioral biases and individual investment decisions?

1.7 Significance of Research:

There is a need to raise awareness about the importance of individual investments for the growth of the economy in Pakistan. The corporate sector needs investments as they provide businesses with the necessary capital for exploring new markets, acquiring additional assets, starting new projects, or expanding existing ones. Funds from individual investors drive corporate growth, boosting the country's economic development. Individual investors can benefit from this research by gaining adequate knowledge about the behavioral biases that influence their decisions.

The stock market comprises buyers and sellers. The irrational behavior of these buyers and sellers affects the outcomes of their investment decisions. This irrational behavior is caused by various cognitive biases which affect investment decisions. This study gives valuable insights by inspecting each component of behavioral biases including anchoring bias, home bias, and representative bias as well as their impact on investment decisions.

This study significantly contributes to the field of behavioral finance, offering valuable insights for individual investors, business firms, and securities institutions. Individual investors can use the findings for making informed investing decisions and stock selection strategies. Corporate firms can utilize the research to better understand investor behavior, provide tailored support to potential investors, and foster trust by offering valuable insights about their business models. Additionally, by understanding the impact of behavioral biases, firms can analyze future market trends more effectively and deliver informed, beneficial advice to investors, fostering stronger investor relationships and market confidence.

This research aids policymakers in understanding the influence of behavioral biases on individual investment decisions, enabling the formulation of effective investment policies to increase individual investment rates in Pakistan. The findings provide valuable insights to guide policymakers in designing targeted measures, such as investor education programs, to equip future investors with the knowledge and skills.

This research supports educators in designing courses that improve investor participation by addressing the impact of behavioral biases on investment decisions. By integrating insights from behavioral finance, these programs can enhance financial literacy. Through practical tools, case

studies, and simulations help learners to identify and address behavioral biases effectively. Educators can align their teaching with market trends to empower investors to navigate financial market complexities, creating a knowledgeable investor base and enhancing economic progress.

1.8 Thesis Structure:

The thesis consists of five chapters. In the first chapter, research objectives, research questions, problem statement, and significance of research are mentioned. In the second chapter, literature related to this topic is discussed in detail, and it develops a conceptual framework. In the third chapter, the research methodology is discussed in which methods to collect data, the instrument used to collect data, the time horizon, and data analysis techniques are discussed. In the fourth chapter, data is analyzed by graphs and tables. In the fifth chapter, the conclusion along with recommendations are mentioned.

Chapter 2: Literature Review

2.1 Individual Investment Decision making:

According to investor financial goals, risk tolerance, and overall investment strategy, various investment opportunities are evaluated, and then one of them that aligns with the investor's financial goals is processed. This process refers to individual investment decision-making (Sharma, Misra & Pathak, 2021). Achieving long-term financial objectives and effectively managing personal finances is essential for the investment decision-making process (Keswani, Dhingra & Wadhwa, 2019). Defining clear and realistic financial goals is the first step in the decision-making process. Simply growing wealth, funding education, purchasing a home, and saving for retirement are included in the financial goal of an investor. It is very crucial to understand individual investor risk tolerance levels. Investors sometimes opt for more risk when they expect higher financial returns. However some individuals favour more stable, low-risk investments (Jackson & Orr, 2019). The length of time an investor plans to hold an investment is known as the time horizon. Long-term investments give leave to increased risk-taking. On the other hand, short-term plans require a more cautious approach. Individual investment decisions are unique to each investor and should align with their financial circumstances, goals, and risk preferences (Lian, Ma & Wang, 2019). It is essential for individuals to continually educate themselves about investment options and market dynamics to make informed decisions that can lead to successful financial outcomes (Mensah et al., 2019).

Niazi and Malik (2019) stated that in shaping individual investment decisions, a significant role is played by financial literacy. About their investments, informed decisions are made by those people who have clear concepts of finance. Real estate, mutual funds, bonds, and stocks are different options for investment. People who do not have knowledge about finance management do not know much about these options of investments. Based on risk tolerance and financial goals, well-informed decisions are made by investors when they have better knowledge of these options of investment. Having experience of investment enables individuals to assess the risks associated with different investment choices. They can better understand the trade-offs between risk and potential returns, and this awareness helps them select investments that match their risk tolerance and time horizon. Having experience and literacy about investments individuals can recognize and avoid investment scams and fraudulent schemes. They are better equipped to spot red flags and make safer investment decisions (Ademola, Musa & Innocent, 2019).

Individual investments offer various benefits. Investors have full control over their investment decisions. They can adjust their portfolio allocations, make changes based on market conditions, and respond to their evolving financial situation. Engaging in individual investment decisions encourages investors to learn more about financial markets, investment strategies, and economic factors (Ramkumar & Chitra, 2021). This financial education and a hands-on experience of investments can lead to better decision-making and a deeper understanding of personal finance (Jin, Liu & Long, 2021). Individual investors can manage their investment costs, such as brokerage fees and expense ratios. They have the flexibility to choose low-cost investment options, which can lead to improved net returns over time. Individual investors have direct access to information about their holdings and the underlying assets in their portfolios. This transparency

allows them to know where their money is invested (Salsabiila & Hakim, 2022).

2.2 Behavioral Bias:

Individuals show deviation from rational decision-making due to their psychological and emotional factors. This predictable and systematic deviation refers to behavioral bias (Rasool & Ullah, 2020). Common biases, including overconfidence, loss aversion, and herding behavior, significantly influence investment decisions and frequently result in irrational financial behavior (Sharma & Sarma, 2022; Agarwal & Singh, 2023). These biases can influence how people perceive information, interpret events, and make judgments or decisions, often leading to suboptimal or irrational outcomes. Behavioral biases can impact various aspects of life, including personal finance, investing, and everyday decision-making (Sharma & Sarma, 2022). Investors need to stay informed, conduct thorough research, and maintain a disciplined approach to their investment strategy. Seeking advice from financial professionals can also help individuals overcome these biases and take rational decisions in agreement with their long term financial goals. Additionally, adopting proposed actions like diversification, asset allocation, and rebalancing help to cushion the effect that behavioral biases have on investment decision-making (Shanmuganathan, 2020).

2.2.1 Representative Bias:

Representative bias is a cognitive bias that influences investment decision-making, where individuals rely heavily on stereotypes or mental shortcuts (heuristics) to assess the likelihood of an event happening or the characteristics of an investment. In this bias, investors may make judgments based on perceived similarities between a specific investment and a prototype or category, even if the similarities are superficial and not supported by relevant data or statistical probabilities. Representative bias often leads investors to ignore relevant statistical data or base rates. They may focus on specific features or attributes of an investment that seem representative of past successful investments while neglecting the overall probability of success based on historical data (Baker et al., 2019). Recent studies highlight the significant role of representative bias in financial decision-making, emphasizing its contribution light on its impact on market inefficiencies and suboptimal investment outcomes (Singh & Gupta, 2023).

2.2.2 Anchoring bias:

While making a decision or subsequent judgment, an investor greatly relies on the first available information which affects an investment decision. This tendency is referred to as anchoring bias where the anchor act as a reference point_often arbitray_that heavily influences subsequent judgements (Tversky & Kahneman, 1974). This bias can significantly influence how people perceive and interpret information, leading to systematic errors in judgment and decision-making. Moreover, this bias is one party established the anchor, shaping the notably prevalent in negotiations, with the initial offer from one party setting an anchor that guides the direction of counteroffers and determines the final settlement (Shukla, Rushdi, & Katiyar, 2020). This bias in behavioral finance significantly contributed in suboptimal investment choices, This also emphasizes the need for awareness and adoption of strategic measures to reduce its impact (Baker & Nofsinger, 2010).

2.2.3 Home Bias:

Home bias is the situation in investment and portfolio management where investors minister to share out, in their collection of stocks and bonds, a disproportionately large portion to assets in

home country or domestic market, rather than diversifying globally. In other words, investors manifest an inclination towards investing in familiar or local assets, which results in an over-concentration of speculation in their own country. By concentrating investments in their home market, investors sometimes neglect the latent advantages of diversification across international markets. Diversification also aids to reduce overall risk of portfolio by outspreading investments over different countries and regions. By focusing predominantly on the domestic market, investors may rule out on the growth prospective of expeditiously expanding international industries and economies (Ardalan, 2019).

Recent studies reveal that factors like familiarity, perceived safety, and regulatory environments are a few a crucial driving factors for home bias emphasizing the need to promote awareness of the benefits of global diversification (Chan et al., 2005).

2.3 Financial Literacy:

According to Chang et al. (2022), investing, budgeting, and personal financial management are included in financial skills. Financial literacy refers to understanding and effective application of these skills which are necessary for long-term goals. An individual is unable to achieve long-term success without having a strong knowledge of finance. Entrepreneurs with strong financial knowledge can efficiently manage resources, minimize business costs, and improve profitability. When the cost of business is minimized it will improve the profit of the company. By using financial knowledge, an entrepreneur can determine the impact of specific actions on the bottom-line performance. In business, there is a large number of risks and through financial knowledge, a businessman can effectively determine the risks and develop strategies according to the weight of risks. When an entrepreneur has good financial management skills then he will be able to manage the taxes of the business and reduce the tax expense. To gain a piece of knowledge about the effective management of money and debt, several components of financial literacy are used which are discussed below:

2.3.1 Budgeting:

Shefrin (2021) mentioned four primary uses of money in budgeting: giving away, spending, saving, and investing. For the better allocation of income, it is very necessary to create a balance between the use of money ensuring the financial stability and long term growth. A budget is designed in such a way that an individual pays off all the debts and saves some money after all expenditures. This align with the finding of Thaler (1999) who emphasized that mental accounting in budgeting. Moreover, Lusardi and Mitchell (2011) highlighted that effective budgeting practices improve financial literacy and preparedness equip individual to handle financial shocks more efficiently, enabling them to pursue long term financial goals enabling individuals to better handle financial shocks and achieve long-term financial goals.

2.3.2 Investing:

Investment knowledge is very necessary to gain financial literacy. Knowledge about indexes, risk mitigation, diversification, price level, and interest level is very important for the skill of investment. The inflow of income increases by making good financial decisions which are possible only when management invests carefully (Raut, 2020).

2.3.3 Borrowing:

In the life of an individual, a time came when he/she needed to borrow money. A good understanding of loan structure, payment period, time value of money, compound interest rate, and simple interest rate is necessary to borrow money effectively. The financial literacy of an individual increases when he gains knowledge about the above-mentioned terms. Long-term financial stress will be reduced when an individual has good knowledge about borrowing money (Moenjak, Kongprajya & Monchaitrakul, 2020).

2.3.4 Taxation:

To obtain financial literacy, it is very important to gain knowledge about the different types of taxation and the impact of taxes on income. The tax rate on each source of income is different from other sources of income. Inheritance, rental, employment, and investment have different sources of income, and tax rates for all these sources are different. Economic stability is possible when individual or business management is aware of tax brackets. Through income management, financial performance improved a lot which is possible when management knows taxation (Tuffour, Amoako & Amartey, 2022). Likewise Lusardi and Mitchell (2014) emphasize the that understanding of taxation is essential element of financial literacy, enabling individual to improve the income and avoid unwarranted tax liabilities.

2.4 Behavioral Biases and Individual Investment Decisions:

According to Jain, Walia and Gupta (2020), behavioral biases significantly influence investment decision-making, potentially leading to suboptimal investment decisions. This literature review will focus on three key behavioral biases that impact individuals' investment decision-making: representativeness bias, anchoring bias, and home bias. The role of each of these biases in investment decision-making is explored and also some of the key findings from recent research in this area are examined.

Business owners need help making decisions based on a single point and tend to consider multiple dimensions to achieve their objectives. Traditionally, humans were believed to make rational decisions, but behavioral finance suggests otherwise. According to behavioral finance, humans tend to act irrationally in decision-making due to various behavioral and psychological biases. Investors, in particular, face errors in their decision-making process due to these biases. Tabassum et al., (2021) suggested that emotions and biases impact decision-making. Chen et al. (2004) concluded in their study that behavioral factors significantly affect investment decision-making, leading to poor trading performance. Bosman, Hartman and Sutherland (2020) identified various factors that affect decision-making and evaluated a significant correlation between these factors and decision-making.

Recent research has focused on how these biases are mitigated. Research by Abraham, Schmukler and Tessada (2019) found that providing investors with additional information, such as earnings forecasts, helps reduce the impact of anchoring bias. Similarly, Parveen et al. (2020) found that providing investors with feedback on their investment decisions helps reduce the representativeness bias's impact.

A negative relationship between behavioral biases and individual investment decision-making means that as the influence of behavioral biases increases, the quality of investment decisions tends to decrease. In other words, when investors are more prone to behavioral biases, they are

more likely to make suboptimal or irrational choices in their investment strategies. Behavioral biases can cause investors to overlook fundamental factors, such as company financials and market trends, in favor of short-term trends or emotional cues. Investors influenced by behavioral biases, like herding behavior, may follow the crowd and invest in popular assets without conducting proper due diligence, leading to speculative decisions (Sattar, Toseef & Sattar, 2020).

2.5 The moderating role of investor experience in the relationship between behavioral biases and individual investment decisions:

From successful and unsuccessful investment experiences, investors learn the investment experience. Learning from past mistakes helps investors become more resilient to biases that have led to those mistakes initially. Experienced investors often develop decision-making frameworks, which act as a buffer against biases. These frameworks include pre-defined investment strategies, risk management plans, and diversification rules that help to mitigate the influence of cognitive biases (Ullah and Elahi, 2014). Experienced investors have lived through various market conditions, including bull and bear markets, economic crises, and periods of economic growth. This exposure helps them to adapt their investment strategies to market environment changes and make informed decisions accordingly (Bhatia et al., 2022). Seasoned investors are often more proficient in conducting research and analysis. They have honed their skills in evaluating financial statements, economic indicators, and market trends, which qualify them to make better, knowledgeable investment decisions (Perveen et al., 2020). Investor experience also influences asset allocation decisions. Experienced investors are more likely to have a well-thought-out capital composition planning, that are in agreement with their financial targets and risk tolerance. This can lead to a more balanced and efficient portfolio (Naveed and Taib, 2021).

2.6 Hypothesis Section

2.6.1 Representative Bias and Individual Investment Decision:

It is clear from the literature that representative bias has an impact on individual investment decisions. Representative bias is a cognitive bias in which individuals rely on stereotypes or mental shortcuts to assess the likelihood of an event happening or the characteristics of an investment. Investors may make judgments based on perceived similarities between a specific investment and a prototype or category, even if those similarities are superficial or irrelevant. Investors influenced by representative bias ignore critical fundamental analysis, focusing solely on perceived resemblances to previous successes or popular trends. Representative bias leads investors to underestimate the risks associated with an investment, assuming that past successes will automatically translate to future gains (Han, Hirshleifer & Walden, 2022).

Kigen (2020) stated that investors affected by representative bias seek out information that confirms their preconceived notions about an investment's resemblance to previous successful investments. This leads to disregarding critical information that contradicts their biases. Media narratives and hype surrounding specific investments reinforce representative bias, leading investors to run with the pack and invest in popular assets without thorough research. Representative bias can lead investors to overlook opportunities in different markets or sectors that don't fit the mold of their perceived successful investments. Therefore, based on the above-

mentioned studies, the following hypothesis can be formulated:

H₁: Individuals with less representative bias make better investment decisions.

2.6.2 Impact of anchoring bias on individual investment decision:

Anchoring bias has a significant impact on individual investment decisions, leading investors to make suboptimal choices based on an initial reference point or anchor. This cognitive bias influences how investors perceive and interpret information, affecting their judgment and decision-making process. Anchoring bias leads investors to miss out on investment opportunities. If an investor has a preconceived notion of the “right” price for an asset, they may refrain from buying it even if the asset’s fundamentals and market conditions suggest it’s a good investment. Anchoring bias causes investors to fixate on a specific target price for an asset. This overconfidence in their price predictions leads them to ignore changing market conditions and hold onto an investment, waiting for the price to reach their anchored target (Ishfaq & Anjum, 2015).

Murithi (2014) mentioned that anchoring bias leads to herd behavior, where investors follow the crowd and anchor their decisions to the actions of others. For example, if a widely-followed market analyst sets a price target for a stock, many investors may anchor their price targets to match that analyst’s prediction. Anchoring bias influences overall market sentiment. Positive news that aligns with an existing anchor leads to overly optimistic behavior, while negative news is dismissed or downplayed. Investors use the price of a similar investment or a historical high as an anchor when valuing an asset, leading to inaccurate or inflated valuations. Thus, the hypothesis is mapped out as follows:

H₂: Individuals with less anchoring bias make better investment decisions.

2.6.3 Impact of home bias on individual investment decision:

Home bias is the situation in investment and portfolio management where investors minister to share out, in their collection of stocks and bonds, a disproportionately large portion to assets in home country or domestic market, rather than diversifying globally (Beneish & Yohn, 2008). Literature shows investors are more self-assertive and learned about their domestic market, leading to better-informed investment decisions. Investing in one’s home country may offer a more straightforward understanding of the regulatory environment and currency considerations, reducing complexity and potential risks. When investors have good knowledge about the regulatory environment and market then they can manage risk effectively and earn good returns from investment.

Additionally, investing domestically reduces transaction costs by avoiding expenses related to foreign exchanges and international brokerage services (Ardalan, 2019). However, domestic investments may limit the diversification benefits of a global portfolio. Nevertheless, research indicates that home bias positively influences individual investment decisions by boosting confidence and a sense of control (French & Poterba, 1991)

H₃: Individuals with less home biases takes better investment decisions.

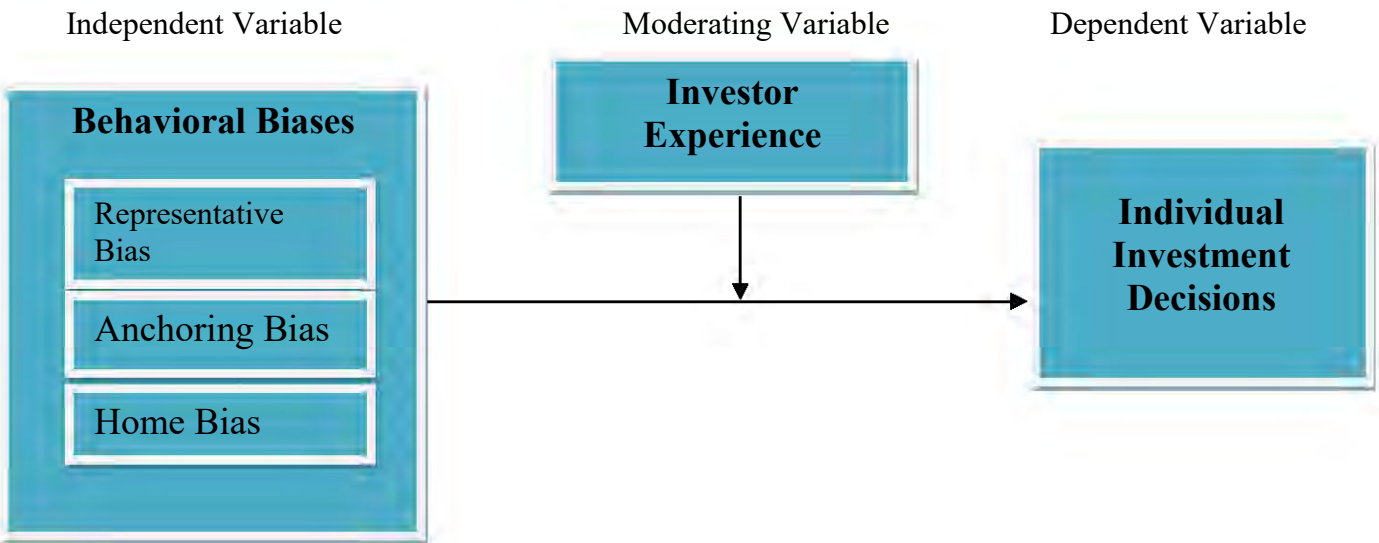
2.6.4 Impact of Investor Experience on the relationship between behavioral biases and Individual Investment Decisions:

Korniotis and Kumar (2011) concluded that investor experience has a positive impact on individual investment decisions. Investor experience improves the understanding of investors related to the risk associated with an investment. After analyzing the risks related to investment, investors make investment decisions very carefully. Based on short-term fluctuation, impulsive decisions are not taken by investors who have investment experience. Experienced investors always make long-term investment decisions. All those investors who have investment experience always make good investment decisions. Experienced investors learned a lot from past mistakes. These mistakes help in informed decision-making. The result of the research shows that investors who have investment experience make good individual investment decisions. Impact of behavioral biases mitigated through awareness of behavioral biases. Investment experience gives awareness about behavioral biases and the role of behavioral biases in poor investment decisions. The result shows that behavioral biases' role in individual investment decisions is reduced through investor experiences. Experienced investors rely on analysis, research, and data while making investment decisions. Cognitive biases less influenced the investment decisions of experienced investors (Tekçe, Yılmaz and Bildik, 2016). Based on the above-mentioned studies, the following hypothesis can be formulated:

H4: Investor experience moderates the relationship between behavioral biases and individual investment decisions.

2.7 Conceptual Framework:

Based on above mentioned literature, the conceptual framework is developed to investigate the relationship between behavioral biases and individual investment decisions with the moderating role of financial literacy and investor experience.



Chapter 3: Methodology

3.1 Research Design:

Selecting research design is the most critical part of the research process that helps ensure the research objectives are met. There are different types of research designs employed to meet the research objectives i.e, descriptive research, correlation, experimental, and diagnostic research. In this study to measure the relationship between behavioral biases and individual investment decisions, correlation research design is used and the reason behind choosing this research design is that the relationship between dependent and independent variables is best determined by using this research design (Bloomfield & Fisher, 2019).

3.2 Sample Size and Data

In qualitative research, selecting the sample size is one of the critical tasks for a researcher. A numbers of sampling techniques such as stratified sampling; cluster sampling, systematic sampling and convenient sampling are used for data collection (Rahman et al. 2022). During the sample size selection, a researcher must select an appropriate size of the sample. Results cannot be interpreted accurately when the sample size is too small. Research time and cost will increase when the sample size is too large.

In this study, the convenience method of sampling, also called availability sampling is used to get responses. This method of sampling saves time and resources while providing the highest response level (Bryman and Bell, 2011). According to Hair et al. (1998) and Kline (1998), a ratio of 5 to 10 observations for each construct is considered an acceptable size for the sample. Therefore, the size of sample is obtained by multiplying the number of constructs by 10. As there are 18 items used in the questionnaire, therefore the sample size of this research is 180. Qualitative data from selected samples were collected from individuals from the twin cities of Pakistan, Islamabad and Rawalpindi.

3.3 Variables Measurements

3.3.1 Individual Investment Decisions:

An individual investment decision refers to the process through which a person, often an investor, evaluates various investment opportunities and chooses to allocate their financial resources to specific assets or financial instruments to generate a return on their investment. This decision-making process involves considering factors such as risk tolerance, financial objectives, time horizon, and market conditions. In this study, Individual Investment Decisions are taken as the dependent variable. In this research, Individual investment decisions has been measured by using the scale which was developed by Gill, S. et al., (2018).

3.3.2 Behavioral Biases:

Behavioral biases in investment decision-making refer to the systematic and predictable patterns of irrationality and cognitive errors that can influence how individuals perceive, process, and act on financial information when making investment choices. These biases can lead investors to deviate from rational decision-making and may impact their investment strategies, risk tolerance, and overall portfolio performance. In this study the following three behavioral biases i.e. Representative Bias, Anchoring Bias, and Home Bias are all taken as independent variables.

3.3.2.1 Representative Bias:

Representative bias is a cognitive bias that influences investment decision-making, where individuals rely heavily on stereotypes or mental shortcuts (heuristics) to assess the likelihood of an event happening or the characteristics of an investment. In this bias, investors may make judgments based on perceived similarities between a specific investment and a prototype or category, even if the similarities are superficial and not supported by relevant data or statistical probabilities. Representative bias often leads investors to ignore relevant statistical data or base rates. They may focus on specific features or attributes of an investment that seem, representative of past successful investments while neglecting the overall probability of success based on historical data (Baker et al., 2019). This study uses scales developed by Ramdani F.N. (2018) to measure the representative biases by using five point Likert scale.

3.3.2.2 Anchoring Bias:

While making a decision or subsequent judgment, investor greatly rely on the first available information which affect an investment decision of an individual referred to as anchoring bias. The anchor can be an arbitrary number, value, or reference point, and individuals tend to make adjustments from this initial anchor, rather than starting from a neutral position. This bias can significantly influence how people perceive and interpret information, leading to systematic errors in judgment and decision-making. Anchoring bias is prevalent in negotiations. The first offer made by one party sets the anchor for the negotiation, influencing the counteroffers and the final settlement (Shukla, Rushdi & Katiyar, 2020). To measure the impact of anchoring bias on investment decisions, scale is adopted from research paper written by Dolreen Kaimuri Murithi (2014).

3.3.2.3 Home Bias:

Home bias is the situation in investment and portfolio management where investors minister to share out, in their collection of stocks and bonds, a disproportionately large portion to assets in home country or domestic market, rather than diversifying globally. In other words, investors manifest an inclination towards investing in familiar or local assets, which results in an over-concentration of speculation in their own country. By concentrating investments in their home market, investors sometimes neglect the latent advantages of diversification across international markets. Diversification also aids to reduce overall risk of portfolio by outspreading investments over different countries and regions. By focusing predominantly on the domestic market, investors may rule out on the growth prospective of expeditiously expanding international industries and economies (Ardalan, 2019). Shani, T. (2023) measured the home biases by using the questionnaire and he took five items for home biases that affect individual investment decisions and the same has been used in this study.

3.3.3 Investor Experience:

Over some time, participating in investment activities helps individuals gain skills and knowledge of investment which refers to investor experience. The ability to analyze financial information, exposure to market conditions, experience (Cheng and Kwan, 2000). Investor Experience plays the role of moderator between behavioral biases and individual investment decision. In this research work, investor experience is moderating variable. This variable has been measured through scale items (Ateş et al., 2016).

3.4 Models:

i.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{RB}) + \mu_i \quad (\text{i})$$

In the above equation (i) where IID (Individual investment decision) is a dependent variable and RB (Representative Bias) is the independent variable.

ii.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{AB}) + \mu_i \quad (\text{ii})$$

In the above equation (ii) where IID (Individual investment decision) is a dependent variable and AB (Anchoring Bias) is an independent variable and to measure the relationship between these two variables is examined through this model.

iii.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{HB}) + \mu_i \quad (\text{iii})$$

In the above-mentioned equation (iii) where, IID (Individual investment decision) is a dependent variable and HB (Home Bias) is an independent variable and to measure the relationship between these two variables is examined through this model.

iv.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{RB}) + \beta_{2i}(\text{IE}) + \beta_{3i}(\text{RB})(\text{IE}) + \mu_i \quad (\text{iv})$$

In the aforementioned equation (iv) IID (Individual investment decision) is the dependent variable RB (Representative Bias), IE (Investor Experience) are independent variables and to measure the relationship between these two variables is examined through this model.

v.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{AB}) + \beta_{2i}(\text{IE}) + \beta_{3i}(\text{AB})(\text{IE}) + \mu_i \quad (\text{v})$$

In the above-mentioned equation (v) IID (Individual investment decision) is the dependent variable AB (Anchoring Bias), IE (Investor Experience) are independent variables and to measure the relationship between these two variables is examined through this model.

vi.
$$\text{IID}_i = \alpha + \beta_{1i}(\text{HB}) + \beta_{2i}(\text{IE}) + \beta_{3i}(\text{HB})(\text{IE}) + \mu_i \quad (\text{vi})$$

In the aforementioned equation (vi), IID (Individual investment decision) is the dependent variable HB (Home Bias), IE (Investor Experience) are independent variables and to measure the relationship between these two variables is examined through this model.

3.5 Research Instrument, Validity, and Reliability Testing:

To test the research hypothesis, an inductive research instrument must be used. Observation, case study, questionnaire and interview are the different tools for testing. A questionnaire tool is used in this study. The reason behind choosing this tool is that it is cost-effective, easily accessible and respondent-friendly. Responses were collected through Google forms and also by visiting individual investors across different branches of investment banks and brokerage houses.

The validity of a measurement dictates whether a tool gives an accurate measurement of a concept (Bryman and Bell, 2011). Reliability Analysis as measured by Cronbach's alpha used for investigating the internal consistency of all the factors. Pearson's correlation is a tool that explains the relationship between variables. It also indicates the strength and direction of these relationships. Pearson's correlation has been used in the study to test validity.

3.6 Data Analysis Technique:

Stata 14 is used to examine the data which is collected from the responses of investors given through questionnaires. Regression analysis and correlation analysis have been used to analyze the relationship between the independent variables and dependent variables. Cross sectional time horizon has been used in this study to collect data at a specific time rather than longitudinal research that has been used for extend period of time, Saunders, Lewis and Thronhill (2009)

Chapter No 4: Results & Discussion

4.1 Reliability Analysis

A basic estimation of this research is shown in the table given below. The postponed consequences of the unflinching quality and validity tests set forth to show that the questionnaire used for this specific study is strong and suitable.

Table 4.1.1 Reliability Analysis

VARIABLES	CRONBACH ALPHA	NO. OF ITEMS
REPRESENTATIVE BIAS	.785	4
ANCHORING BIAS	.763	4
HOME BIAS	.783	3
INVESTOR EXPERIENCE	.741	3
INDIVIDUAL INVESTMENT DECISIONS	.728	4

Cronbach's alpha is used for reliability analysis which suggests the information used for data analysis collected from a reliable source, the realness can be restricted by the estimation of Cronbach's alpha which is $0.728 > 0.6$. In this study Cronbach of Representative bias, Anchoring bias, Home bias, investor experience, Individual investment decisions are 0.785, 0.763, 0.783, 0.741 & .728 respectively which suggest that this information is not random and these results can be relied upon.

4.2 Frequency Distribution w.r.t Demographics

Before addressing the main objectives of the study, it was essential to understand the respondents' prior experiences and their background information since it established the tenants around which the original study interpretations were built. Demographic attributes i.e, Age and Gender of the respondents were taken into consideration in this study.

Table 4.2.1 Frequency Distribution w.r.t Demographics, Gender

Frequency Distribution w.r.t Demographics, Gender				
	Frequency	Percent	Valid Percent	Cumulative Percent
Male	112	62.2	62.2	62.2
Female	68	37.8	37.8	100.0
Total	180	100.0	100.0	

Interpretation

The gender-specific repeat flow of up-and-comers is seen in the above table. Out of the 180 participants, up to 68 are women. Men make up the remaining 112 participants, 62.2% of the data. Male investors are greater as compared to female investors in the total sample.

Table 4.2.2 Frequency Distribution w.r.t Demographics, Age

	Freque ncy	Percent	Valid Percent	Cumulative Percent
20-30	57	31.7	31.7	31.7
31-40	77	42.8	42.8	74.4
41-70	46	25.6	25.6	100.0
Total	180	100.0	100.0	

Interpretation:

Table 4.2.2 displays the up-and-comers' repeat breakdown based on age. Results demonstrate that, out of the 180 replies, 46 participants represent the segment of the population between ages 41 to 70, 77 participants represent the mature population and ages between ages 31 and 40 and 57 represent the age range between 20 and 30. The most significant group of participants in the sample is comprised of individuals between the ages of 31 and 40.

4.3 Correlation

Correlation analysis indicates the association between two variables in terms of direction and strength. The Pearson correlation ranges from -1 to +1, where magnitude indicates the strength of the relationship. The magnitude increases as it approaches 1 from zero and a higher distance from zero indicates a higher magnitude. The direction of the relationship is observed through positive and negative signs, where a positive sign represents a positive association in which two variables move in the same direction such that if one is increasing, the other will also increase while a negative sign shows that two variables move in opposite direction such that if one variable is increasing, the other will decrease. However, correlation analysis identifies the direction and strength of the relationship; it doesn’t identify the causal and predictive power of a variable on the other. The correlations between variables are given in table 4.3.1.

Table 4.3.1 Correlations

	Representative Bias Mean	Anchoring Bias Mean	Home Bias Mean	Investor Experience Mean	Individual Investment Decisions Mean
Representative Bias	1	.859**	.925**	.903**	.939**
Mean		.000	.000	.000	.000
	180	180	180	180	180
Anchoring Bias Mean	.859**	1	.831**	.911**	.884**
	.000		.000	.000	.000
	180	180	180	180	180
Home Bias Mean	.925**	.831**	1	.883**	.952**
	.000	.000		.000	.000
	180	180	180	180	180
Investor Experience	.903**	.911**	.883**	1	.908**
Mean	.000	.000	.000		.000
	180	180	180	180	180
Individual Investment	.939**	.884**	.952**	.908**	1
Decisions Mean	.000	.000	.000	.000	
	180	180	180	180	180

***. Correlation is significant at the 0.01 level (2-tailed)*

There is a substantial correlation between the independent and dependent variables, as indicated by the P value (p0.01). There was a fully significant positive correlation between the independent variables (Representative Bias), (Anchoring Bias), (Home Bias) and the moderating variable (Investor Experience) and the dependent variable (Individual investment decisions), with values of 0.939**, 0.884**, 0.952** and 0.908**, respectively. Thus, the hypotheses H1, H2, H3 and H4 were approved.

4.4 Regression Analysis of Behavioral Biases w.r.t Individual Investment Decisions (Hypothesis H1, H2 & H3 Testing)

Regression analysis may be used to derive these conclusions since correlation analysis is unable to quantify the degree to which one variable contributes to variation in the other or ascertain the predictive capacity of a predictor variable for the dependent variable. Regression analysis is used to test the hypotheses, and the findings of the regression are used to find either to accept or reject the hypotheses. Hypotheses are tested using regression analysis, and the results are used to decide whether to accept or reject the hypothesis.

Table 4.4.1

Model Summary					
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.971 ^a	.942	.941		.251

a. Predictors: (Constant), Home bias mean, Anchoring bias mean, Representative bias mean

R square indicates the degree of variation in the dependent variable because of the independent variable. Due to the independent variable, a 97% assessed variety was found in the dependent variable.

Table 4.4.2

ANOVA ^a						
		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	181.056	3	60.352	959.518	.000 ^b
	Residual	11.070	176	.063		
	Total	192.126	179			

a. Dependent Variable: Individual Investment decisions mean

b. Predictors: (Constant), Home bias mean, Anchoring bias mean, Representative bias mean

The ANOVA table displays a model that fits the data perfectly. Additionally, the p-value of 0.000 indicates a perfect position in relation to the dependent and independent variables. The high F stat reinforce the strength of relationship between dependent and independent variable.The 181.056 is much larger than unexplanined variance (11.70) depicting the good fit for the regression model.

Table 4.4.3

	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.088	.060		-1.452	.148
Representative bias mean	.244	.048	.267	5.060	.000
Anchoring bias mean	.243	.039	.224	6.226	.000
Home bias mean	.541	.051	.518	10.678	.000

a. Dependent Variable: Individual investment decisions mean

Since the coefficient, the dependent variable, is the focus of the independent variable. The direction in which the independent variable is driving the dependent one may be ascertained using the beta value. As per the results, the dependent variable, (Individual investment decisions), has a sig esteem of.000 and a B value of .267 and is influenced by the independent variable (Representative Bias). The dependent variable, (Individual investment decisions), has a sig esteem of.000 and a B value of .224 and is influenced by the independent variable (anchoring Bias). The dependent variable, (Individual investment decisions), has a sig esteem of.000 and a B value of .518 and is influenced by the independent variable (Home Bias). The above findings are consistent with the study (Shefrin, 2002). Both studies highlight the substantial influence of behavioral biases (such as home bias, anchoring, and representativeness) on individual investment decisions, posing a challenge to traditional finance theories.

4.5 Regression Analysis of Behavioral Biases w.r.t Investor experience (Moderation Hypothesis H4 Testing)

Regression analysis may be used to derive these conclusions since correlation analysis is unable to quantify the degree to which one variable contributes to variation in the other or ascertain the predictive capacity of a predictor variable for the dependent variable. Regression analysis is used to test the hypotheses, and the findings of the regression are used to find out either to accept or reject the hypotheses. Hypotheses are tested using regression analysis, and the results are used to decide whether to accept or reject the hypothesis.

Table 4.5.1

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.944 ^a	.890	.889	.321	

a. Predictors: (Constant), Home bias mean, Anchoring bias mean, Representative bias mean

R square indicates the degree of variation in the moderating variable because of the independent variable. Due to the independent variable, a 94% assessed variety was found in the moderating variable.

Table 4.5.2

ANOVA ^a					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	147.383	3	49.128	477.006	.000 ^b
Residual	18.126	176	.103		
Total	165.509	179			

a. Dependent Variable: Investor experience mean
b. Predictors: (Constant), Home Bias Mean, Anchoring Bias Mean, Representative bias mean

The ANOVA table displays a model that fits the data perfectly. Additionally, the p-value of 0.000 indicates a perfect position in relation to the moderating and independent variables.

Table 4.5.3

Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.194	.077		2.515	.013
Representative bias mean	.244	.062	.289	3.960	.000
Anchoring bias mean	.490	.050	.487	9.820	.000
Home bias mean	.205	.065	.211	3.157	.002

a. Dependent Variable: Investor experience mean

Since the coefficient, the moderating variable is the focus of the independent variable. The direction in which the independent variable is driving the moderating one may be ascertained using the beta value. As per the results, the moderating variable, (Investor Experience), has a sig esteem of.000, .000, .002 and B values of.289, .487 & .211.

H4: Investor experience moderates the relationship between behavioral biases and individual investment decisions.

4.6 Regression Analysis of Investor Experience W.r.t Individual Investment Decision (Moderation Hypothesis H4 Testing)

Regression analysis may be used to derive these conclusions since correlation analysis is unable to quantify the degree to which one variable contributes to variation in the other or ascertain the predictive capacity of a predictor variable for the dependent variable. Regression analysis is used to test the hypotheses, and the findings of the regression are used to find out either to accept or reject the hypotheses. Hypotheses are tested using regression analysis, and the results are used to find either to accept or reject the hypothesis.

Table 4.6.1

Model Summary				
	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908 ^a	.825	.824	.435

a. Predictors: (Constant), Investor experience mean

R square indicates the degree of variation in the dependent variable because of the moderating variable. Due to the moderating variable, a 90% assessed variety was found in the dependent variable.

Table 4.6.2

ANOVA ^a					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	158.495	1	158.495	838.884	.000 ^b
Residual	33.631	178	.189		
Total	192.126	179			

a. Dependent Variable: Individual investment decisions mean

b. Predictors: (Constant), Investor experience mean

The ANOVA table displays a model that fits the data perfectly. Additionally, the p-value of 0.000 indicates a perfect position in relation to the dependent and moderating variable.

Table 4.6.3

Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.002	.096		-.023	.982
Investor experience mean	.979	.034	.908	28.963	.000

a. Dependent Variable: Individual investment decisions mean

Since the coefficient, the dependent variable, is the focus of the moderating variable. The direction in which the moderating variable is driving the dependent one may be ascertained using the beta value. As per the results, the dependent variable, (Individual Investment decisions), has a sig esteem of.000 and a B value of.908.

CHAPTER 05: CONCLUSION, DISCUSSION, RECOMMENDATIONS & FUTURE RESEARCH

5.1 Conclusion & Discussion

This research was conducted to examine how behavioral biases (representative bias, home bias and anchoring bias) affect the Investment Decisions of individual investors. A blend of financial literature has been studied to anticipate a theoretical background. The moderating role of Investor experience has also been examined.

This study concludes that the decision-making cycle of financial investors is impacted by numerous behavioral biases. These behavioral elements' influence on decision -making is change to various degrees. The results of the study present that every one of the behavioral biases (representative bias, home bias and anchoring bias) pursue impact and contribute towards the choice-making cycle of individual investors.

The results shown by regression analysis depict that investor experience moderates the relationship between behavioral biases and individual investment decisions and reveal that investors with more experience are less prone to behavioral biases while making investment decisions. Therefore it can be concluded that investor experience is a significant factor in reducing behavioral biases.

This study offers more evidence in favor of the idea that behavioral biases can negatively impact individual investment decisions, which in turn affects stock exchange performance.

The present research follows the empirical testing method in which data was collected. The study's conclusions show that behavioral biases have a major influence on individual investment decisions in the Pakistan stock market.

5.2 Recommendations & Future Research

Based on the findings of this study, a few recommendations can be made for individual investors and managers. In order to prepare themselves for profitable investment decisions, individual investors should be cautious of behavioral biases and understand them well so that their decisions can bring maximum financial returns. This could help financial investors in decreasing the vulnerability in their decision-making of ventures and may help them in elevating their certainty. This might cause to raise their benefits and market proficiency.

This study also recommends that financial market courses should be introduced for individual investors to help them in technical analysis of the martket before they invest in the market. Through

conducting training programs, investors and managers would be able to overcome behavioral biases and their effect on investment decisions. These training programs can immensely benefit the investors and managers as they can be well equipped with techniques to overcome these biases which in turn will bring more financial gains. Therefore, it is recommended to conduct training programs, seminars and workshops that can enhance the ability to defend against and comprehend these behavioral biases for the existing and potential individual investors so that they can make informed and rational decisions that lead to high financial gains in the future.

5.3 Limitations of the study:

Just like any other study, this study also has a few limitations. One of the limitations is that the study is planned through a structured questionnaire. There might be a hesitation felt by the respondents while answering due to the structured questionnaire which might lead to results that are not completely correct.

Second, the study was conducted on individual investors in one region only ie. Islamabad. The result might not be generalized to other regions. Third, the bigger size of the sample would allow us to get better and generalizable results.

Therefore, it is recommended that in the future, the research should be conducted in other parts of the country and select different populations with a bigger sample size and also to add other behavioral biases in the study to gain deep insight into the relationship between investment decisions and behavioral biases.

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Annexure

Questionnaire

Instructions - Dear valued participants, I am Tayyaba, an MS student at the Islamic University of Islamabad. You are being invited to take part in my masters' dissertation entitled: **“Impact of Behavioral Biases including Representative Bias, Anchoring Bias and Home Bias on Individual Investment Decisions with the Moderating Role of Investor Experience”**.

1- What is your name? _____

2-What is your Gender

Male ☐

Female ☐

3-What is your age?

18-30 years ☐

31-40 years ☐

41-50 years ☐

51-60 years ☐

Above 60 years ☐

To what extent do you agree with the following statements on a scale of 1 to 5, where 1 represents strongly disagree and 5 represents strongly agree.

S.No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Before investing in a stock, different risks associated with that stock are considered.					
2.	When stock price increases, I would like to realize gain					
3.	In investment decision-making, high degree of safety in the investment of stocks must be assured.					
4.	Suppose, One month ago, a stock is purchased at the price of Rs 100. Currently, its price is Rs 110. There is 50-50 chance to hold that stock further for one period and gain more profit or sell at a break-even price. I would like to sell that stock now and enjoy Rs 10 profit.					
5.	I avoid to invest in those stocks that have bad history.					
6.	I believe that future performance of stock can be analyzed by its past performance.					

7.	Before investment, I consider the past performance of the stock.					
8.	I believe that good performance are shown by famous companies only.					
9.	For buying or selling a stock, do you fix a target price in advance?					
10.	When your opinion about a stock varies from the opinion of famous analysts, would you change investment opinion?					
11.	Do you end up sticking with a losing stock for too long?					
12.	Suppose that Rs 500 is the price of X share , due to crises, share price falls Rs 100. Analytics are neutral and give hold signals. Will you share at the new low, keeping in mind the recent high?					
13.	As compared to international stock, I prefer to select local stock during investment decision.					
14.	I believe that my home country's stock market offers the best investment opportunities.					
15.	I am more comfortable and familiar with domestic investments.					
16.	I have good understanding of different investment options.					
17.	I have experienced significant financial gains through my investments.					
18.	Financial news and market trend affect a lot on my investment decisions.					