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BEHAVIOURAL BIASES AND INVESTMENT DECISION MAKING: THE MEDIATING ROLE OF RISK PERCEPTION, ACCORDING TO EVIDENCE FROM THE INDIAN STOCK MARKET

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Abstract

Research background: There is no research found till date that investigated the behavioural biases ("disposition effect, herding behaviour and blue-chip stocks") and "risk perception on investment

decision making" in the Indian stock market (National Stock Exchange) by applying Structured Equation Modelling.
Purpose: The present study examines the connections between behavioural biases, investment decision making, and individual perspectives on risk (risk perception) in the Indian stock market**.** There are two exchanges in India but the National Stock Exchange (NSE) is used for the study.
Research methodology: In the study, the target population are the investors of the National Stock Exchange in India. The sample size of the study is 380 for the final analysis. Structured Equation Modelling (SEM) is applied to construct the model and provide standard estimates for the study by using AMOS software version 23.
Results: The findings show that risk perception partially mediates the relationship between blue-chip stock preference and investment decisions, indicating that blue-chip investments may lower perceived risk and influence investor behaviour accordingly. Herding behaviour, the disposition effect, and investment decision making are all unrelated to risk perception.
Novelty: To begin with, the given study develops a mediating framework, elucidating the risk perception as a confounder between behavioural biases (overconfidence and herding) and investment decision-making which has been insufficiently explored in Indian empirical contexts. The available literature in the most part looks at these variables as secluded entities or as point predictors, not considering the inherent mentalizing frameworks that inform decisions. Secondly, the study draws on a unique and diverse sample of individual retail investors across multiple Indian cities, incorporating both Tier I and Tier II urban centres. This geographical diversity adds robustness and generalizability to the findings, which is often missing in studies limited to metro-focused or demographically narrow samples. Thirdly, the study presents a fine methodological design, where the Structural Equation Modelling (SEM) was utilized to ascertain the direct and indirect effects in a single continuum, thus providing a more subtilised picture of the relationships between behavioural constructs.

Keywords: blue-chip stocks, behavioural biases, disposition effect, herding behaviour, investment decision making, stock market, risk perception

JEL classification: D90, D91

Introduction

Behavioural finance challenges the tenets of conventional finance, which hold that investors always act rationally and base their judgments on all available data (Luo, van Horen, Millet, Zeelenberg, 2023). Non-economic elements continue to be a point of contention between proponents of contemporary finance theory and behavioural finance theory (Bihari et al., 2022; Seraj, Alzain, Alshebami, 2022; Wei, Lin, 2023). While conventional economics holds that stock prices accurately represent all relevant data, behavioural finance theorises that non-rational variables like investor sentiment might have a greater influence on company prices. Numerous academic studies have examined how factors of behavioural finance might

affect financial choices. The field of behavioural finance examines many factors – including cognitive and emotional biases, social influences, risk perceptions, and individual differences – that are demonstrated to influence investors' decisions. Multiple analyses of the effect of these variables on financial choices have shown that they often result in less-than-ideal choices (Díaz, Esparcia, 2019; Yu, Tanda, Luu, Chai, 2021).

When it comes to their investment, investors are notoriously risk-averse. They would much rather have a steady stream of earnings than take any chances. An investor's risk mind-set is rather consistent, although their perception of risk is situational and may shift. People are less inclined to invest and more likely to trade often on the stock market when they feel more vulnerable about their financial situation. Investors' bad choices are exacerbated by the herding behaviour that develops among market participants due to a low sense of risk. Investment decisions are heavily influenced by herding behaviour.

Established in 1992, "the National Stock Exchange (NSE) in India" is today one of the major stock exchanges in all of Asia. Rapid growth in recent years has led to a $3.27 trillion market valuation by the end of January 2023 (NSE, 2023). However, stock market bubbles are well known to be wicked for investments and the economy as a whole. A bubble exists in financial economics when the market price of an asset consistently diverges from its intrinsic worth. If the market price of an asset grows faster than its discounted worth of future cash flows, a bubble is formed on the stock market. Dot Com bubble, Harshad Mehta scam, Subprime crises in 2008, and COVID-19 pandemic" are some of the bubbles that have been witnessed throughout history (Chandra, Dubey, 2023). Investors' illogical actions were largely responsible for the collapse of the Harshad Mehta scam. There were serious repercussions, especially for average Indian families that had trouble paying back their debts because of these behaviours.

This study's findings have clear application in developing economies, and more especially in India's financial markets. This is due to the fact that investors' profits and losses may be significantly influenced by behavioural finance biases (Ahmed, Rasool, Saleem, Khan, Kanwal, 2022; Zahera, Bansal, 2019). For instance, investors may incur large brokerage fees and be at risk of incurring substantial losses owing to excessive trading because of overconfidence bias. The representativeness bias, in a similar vein, might lead to overpaying for stocks because of the human inclination to generalise from novel experiences to familiar ones. Poor stock market returns for investors are mostly attributable to suboptimal investing choices (Li, 2019). Researchers have also looked at biases like "loss aversion, heuristics, prospects, trust, herding behaviour, and financial literacy" while studying behavioural finance. A major

contributor to how someone interprets danger is their degree of financial literacy. Investors that are financially literate are better prepared to assess and manage the risks inherent in their investments (Bairagi, Chakraborty, 2018).

In order to determine the link among "behavioural finance", "risk perception", and "investment decision making", the "risk perception" factor must be included as a "mediator". Investors' emotional reactions and cognitive biases are taken into account by behavioural finance (Kling, König-Kersting, Trautmann, 2022; Rau, 2015). Here, an individual's risk perception acts as an important mediating variable, explaining how people take risks into account while making investment decisions. The psychological factors driving economic behaviour may be better understood by dissecting the link among "risk perception" and "investment decision making". By doing so, we may learn how different people's subjective risk assessments affect their risk tolerance, which in turn affects the investments they make. Consequently, by focusing on risk perception as a mediator, we may learn more about the complex relationship between "behavioural biases", "risk perception", and "investment decision making" (Abideen, Ahmed, Qiu, Zhao, 2023).

No research has been done, to the authors' knowledge, on the impact of behavioural finance factors on individual investors' decisions on the National Stock Exchange of India, or the mediating function of risk perception between these two outcomes. Considering the phenomenal growth of the Indian stock market in recent years, the paucity of research on the factors that influence investors' decisions is striking (Boolell-Gunesh, Broihanne, Merli, 2009).

It is unknown how the features of behavioural finance relate to investors' risk perception on the Indian stock market, despite the fact that research has shown that behavioural finance aspects impact people's investing choices. Therefore, for a more complete understanding of the market's dynamics, Investors on the Indian stock market might benefit from a further study of risk perception and the effect of behavioural finance elements on investing decision making. (Sedliačiková, Aláč, Moresová, 2020; Ullah, Elahi, Ullah, Pinglu, Subhani, 2020). Both investors and regulators might benefit from this information, since it could lead to better investment choices and the creation of rules that foster a sustainable equities market.

The rest of the research is as follows: Study methods, including a literature evaluation and the formulation of hypotheses, are outlined in Section 1. Section 2 explains the procedures we used to get our data (Methodology), whereas the Results are presented in Section 3. The results are discussed in section 4, and Section 5 contains the conclusion. Section 6 covers the scope for the future direction, and limitations of the research.

1. Literature review and hypothesis development

The field of finance known as behavioural finance highlights a serious flaw in conventional financial models by examining the impact of human psychology on economic decision making. According to Almansour, Elkrghli and Almansour (2023), investors' irrational behaviour is not well captured by these models, leading to suboptimal investment choices. To address this issue, behavioural finance theorists have focused on the ways in which investors' decision-making processes are influenced by cognitive biases including overconfidence, loss aversion, and herding behaviour (Din et al., 2021).

The decision to focus specifically on the disposition effect, herding behaviour, and blue-chip stock preference (BCS) was made based on both theoretical grounding in classical behavioural finance models and empirical relevance in the Indian stock market context.

The behaviours particularly herding and overconfidence have been identified as the main weakness in investment decision-making process especially in developing economies like India which is often driven by investor sentiment rather than rational judgment. As Madaan and Singh (2019) pointed out, overconfidence makes Indian investors overestimate their prediction and knowledge, which coupled with the wrong choice of portfolios often proves the source of suboptimal choices. Dungarwal and Tollawala (2022) also established that behavioural biases are major sources of distortion when it comes to making investment decisions, particularly among retail clients with low financial literacy. More recently, Infant Sebastian Paul and Sundaram (2025) made it clear that risk perception is a mediating role enclosed between behavioural biases and the investment behaviour by placing pre-eminence on its filtering characteristics to influence the reactions of the investor. Although research in developed markets is often based on premises of increased market efficiency and investor sophistication, the Indian market confronts distinct challenges in the form of information asymmetry, emotional investing and even social influence that exacerbate the biases on these dimensions. Although most of the existing research on these biases has been conducted in India, it has been done so in isolation of other biases to a large extent with little emphasis on the links between these biases through mediating lens.

An individual's risk perception, or assessment of the degree of risk involved, is a crucial consideration in every investing decision. Researchers like Mulyani, Fitra and Honesty (2021), Saivasan and Lokhande (2022), Ainia and Lutfi (2019), and Rauf-i-Azam and Imran Hunjra (2019) have emphasised the complexity of risk perception and the many ways in which it may be impacted. Individual traits, market circumstances, and cognitive biases are all examples

of such biases. Behavioural finance provides insight into the intricacies of investors' decision-making processes by taking into account the impact of behavioural finance biases on risk perception (Almansour et al., 2023). It draws attention to the fact that subjective factors, such as "biases and heuristics", may affect people's risk perception and lead them astray from rational decision making. Therefore, the mental processes at work in financial investments may be better understood via risk analysis as it pertains to the field of behavioural finance. Investors' perceptions and assessments of risk seem to mediate the connection between behavioural finance and investing in decision making. For instance, an overconfident investor may incorrectly judge the degree of risk associated with a certain investment, increasing the possibility that they would make a likelihood that is not in keeping with their risk tolerance (Abideen et al., 2023; Seraj et al., 2022). Alternatively, a risk-averse investor may misjudge the degree of risk associated with a low-risk investment, so missing out on potential profits (Díaz, Esparcia, 2019; Van den Bergh-Lindeque, Ferreira-Schenk, Dickason-Koekemoer, Habanabakize, 2022).

"Risk perception and investment decision making" are only two topics explored by the literature on "behavioural finance," which may be broken down into five broad categories. The first aspect investigates "the impact of risk perception on investment decision making. Second category assesses the impact of the disposition effect on risk perception and investment decision making. The third analyses, is the impact of herding behaviour on risk perception and investment decision-making and the fourth category assesses the impact of blue-chip stocks on risk perception and investment decision-making."

1.1. The impact of risk perception on investment decision making

Risk perception and investing decision making have been the subject of several studies. Wei and Lin (2023), Yu, Tanda, Luu, Chai (2021) investigate how investors' perceptions of environmental risk affect their investment decisions. According to the results, there are less investments made when there is a larger sense of environmental risk (Wei, Lin, 2023; Yu et al., 2021). Investment risk perception, financial literacy, and investment behaviour are all investigated in cross-country research by Aren and Zengin (2016), Sadiq, Muhammad Nauman, Khan (2018) that spans many European nations. They found that those who had a high investment risk perception also tended to invest cautiously, with the level of caution depending on the individual's level of financial knowledge. Park and Jang (2021) examine the potential benefits of using investor sentiment history while determining investing decisions. The authors show that the accuracy of investment return projections is much enhanced by including

historical risk perception data, suggesting that risk perception plays a substantial influence in investment decision making. Accordingly, the research makes a hypothesis:

H1: Risk perception is significantly related to investment decision-making.

1.2. The impact of the disposition effect on risk perception and investment decision making

Investors are reported to be subject to a behavioural bias known as the "disposition effect", in which they are more likely to hang onto failing investments for a longer length of time than winning ones. As a result, investors are more likely to hold onto equities during periods of price decrease and sell them off quickly during periods of price appreciation. When comparing long and short positions, the disposition effect is more noticeable in the former. The disposition effect on investor behaviour is supported by strong data from (Ikram, Fouad, Sara, 2023).

Luo, van Horen, Millet and Zeelenberg (2023) discovered that investors are prone to making irrational decisions due to the disposition effect. When comparing equities that have earned profits and losses, investors prefer to hang on to stocks that have created losses for a longer length of time, a phenomenon known as the "disposition effect". This prejudice is more common among unsophisticated investors and is related to poor investing results. Stop losses are emphasised in the research as a technique to control for the "disposition effect". According to the data, investors who use stop losses tend to be less seasoned than those who do not, and those who do not are less willing to accept losses (Luo et al., 2023). Bihari et al. (2022) investigates the influence of biases on economic decisions, with a focus on the disposition effect. The results show that the disposition effect significantly influences investors' choices. Disposition impact is demonstrated to be directly connected to investment choices, unmediated by risk aversion (Ahmed et al., 2022). According to Jackson, Rodgers and Tuttle (2010), the effect of selling an asset has a considerable impact on the choice to make an investment. Disposition significantly affects risk perception, according to research by (Ahmed et al., 2022). As a result, investment choices and risk perception are shown to be intimately linked to the disposition effect (Ahmed et al., 2022). Accordingly, the research makes a hypothesis:

H2: The disposition effect is significantly related to investment decision-making.

H5: Risk perception positively mediates the effect of disposition on investment decision-making.

1.3. The impact of herding behaviour on risk perception and investment decision-making

According to Huang, Wu and Lin (2016); Jabeen, Rizavi and Farhan (2022) herding behaviour arises due to the effect that investors' perception of risk has on stock returns. When it comes to making financial judgments, many investors are susceptible to herding behaviour or overconfidence biases. Investors' low-risk propensity or risk avoidance underpins this herding behaviour since they are motivated to protect their wealth at all costs. During herding, even normally reasonable people start acting irrationally because they begin to value the opinions of those around them more than their own. This behaviour can be due to following the advice of others or a general lack of financial understanding.

Herding behaviour and the interplay of risk and reward are explored by Baddeley, (2010); Chauhan, Ahmad, Aggarwal and Chandra (2020). The authors made the observation that herding behaviour is more common when the market is volatile and unpredictable. Herding behaviour in the context of risk and uncertainty is studied by Aharon, 2021; Bogdan, Sustar and Drazenovic (2022), who found it to be widespread in the US stock market. The perception of risk mediates the connection between behavioural characteristics and investment returns, as shown by Chen, Ishfaq, Ashraf, Sarfaraz and Wang (2022). Similarly, Broihanne, Merli and Roger (2014) demonstrates that the connection between overconfidence and financial decisions may be explained by individual variations in risk perception. According to the research of Li, Wu, Hong and Tian (2023), the association between behavioural finance traits and investment preference is moderated by investors' perceptions of risk. Herd behaviour and investment decisions are not moderated by individuals' risk aversion, as shown by (Ahmed et al., 2022). Individual investors' risk aversion is linked negatively to their own behavioural biases, according to (Abideen et al., 2023 ; Rasool, Ullah, 2020). This would indicate that investors are less likely to experience behavioural biases as their perception of risk increases. Accordingly, the research makes a hypothesis:

H3: Herding behaviour is significantly related to investment decision making.

H6: Risk perception positively mediates the impact of herding on investment decision making.

1.4. The impact of blue-chip stocks on risk perception and investment decision-making

The demand of the investors on blue-chip stock highly affects the perception of risk and the decision making of investment especially in an emerging market such as India. Blue-chip stocks, being large well established enterprises in general, are generally believed to be less risky, safer, and more stable in returns and hence many retail investors are lured by them in spite of their own risk tolerance capacity and economic objective requirements. Such a preference may often make sense, although it can be influenced by behavioural patterns, which might include familiarity bias, representativeness heuristic, and status quo bias. Such heuristics can make the investor incorrectly overweigh blue-chip investments, and incorrectly under weigh the value of diversification or non-blue-chip asset types. Consequently, its excessive dependence on blue-chip stocks can distort an objective evaluation of risks, as well as reducing the portfolios of investors and their potential benefits in the long run. Such behavioural tendency illustrates the need to investigate blue-chip stock preference as not an asset choice, but as a psychological setting through which the perception of risk is altered and investment decisions are ultimately determined. Accordingly, the research makes a hypothesis:

H4: Blue-chip stocks are significantly related to investment decision-making.

H7: Risk perception positively mediates the impact of blue-chip stocks on investment decision-making.

1.5. Research Gap

By contextualising the behavioural constructs within this emerging market framework, the study strengthens its justification for focusing on the Indian stock market. This approach ensures theoretical relevance while acknowledging the need for region-specific models that account for socio-economic and behavioural diversity.

After studying other research, the findings of the review of literature and hypothesis development stated that there has been no research found to date that investigated behavioural biases (“the disposition effect, herding behaviour and blue-chip stocks”) and “risk perception on investment decision making” on the Indian stock market (National Stock Exchange) by applying Structured Equation Modelling. Therefore, this study made an attempt to study the interrelationship among behavioural biases (“the disposition effect, herding behaviour and blue-chip stocks”), “risk perception and investment decision making” on the Indian stock market (National Stock Exchange).

2. Research methodology

The present study proposed a conceptual framework for executing the Structured Equation Modelling. The study aims to identify the mediating role of risk perception among behavioural biases and investment decision making. The following is in the research design of the study.

Table 1. Research Design

S.No.	Research Design	Explanation of the research design
1	Target Population	In the study, the target population are the individual investors of the National Stock Exchange in India
2	Sample Size	A total of 500 questionnaires were distributed for the study but only 380 questionnaires were completely filled in. Hence, the sample size of the study is 380 for the final analysis
3	Sampling procedure	A purposive sampling technique was used for the study as it matches both the assumptions of the study. The first assumption, sample size is homogenous and the second assumption was that the respondents were experts in their field
4	Procedure for data collection	For data collection, a structured questionnaire constructed on a five-point Likert scale, where responses ranged from strongly disagree to strongly agree
5	Analytical techniques	Structured Equation Modelling (SEM) was applied to the construct model to provide standard estimates for the study by using AMOS software version 23

Source: authors' own compilation.

Measurement of variables

The present study considers the mentioned variables below.

Table 2. Measurement of variables

S.No.	Latent Variables and mediating variables of the study	Codes	References
1	2	3	4
A. Disposition Effect			
1	When your stock generates a marginal gain, you rationalise selling it	DE1	Kumari (2017)
2	You could think it is worth it to take a small loss and sell your investment early	DE2	Guenther and Lordan (2023)
3	You do not sell a stock that is losing money until it starts making money	DE3	Ploner (2017)
4	You were not hoping for a significant return on your investment	DE4	Zahera and Bansal (2019)
5	You do not invest in a stock for very long	DE5	Rau (2015)
6	You do not want to keep the winning stock but would rather sell it	DE6	Boolell-Gunesh et al. (2009)

1	2	3	4
B. Herding Behaviour			
1	Your stock-buying choices will be influenced by those of other investors	HB1	Bui, Nguyen and Nguyen (2015)
2	Your stock investing selections are affected by the actions of other investors about the stock's volume	HB2	Tran, Nguyen and Lin (2017)
3	Your stock purchasing and selling choices will be influenced by those of other investors	HB3	Mertzanis and Allam (2018)
4.	When the stock market fluctuates, you likely move swiftly and in accordance with the activities of other investors	HB4	BenMabrouk (2018)
5	You have faith in your stock market expertise and knowledge to help you achieve market-beating returns	HB5	Kumar and Goyal (2015)
6	When making a new investment, you look to your past successes and failures on the market	HB6	Cakan and Balagyozyan (2014)
7	Based on current stock values, you make predictions about how they will change in the near future	HB7	Aren, Aydemir and Şehitoğlu (2016)
C. Blue chip stocks			
1	Immediately, you would put in an order to purchase it	BCS1	Ullah et al. (2020)
2	Normally, before making a purchase, you would look into it	BCS2	Ahmed et al. (2022)
3	You would think of comparable scenarios	BCS3	Almansour et al. (2023)
4	You could even think about buying it	BCS4	Li (2019)
5	When making a choice, you would consider the market conditions	BCS5	Sedliačiková et al. (2020)
D. Risk Perception			
1	The term „risk" conjures up images of an „opportunity" for you	RP1	Mulyani et al. (2021)
2	Investment risk is something to be avoided	RP2	Jain et al. (2023)
3	There is risk, but you can live with it if it is proportional to the reward you may get if you take the chance	RP3	Saivasan and Lokhande (2022)
4	In the long term, you want to make more money than you do right now	RP4	Arvidsson and Hansen (2020)
5	You want to do business with or work for companies that pay more money	RP5	Bairagi and Chakraborty (2018)
6	By taking calculated financial risks, you would demonstrate your willingness to do so	RP6	Kling et al. (2022)
E. Investment decision making			
1	Your most recent stock investment has yielded a satisfactory rate of return	IDM1	Virlics (2013)
2	Your ROI is competitive with or higher than the market average	IDM2	Abdul kareem et al. (2023)
3	Your investing choices over the last year have left you feeling content	IDM3	Kumar and Goyal (2015)

Source: authors' own compilation.

Conceptual framework

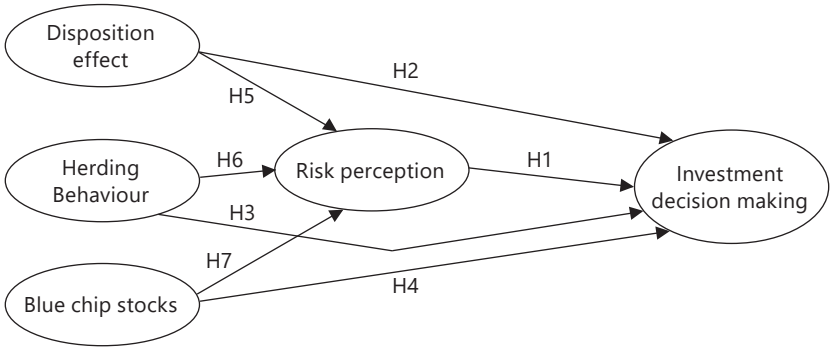

Figure 1. Conceptual framework

Source: own elaboration.

3. Results

There are four columns in the current research that explain the demographic analysis. Each category, including "gender, age, marital status, education, occupation, and income", is described in the first column. Each factor's underlying variables are listed in the second column. Each sub variable's frequency and percentage are listed in the third and fourth columns, respectively.

Table 3. Demographic analysis

Variable		Frequency	Percent
1		2	3
Gender	Male	266	70
	Female	114	30
Age	Less than 18	7	1.84
	18–20	13	3.42
	20–25	46	12.10
	25–30	178	46.84
	30 and above	136	35.78
Marital Status	Unmarried	253	66.57
	Married	127	33.42

1		2	3
Education Level	Below Graduation	58	15.26
	Graduation	173	45.52
	Post-Graduation	127	33.42
	Others	22	5.78
Occupation	Business	247	65
	Service	133	35
Income Level	Less than Rs. 20,000	37	9.73
	Rs. 20,000–Rs. 30,000	112	29.47
	Rs. 30,000–Rs. 40,000	174	45.78
	Rs. 40,000 and above	57	15.00

Source: authors' own compilation.

Table 4. Descriptive Statistics and Correlation Matrix

S.No.	Variable name	Variable Code	Cronbach Alpha	Number of Items	Mean	Standard Deviation	1	2	3	4	5
1	Disposition Effect	DE	0.783	6	3.73	0.831	1				
2	Herding Behaviour	HB	0.850	7	3.09	0.914	0.491**	1			
3	Blue Chip Stocks	BCS	0.917	5	3.24	0.911	0.277**	0.246**	1		
4	Risk Perception	RP	0.826	6	3.46	0.928	0.311**	0.408**	0.147**	1	
5	Investment decision making	IDM	0.831	3	3.72	0.861	0.235**	0.381**	0.142**	0.609**	1

Note:
*At the 0.05 level, a correlation is statistically significant (two-tailed).
**At the 0.01 level, a correlation exists (two-tailed).
***The significance threshold of the correlation is 1%. (two-tailed).

Source: authors' own compilation.

Table 4 represents the estimated values of descriptive statistics, the Cronbach Alpha and "correlation matrix" of the variables ("the Disposition Effect, Herding Behaviour, Blue Chip Stocks, Risk Perception and Investment decision making") of the present study. The estimated value of the Cronbach Alpha is greater than 0.60 in all the variables understudy. Therefore, internal consistency is existed among the variables. Moreover, the correlation matrix is a positive matrix as all the variables are positively correlated to each other.

Table 5. Convergent validity

Constructs	Items	Factor Loading	Composite Reliability	Average Variance explained
Disposition Effect	DE1	0.874	0.745	0.623
	DE2	0.871		
	DE3	0.797		
	DE4	0.802		
	DE5	0.812		
	DE6	0.781		
Herding Behaviour	HB1	0.721	0.789	0.563
	HB2	0.819		
	HB3	0.837		
	HB4	0.684		
	HB5	0.814		
	HB6	0.867		
	HB7	0.894		
Blue chip stocks	BCS1	0.710	0.812	0.612
	BCS2	0.835		
	BCS3	0.810		
	BCS4	0.835		
	BCS5	0.791		
Risk perception	RP1	0.807	0.734	0.572
	RP2	0.742		
	RP3	0.736		
	RP4	0.751		
	RP5	0.786		
	RP6	0.660		
Investment decision making	IDM1	0.660	0.712	0.511
	IDM2	0.833		
	IDM3	0.759		

Source: authors' own compilation.

Factor loadings of all observed variables on the latent variable are shown in the table (Table 5) above. In this way, the validity of various constructs can be assessed. There are five columns having construct names, items of the study, factor loading, Composite Reliability and Average Variance Explained. The estimated value of factor loading is greater than 0.40 (threshold limit) in all the variables. In case of Composite Reliability, the estimated value is

0.50 (threshold limit) in all the variables. The estimated value of Average Variance Explained (AVE) is greater than 0.50 (threshold limit) in all the variables.

3.1. Discriminant validity

Discriminant validity is the extent to which dissimilar measurements may be reliably differentiated from one another. It is the ability of one construct to differentiate itself from others that constitute its discriminant validity (Anderson, Gerbing, 1988). Discriminant validity is shown by the italic values indicating that the values presented before them are less than the diagonal values presented in bold italics.

Table 6. Discriminant Validity

Construct	DE	HB	BCS	RP	IDM
DE	***0.781***				
HB	0.319	***0.711***			
BCS	0.384	0.233	***0.759***		
RP	0.632	0.385	0.652	***0.733***	
IDM	0.354	0.612	0.239	0.412	***0.721***

Source: authors' own compilation.

Table 7. Model fit summary

Model summary (M_0) of Fit Index	Estimated values of the Confirmatory Factor Analysis	Threshold Criteria	Decision
Ratio to Chi-square/df (CMIN/df)	1.985	≤3	Reliable Model fit
Comparative fit index (CFI)	0.956	≥0.90	Moderate Reliable fit
Root Mean Square Error of Approximation (RMSEA)	0.051	≤0.06	Reliable Model fit
Tucker-Lewis index (TLI)	0.947	≥0.90	Moderate Reliable fit
Parsimony goodness-of-fit index (PGFI)	0.833	≥0.50	Reliable Model fit
Goodness of fit index (GFI)	0.923	≥0.90	Moderate Reliable fit
Root Mean Square residual (RMR)	0.040	≤0.05	Reliable Model fit
PCLOSE	0.385	≥0.05	Reliable Model fit

Source: authors' own compilation.

Confirmatory Factor Analysis (CFA) confirms the measurement of structural validity. According to model fit indices, this particular model offers the best match to the data (see Table 5). Each of the five components is represented by a single factor in the single-factor CFA

shown in Table 7. A good fit is achieved when items are assigned to factors in a five-factor CFA. A threshold for these values is given by Fetscherin (2019). In the case of "Comparative fit index (CFI) (0.956), Tucker-Lewis index (TLI) (0.947) and Goodness of fit index (GFI) (0.923)", the model is a moderate reliable fit and rest in all of the estimated values the model is a reliable fit.

Table 8 displays the critical ratio and P-value that are directly related to the significance level of the hypothesis. The critical value of the 0.05 significance level should be higher than 1.96 in light of the hypothetical reasoning. The findings do not support hypothesis 3 rest all other hypothesis in the study are accepted.

Table 8. Hypothesis decision: Direct Effect

Hypothesis Number	Path	Critical values	Regression Coefficients (β)	Outcome
H1	Rp → IDM	–3.844	–0.47	Accepted
H2	DE → IDM	4.762	0.784***	Accepted
H3	HB → IDM	–4.127	–0.73	Rejected
H4	BCS → IDM	6.394	0.168*	Accepted
H5	DE → RP	12.389	0.232***	Accepted
H6	HB → RP	3.893	0.387***	Accepted
H7	BCS → RP	2.683	0.281**	Accepted

Note: ***reaches statistical significance at the 1% level; **stand for the degree of significance associated with a 5% probability; *demonstrates statistical significance at the 10% level.

Source: authors' own compilation.

So, it is an acceptable fact in the study that "the disposition effect and blue-chip stocks" have a direct and positive correlation with "investment decision making" but there is an inverse correlation that exists between "risk perception and herding behaviour with investment decision making".

Table 9. Hypothesis decision: Indirect Effect

Path	Beta coefficient	Lower bound	Upper bound	Outcome
DE → RP → IDM	0.214	–0.110	3.894	Rejected
HB → RP → IDM	0.284	–0.007	1.783	Rejected
BCS → RP → IDM	0.737	2.567	1.683	Accepted

Source: authors' own compilation.

Mediation happens when "the relationship between the independent and dependent variables are explained by other factors." A mediating variable is one that stands between two other variables in a chain of causation. The relationship between the variables is analysed using the bootstrap method, and the results are discussed. The bootstrap approach was used to look at the mediating connection between the variables. Table 9 displays the mediated impact of risk perception in the link between "behavioural biases" ("the Disposition Effect, the Herding Bias and Blue-chip stocks") and "investment decision making".

Lower and upper limit values of 0 in Table 9 show that there is no evidence for mediation between "herding bias", "disposition effect", and "investment decision making". This means that the upper and lower boundaries cannot be 0 (Cheung, Lau, 2008). "Blue-chip stocks and investment decision making" were shown to be mediated. Either a positive or negative outlook on risk might be held. When investors have a favourable outlook on risk perception, they are more likely to take calculated risks. Overconfident investors tend to have a favourable risk perception and a risk-taking mentality that leads them to make investments (Parveen et al., 2020). A skewed market and a lack of investment would result from the public's pessimistic view of risk.

In H1, although a quality decision ought to be influenced positively according to the given risk perception, this negative and significant coefficient implies that level of perceived risk may actually confuse and mislead individual investors in an Indian environment and result in a delay or a bad decision rather than more deliberate or informed decision making. This is a form of normal behavioural anomalies that are likely to occur in a new market where there is low financial literacy and emotional sensitivities about the risk perception which distorts rationality in behaviour.

Similarly, the rejection of H3 signifies that even though there is the need to attempt to explain herding behaviour as behaviour that generates action that is directly related to investment, it is possible that the other causes (such as behavioural cognitive style or demographic characteristics) have a more significant influence. The effect of herding may either be repressed due to the multicollinearity of variables predictors or they could be indirect (this is the partial mediation model).

The R^2 values are as follows.

Table 10. Endogenous Variables

Endogenous variable	R^2 value	Interpretation
Risk Perception (RP)	0.481	The model explains 48.1% of the variance in RP
Investment Decision-Making (IDM)	0.627	The model explains 62.7% of the variance in IDM

Source: authors' own compilation.

These values indicate that the model demonstrates moderate to strong explanatory power, consistent with thresholds suggested in the SEM literature (Hair et al., 2010), where R^2 values of 0.25, 0.50, and 0.75 can be considered weak, moderate, and substantial respectively.

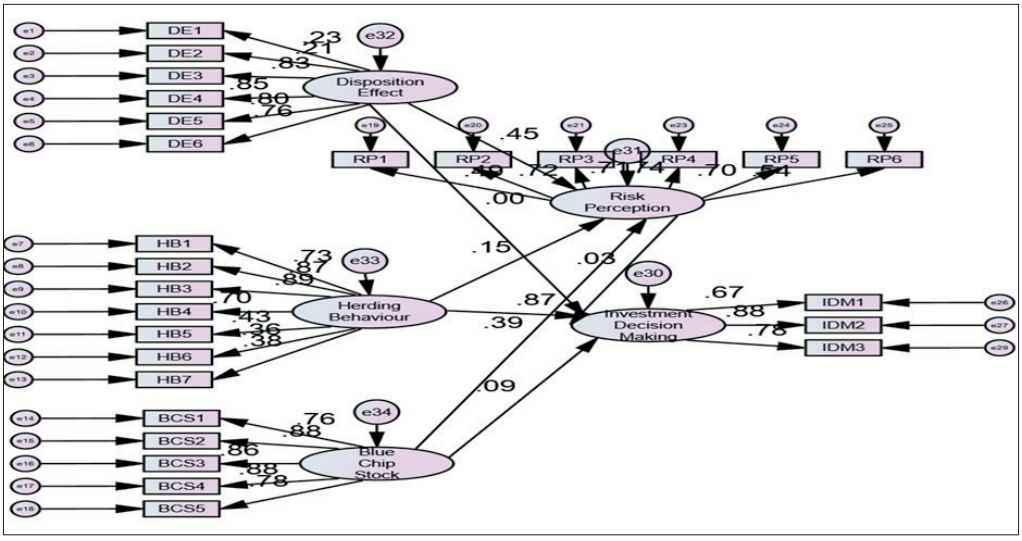

Figure 2. Structured Equation Modelling

Source: own elaboration.

To examine the mediating role of risk perception through behavioural biases and investment decision making structured equation modelling model (Figure 2) is constructed. It is found that in most of the cases of all factors and sub-factors the estimated value is greater than 0.70. Hence, risk perception is also mediating through behavioural biases and investment decision making.

4. Discussion

The aim of the present study was to understand how a set of behavioural biases, i.e., the disposition effect, herding behaviour and preference of blue-chip stocks influences the investment decision-making (IDM) with the risk perception (RP) serving as a mediating factor. Based on empirical (observational) results garnered among Indian retail investors, the results are significant in terms of providing the behavioural foundations of the financial decision-making process within an emerging market scenario.

The direct effect test established that the disposition effect (0.784) and preference of blue-chip stocks (0.168) have a significant positive effect on the decisions made by investors, indicating that both behaviours have a direct effect on the selection of investments that investors make. Conversely, there were significant negative direct effects on IDM concerning herding behaviour ($\beta = -0.73$) and risk perception ($\beta = -0.47$). That is, the two caused worse outcomes in decision making, possibly because of irrational conformity and high risk aversion respectively. Surprisingly, all three biases played a significant role in influencing risk perception, with the disposition effect playing a dominant role (with the value of beta 0.232 and p being less than 0.001) in that regard.

Nonetheless, the indirect effects, which involved the exploring mediating role of risk perception, provided more textured findings. As with the comparison with the blue chip stock likeability to IDM, the sign passed the test that was statistically significant, which is an indication that blue-chip stocks have higher flexibility to reduce risk through reduced risk perception that results in an improvement of confidence as far as the decision is concerned. The mediating role played by risk perception between both the disposition effect and herding behaviour and IDM was non-supported hence there are those instances that the other unmeasurable aspects of the psychological or contextual conditions are involved.

The implications of these findings run into a number of issues. To start off with, they reassert the behavioural finance premise that investment decisions are not always made based purely on rational grounds but are also based on psychological biases. The direct negative influence of the disposition effect, which is the predisposition to sell winning stocks prematurely and retain losing stocks longer than otherwise, indicates that emotional biases, namely, regret aversion and mental accounting, deteriorate the quality of decisions directly. Secondly, the adverse effects of herding behaviour on IDM point at the risks of the information cascade in emerging markets whereby retail investors are susceptible to blindly following market trends without conducting their analysis. Finally, the importance of the mediating factor of the risk

perception in the pathway of the preference of blue-chip stocks raises the understanding that perceived safety, which is usually known as familiarity of the company or brand, can provide false safety which can give false inflation in investing styles.

The results themselves indicate the possible negative effects of suppression or the problem of multicollinearity at least in the rejected hypotheses which need further analytical consideration. Blue-chip investments are generally considered rational but the findings here indicate that a reliance on blue-chip can be construed in some part as bounded rationality where the inclusion of investments is mostly inspired by emotional senses rather than analytical reasoning, where such investments prohibit diversification or risk-adjusted returns.

Overall, this research gives empirical support to behavioural finance that can be used to predict behavioural finance in the Indian context and strengthens the need to include the role of risk perception to be used as a psychological mediator. The observed behaviour patterns would imply that policy makers and financial advisors need to shape investor education and financial literacy through analysing characteristics of investor biases and creating more awareness regarding the nature of the cognitive processing of risk. To broaden the research in the future, one might add other biases (e.g., overconfidence, anchoring), or determine the moderating influences (such as financial literacy, investing experience, etc.).

Conclusions

The goal of this study is to identify how risk perception and behavioural biases affect investment choices made by Indian investors. In the study, the target population are the investors of the National Stock Exchange in India. A total of 500 questionnaires were distributed for the study but only 380 questionnaires were completely filled in. Hence, the sample size of the study is 380 for the final analysis. A purposive sampling technique was used for the study as it matches both the assumptions of the study. The first assumption, sample size is homogenous and the second assumption respondents were experts in their respective fields. Structured Equation Modelling (SEM) was applied to construct a model and provide standard estimates for the study by using AMOS software version 23.

This paper examined how the impacts of major behavioural biases (the disposition effect, herding behaviour and the desire to invest in blue-chip stocks) would manifest themselves in the process of conducting investment decisions, and risk perception as a possible mediator. The results show that, there is a direct and significant relationship between all behavioural biases and the risk perception of the investor, and a decision of the investors to either invest

or not to invest in the stock, which is proved through the meaningful critical ratios and path coefficients. remarkably, risk perception is also a strong predictor of the investment decision and this enhances its role in defining the behaviour of an investor. The values in R^2 of the endogenous constructs taken as R^2 0.481 on the perception of risk and R^2 0.627 as the decision to invest imply that the proposed model has moderate to strong explanatory power.

All the constructs of the behaviour had a direct influence on investment decisions which were confirmed but the results of the mediation analysis showed that i.e. led to the mediation of the relationship between preference to blue-chip stocks and investment decisions. Interestingly, the induced effect and herding behaviour showed no noteworthy indirect impacts with respect to the perception of risk, and therefore seems to have quite an immediate, unmediated influence with respect to the decision-making. These subtle results reflect the intricate relationship between perceived risk and cognitive biases when applied to the situation of the Indian stock market.

The focus on the Indian retail investors of this study fills a gap in the literature of behavioural finance in an emerging market and especially so by including the strong response to blue-chip stocks, which is conventionally viewed as one of the rational tactics, as a potentially heuristic-driven behavioural response under specific conditions. Additionally, the paper helps to improve some of the existing studies as it presents a combined model as well as evidence in the form of structural equation modelling. Future studies can generalise these findings on more heterogeneous investor types and market-policies to increase generalisability. The additional behavioural factors and contextual forces, like the emotional factors, the level of financial literacy, or macroeconomic conditions, are also advised to be addressed in future research as a way of perfecting the current behavioural investment model.

Future directions and limitations of the study

Though the present study has been very useful to understand the impact of behavioural biases on investment decision-making on the Indian stock market, it is not without any limitations. This cross-sectional research design restricts causal inference, and the sample size might lack the representativeness of the Indian population base of investing. They mostly consist of the urban retail investors. Also, the use of self-reported data can cause a response bias and the paper only discusses three behavioural biases, not others such as loss aversion or anchoring which also can influence the decisions. As for limitations, future research in this

area might deal with these limitations by using longitudinal or experimental designs, by adding a broader demographic and geographic selection of the sample to cover rural and institutional investors, and by including a more universal count of behavioural constructs. A cross-country comparison alongside mixed-method designs may also provide more comprehensive knowledge, with actual implementations of behavioural-relevant research being ways of promoting investor education as well as more effective financial decision-making tools.

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