

Over the last four decades financial market researchers come up with a resounding evidence about the influence of investors' behavior on their investment decision making. This is in contrast to conventional economics and finance literature developed over the years. In the pursuit to be counted as pure science, economists and conventional finance researchers ignored the possible effect of different behavioral aspects on investment decision making. They assumed that investors are rational and financial markets are perfect. But this line of thinking was unable to explain the events which unfolded in financial markets over 1980s to 2000s. During the same period, behavioral economics and finance got more and more importance and acceptance in the field of economics and finance.

The field of behavioral finance is fairly new in Pakistan therefore this study aims at exploring the possible effect of investor behavior on investment decision. This study tests two behavioral models, investor regret aversion and investor overconfidence, in Pakistani financial markets. Using primary data, collected through a survey instrument, from a sample of 229 investors using simple and multiple linear regression models, a strong support is found for the two models. All four alternative hypotheses of investor regret aversion model are accepted using both simple and multiple linear regression models. On the other hand, four out of five alternate hypotheses are accepted based on both simple and multiple linear regression models. The study couldn't find a strong support for the moderation effect of demographic variables in the two models. The results, however, show that investor overconfidence decreases with increase in investor age, experience and value of portfolio. All of the findings either support the findings of historical studies or in accordance with the basic theories in the area of behavioral finance and economics. There are certain limitations of this study and therefore further research is required, as suggested in the future research directions, to get an in-depth understanding of investor behavior in Pakistani financial markets.