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“Behavioral biases and investment decision: Moderating role of financial literacy”

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DEDICATION

I would love to dedicate this piece of work of mine to my mother, motivator of all motivators who always remain stand by with me and pushed me towards ultimate limits.

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Abstract

The determination of this study is to analyse the relationship between the behavioral biases and investment decision. Additionally, the study also examines the interaction effect of financial literacy on the relationship of behavioural biases and investment decision. A survey questionnaire divided in to two parts was adopted nearly verbatim to measure the variables that are going to be studied in the research. Where the introductory portion deals with the demographic items of each individual investor and the second part contain items tend to identify the score for each bias and financial literacy. In the study through convenient sample technique 250 investors of Islamabad are chosen for research. The findings of the research demonstrate that behavioral biases which in study are status quo, illusion of control and over-confidence does effect investment decisions. Moreover, financial literacy has shown positive relationship with investment decision. Lastly, results have shown significant interaction of financial literacy with status quo and overconfidence bias on the investment decision. The study covers only the geography of Islamabad in the present research therefore, to have more better and generalizable insights future studies must include investors from other parts of the country. In addition to this a large sample size can also be used in the future studies. The policy makers can design their investment instruments and strategies by keeping in view the implication of biases on investors decision. Moreover, from time to time behavioural training programmes can be conducted to create awareness among the investors. This study deemed to be the first of its type in context of Pakistan, as no prior studies have been carried out to examine the financial literacy's moderating role in context of behavioral biases and investment decisions.

Keywords: Investment decisions, Financial literacy, Status quo bias, Illusion of control and over-confidence bias.