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OPTIMISM AND FINANCIAL SECURITY AS DETERMINANTS OF INVESTMENT BEHAVIOR: EMPIRICAL EVIDENCE FROM RETAIL INVESTORS

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KEYWORDS	ABSTRACT
Optimism, Financial Security, Investment Behaviour, Retail Investors	Present study is an attempt to empirically investigate the predictive role of optimism and financial security towards shaping the investment behavior of retail investors. Thus, drawing on insights from behavioral finance, the research examines how psychological disposition and economic stability influence individual willingness to participate in the investment activities, risk tolerance and the long-term financial planning. For this purpose, 487 retail investors residing in the major urban centers of Punjab, Pakistan is surveyed. The close-ended questionnaires, having Likert type questions related o current study constructs, are used as data collection instrument. In order to examine the hypothesized relationships, the scale reliability, validity, correlation and regression statistical tools are employed to get empirical evidences for current study. Results revealed that both, optimism & financial security, have significant positive impact and association with investment behavior among retail investors in the present study context. At the end, some recommendations and directions for future researchers are provided to promote informed & sustainable investment participation among retail investors.
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INTRODUCTION

Over the last decade, in retail investment, the individuals trading their own savings rather than on behalf of institutions, have become the powerful force in many equity markets worldwide (Hema, Parkhi, Latha, Sreeram & Barge, 2025). The technological advances (mobile brokerages, fractional shares, commission-free trading), increased media coverage and macroeconomic events (COVID-19, rapid central-bank policy shifts) have expanded retail participation and amplified the influence of

retail sentiment on the short-term price moves (Simonn, 2025). Behavioural finance research shows that psychological traits and attitudes strongly shape how retail investors form expectations and make portfolio choices. Among these attitudes, optimism (a generalized positive expectation about future outcomes) and related biases such as overconfidence is linked to higher trading frequency, greater risk-taking and deviations from normative portfolio choices. Empirical studies in emerging and developed markets find that optimistic retail investors are likely to increase equity exposures and underweight safer assets, can both raise short-term returns and increase portfolio vulnerability to market reversals (Abdin, 2022). Financial security, referring, as an investor's perceived stability of current finances and confidence in meeting foreseeable needs, is complementary determinant of investment behaviour.

The investors who report higher financial security tend to show greater capacity to hold long-term positions and to tolerate temporary drawdowns; conversely, low perceived security drives short-termism, liquidity hoarding, and avoidance of growth-oriented assets. Studies from developed and emerging markets show financial security interacts with attitudes & knowledge (financial literacy) to shape asset allocation and trading behaviour (Shah, 2024). Despite growing literature, vital gaps remain. First, many studies examine the single predictors (e.g., overconfidence) but fewer explicitly estimate joint roles of optimism and financial security in retail investor portfolios, especially using recent post-pandemic data. Second, the evidence from emerging markets, where informal savings, lower social protection and different market structures prevail, remains less consolidated than for advanced economies, limiting external validity of prior results. Addressing these gaps, may improve understanding of retail-driven market dynamics and inform investor-protection and financial-education policies. Accordingly, this study empirically investigates that how optimism & financial security predict investment behaviour among retail investors residing in major urban centres of Punjab, Pakistan.

Research Questions
1. Does optimism have any association with the investment behaviour among retail investors in the particular context?
2. Does financial security have any cause-and-effect relationship with investment behaviour among retail investors?

Research Objectives
1. To empirically test the association between optimism and investment behaviour amid retail investors as residing in major urban centers of Punjab, Pakistan.
2. To empirically test cause-effect relationship of optimism & investment behaviour amid retail investors as residing in major urban centers of Punjab, Pakistan.

LITERATURE REVIEW
The existing literature on behavioral finance and investment shows that investor psychology and subjective financial conditions shape participation, risk-taking & portfolio construction alongside economic factors. In this connection, two constructs are frequently studied are optimism & financial security that are more important toward the investment decisions in diverse situations as examined

in this section. These provides the theoretical bases for examining the relationships towards diverse empirical investigations in order to fill the gaps from diverse perspectives for extracting innovative information for contributing the existing knowledge towards the optimism, financial security and investment behaviour.

Optimism & Investors' Investment Behaviour

The research has confirmed the significance of optimism in influencing investors' financial behavior. As an illustration, as per Dhar, Salema and Saha (2017), optimism lowers likelihood of long-term hard effort and significant financial savings. Other investor categories, on other hand, might handle their money less carefully (Puri & Robinson, 2007). Researchers have found a connection between optimism and financial prosperity. Previous studies have shown that those with depression exhibit a greater pessimistic bias than those without (Strunk, Lopez & DeRubeis, 2006). Bushra, Srivastav and Pandey (2022) contended in study that optimistic retail investors saw stock market meltdown during pandemic (Baker, Bloom, Davis & Terry, 2020) as a good time to earn more and expand the investment behavior as they were having sufficient time to explore investment opportunities. the dispositional optimism can increase confidence in positive returns and reduce perceived downside, by elevating risk and tendency to hold equities and speculative assets (Ahmed, Rasool, Saleem, Khan & Kanwal, 2022). The empirical studies find that higher dispositional optimism (optimism bias) is linked with higher risk-taking, greater market participation, and frequent more trading and speculative behavior (Tabassum, Soomro, Ahmed, Alwi & Siddiqui, 2021). Based on discussion, it is hypothesized that:

H1a: The optimism is significantly associated with the investment behaviour amid retail investors
H1b: The optimism has a significant impact on the investment behavior among the retail investors
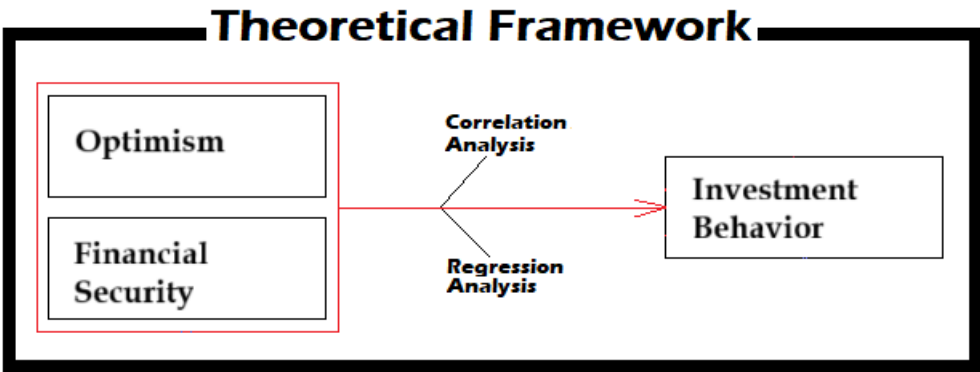
Financial Security & Investors' Investment Behaviour

The assessment made by the existing literature found that financial security attribute has yet to be investigated as the predictor of financial behavior (Bushra et al., 2022). Previous studies, however, examined the connection between an individual financial activity and degree of financial security (Sabri, Mokhtar, Anthony & Wijekoon, 2020). As a result, experts argue that a person's perception of their own financial security affect how they feel about their own financial activities, especially when it comes to stock market trading. The study conducted by Iramani and Lutfi (2021) contend that person's emotional state influences how much risk-taking motivation they have, lend credence to this theory. In this connection, several empirical studies and reviews document optimism as the statistically significant predictor of trading activity, portfolio risk & participation after controlling for demographics & financial literacy (Ikeda, Inoue & Sugitani, 2021). Fear, for example, promotes risk-averse behavior, but anger promotes the reverse of the risk-averse behaviour (Iramani & Lutfi, 2021). The stable financial circumstances should soothe normal investors' concerns and boost trade activity. The traditional adage that counsels' individuals to "buy on fear and sell on greed" must be kept in mind when making financial decisions. Therefore, from these discussions, researcher hence hypothesized that:

H2a: Financial Security is significantly associated with investment behavior amid retail investors
H2b: Financial Security has a significant impact on investment behavior among retail investors

Figure 1 Research Framework

RESEARCH METHODOLOGY

The target population of the current study comprised the retail investors, actively trading on the Pakistan Stock Exchange, from the major urban centres of Punjab (a province of Pakistan) including Lahore, Rawalpindi, Faisalabad and Multan. The motive behind choosing this particular set of the target population is that as Punjab is the most popular province and relatively having high rate of access to financial markets and educational resources with better infrastructure. For this purpose, the purposive sampling technique is used to choose the respondents out of the target population for acquiring primary data. Similarly, the questionnaires having Likert type, close-ended questions are used as data collection instruments. The scales, measuring present study variables, are adopted from previous literature.

Data Analysis & Findings

The secondary data on the topic was collected from literature while collected data is analyzed over employing various statistical tools beginning with scale reliability as well as the validity and then proceeding towards correlation and regression analyses for testing research hypotheses developed for current study.

Scale Reliability & Validity

Finding the scale reliability & validity is an initial stage in data analysis (Nawaz et al., 2023). Scale reliability is checked through the Cronbach's alpha value whereas the exploratory factor analysis containing measures such as Bartlett Test of Sphericity and Kaiser-Meyer-Olkin test, is conducted to verify the validity of scales employed. The results obtained from scale reliability and validity are presented as under

Table 1 Reliability & Validity Statistics for Optimism Scale

Reliability and Validity Statistics (OP): N=487				
Reliability coefficient (α)				.758
KMO measures of sampling adequacy		.753		Matrix
	Approx. Chi-Square	477.523	Items	Factor Loading
Bartlett's test of Sphericity	df	3	OPq1	0.777

			OPq2	0.845
	Sig.	.000	OPq3	0.749
	Required	Computed	OPq4	0.78
KMO test	=or=>=.7	0.929	OPq5	0.845
Bartlett's test	=0r=<.05	.000	OPq6	0.696
Factor Loading	=0r>.4		OPq7	0.848
			OPq8	0.748
			OPq9	0.82

Table 2 Reliability and Validity Statistics for Financial Security Scale

Reliability and Validity Statistics (FS): N=487				
Reliability coefficient (α)			.758	
KMO measures of sampling adequacy		.787	Matrix	
Bartlett's test of Sphericity	Approx. Chi-Square	735.221	Items	Factor Loading
	df	3	FSq1	0.846
	Sig.	.000	FSq2	0.760
	Required	Computed	FSq3	0.879
KMO test	=or=>=.7	0.874	FSq4	0.81
Bartlett's test	=0r=<.05	.000	FSq5	0.778
Factor Loading	=0r>.4			

Table 3 Reliability and Validity Statistics for Investment Behaviour

Reliability and Validity Statistics (IB): N=487				
Reliability coefficient (α)			.758	
KMO measures of sampling adequacy		.812	Matrix	
Bartlett's test of Sphericity	Approx. Chi-Square	671.131	Items	Factor Loading
	df	3	IBq1	0.800
	Sig.	.000	IBq2	0.850
	Required	Computed	IBq3	0.724
KMO test	=or=>=.7	0.888	IBq4	0.877
Bartlett's test	=0r=<.05	.000	IBq5	0.794
Factor Loading	=0r>.4		IBq6	0.758

Correlation Analysis

The Pearson correlation analysis is employed to check the hypotheses H1a and H2a, developed for current study to confirm the association with respect to strength and direction. In this regard, the results obtained from correlation analysis are narrated as under for reaching the decision about the association in study.

Table 4 Correlation Analysis Statistics

Construct		OP	FS	IB
Optimism (OP)	Correlation Coefficient	1		
	Sig. (2-tailed)			
	N	487		
Financial Security	Correlation Coefficient	.032	1	

(FS)	Sig. (2-tailed)	.476		
	N	487	487	
Investment Behaviour (IB)	Correlation Coefficient	.372**	.457**	1
	Sig. (2-tailed)	.000	.000	
	N	487	487	487

** Correlation is significant at the level 0.01

Correlation analysis results presented in above table 4 exhibited significant positive association of both optimism and financial security with the investment behaviour (β=.372, P=.000) and (β=.457, P=.000) respectively, among the retail investors in the present study context. Hence, H1a and H2a, developed for current study, both are accepted based on the results and outcomes from correlation procedure in study.

Regression Analysis

H1b and H2b, developed for present study, are tested using regression analysis. The results obtained from regression analysis are presented as under to confirm the cause-&-effect relationships among research variables.

Table 5 Regression Analysis Statistics

Model Summary											
Model	R	R2	Adjusted R2	SEE	Change Statistics					F	Sig.
					R2 Change	F Change	df1	df2	Sig. F Change		
1	.521	.392	.387	.55420	.392	35.465	3	484	.000	35.465	.000

Table 5a Regression Analysis Statistics

Coefficients						
Model		Unstandardized Coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.871	.282		7.113	.000
	Optimism	.393	.093	.278	6.212	.000
	Financial Security	.457	.072	.399	3.106	.008

a. Predictors: Optimism and Financial Security   b. Criterion: Investment Behavior

The above table 5 revealed the regression analysis results about R, R-square, adjusted R-square, F-statistics and overall model significance. The R value i.e., .521, represents the degree of association between study variables. The R-square value i.e., .392, indicating that one unit change in the value of predictors bring 39% variation in the criterion variable. The adjusted R-square value i.e., 3.87, should be near to R-square value, which in the present case also satisfactory. The F-statistics value i.e., 35.465, gives indication about the overall model fitness which in the present study analysis also falls within the acceptable range whereas the Sig. =.000 shows that the overall model calculating the impact of the predicting variables i.e., optimism and financial security on criterion variable i.e., investment behaviour is statistically significant. Above table also presents the individual regression coefficients results of predictors on criterion variable. Here the impact of optimism on investment

behaviour (β=.278, p=.000) and, of financial security on investment behaviour (β=.399, p=.000) is recorded. Hence both the hypotheses, H1b and H2b, developed for present study are accepted from regression outcomes.

DISCUSSION & CONCLUSION

Present study was intended to empirically examine the cause-and-effect relationships of optimism and financial security with investment behaviour among retail investors of major urban centres of Punjab, Pakistan. Total four hypotheses, meeting the objectives of current study, were developed. Primary data was collected through structured questionnaires. Correlation and regression analyses were conducted to check developed hypotheses. Correlation results revealed a significant positive association of optimism and investment behavior (β=0.372, p<0.001) among retail investors in the current study context. thus, these findings are consistent with some previous studies. First, a study conducted by Talwar, Talwar, Kaur, Tripathy and Dhir (2021), investigated the contributing effect of multiple attributes of financial attitude towards shaping retail investors trading behavior during the pandemic. They revealed a significant positive association of optimism with trading activities of retail investors and concluded that optimism inspires more trading. Second, Chen, Ishfaq, Ashraf, Sarfaraz and Wang (2022), investigated the mediating role of optimism bias and risk perception in decision-making.

They contended in their study that the higher level of optimism lessens the perceived risk and thus support stronger decision-making behaviors. The regression results calculated a significant impact of optimism on investment behaviour amid retail investors in present study context. Besides, results also revealed significant positive association of financial security with investment decision-making behavior (β=0.457, p<0.001) among retail investors. These results indicate that the retail investors who perceive themselves as financially secure, pose more confidence, capability and willingness to make sound and proactive investment decisions (Khan, Hassan & Islam, 2023). These empirical findings are in line with a growing body of literature focusing the importance of perceived financial security in shaping financial decision-making. The Consumer Financial Protection Bureau (2024) contended that individuals with increased level of perceived financial readiness are more likely to be engaged in forward-looking behavior like saving and investing, proposing that the feelings of financial security (Islam, Sarfraz, Zaheer & Adnan, 2023), offer psychological base for constructive financial actions.

Similarly, Bai, Liu and Zhang (2023) suggested that financially secure individuals mostly tend to show higher confidence and more careful investment choices facilitated over improved financial well-being and self-control. The same findings are further supported by Cupak et al. (2022) who reported that individuals having higher perceived financial security and some know-how about investment show increased equity participation and risk tolerance. Based on the above discussion it is concluded that optimism and financial security, both the attributes of the financial attitudes, are important predictors of retail investors predicting their investment behaviour in the present study context. It suggests that optimistic investors, who maintain favorable view of the future, are more likely to continue trading and engage in investment behavior, despite the market uncertainties as the optimistic individuals are more likely to enter markets and choose riskier assets. Also, financial

security strengthens, both, cognitive and affective aspects of investment decision-making behavior, hence it decreases the anxiety regarding the potential losses and enhances the perceived capacity to absorb risk.

Limitations & Future Directions

A key limitation of the present study lies in its reliance on a cross-sectional research design, which restricts ability to infer long-term causal relationships between optimism, financial security, and investment behavior. Additionally, the sample is confined to 487 retail investors from major urban centers of Punjab, may limit generalizability of findings to rural populations or other provinces of Pakistan with different socioeconomic and cultural dynamics. The use of self-reported, close-ended questionnaires may also introduce response bias and restrict deeper insights into the psychological keystones of investor behavior. Future researchers are encouraged to employ longitudinal designs to better capture causal pathways, broaden sampling frame to include diverse geographic regions and demographic segments, and integrate qualitative methods or mixed-method approaches to uncover richer behavioral explanations. Also, incorporating further psychological, technological, and macroeconomic variables, such as risk tolerance, financial literacy, digital investment exposure, economic uncertainty, may offer holistic understanding of factors shaping retail investors' decision-making patterns.

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