

The Potential Dark and Bright Part of Behavioral Biases in Investor's Investment Decisions: Mediated Moderation of Stock Market Anomalies and Financial Literacy

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Abstract : The study examines the potentially dark and bright parts of behavioral biases in investors' investment decisions in the Pakistani equity market. These biases, directly and indirectly, play a comprehensive role in controlling and deciding the investor's investment decisions. Stock market anomalies are used as a mediator, while financial literacy is used as a moderator to check the mentioned relationship. The sample consisted of investors who have trading experience of more than two years in the stock market. The result indicates that calendar anomalies do not mediate between overconfidence bias and investment decisions. However, the study investigates the mediating role of fundamental and technical anomalies between overconfidence bias and investment decisions. Furthermore, calendar anomalies play a significant role between the disposition effect and investment decisions. Calendar anomalies also mediate between herding bias and investment decisions. Financial literacy significantly moderates between behavioral biases and stock market anomalies. This research would be beneficial for individual and professional investors in their investment decisions. They should be financially literate, consequently less biased and have no market anomalies. Investors in emerging and developed economies can make optimal decisions in their respective stock markets.

Keywords : behavioral biases, financial literacy, stock market anomalies, investment decision

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