



Factors Influencing Investors' Decision-Making in the Equity Share Market during the Covid-19 Pandemic: A Study of Klang Valley

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ABSTRACT

The Covid-19 pandemic triggered unprecedented volatility in Malaysia's equity share market, prompting renewed interest in the psychological and behavioural drivers of individual investment decisions. This study examined the influence of four behavioural finance constructs—anxiety behaviour on market volatility, risk perception, risk propensity, and herding—on individual investors' decision-making in the equity share market on Bursa Malaysia during the Covid-19 pandemic, with a focus on investors in the Klang Valley. Using a quantitative, cross-sectional survey design, data were collected via a structured questionnaire distributed to 204 individual investors identified through the Taro Yamane sampling formula, yielding 121 usable responses (59.31% response rate). Data were analysed using SPSS and AMOS through reliability and validity testing, structural equation modelling, and multiple regression. The measurement model achieved acceptable reliability and convergent validity, and the four independent variables jointly explained 63.1% of the variance in investment decision-making ($R^2 = 0.631$). Hypothesis testing revealed that risk perception ($\beta = 0.656$, $p = 0.003$), risk propensity ($\beta = 0.376$, $p = 0.010$), and herding ($\beta = 0.243$, $p = 0.041$) significantly and positively influenced investment decision-making, while anxiety behaviour on market volatility ($\beta = 0.017$, $p = 0.857$) did not have a significant effect. These findings suggest that during crisis periods, investors' perceptions of and appetite for risk, together with social imitation, outweigh fear-driven reactions in shaping investment behaviour, offering practical implications for financial advisors, regulators, and investors themselves.

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1. INTRODUCTION

The stock market plays a central role in a nation's economic development, and Bursa Malaysia—formerly the Kuala Lumpur Stock Exchange (KLSE)—has grown from 252 listed companies in 1989 to over 900 companies by 2020 (Nasir & Mohamad, 1993), reflecting increasing participation from institutional and individual investors alike. Individual investors make decisions on where, how much, and when to invest based on a mix of financial information and personal judgement (Geetha & Ramesh, 2012), and their risk-taking behaviour shapes the type of shares they select, particularly high-risk stocks (Bakar & Yi, 2016). Because retail investors typically operate with more limited financial information than professional or institutional investors, they face greater difficulty making accurate investment decisions, making it important to understand the behavioural factors that drive their choices.

The outbreak of Covid-19 in early 2020 subjected Malaysia's equity share market to acute stress. The Movement Control Order (MCO), imposed in mid-March 2020, triggered a sharp drop in demand for equity products and heightened market volatility. The Kuala Lumpur Composite Index (KLCI) fell sharply before rebounding to pre-pandemic levels by June 2020 as the MCO began curbing virus transmission. Notably, Bursa Malaysia recorded a rise in retail investor participation during this period, with the retail transaction-value share averaging 32.4% compared with a five-year average of 21.4%, suggesting that individual investors became markedly more active precisely when uncertainty was highest.

This apparent paradox—rising retail participation amid extreme uncertainty—raises the question of what psychological and behavioural forces shaped individual investment decisions during the pandemic. Investors cannot validate market information with the same rigour as financial specialists, so psychological elements such as fear, perceived

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risk, personal risk appetite, and social imitation can substantially affect their choices (Ricciardi, 2008, as cited in the underlying thesis). Building on behavioural finance theory, this study investigates how anxiety behaviour on market volatility, risk perception, risk propensity, and herding influenced individual investors' decision-making in the equity share market during Covid-19, focusing on investors located in the Klang Valley, Malaysia's most active investment hub. The specific objectives were to identify the relationship between (i) anxiety behaviour on market volatility, (ii) risk propensity, (iii) risk perception, and (iv) herding, and individual investment decision-making in the equity share market. The findings are intended to benefit individual investors, investment advisors, financial market regulators, and corporate issuers by clarifying which behavioural biases most strongly shape investment choices during periods of crisis.

Understanding these dynamics matters beyond the immediate pandemic context. Malaysia's capital market depends on sustained retail participation to remain liquid, tradable, and attractive to both domestic and foreign capital. When investment decisions are driven substantially by psychological bias rather than fundamentals, market prices can depart from intrinsic value, amplifying volatility and creating risk for the wider financial system. Financial investors stand to benefit directly from recognising which biases affect their own decision-making so that they can correct for them and pursue wealth creation more rationally (Bashir, 2013, as cited in the underlying thesis). Investment advisors and financial professionals can likewise use evidence on dominant behavioural drivers to better counsel clients and help control the psychological factors that precede poor investment choices. For policymakers and regulators, empirical evidence on how behavioural bias operates during a systemic shock such as Covid-19 can inform investor-protection policy, while for corporates seeking to raise capital, understanding investor psychology helps explain fluctuations in fundraising activity that are not attributable to company fundamentals alone.

2. LITERATURE REVIEW

Behavioural finance, grounded in psychology, seeks to explain how emotions and cognitive errors influence individual investor behaviour and market outcomes (Kengatharan & Kengatharan, 2014). Pompian (2006) distinguishes Behavioural Finance Micro (BFMD), which examines how individual investors diverge from purely rational actors, from Behavioural Finance Macro (BFMA), which explains anomalies in the efficient market hypothesis. This theoretical lens underpins the present study, as investors facing an unprecedented shock such as Covid-19 are unlikely to behave with full rationality; psychological and behavioural biases become correspondingly more influential in their decision-making.

Anxiety behaviour on market volatility captures investors' worry about sharp price swings and potential losses. Sansa (2020) found that Covid-19 significantly affected the financial markets of the United States and China, while related studies documented sharp share market declines in Europe and the United States as the virus spread. Anxiety of this kind can, in principle, cause investors either to withdraw from the market or to become more vigilant and cautious in their decisions

(Hassan et al., 2013), motivating Hypothesis 1: anxiety behaviour on market volatility will significantly influence individual investment decision-making in the equity share market.

Risk perception refers to an investor's subjective assessment of future risk, shaped by personal experience (Zajac, 2004). Investors with higher risk perception tend to regard even low-risk options as riskier and to allocate funds toward safer assets, while those with lower risk perception more readily commit funds to high-risk assets (Weber, Blais, & Betz, 2002). Hamid (2013) showed that an investor's perception behaviour can alter how they think about an investment, and Khan (2016) reported a positive relationship between risk perception and investment decisions. This supports Hypothesis 2: risk perception will significantly influence individual investment decision-making in the equity share market.

Risk propensity—an individual's current tendency to take or avoid risk—is regarded as a trait that can change over time with experience (Sitkin & Weingart, 1995). It can materially affect decision-making under conditions of risk and uncertainty. Linciano and Soccorso (2012) observed that some investors are drawn to volatile markets because they believe greater risk-taking yields higher profit, forming the basis for Hypothesis 3: risk propensity will significantly influence individual investment decision-making in the equity share market.

Herding behaviour describes investors copying the strategies of others rather than relying on independent analysis (Christie & Huang, 1995; Graham, 1998). Dewan and Dharni (2019) reviewed the influence of herding on financial markets, and Satish and Padmasree (2018) documented herding among Indian stock investors. Because herding tends to intensify during periods of uncertainty, when investors seek reassurance in the actions of others, Hypothesis 4 proposes that herding will significantly influence individual investment decision-making in the equity share market. Together, these four constructs—anxiety behaviour, risk perception, risk propensity, and herding—formed the conceptual framework linking behavioural finance theory to investment decision-making in the equity share market during the Covid-19 pandemic.

The literature also points to heterogeneity in how these constructs interact with investor characteristics such as age, experience, and education. More experienced and older investors are generally reported to be less prone to behavioural bias, as accumulated market knowledge and familiarity with downturns build resilience to fear-driven reactions (List, 2003; Feng & Seasholes, 2005; Dhar & Zhu, 2006; Goetzmann & Kumar, 2008, as cited in the underlying thesis). Conversely, younger and less experienced investors tend to be more susceptible to psychological influences such as herding, since they lack the personal track record needed to evaluate conflicting information independently (Subash, 2012). This suggests that the strength of the relationships hypothesised above may not be uniform across the investor population and may depend on the demographic composition of the sample under study—an issue directly relevant to interpreting the results of the present research, given its concentration of older, highly educated respondents.

Empirical work specific to the Malaysian market situates the present study within a broader regional literature. Bakar and Yi (2016) examined the impact of psychological factors on investors' decision making among stock market participants in Klang Valley and Pahang and found that such factors meaningfully shape investment choices, while Sarkar (2017) analysed individual investor behaviour more broadly and reinforced the relevance of behavioural, rather than purely rational, explanations of stock market participation. These studies, together with the Covid-19-specific evidence reviewed above, motivate the four-hypothesis conceptual model tested in the present research, in which anxiety behaviour on market volatility, risk perception, risk propensity, and herding are modelled as independent variables predicting investment decision-making in the equity share market as the dependent variable.

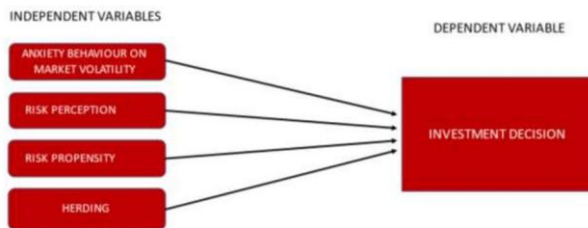


Fig. 1. Conceptual framework of the study.

3. METHODOLOGY

This study adopted a quantitative, causal research design to examine the explanatory relationships between the four independent variables and investment decision-making. The target population comprised individual investors registered with Malaysia's Central Depository System (CDS), estimated at approximately 2.49 million account holders (Aruna, 2017). Applying the Taro Yamane (1967) formula with a 7% precision level ($n = N / [1 + N(e)^2]$) to this population yielded a required sample size of 204 respondents. A convenience sampling technique was used to distribute an online (Google Forms) questionnaire via WhatsApp to individual investors located in the Klang Valley who were active in the equity share market on Bursa Malaysia. Of the 204 questionnaires distributed, 121 were returned with complete information, representing a response rate of 59.31%, which exceeds the commonly cited average cumulative response rate of about 50% (Baruch & Holtom, 2008) and was deemed statistically acceptable.

The questionnaire comprised two sections. Section A captured respondents' demographic profile (gender, age, marital status, education level, occupation, years of investment experience, and risk profile). Section B measured the four independent constructs—anxiety behaviour on market volatility, risk perception, risk propensity, and herding—and the dependent construct, investment decision-making in the equity share market during Covid-19, each operationalised through five items rated on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). Item wording drew on established behavioural finance measures, including Plaman (1975) and FitzGerald (1999) for anxiety behaviour, Zajac (2004) and Khan (2016) for risk perception, Sitkin and Weingart (1995) and Linciano and Soccorso (2012) for risk

propensity, and Christie and Huang (1995), Graham (1998), and Dewan and Dharni (2019) for herding.

Data were analysed using IBM SPSS, AMOS, and Microsoft Excel. The analytical procedure comprised descriptive statistics of the respondent profile; measurement model assessment through confirmatory factor loadings, Cronbach's Alpha reliability, Composite Reliability (CR), and Average Variance Extracted (AVE) for convergent validity; structural equation modelling (SEM) to specify the relationships among the 25 observed indicators and five latent constructs; and multiple regression analysis, evaluated through R^2 , beta weights, and p-values, to test the four hypotheses at the conventional 0.05 significance threshold.

Construct validity was verified in stages before the structural model was estimated. First, factor loadings for each of the 25 items were inspected against the 0.5 minimum threshold conventionally applied to existing scales (Awang, 2017). Second, internal consistency reliability of each construct was assessed via Cronbach's Alpha, with 0.7 treated as the benchmark for acceptable reliability and values as low as 0.5 to 0.6 tolerated for exploratory work (Nunnally, 1967; Hair et al., 2010). Third, Composite Reliability and Average Variance Extracted were computed for each latent construct to assess convergent validity, following Fornell and Larcker (1981), who specify an AVE threshold of 0.5 but allow a construct with AVE below 0.5 to still be considered adequate where Composite Reliability exceeds 0.6. Only after these criteria were evaluated was the structural model estimated and the four hypotheses tested.

4. RESULTS AND DISCUSSION

Of the 121 valid respondents, 72 (59.5%) were male and 49 (40.5%) were female. The sample was skewed toward older, more established investors: respondents above 40 years old comprised 82 persons (67.8%), far outnumbering the 20–25 (9.1%), 26–30 (2.5%), 31–35 (10.7%), and 36–40 (9.9%) age brackets. Most respondents were married (92, 76%), compared with 22 single (18.2%) and 7 widowed/divorced (5.8%) respondents. The sample was highly educated: 68 respondents (55.2%) held a bachelor's degree, 20 (16.5%) a diploma, 20 (16.5%) a master's degree, 4 (3.3%) a professional finance-related qualification, 3 (2.5%) held CMSRL certification, 2 (1.7%) a PhD, and 4 (3.3%) a high-school certificate only. By occupation, 64 respondents (52.9%) were employees, 32 (26.4%) business owners, 17 (14%) self-employed, and small numbers were students, retirees, or unemployed (around 1.7–3.3% each). Regarding stock market experience, 45 respondents (37.2%) had under five years, 41 (33.9%) had over ten years, and 35 (28.9%) had five to ten years of experience. In terms of risk profile, most respondents preferred moderately priced securities (75, 62%), while 31 (25.6%) preferred low-priced and 15 (12.4%) preferred high-priced securities.

Table 1. Structural Model Hypothesis Testing Results (Investment Decision-Making).

Hyp.	Path	β	p	Result
H1	Anxiety Behaviour → Investment Decision-Making	.017	.857	Not supported
H2	Risk Perception → Investment Decision-Making	.656	.003	Supported
H3	Risk Propensity → Investment Decision-Making	.376	.010	Supported
H4	Herding → Investment Decision-Making	.243	.041	Supported

Note. $R^2 = .631$; $\alpha = .05$.

Confirmatory factor analysis showed that nearly all 25 observed items loaded above the 0.5 threshold on their respective constructs, with values ranging from 0.605 to 0.892; only one item under the investment decision-making construct (IND2, 0.428) fell below 0.5, though this remained within an acceptable range for exploratory work (Guadagnoli & Velicer, 1988). Reliability analysis using Cronbach's Alpha showed strong internal consistency for the independent variables: anxiety behaviour on market volatility ($\alpha = 0.788$), risk perception ($\alpha = 0.901$), risk propensity ($\alpha = 0.792$), and herding ($\alpha = 0.857$), all exceeding the 0.7 acceptability benchmark (George & Mallery, 2003). The dependent variable, investment decision-making, recorded a lower Cronbach's Alpha of 0.519, below the conventional 0.7 threshold but still within the range some researchers consider acceptable for exploratory research (Nunnally, 1967).

Convergent validity was assessed through Average Variance Extracted (AVE) and Composite Reliability (CR). Risk perception (AVE = 0.6809, CR = 0.9141), risk propensity (AVE = 0.6482, CR = 0.8780), and herding (AVE = 0.5681, CR = 0.8675) exceeded the 0.5 AVE threshold recommended by Fornell and Larcker (1981). Anxiety behaviour on market volatility (AVE = 0.4913, CR = 0.8271) and investment decision-making (AVE = 0.3509, CR = 0.7230) fell below the 0.5 AVE threshold; however, because their composite reliability values exceeded 0.6, convergent validity for these two constructs was still considered adequate under Fornell and Larcker's (1981) criterion.

A structural model comprising the four independent latent variables (anxiety behaviour, risk perception, risk propensity, herding) predicting the dependent latent variable (investment decision-making) was estimated in AMOS using the 25 observed indicators. The model produced a coefficient of multiple determination of $R^2 = 0.631$, meaning the four behavioural constructs jointly explained 63.1% of the variance in investors' equity market decision-making during Covid-19—an R^2 value that falls in the moderate-to-strong effect-size range.

Hypothesis testing at the 0.05 significance level produced mixed results. Anxiety behaviour on market volatility did not significantly predict investment decision-making ($\beta = 0.017$, $p = 0.857$), so Hypothesis 1 was not supported. In contrast, risk perception significantly and positively predicted investment

decision-making ($\beta = 0.656$, $p = 0.003$), supporting Hypothesis 2 and emerging as the strongest predictor in the model. Risk propensity also significantly predicted investment decision-making ($\beta = 0.376$, $p = 0.010$), supporting Hypothesis 3 and ranking second in explanatory strength. Herding significantly predicted investment decision-making as well ($\beta = 0.243$, $p = 0.041$), supporting Hypothesis 4 and ranking third, ahead only of the non-significant anxiety construct.

These findings indicate that during the Covid-19 pandemic, investors' subjective perception of risk was the dominant behavioural driver of their equity investment decisions, consistent with prior evidence that risk perception shapes allocation between low- and high-risk assets (Hamid, 2013; Khan, 2016). Risk propensity's significant, positive effect aligns with Ton and Dao's (2014) argument that psychological traits naturally shape every investment decision, though it departs from Cho and Lee's (2006) framing of risk as primarily situational rather than dispositional. The significant herding effect corroborates prior evidence that investors imitate the trading decisions of financial advisors, friends, and family rather than relying solely on independent judgement (Christie & Huang, 1995; Satish & Padmasree, 2018). By contrast, the non-significant effect of anxiety behaviour suggests that fear of volatility alone did not deter Klang Valley investors from acting; this may reflect a pool of comparatively experienced, older, and highly educated investors (67.8% aged above 40; 71.7% holding a bachelor's degree or higher) who were able to remain rational and even see Covid-19-driven volatility as an opportunity rather than solely a threat, consistent with findings that anxiety can also sharpen investor vigilance rather than induce withdrawal (Hassan et al., 2013).

Taken together, the pattern of significant and non-significant paths offers a coherent narrative of how Klang Valley investors navigated the pandemic. Rather than freezing in the face of volatility, investors appear to have reappraised the crisis through the lens of their own risk perception and risk propensity, and then calibrated their actions partly by observing what other investors—including financial advisors, friends, and family members—were doing. This is broadly consistent with the behavioural finance premise that investors do not process new information in isolation but filter it through pre-existing beliefs, dispositions, and social context (Pompian, 2006). The comparatively high ranking of risk perception ($\beta = 0.656$) relative to risk propensity ($\beta = 0.376$) and herding ($\beta = 0.243$) further suggests that, even where several biases operate simultaneously, an investor's assessment of how risky the current environment is exerts the single largest pull on their ultimate decision, ahead of their underlying appetite for risk or their tendency to imitate others.

5. CONCLUSION

This study examined how four behavioural finance constructs—anxiety behaviour on market volatility, risk perception, risk propensity, and herding—shaped individual investors' decision-making in Malaysia's equity share market during the Covid-19 pandemic, drawing on survey data from 121 investors in the Klang Valley. The measurement model demonstrated acceptable reliability and convergent validity, and the structural model explained 63.1% of the variance in

investment decision-making. Risk perception, risk propensity, and herding were each confirmed as significant, positive predictors of investment decision-making, with risk perception exerting the strongest influence, followed by risk propensity and herding. Anxiety behaviour on market volatility, however, did not significantly influence investment decision-making, suggesting that fear of volatility alone was insufficient to alter investors' behaviour once their risk perception, risk appetite, and social cues were accounted for.

These results carry practical implications. Financial advisors and investment professionals should prioritise helping clients calibrate their risk perception and risk propensity rather than focusing narrowly on allaying anxiety, since the former factors proved far more consequential to actual decision-making. Policymakers and market regulators can use these findings to better anticipate how retail investor behaviour—including herding—may amplify market movements during future crises, and to design investor-education initiatives that promote independent, informed decision-making rather than reliance on the actions of others. Corporate issuers raising funds through equity or bond issuance during periods of crisis may also benefit from understanding that investor participation is shaped more by perceived risk and social cues than by fear alone, which can inform the timing and framing of capital-raising communications.

The study is subject to several limitations. It relied on a convenience sample of 204 respondents confined to the Klang Valley, which limits generalisability to other regions or investor populations in Malaysia. The scope was restricted to four psychological and behavioural variables, omitting other plausible influences such as financial literacy, income, and individual wealth. Self-reported survey data collected online also carry the risk of inattentive or inconsistent responses, which may partly explain the non-significant anxiety result. Future research could extend the model to incorporate financial literacy and socioeconomic variables, compare behavioural differences between millennial and more experienced investors (Subash, 2012), and broaden the sampling frame beyond the Klang Valley to strengthen the generalisability of findings on investor behaviour during periods of market crisis.

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