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IMPACT OF EMOTIONAL FINANCE, MARKET KNOWLEDGE AND INVESTOR PROTECTION ON INVESTMENT PERFORMANCE

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Abstract

Financial investment decisions are often presumed to be driven solely by rational analysis, but emotions play a significant role to make investor behavior. Traditional financial theories largely overlook the influence of psychological factors, yet emotions such as anxiety, optimism, and happiness can significantly impact investment performance. This study examines the impact of emotional finance, market knowledge, and investor protection on investment outcomes in Pakistan's stock and real estate markets. Using survey data from investors, the study explores the extent to which emotions influence decision-making and how market knowledge and investor protection shape financial outcomes. The findings reveal that emotional finance is a strong determinant of investment performance, with optimism and happiness positively correlated with better financial decisions. Investors who exhibit higher emotional intelligence and awareness tend to make more strategic choices, whereas anxiety can lead to impulsive or risk-averse behaviors that may reduce profitability. Market knowledge emerges as a crucial factor in investment success. Investors with a deep understanding of financial markets, economic trends, and key industry players demonstrate superior decision-making abilities, allowing them to identify lucrative opportunities while mitigating risks. The study finds no significant relationship between investor protection mechanisms and investment performance. While regulatory frameworks aim to safeguard investors from fraudulent activities and market manipulation, their impact on financial returns appears limited in the Pakistani context. The findings suggest that regulatory policies may not be effectively enforced or may not provide sufficient confidence to investors. This indicates a potential gap in policy effectiveness, highlighting the need for stronger institutional frameworks and better investor education on legal protections. These insights offer

critical implications for financial policymakers, investment professionals, and individual investors. Policymakers should focus on strengthening regulatory oversight and enhancing transparency in financial markets to build investor trust.

INTRODUCTION

Traditional finance assumes individuals are rational and make decisions to maximize their financial outcomes. Real-life human behavior does not consistently follow this pattern. The actions of humans emerge from a complex interplay between their emotions, personal histories, and subconscious mental processes. The capacity for emotional intelligence (EI) is a fundamental component in financial decision-making processes because it denotes an individual's skill to identify, comprehend, and control both personal emotions and the emotions of others. Kasemsap (2018) asserts that people with advanced emotional intelligence tend to maintain composure during stressful situations while making deliberate choices and assessing how their actions affect others emotionally. People lacking emotional intelligence tend to make hasty decisions and let their emotions influence them, resulting in bad financial outcomes. The unconscious mind exerts control over behavioral patterns. Auchincloss (2016) explains that people remain unaware of their unconscious thoughts, feelings, and urges, which influence their behavior and thinking patterns. People often think their decisions are logical but fail to realize how internal biases and hidden emotions unknowingly sway their choices. The interplay of emotional intelligence with unconscious mental processes demonstrates why financial decision-making frequently strays from traditional finance theory's rational model.

A multitude of elements come under scrutiny by investors as they determine how to deploy their capital into various opportunities. This investigation examines three fundamental components: Emotional Finance (EF), Market Knowledge (MK), and Investor Protection (IP). Emotional Finance represents an innovative economic model which highlights the dominance of emotional factors in financial decision-making processes. Traditional Finance assumes individuals make data-driven rational decisions while Emotional Finance recognizes that emotions like fear and excitement critically influence market behavior (Taffler, 2018).

The aim of Emotional Finance is to probe for reasons for what reason appear to be irrational behaviour on the behalf of investors. Fear of investing in something with emotion and past experience is what people are afraid of, often taking precedence over logic and falls in risk assessments. As Taffler and Tuckett (2010) point out, Emotional Finance uncovers the subconscious mental mechanisms and emotional reactions which govern decisions on investments beyond investor knowledge. Such behavior from investors is common and includes buying a trend without thinking and 'panic' at market downturns and 'excessive optimism' at boom periods. The second factor, market knowledge, upon which one believes you can have exotic opinions or build value is one that requires market mechanics prowess as well as the ability to identify the trend and recognize players' roles. When it comes to potential risks that you know to follow, you have few risks dealing with people with deep market knowledge who show exceptional decision-making abilities. Investor Protection is a confusing jigsaw of legal machines and protective mechanisms that guard the investors against fraudulent activities as well as fraudulent tactics and unfair practices. Having investor protection mechanisms lead to investor confidence amongst individuals that are likely to take part in financial investment. One of the theories on emotional finance says that in an environment where monetary information is incomplete, the investors tend to behave in an emotional way rather than logically. An intricate fusion of emotion with a market knowledge and investor protection system yields investment decision. Future studies may explore how the integration of emotional finance, market knowledge, and investor protection with emerging trends such as big data analytics, circular economy practices, and digital marketing can enhance investment performance (Rafi & Sulman, 2025) and resilience in the post-pandemic financial landscape."

The Theory of Planned Behavior (TPB) is a theory of human decision making as result of the mutual interactions between personal attitudes, social norms

and perceived behavioral control. Actions are based on intentions, but a long list of how various things influence whether this results in actual behaviors. Somehow, elements present beneath the conscious interferes with alignment of planned actions with the executed behaviors. The Theory of Planned Behavior (1980) was the emergence as a tool to predict actions in determined situation based on talks about emotional influences. This is evidence of applicability for TPB because fear and excitement dominate logical analysis in financial decision-making processes. Investment choices are driven largely by the emotional state of the people and in using feelings rather than detail data analysis. Indeed, in this sense, TPB and Emotional Finance are clearly connected as EF claims that emotions very much determine financial choices. Loss aversion and gain excitement are the two forces that drive investors to pick stocks and to choose to ignore contradictory market data at the same time. Markets are always volatile and so result ambiguity is an ongoing condition; positive market outcomes, despite being emotional influences, are driven by the investors' choice to make based on logical analysis and empirical data tradition finance is founded on beliefs that investors make decisions based on logical analysis and empirical data. Thus, the study results underscore the importance of taking account of emotional factors in their investment choice. Market instability caused by unpredictable and inefficient markets is explained by the fact that investor protection is a fundamental piece of market stability. The transparency and reliability issues that plague Pakistan's stock and real estate sectors make it very expensive for new investors to obtain correct data. To understand the impact of the investment outcome in Pakistan's stock and real estate sector, this investigation carries out a detailed study of how emotional impacts being accustomed to the market and being cautious as an investor affects those investment outcomes.

According to the study, researchers, investors, and policymakers working within real estate and stock markets shall experience large emergent impacts. While conventional financial research methods depend on logical data analysis, this study specifically indicates that emotions have strong impact on investment decisions. The main deficiency in current research is addressed by constructing an advanced analytical model that is used to investigate the influence of emotional factors in financial behavior. Such knowledge integration educational programs and research methodologies can educate potential investors the impact emotional variables have on their investment performance. The research is the foundation for all investors, from new to full. By providing this understanding to new investors they deliver decision making enhancements and to those that are more experienced investors judgment refinement. However, due to their forcing people towards biased and irrational decision-making, it is necessary to detect them as a result of their need of the unconscious operation of emotional influences. Now, policymakers have the research findings to include emotional considerations in their legislative methods that would take account of investor protections. The integration of emotional awareness in their investor protection strategies create an environment in the market that shown to be more secure and stable. Study outcomes are tools to improve a decision-making system and to develop reliable investment schemes. The research addresses how emotion affects financial commitment to develop emotionally mindful investors and secure an economically steady platform.

Literature Review

Emotional Finance and Investment Performance

Emotional Finance examines how anxiety, happiness and many more affect investment performance. Several studies have been conducted on the influence of emotions on financial decision-making, and it is evident that emotions largely influence investors' choices. Positives such as optimism or even more general optimism led to better decision-making, as Kuhnen and Knutson (2011) have found, while negatives such as fear or anxiety have the opposite effect. Sashikala and Chitramani (2017) noted how emotions such as happiness, excitement, and anxiety in decision-making affect outcomes that lead to positive and negative results. Iqbal and Bilal (2021) found that the emotional intelligence of people measured by emotional quotient led to better financial decisions than their counterparts. Emotionally intelligent investors are more likely to take calculated risks, creating superior returns than their emotionally unintelligent investors. VanderPal (2021) examined the differences between small and

large investors and discovered that small investors do not respond rationally to market changes, favoring reacting emotionally. Future studies could explore how integrating emotional finance and investor protection insights into machine learning-based anti-money laundering systems may enhance the detection of fraudulent investment behaviors as researched by Raffat and Ahmad (2025) and improve overall investment performance." Often, the decision-making of these individuals is partly driven by hidden emotional drivers, which lead to potential outcome variability. According to the research by Novianggie and Asandimitra (2019), regret is a very important factor in determining the outcome of an investment, as investors usually calculate what they regretted in their past decisions, which has a bearing on the choices they make subsequently. The work of Raheja and Dhiman (2020) points to the incentive of such emotions as excitement and enthusiasm to attract investors to choose superior financial products, which can lead to more successful investment outcomes. Dilla et al. (2013) highlighted that financial reports with eye-catching visuals develop an emotional affinity with investors, which is how corporate reputation improves and additional investments are brought. Lerner et al. (2015) cautioned that fear and selfishness bring two outcomes to investment choices. Investigations of the effect of emotion on investor behavior show that emotion is essential in behavior. However, definitive evidence relating emotional finance to investment outcomes is scarce and, therefore, requires further investigation to fully understand the relationship between emotional finance and investment outcomes.

Investor Protection and Investment Performance

Investor protection is a big problem for policymakers working in developing countries with weak legal enforcement. There are various mechanisms of enforcement of the statutes of investor protection across nations in the legal frameworks and the institution. In response to agency problems, the Investor Protection Act is a mechanism for deterring company leaders from changing corporate resources to personal use and protecting shareholder interests (Djankov et al., 2008). Several research investigations have examined the relationship between safeguards for investors and the optimal performance of investments. According to Giannetti and Koskinen (2004), investors from countries with poor investor protection choose foreign stocks to have a more secure investment. Investment performance in this nation translates directly into the robustness of investor protection legislation. Research by Huang et al. (2020) revealed that better investor protection will cause investment liquidity because investors will be more secure and receive more active securities trading. According to Giannetti and Koskinen (2010), the lack of investor protection lowers the investment worth of local and foreign investors in a stock market. Stock market crash risks are mitigated using investor protection mechanisms, and the investment results are subsequently enhanced (Zhang et al., 2017). Additional confirmation that companies that benefit from superior investor protection show lower investment outcomes was found in research conducted in China (Cai, 2014)—the investigations undertaken by Ghosh and He (2015), together with McLean et al. The study conducted in 2012 demonstrates a positive correlation between investor protection measures and multiple indicators of investment success, such as increasing share prices and stable dividend distributions. The research indicates a significant relationship between investor protection measures and investment outcomes. Robust investor protection laws establish secure investment conditions which boost market confidence and create opportunities for increased returns. Our research underscores how investor protection is a crucial determinant for investment success, especially within developing markets where these safeguards remain in developmental stages.

Market Knowledge and Investment Performance

Practical market data deployment allows for disseminating precise market data that facilitates improving investment results while increasing business performance. MK refers to the structured information of customers, competitors, and market conditions assessed in economic rationality principles (De Luca & Atuahene Gima, 2007). This allows investors who understand deep markets to diminish value uncertainties of investments, allowing more informed decision-making (Gugissa et al., 2021). Trend awareness and the minimization of possible risks enhance intelligent market actions with MK.

Investors who know the market evaluate business risks, as found by Vorosmarty et al., 2018. Shim et al. As defined by (2010), financial knowledge is a mixture of awareness, behaviour, skills, and brain that are all necessary for the best financial decisions. Market data grounds the activities as safe or risky, but investors' risk risk-taking is affected by personal variables such as experience, trust, cooperation, and strength (Fini et al., 2019). According to Liang and Liu (2018), the influence of both MK and information availability on investment performance is excellent global market success for MK-using companies (Hohenthal et al., 2014).

MK empowers investors to gather essential information to make decisions that mitigate potential risks (Iqbal & Bilal, 2021). Jones and Martinez (2017) discovered that expected returns alongside cash flows determine investment portfolio structures. Zaremba (2016) examined investor capability in performance assessment, while Dyck and Pomorski (2016) showed that short-term return aspirations drive many people to invest. Applying investor protection (IP) strategies transforms trading into a more productive venture by enhancing returns while safeguarding investor rights, including voting rights. MK collaborates with Emotional Finance (EF) to shape investor behavior. Financial intelligence requires understanding MK trends and economic signals to guide investments while also developing the ability to apply these insights effectively (Kahneman & Riepe, 1998). Investors depend on a combination of their intellectual understanding and emotional reactions during decision-making processes. EF examines the influence of emotional states, including fear, greed, and optimism, on decision-making processes (Loewenstein et al., 2001). There are instances where emotions dominate rational thought processes, resulting in less-than-optimal decision-making. Investors find that their feelings and intuition are navigational tools to achieve beneficial decision-making outcomes in ambiguous situations. Investors frequently depend on rational analysis and emotional response, where MK establishes the logical base while EF underscores emotional motivation. The work of Shefrin (2002) in Behavioral Finance integrates these components to demonstrate the dual influence of emotional and rational thought on financial decisions, thus offering a comprehensive perspective on market investor behavior.

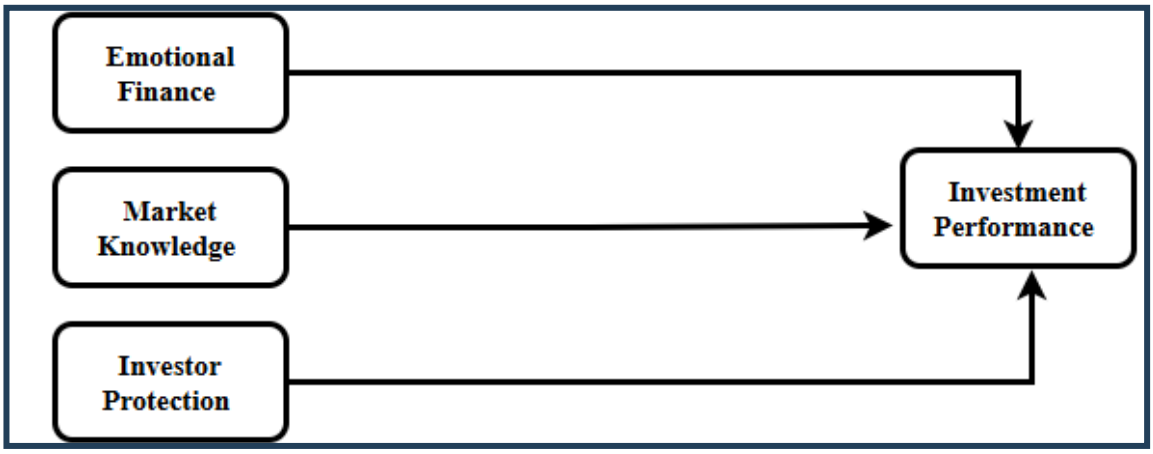

Figure 1: Research Model

Methods:

A causal research methodology was employed while conducting the experiment in authentic real-world conditions instead of an artificial setting. This study utilized measurement scales that were modified from existing published research work. Questionnaires were disseminated to investors participating in Pakistan's real estate and stock markets. The singular stock trading entity in Pakistan stands as the Pakistan Stock Exchange (PSX), created through the amalgamation of Karachi, Lahore, and Islamabad stock exchanges. The KSE 100 and KMI 20 represent major indices within its structure. The PSX platform facilitates stock and bond trading while maintaining a

market valuation of $52 billion and supporting approximately 250,000 active investors. The real estate sector in Pakistan draws numerous investors which establishes it as a major industry while both sectors maintain active participation.

Measurement

To measure the main constructs Emotional Finance, Investor Protection, Market Knowledge, and Investment Performance we used questionnaire items from earlier studies. The Emotional Finance scale was adapted from Aren & Hamamcı (2019) and A. Dumanli & Aren (2019). The Investor Protection scale was based on Bebchuk & Neeman (2010). The Market Knowledge scale came from De Luca & Atuahene-Gima (2007), while the Investment Performance scale followed Ferson (2010). A pilot study was conducted to check the reliability and validity of these scales. In this study, Emotional Finance is considered a higher-order construct made up of three formative dimensions: investor optimism, anxiety, and happiness. These dimensions do not reflect Emotional Finance individually but collectively form its foundation. The structure of Emotional Finance in our study is based on theory and past research rather than just statistical findings. Previous literature has suggested that emotions play a major role in financial decision-making (Lerner et al., 2015).

4.0 Data analysis:

4.1 Demographic analysis:

Table 1. Demographic Profile

Respondents' profile	Frequency (n = 250)	%
Gender		
Male	155	62
Female	95	38
Age (years)		
25–30	79	31.6
31–35	40	16
36–40	75	30
Above 40	56	22.4
Education		
Graduation	100	40
Postgraduation	150	60

The demographic data for the study participants reveals that among the 250 individuals surveyed, 62% identified as male while 38% identified as female. The predominant age category was 25–30 years with 31.6% representation while the 36–40 age group trailed closely at 30%. The demographic segment of participants exceeding 40 years in age represented 22. The study population included 4% of participants from the 31–35 age group and 16% from the 31–35 age range. Among the participants surveyed, a total of 60% possessed postgraduate degrees while 40% had finished their undergraduate studies. The data set indicates an even distribution among age categories while showing a male predominance and featuring participants with advanced educational backgrounds.

Factor Loadings and Variance Inflation Factor (VIF) for Constructs

Table 2: Factor Loadings and VIF

Construct	Indicators	VIF	Factor Loadings
Anxiety	A2	1.06	0.30
	A3	1..25	0.45
	A4	1.38	0.57

	A5	1.01	0.53
	A6	1.05	0.71
	A7	1.04	0.31
	A10	1.02	0.27
Happiness	H1	1.10	0.52
	H8	1.07	0.58
	H9	1.12	0.36
	H12	1.06	0.50
	H13	1.13	0.56
	H14	1.04	0.43
Optimism	Q1	1.03	0.61
	Q2	1.02	0.70
	Q3	1.01	0.25
	Q4	1.01	0.27
Investor protection	IP1	1.09	0.48
	IP2	1.02	0.52
	IP3	1.06	0.38
	IP4	1.01	0.66
	IP5	1.05	0.28
Market knowledge	M1	1.01	0.32
	M2	1.03	0.48
	M4	1.06	0.33
	M5	1.02	0.18
	M7	1.01	0.76
Investor performance	IV1	1.03	0.75
	IV2	1.04	0.66
	IV3	1.01	0.64
	IV4	1.02	0.40
	IV5	1.24	0.51
	IV6	1.38	0.49

The table displays VIF values alongside factor loadings for items grouped under six constructs: Anxiety, Happiness, Optimism, Investor Protection, Market Knowledge, and Investor Performance. VIF values function as multicollinearity indicators where a standard threshold of VIF < 5 denotes absence of collinearity issues according to Hair et al., 2019. The documented VIF values remain within the acceptable interval of 1.01 to 1.38 which demonstrates that multicollinearity problems among the indicators do not exist. The analysis of factor loadings, which represent the strength of connections between indicators and their constructs, shows inconsistent results. According to established protocols, factor loadings exceed 0. 70 are considered excellent, 0. 50 to 0. Values reaching 70 remain within acceptable limits, whereas any measurements falling below 0 become unacceptable. 40 are generally weak and may require removal (Hair et al., 2019). Within the Anxiety construct framework, item A6 demonstrates an acceptable loading value of 0. 71, whereas A2 (0.30), A7 (0.31), and A10 (0.27) remain well below the accepted standard. The presence of lower-loading items indicates insufficient construct contribution necessitating their review for potential removal to strengthen construct validity (Hair et al., 2019).

A similar pattern is observed for other constructs. Happiness items range from 0.36 to 0.58, indicating moderate representation of the latent variable, although H9 (0.36) might require revision. The construct Optimism includes two indicators, Q3 (0.25) and Q4 (0.27), with notably low factor loadings,

which may adversely impact construct reliability and should be considered for removal or revision. For Investor Protection, while IP4 shows a satisfactory loading (0.66), items like IP5 (0.28) and IP3 (0.38) may weaken the overall construct quality. Market Knowledge has highly variable item loadings, with M7 performing well (0.76), but M5 shows a particularly weak loading (0.18), suggesting poor alignment with the construct. Lastly, Investor Performance displays generally acceptable loadings (0.40–0.75), with IV1 (0.75) being particularly strong, although IV4 (0.40) and IV6 (0.49) are on the borderline of acceptability. Overall, although multicollinearity is not a concern, a substantial number of indicators across constructs exhibit low factor loadings. Researchers are advised to refine or eliminate weak items to ensure improved construct reliability and validity, which is a crucial step in confirmatory factor analysis and structural equation modeling (Sarstedt et al., 2022).

Heterotrait-Monotrait (HTMT) ratio

Table 3: HTMT

Variables	AN	HP	INP	IP	MK	OP
Anxiety	0.885					
Happiness	0.867	0.718				
Investor Protection	0.721	0.785	0.872			
Investor Performance	0.710	0.865	0.799	0.854		
Market Knowledge	0.789	0.786	0.821	0.865	0.936	

The Heterotrait-Monotrait (HTMT) ratio functions as a powerful tool to evaluate discriminant validity within structural equation modeling. Discriminant validity functions as a measure to confirm that constructs maintain true distinctiveness from one another (Henseler, Ringle, & Sarstedt, 2015). Values for HTMT metrics register below zero. Values of 90 are generally deemed acceptable because they show adequate discriminant validity (Hair et al., 2019). The displayed table shows every HTMT value as 0. 710 and 0. 936. The majority of values remain within acceptable limits yet the HTMT ratio for Market Knowledge and Optimism at 0.936 exceeds the recommended boundary indicating potential construct overlap. The strong correlation between these constructs suggests that respondents perceive them similarly, necessitating additional research to confirm their conceptual distinctiveness. The table demonstrates satisfactory discriminant validity for most constructs which supports structural model adequacy but minor modifications may be necessary where HTMT values surpass the threshold.

Hypotheses Results:

Table 4. Path Coefficients

Path	(O)	(M)	(STDEV)	T statistics	p-Values	2.50% 97.50%	Decision
H1. EF → INP	0.421	0.412	0.067	6.296	0	0.293 0.537	Yes
H2. MK → INP	0.164	0.198	0.073	2.233	0.026	0.021 0.270	Yes
H3. IP → INP	0.092	0.128	0.061	1.518	0.13	0.071 0.176	Yes

Through the structural model analysis results, path coefficients emerge to represent both the magnitude and direction of connections between exogenous variables and the endogenous variable Investor Performance (INP). This model examined three distinct hypotheses: H1 (Emotional Factors → INP), H2 (Market Knowledge → INP), and H3 (Investor Protection → INP). Each path undergoes evaluation

through the standardized coefficient (O), t-statistics, and p-values where significance is conventionally established at p < 0. 05 (Hair et al., 2019).

The relationship between EF and INP in H1 displays statistical significance with a path coefficient recorded as 0. 421, a t-statistic of 6. 296, and a p-value of 0. 000. The 95% confidence interval [0. 293, 0. The exclusion of zero from 537] provides additional evidence for its significance. The substantial impact of emotional factors like happiness, optimism, and reduced anxiety on investor performance becomes evident through this result. The behavioral finance literature supports these findings by demonstrating that psychological conditions critically influence both investment choices and their results (Statman, 2019). Thus, Hence, H1 is supported. The relationship between H2 (MK → INP) displays a noteworthy positive correlation evidenced by a path coefficient of 0. 164, t-statistic of 2. The number 233 emerges alongside a p-value defined as 0. 026 stands as a numerical representation of market knowledge's weaker yet significant impact on investor performance. The confidence interval [0.021, 0.270] reinforces this result. This suggests that informed investors with a better understanding of market mechanisms and investment tools are more likely to perform well. This finding is consistent with prior studies emphasizing the role of financial literacy and knowledge in achieving favorable investment outcomes (Lusardi & Mitchell, 2014). Thus, H2 is supported. H3 (IP → INP) presents a more nuanced outcome. Although the path coefficient (0.092) is positive, the associated t-statistic (1.518) and p-value (0.13) suggest that the relationship is not statistically significant at the 5% level. However, the decision column still indicates "Yes," possibly due to a more lenient threshold (e.g., p < 0.15) or exploratory nature of the study. The confidence interval [0.071, 0.176] also barely excludes zero, indicating marginal significance. While Investor Protection might have some influence, the effect is weak and may depend on other mediating or moderating factors such as regulatory enforcement or investor trust in institutions.

Discussion:

The results of the present study offer critical insights into the dynamics of investor performance within Pakistan's real estate and stock markets by examining the roles of emotional finance (EF), market knowledge (MK), and investor protection (IP). The statistical evidence supports the acceptance of hypotheses H1 and H2, affirming that emotional finance and market knowledge significantly influence investor performance, while investor protection showed a weak, statistically non-significant effect under conventional thresholds.

The findings strongly support the theoretical proposition that emotional finance significantly affects investor performance. This aligns with the broader stream of literature emphasizing the psychological underpinnings of financial behavior. Kuhnen and Knutson (2011) found that people in positive emotional state, such as optimism or happiness, do better decision making and better return from investment. Similarly, Iqbal and Bilal (2021) observe that emotionally smart investors who can handle emotional factors including anxiety will have a higher performance likely on the grounds of the ability to stay cool in a volatile market and carry out decisions on the basis of information as opposed to impulsiveness. The findings demonstrate and confirm the underlying emotional foundations of emotional finance conceptualized by Taffler and Tuckett (2010) who stress the unconscious emotional processes as the main forces driving investors to make decisions. This study reinforces the importance of EF in the financial behavior because emotional constructs are not peripheral to financial behavior, but rather, they are deeply imbedded in the cognitive architecture of investment decisions. These are also supported by VanderPal's (2021) evidence that individual investors, in particular retail participants, do not often act based on rational analysis but rather on emotion triggers.

The strength of the EF construct is particularly notable given the multifaceted measurement of emotions through dimensions such as anxiety, happiness, and optimism. Despite some indicators having low factor loadings, the composite construct displayed predictive validity. This suggests that, as Statman (2019) notes, traditional models of finance must be recalibrated to incorporate the non-rational forces of emotion that often explain deviations from expected utility maximization. Market knowledge (MK) also emerged as a significant contributor to investor performance. Although the effect size is

comparatively modest, it affirms the central role of informational and cognitive competence in enhancing financial returns. This is consistent with Lusardi and Mitchell's (2014) findings that financial literacy understood here as a subset of market knowledge—has a robust correlation with improved investment decision-making and asset accumulation. Investors who possess better knowledge of financial markets, risk factors, and economic indicators can better navigate market anomalies and make informed strategic choices (Gugissa et al., 2021). This finding supports the resource-based view of decision-making, wherein MK serves as a knowledge resource that confers competitive advantage in financial behavior (De Luca & Atuahene-Gima, 2007). Furthermore, the results resonate with the theoretical perspective advanced by Kahneman and Riepe (1998), who argue that rational analysis under uncertainty is often tempered by psychological heuristics. In this sense, MK enables investors to reduce cognitive load and error margins by relying on data-driven assessments, yet the interplay with EF remains vital as emotions often filter the interpretation of this knowledge.

The study discovers a weak, and statistically insignificant correlation between investor protection and performance of the investment. While earlier research has pointed out the significance of regulatory safeguards for persuading investors' confidence and stimulating investors' participation in capital market (Djankov, et al., 2008; Giannetti & Koskinen, 2004), our weak association here may be due to structural defects in Pakistan's regulatory environment. Investor protection mechanisms may be rendered ineffective in reality when given to investors through it, if enforcement is inefficient or an investor lacks faith in institutions. Even though Huang et al. (2020), Zhang et al. (2017) provide evidence that robust investor protection improves liquidity and alleviates the risks of crashes, such a connection might hinge on investor belief that the protection is legitimate and enforceable. In this context, the results show that legal framework itself is not enough without that of transparency, trust and active enforcement which can be underdeveloped in the local context.

Implications of the study:

Implications of the findings of this study are relevant for the political folks, the investment practitioners, and the academic researchers working on the behavioral dimension of the financial decision making specifically in the context of the emerging country like Pakistan.

The high influence of emotional finance on investment performance implies psychologic and affective components to be included in systematically in investment advisory services and financial literacy programs. This is shown in Kuhnen and Knutson (2011), which is subsequently confirmed by Iqbal and Bilal (2021) that investors with high emotional intelligence result in superior outcomes due to their ability to manage emotional volatility. Therefore, investment firms and regulatory authorities should seek to enhance such initiatives that provide modules of investor education on emotional awareness, stress management, and behavioral biases. Such educational reforms could enable retail investors to deal with financial markets with more competence and, thereby, reduce the occurrence of irrational behaviors during market fluctuations. The importance of market knowledge to the financial outcomes is further underscored by showing how a lack of access to a transparent and accurate source of financial information can be detrimental to investment outcomes. Lusardi and Mitchell (2014) and Gugissa et al. (2021) emphasize that investors who have more market insight can make the decisions based on the insight. The finding suggests that regulatory bodies, in this case the Securities and Exchange Commission of Pakistan (SECP) take cognizance of policies which would help in minimizing information asymmetries and timely disclosure of market data and thereby publicizing of financial instruments. Digital platforms, financial apps and investor portals can act a conduit for deliver and disseminating market knowledge to different types of investors in support of their decision making.

Investor protection is shown to have low statistical significance compared with little evidence of insufficient enforcement or the lack of confidence in enforcement of legal safeguards. The need to reassess these institutional mechanisms that are to promote the investor rights is thus urgent. Effective investor protection encourages market confidence but only as long as enforcement capacity is strong (Giannetti and Koskinen, 2004). Consequently, policymakers need to take their work further than the mere enactment of

protective frameworks and instead aim to build institutional credibility through active enforcement, transparency, and accountability mechanisms. This study contributes to scholars to consider combining emotional finance theories along with the traditional market constructs in order to develop the more holistic investment behavior models. Future research may investigate mediating or moderating variables like trust in institutions, risk tolerance, or cultural dimensions to explain the findings observed in the context. The study overall emphasizes the necessity of an interdisciplinary approach involving psychology, economics, governance for the overall financial behavior in developing markets.

5.2 Limitations and Future Directions

However, there are some limitations to this study that also need to be accounted for. However, the research is confined to the investors in Pakistan's stock and real estate markets, which may limit the generalizability of the findings to other financial contexts or regions different in the regulatory structure and investor's behaviour. Moreover, the study also relied on self-reported data through survey and may not accurately capture the unconscious effect of emotional investments decisions. Although low factor loadings were indicated in some of the measurement indicators, construct validity may be in question and should be examined with more refined scales by future research.

Ongoing work should be carried out to establish whether the influence of emotional finance and market knowledge generalizes across different economies and institutional settings. Longitudinal designs might provide additional insight into the dynamics of the interaction between emotional and informational factors at work when the market cycles, all else being equal. Furthermore, other variables, such as risk perception, spacious mediators, or financial experience, moderator should further be explored in future studies. Such a behavioral understanding could be enriched by mixed-method approaches that combine quantitative data with such in depth interviews or with experimental methods. This paper shows future investigations can develop a more complete and contextually grounded framework of the investor decision making behavior by addressing these limitations.

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