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IMPACT OF EQUITY VOLATILITY ON INVESTMENT DECISIONS OF INVESTORS: MEDIATING EFFECT OF INVESTOR SENTIMENT AND MARKET LIQUIDITY

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ABSTRACT

The study investigates the dynamic relationship between equity market volatility and investment decisions among 506 investors, employing a purposive sampling design. Using a cause-and-effect research design and a structured questionnaire for survey data collection, the study explore how investor sentiment and market liquidity mediate the impact of equity volatility on investment decisions. Findings revealed that a significant and positive impact among the research variables. Equity volatility, characterized by fluctuations in stock prices, exerts a multifaceted influence on investor decisions. Investor sentiment reflecting the emotional response of investors to market dynamics. During periods of heightened volatility, investors exhibit varying degrees of bullish and bearish sentiment, which subsequently shape their investment decisions. Market liquidity can lead to fluctuations in liquidity, affecting the ability of investors to execute their investment strategies. It was concluded that equity volatility, as a measure of market uncertainty, is revealed to have direct influence on investment decisions.

KEYWORDS: *Equity Volatility, Investor Sentiment, Market Liquidity, Investment Decisions, Economic Indicators.*

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1. INTRODUCTION

Investing in equity markets has always been a dynamic and challenging endeavor, marked by fluctuating prices and unpredictable shifts in market sentiment. In the context of India, a rapidly developing economy with a burgeoning investor base, understanding the intricate relationships between equity volatility, investor sentiment, and market liquidity is of paramount importance. This study seeks to shed light on the complex interplay of these factors and their influence on investment decisions made by individuals and institutions alike. Examining the mediating effect of investor sentiment and market liquidity, we aim to provide valuable insights that can guide both novice and seasoned investors in navigating the Indian equity market background (Kim and Ryu, 2020). Equity volatility, characterized by the rapid and often unexpected price fluctuations of stocks, has been a perennial concern for investors. In India, where stock markets have experienced periods of significant volatility, understanding how this factor affects investment decisions is essential.

Investor sentiment, on the other hand, captures the psychological aspects of decision-making in the financial realm. It encompasses the emotions and perceptions of investors, which can play a pivotal role in shaping their investment decisions. Market liquidity, the ease with which assets can be bought or sold without significantly affecting their prices, is another crucial determinant of investment outcomes. The study will explore how these three elements are interconnected, offering a holistic view of the Indian equity market and its unique dynamics. The importance of this research extends beyond the realm of

individual investors to include policymakers, financial institutions, and market regulators (Kamaruniza, 2019). Unraveling the intricate relationships between equity volatility, investor sentiment, and market liquidity, this study provides a foundation for devising strategies to mitigate investment risks and enhance market stability in India. Furthermore, as the Indian economy continues to evolve and integrate with global markets, the findings of this study can inform international investors and institutions seeking opportunities in this vibrant and dynamic emerging market.

Equity Volatility: Equity volatility in the Indian stock market is a multifaceted phenomenon that reflects the dynamic nature of the country's financial landscape. It refers to the propensity of stock prices to fluctuate rapidly and unpredictably over short periods. India, as a rapidly developing economy, is no stranger to bouts of volatility in its equity markets. This volatility can be attributed to a variety of factors, including both domestic and global influences. The significant driver of equity volatility in India is the country's economic and political landscape. India's stock markets can be sensitive to changes in government policies, economic reforms, and geopolitical events, all of which can trigger sharp price movements. Additionally, domestic factors like corporate earnings reports, macroeconomic data, and regulatory changes can contribute to short-term fluctuations in stock prices (Vijaya, 2016). Moreover, India's interconnectedness with global markets means that external events, such as global economic crises or changes in international investor sentiment, can have a substantial impact on Indian equity volatility.

Investor behavior also plays a crucial role in exacerbating or mitigating equity volatility in India. Psychological factors, market sentiment, and speculative trading can magnify price swings. The prevalence of retail investors in India, who may react emotionally to market developments, can lead to heightened volatility (Saraf and Kayal, 2023). However, the presence of institutional investors and market regulations also serves as stabilizing factors. Understanding and managing equity volatility is, therefore, essential for both individual and institutional investors seeking to navigate the Indian stock market effectively. Furthermore, the Indian stock market's inherent diversity adds another layer of complexity to its volatility. With numerous sectors ranging from technology to agriculture, each sector may respond differently to economic conditions and market events, creating a mosaic of price movements within the broader equity market (Banumathy and Azhagaiah, 2016). This sectoral diversity can lead to divergent investment opportunities and strategies, making it imperative for investors to carefully assess and adapt to specific sectoral trends and risks. In essence, equity volatility in the Indian stock market is a reflection of the nation's dynamic economic landscape, influenced by a multitude of domestic and global factors, investor behavior, and sectoral nuances, all of which make it a challenging yet potentially rewarding arena for investors.

Economic Indicators: Economic indicators wield considerable influence over the Indian stock market, shaping investment decisions. Gross domestic product growth rate is a central indicator, serving as a barometer of the nation's economic health. When gross domestic product exhibits strong growth, it often translates into increased corporate profits and higher stock market returns. Conversely, a slowdown in gross domestic product growth can lead to uncertainty and a bearish sentiment among investors, prompting market volatility. The trade balance, which represents the difference between exports and imports, and exchange rates are interconnected indicators that influence the Indian stock market. A trade deficit can weaken the domestic currency, making imports costlier and impacting companies reliant on foreign trade. Exchange rate fluctuations can affect foreign investments and the repatriation of profits by multinational corporations, thus influencing stock market movements (Drakopoulou, 2015).

Policies related to government spending and taxation, as well as those concerning interest rates and money supply, play a significant role in shaping the stock market's trajectory. Fiscal policies such as changes in tax rates and public spending can influence corporate profits and investor sentiment. Meanwhile, monetary policies, set by the central bank, including interest rate decisions, impact borrowing costs and liquidity in the financial system, which in turn affect stock market performance. The interplay of these economic indicators reflects the complex dynamics of the Indian stock market. Investors closely monitor these indicators to anticipate market movements and adapt their investment strategies accordingly (Gupta and Agarwal, 2016). Moreover, policymakers use these indicators as valuable tools to

gauge economic stability and growth, allowing them to implement measures that can foster a conducive environment for investors and support the stock market's vitality.

Information Flows: Information flows are a critical aspect of the Indian stock market, driving investment decisions, shaping market sentiment, and influencing stock price movements. Publicly traded companies in India are required to regularly disclose their financial performance through reports such as quarterly earnings statements and annual reports. These documents provide vital information about a company's revenue, profits, expenses, and financial health. Investors rely on these reports to assess the fundamentals of a company, make informed investment decisions, and gauge the potential for future growth. Financial analysts and research firms play a crucial role in the Indian stock market by providing forecasts and recommendations on various stocks (Javed and Marghoob, 2017). These reports offer insights into the expected performance of specific companies or sectors, helping investors identify investment opportunities and assess risks. Analyst recommendations and target price estimates can influence buying or selling decisions, leading to stock price movements.

Rumors and speculative information can have a significant impact on stock prices in the Indian market. Social media, online forums, and news outlets often circulate unverified information or market gossip that can create sudden volatility. Investors must exercise caution and verify the credibility of such information sources before making investment decisions. The flow of information in the Indian stock market is rapid and continuous, with investors and market participants constantly seeking to stay ahead of developments. It's essential for investors to have access to accurate and timely information, as well as the ability to discern between credible sources and unsubstantiated rumors (Sharma and Kaushik, 2018). Additionally, regulatory authorities such as the Securities and Exchange Board of India (SEBI) play a vital role in monitoring and regulating the dissemination of information to ensure fairness and transparency in the market.

Investor Sentiment: Investor sentiment in the Indian stock market is a dynamic and influential force that can significantly impact market movements and investment decisions. Investor sentiment in India often reacts strongly to sudden and significant market swings. Sharp declines in stock prices can trigger panic selling, driven by fear and uncertainty, while rapid rallies may fuel investor enthusiasm and lead to buying frenzies. These reactions to market volatility can create self-fulfilling prophecies, causing further price movements. Investor sentiment in India is frequently influenced by herd mentality, where investors tend to follow the crowd. When a particular stock or sector gains popularity, there is often a rush of investment, which can lead to overvaluation or bubbles. Conversely, when pessimism prevails, investors may collectively avoid certain stocks or sectors, leading to undervaluation (Agrawal et al., 2019).

Investor sentiment can be characterized as either bullish or bearish. Bullish sentiment prevails when investors are optimistic about the future performance of the stock market or specific stocks, leading to increased buying activity. Conversely, bearish sentiment occurs when investors are pessimistic, leading to selling pressure and potential market declines. Historical price movements and patterns can significantly influence investor sentiment. Investors often look to past market behavior to make predictions about future trends. For example, a prolonged bull market may lead to overconfidence and an expectation that the uptrend will continue, while a prolonged bear market may breed fear and skepticism. Investor sentiment is a psychological factor that can sometimes deviate from fundamental analysis. It is influenced by a variety of factors, including news, economic indicators, social media, and collective perceptions (Ahmed and Ullah, 2013). Understanding the impact of investor sentiment is crucial for market participants, as it can drive short-term price movements and affect long-term investment strategies. Additionally, it underscores the importance of maintaining a balanced and informed approach to investing, rather than succumbing to emotional reactions driven by prevailing sentiment.

Market Liquidity: Market liquidity is a vital aspect of the Indian stock market, influencing the ease with which securities can be bought or sold. The level of market liquidity in the Indian stock market is often correlated with the volume of trading activity. A high volume of trades indicates a liquid market, as there are numerous buyers and sellers actively participating. Liquid stocks tend to have narrower bid-ask spreads, facilitating smoother transactions. The bid-ask spread, which represents the difference

between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask), is a critical measure of liquidity. In a liquid market, bid-ask spreads are typically narrow, reflecting the ease with which traders can execute orders without significant price slippage. Market makers and specialists play a crucial role in enhancing market liquidity (Sashikala and Girish, 2015). These entities are often responsible for continuously quoting bid and ask prices for specific stocks or securities. In this way, they provide a source of liquidity and ensure that there are always potential buyers and sellers in the market, even for less actively traded securities.

Liquidity also affects price stability in the Indian stock market. In illiquid markets, relatively small trades can have a more pronounced impact on prices, leading to greater price volatility. Conversely, in liquid markets, larger trades can be executed with less impact on prices, contributing to price stability. Market liquidity is essential for investors and market participants as it directly influences the efficiency and functionality of the stock market. Highly liquid markets in India can attract a wider range of participants, including institutional investors and foreign traders, leading to increased market depth and diversity (Luckieta et al., 2020). Additionally, ample liquidity supports the fair pricing of securities and reduces the cost of trading, making it easier for investors to enter or exit positions. Thus, market liquidity remains a fundamental aspect of the Indian stock market that both traders and investors closely monitor and depend upon for their investment strategies.

Investment Decisions: Investment decisions in the Indian stock market are influenced by a combination of factors that require careful consideration and a strategic approach. Investors in the Indian stock market often begin by defining their investment goals, such as wealth accumulation, income generation, or capital preservation. Diversification, or spreading investments across various asset classes and sectors, is a fundamental strategy to manage risk while aligning with these goals. Diversified portfolios can help mitigate the impact of adverse market movements on overall returns. Investors continuously monitor the trends and movements in the Indian stock market (Lalwani et al., 2019). These trends may be influenced by economic indicators, corporate earnings reports, geopolitical events, and global market dynamics. Staying informed about market trends and sentiment can guide investment decisions and timing. The current state of the stock market, including valuation levels, interest rates, and economic conditions, plays a crucial role in investment decisions. Bullish conditions may encourage investors to seek opportunities for capital appreciation, while bearish conditions may prompt a more defensive approach focused on risk management and income generation (Bashir et al., 2013).

Investors in the Indian stock market seek professional guidance from financial advisors, portfolio managers, or investment experts. These professionals provide insights into market dynamics, help tailor investment strategies to individual goals, and assist in constructing diversified portfolios that align with risk tolerance and time horizons. Emotional reactions and impulsive actions can lead to suboptimal investment outcomes. Successful investors often adhere to disciplined strategies, avoid chasing hot trends, and refrain from making rash decisions during periods of market volatility. Maintaining a long-term perspective and adhering to an investment plan can help avoid costly mistakes. Investment decisions in the Indian stock market are multifaceted, influenced by both individual financial goals and the broader economic and market environment (Kumari, 2020). Developing a well-defined investment strategy that incorporates diversification, awareness of market trends, and professional guidance can empower investors to navigate the complexities of the Indian stock market with greater confidence and success.

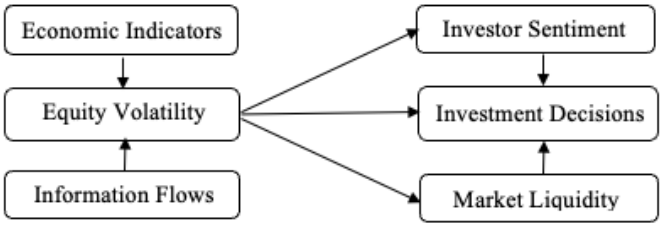
2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Investment decisions in equity markets are influenced by a multitude of factors, and one crucial element is equity volatility. Understanding how volatility impacts investor choices is vital in navigating financial markets (Kannadas, 2021). It explores the complex relationship between equity volatility and investment decisions, with a focus on the mediating effects of investor sentiment and market liquidity (Parveen et al., 2020). Equity volatility, characterized by the fluctuation in stock prices, is a significant factor in shaping investment decisions (Nadeem et al., 2020). High volatility can be a double-edged sword, representing both potential opportunities and risks for investors (Lee et al., 2020). Some investors may perceive high volatility as a chance to capitalize on price swings, while others may view it as a sign of

uncertainty and opt for safer investments (Gujrathi et al., 2023). Consequently, the impact of volatility on investment decisions is multi-faceted, often dependent on individual preferences and risk tolerance (Parajuli and Shrestha, 2020). Investor sentiment plays a critical role in mediating the relationship between equity volatility and investment decisions. When markets exhibit high volatility, investor sentiment can become more pronounced (Arora and Madhumathi, 2023). Bullish sentiment may lead some investors to embrace volatility, interpreting it as a chance to profit, while bearish sentiment may push others towards more conservative choices (Asad et al., 2018). Additionally, investor sentiment can be influenced by external factors such as news, social media, and economic indicators, further complicating the relationship between volatility and investment decisions (Annamalah et al., 2019).

Market liquidity is another essential component that mediates the impact of equity volatility on investment decisions. Liquidity refers to the ease with which assets can be bought or sold without significantly affecting their prices. In highly volatile markets, liquidity may vary, influencing investor decisions (Mallikarjuna and Rao, 2019). A lack of liquidity during volatile periods can deter investors from entering or exiting positions, leading to suboptimal choices (Elbialy, 2019). Conversely, ample liquidity can provide investors with the confidence to navigate volatile markets more effectively. The interplay between equity volatility, investor sentiment, and market liquidity is dynamic (Hawaldar and Rahiman, 2019). Volatility can trigger shifts in sentiment and liquidity, which, in turn, feed back into investment decisions (Li et al., 2023). For instance, a surge in volatility may cause investor sentiment to turn negative, leading to reduced liquidity as investors become more risk-averse. Conversely, periods of calm may lead to overconfidence and excessive risk-taking (Gao et al., 2022). The impact of equity volatility on investment decisions is a complex and multifaceted relationship. Understanding how investor sentiment and market liquidity mediate this impact is crucial for investors, market analysts, and policymakers alike (Abo El-ata et al., 2023). While some investors may thrive in volatile markets, others may prefer stability, highlighting the importance of personalized investment strategies (Samarth et al., 2019). Future research should continue to explore the nuanced interactions between these variables to provide more comprehensive insights into investor behavior in dynamic financial markets. The review of literature helped to formulate the following (Figure 1) conceptual model to test.

Figure 1: Conceptual Framework



Furthermore, the ensuring hypotheses are proposed for investigation:

$H_{1.1}$: Antecedents have significant influence on economic indicators, information flows, equity volatility, investor sentiment, market liquidity and investment decisions.

$H_{1.2}$: Economic indicators and information flows have significant influence on equity volatility.

$H_{1.3}$: Equity volatility has significant influence on investment decisions on stock.

$H_{1.4}$: Investor sentiment and market liquidity has significant mediating influence between equity volatility and investment decisions.

$H_{1.5}$: Socio-economic profile of investors has significant influence on economic indicators, information flows, equity volatility, investor sentiment, market liquidity and investment decisions

3. MATERIALS AND METHODS

The study aims to investigate the impact of equity volatility on investment decisions, with a specific focus on the mediating effects of investor sentiment and market liquidity. To achieve this objective, the study adopts cause-and-effect research design, as it allows for the examination of causal relationships among variables. The study used purposive sampling design to select a sample of 506 investors (it is greater than minimum requirement of 384, as per Cochran formula for sample selection). Purposive sampling is chosen because it allows for the selection of participants based on specific criteria, in this case, investors actively participating in equity markets are selected. The primary data is collected through structured questionnaires distributed to the selected sample of investors. The questionnaire included a combination of closed-ended and Likert-scale questions, designed to capture information on equity investments, perceptions of volatility, investor sentiment, and market liquidity. The questionnaire is developed based on a thorough review of relevant literature and expert input to ensure the validity and reliability of the instrument. It is pre-tested on a small sample of investors to identify and rectify any ambiguities or issues in the questions. Data collected from the questionnaires is analyzed suitably. Percentage analysis is used to check socio-economic profile of investors, SEM is used to examine the cause and effect among research constructs and One-way ANOVA is used to ascertain the impact of socio-economic profile on research constructs. Prior to data collection, ethical considerations are taken into account. Informed consent is obtained from all participants, and their anonymity and confidentiality is assured. The study adhered to ethical guidelines and regulations governing human subjects' research. It is essential to acknowledge potential limitations, such as the reliance on self-reported data, the generalizability of findings, and the inherent biases associated with investor sentiment.

4. RESULTS AND DISCUSSIONS

4.1 Analysis of Socio-Economic Profile

The socio-economic status of investors is examined in Table 1.

Table 1: Socio-Economic Profile

Profile	Distribution	Number	Percentage
Gender	Male	282	55.73%
	Female	224	44.27%
Age	Less than 30 years	195	38.54%
	30 – 45 years	249	49.21%
	More than 45 years	62	12.25%
Education	Up to HSC	212	41.90%
	Under Graduate	142	28.06%
	Post Graduate	152	30.04%
Annual Income	Less than Rs.5,00,000	372	73.52%
	Rs.5,00,000 – 10,00,000	85	16.80%
	More than Rs.10,00,000	49	9.68%
Size of Investment	Less than Rs.3,00,000	306	60.48%
	Rs.3,00,000 – 5,00,000	113	22.33%
	More than Rs.5,00,000	87	17.19%

Table 1 discloses that gender includes 55.73% male investors and 44.27% female investors. Age furnishes that 38.54% of investors are belonging to the age group of less than 30 years, 49.21% are

belonging to 30 – 45 years, and 12.25% are belonging to more than 45 years. Education divulges that 41.90% of investors are educated up to higher secondary level, 28.06% of investors are completed under graduate education, and 30.04% of investors are completed post graduate education. Annual income shows that 73.52% of investors are earning less than Rs.5,00,000, 16.80% of investors fall in the range of Rs.5,00,000 – 10,00,000, and 9.68% of investors earn more than Rs.10,00,000. Size of investment reveals that 60.48% of investors invest up to Rs.3,00,000, 22.33% of investors invest in the range of Rs.3,00,000 – 5,00,000, and 9.68% of investors make invest more than Rs.5,00,000.

4.2. Causal Relationship among Variables

The causal connections among the economic indicators (EIND), information flows (IFLW), equity volatility (EVLT), investor sentiment (ISEN), market liquidity (MLIQ) and investment decisions (IDSN) are tested with observed and unobserved; and exogenous and endogenous variables. The conceptual mode consists of 56 variables, it can be bifurcated into 23 observed and 33 unobserved variables. Moreover, it is bifurcated into 29 exogenous and 27 endogenous. The observed, endogenous variables include EIND1, EIND2, EIND3, IFLW1, IFLW2, IFLW3, EVLT4, EVLT3, EVLT2, EVLT1, ISEN1, ISEN2, ISEN3, ISEN4, IDSN1, IDSN2, IDSN3, IDSN4, IDSN5, MLIQ1, MLIQ2, MLIQ3 and MLIQ4. The unobserved, endogenous variables include, IFLW, ISEN, IDSN and MLIQ. The unobserved, exogenous variables include e1-e27, EIND and EVLT.

Figure 2: Structural Equation Model

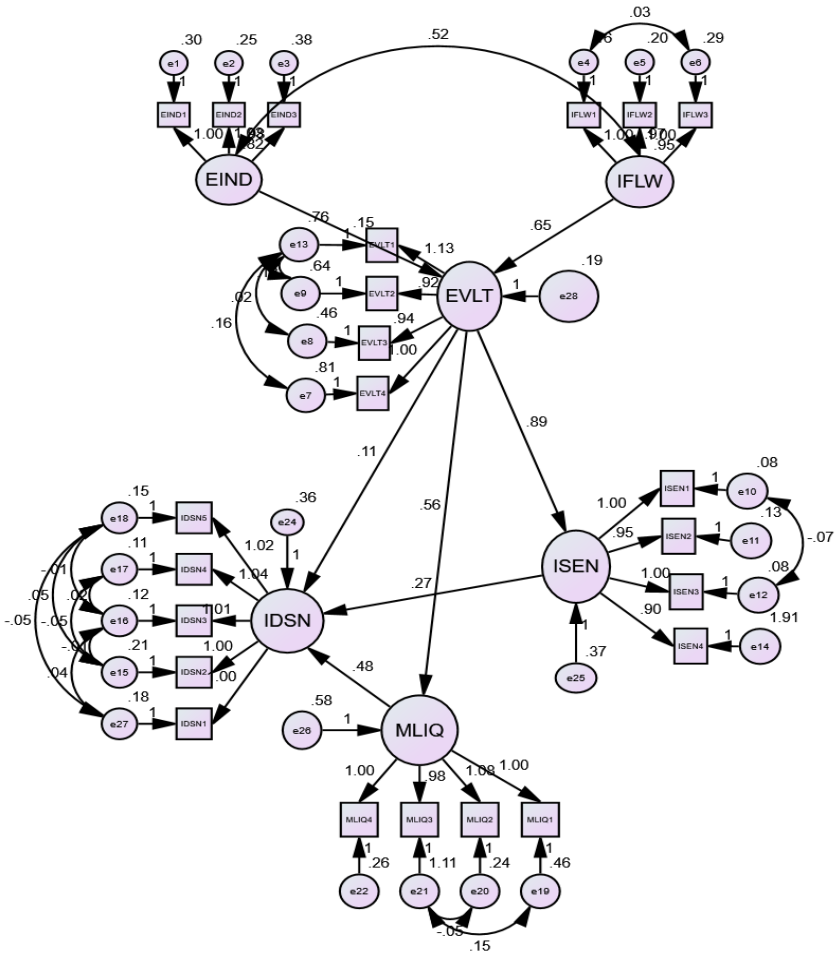


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Table 2: Structural Model Path Analysis

Path			Unstd. Estimate	Std. Estimate	t	p
EIND1 - Growth of gross domestic product	<--	EIND	1.000	.857		
EIND2 - Trade balances and exchange rates	<--		1.030	.879	23.629	***
EIND3 - Fiscal and monetary policies	<--		.983	.821	21.839	***
IFLW1 - Information on financial reports of firms	<--	IFLW	1.000	.924		
IFLW2 - Forecast reports of analysts	<--		.967	.905	29.062	***
IFLW3 - Rumors and speculation update	<--		1.003	.876	32.195	***
EVLT4 - High involvement of FIIs	<--	EVLT	1.000	.682		
EVLT3 - Specific news related to firms	<--		.944	.758	14.938	***
EVLT2 - Options and derivatives trading	<--		.918	.694	13.845	***
EVLT1 - Release of global events/ crises	<--		1.128	.736	16.141	***
ISEN1 - Reactions to sudden market swings	<--	ISEN	1.000	.958		
ISEN2 - Herd mentality in stock selection	<--		.947	.932	38.492	***
ISEN3 - Bullish or bearish feeling	<--		1.001	.958	37.119	***

ISEN4 - Belief on historical price movements	<--		.903	.533	13.623	***
MLIQ1 - High volumes of trades	<--	MLIQ	1.000	.799		
MLIQ2 - Extent of bid-ask spread	<--		1.079	.893	22.162	***
MLIQ3 - Market makers and specialist	<--		.983	.641	15.799	***
MLIQ4 - Instable price movements	<--		.997	.867	21.621	***
IDSN1 - Diversification of portfolio as per goals	<--	IDSN	1.004	.902	27.652	***
IDSN2 - Trends in stock market	<--		1.000	.890		
IDSN3 - Present market conditions to invest	<--		1.011	.935	28.033	***
IDSN4 - Professional guidance to invest	<--		1.044	.942	29.264	***
IDSN5 - Impulsive actions in stock market	<--		1.015	.917	34.298	***
EVLT	<--	EIND	.147	.158	3.555	***
EVLT	<--	IFLW	.648	.752	12.910	***
ISEN	<--	EVLT	.895	.779	14.946	***
MLIQ	<--	EVLT	.559	.523	9.675	***
IDSN	<--	EVLT	.109	.103	1.515	***
IDSN	<--	ISEN	.271	.294	4.985	***
IDSN	<--	MLIQ	.479	.484	10.542	***

After performing structural model, fit index values are calculated, the values assured that model possess perfect fit with the data. In this way, the measures of baseline comparison indices (0.980 for CFI;

0.961 for NFI; 0.980 for IFI; 0.953 for RFI; and 0.975 for TLI) and goodness of fit indices (0.932 for GFI and 0.910 for AGFI) are exceeded the standard mark of 0.9. Then, the ascertained CMIN/df value is 2.040, it is less than the standard threshold limit of 3 – 5, it warrants a strong fit. Moreover, RMSEA value is 0.045, it is safely lower than the standard mark of 0.06.

The findings presented in Table 2 shed light on the relationships between various antecedents and their impact on economic indicators, information flows, equity volatility, investor sentiment, market liquidity, and investment decisions. The significance levels at the 1% level indicate strong relationships between these variables, providing valuable insights into the dynamics of the stock market. The first hypothesis ($H_{1.1}$) posited that antecedents would have a significant influence on economic indicators, information flows, equity volatility, investor sentiment, market liquidity, and investment decisions. The results validate that various factors, including trade balances and exchange rates, play pivotal roles in shaping economic indicators with a particularly notable impact on equity volatility. Interestingly, fiscal and monetary policies, while relevant, appear to exert less influence on equity volatility compared to other factors. Moreover, the importance of information in financial markets is highlighted, as financial reports of firms take precedence over analysts' forecasts in predicting equity volatility. The significance of specific news related to firms suggests that real-time, company-specific information can be a major driver of volatility, potentially overshadowing the influence of foreign institutional investors. In terms of investor sentiment, it appears that emotional factors, such as bullish or bearish feelings, hold more sway than historical price movements. Market liquidity is found to be primarily influenced by factors like bid-ask spreads, with market makers and specialists playing a secondary role. Lastly, investment decisions are strongly guided by professional advice, while stock market trends have a more limited impact.

The second hypothesis ($H_{1.2}$) posited that economic indicators and information flows would significantly influence equity volatility. The results confirm this hypothesis, with coefficients indicating that a 1-unit rise in economic indicators leads to a 0.147-unit gain in equity volatility, while a 1-unit rise in information flows results in a 0.648-unit gain in equity volatility. It emphasizes the importance of economic data and information dissemination in shaping the level of volatility within the stock market. The third hypothesis ($H_{1.3}$) revealed that equity volatility would have a significant influence on investment decisions in the stock market. The findings support this hypothesis, revealing that a 1-unit increase in equity volatility corresponds to a 0.109-unit gain in investment decisions on stocks. It implies that investors and decision-makers take into account the level of volatility in their investment decisions, considering it a crucial factor in making informed decisions. In summary, it provides valuable insights into the intricate relationships between antecedents, economic indicators, information flows, equity volatility, investor sentiment, market liquidity, and investment decisions in the stock market. These findings underscore the significance of real-time information, emotional sentiment, and professional guidance in navigating the complexities of the stock market. Moreover, the ability to predict equity volatility using economic indicators and information flows suggests that investors and market participants can make more effective and informed investment decisions, ultimately contributing to a better understanding of market dynamics and potentially enhancing market efficiency.

4.3. Mediating Influence of ISEN and MLIQ between EVLT and IDSN

The mediating influence of investor sentiment and market liquidity between equity volatility and investment decisions. The hypothesis ($H_{1.4}$) asserts that investor sentiment and market liquidity have significant mediating influence between equity volatility and investment decisions.

Table 3: Mediating Influence of ISEN and MLIQ between EVLT and IDSN

Variables		Path			Estimate	p
ISEN between	Indirect Path A	ISEN	<---	EVLT	.895	***

EVLT and IDSN	Direct Path	IDSN	<---	EVLT	.109	***
	Indirect Path B	IDSN	<---	ISEN	.271	***
MLIQ between EVLT and IDSN	Indirect Path A	MLIQ	<---	EVLT	.559	***
	Direct Path	IDSN	<---	EVLT	.109	***
	Indirect Path B	IDSN	<---	MLIQ	.479	***

Table 3 presents that the direct influence of equity volatility on investment decisions is observed at 0.109. To check the mediating influence, the observed value for equity volatility on investor sentiment is 0.895 and the influence of investor sentiment on investment decisions is 0.271. The observed mediating value is 0.242545 (product of indirect path A and indirect path B), indicating a total influence of 0.351545. The variance estimated is 0.6899, it exceeds 0.2, which confirms a strong partial influence. Therefore, investor sentiment has significant partial mediating influence between equity volatility and investment decisions. Similar to that the observed value for equity volatility on market liquidity is 0.559 and the influence of market liquidity on investment decisions is 0.479. The observed mediating value is 0.267761, specifying a total influence of 0.376761. The variance estimated is 0.7107, it exceeds 0.2, which authorizes a strong partial influence. Therefore, market liquidity has significant partial mediating influence between equity volatility and investment decisions.

4.4. Influence of Socio-Economic Profile

The impact on socio-economic profile of investors are examined with One-way ANOVA. The hypothesis ($H_{1.5}$) declares that socio-economic profile of investors has significant influence on economic indicators, information flows, equity volatility, investor sentiment, market liquidity and investment decisions.

Table 4: F-Test

	Age		**Education**		**Annual Income**		**Size of Investment**	
	F	**Sig.**	**F**	**Sig.**	**F**	**Sig.**	**F**	**Sig.**
Economic Indicators	.217	.805	2.290	.102	12.121	.000***	.163	.850
Information Flows	11.780	.000***	6.676	.001***	17.754	.000***	.277	.758
Equity Volatility	8.940	.000***	5.598	.004***	13.423	.000***	.108	.897
Investor Sentiment	4.080	.017**	.538	.584	10.441	.000***	.041	.960
Market Liquidity	4.661	.010**	4.803	.009***	19.667	.000***	2.264	.105

Investment Decisions	4.684	.010**	2.278	.104	9.033	.000***	1.521	.219

**** Significant at 1%, ** Significant at 5%.*

Table 4 presents that age has significant influence on information flows, equity volatility, investor sentiment, market liquidity and investment decisions. The significant values are further subjected to post-hoc test. Tukey B post-hoc test created two identical subsets like, 30 – 45 years in subset *a*; and less than 30 years and more than 45 years in subset *b* for information flows and equity volatility. It also created two identical subsets like, 30 – 45 years and less than 30 years in subset *a*; and more than 45 years in subset *b* for investor sentiment, market liquidity and investment decisions. Education has significant influence on information flows, equity volatility, and market liquidity. Gabriel post-hoc test created two identical subsets like, undergraduate in subset *a*; and post graduate and up to HSC in subset *b* for information flows and equity volatility. It also created three identical subsets like, undergraduate in subset *a*; and up to HSC in subset *a, b*; and post graduate in subset *b* for market liquidity. Annual income has significant influence on economic indicators, information flows, equity volatility, investor sentiment, market liquidity and investment decisions. Ryan-Einot-Gabriel-Welsch Range post-hoc created two identical subsets like, less than Rs.500,000 and Rs.500,000 – 10,00,000 in subset *a*; and more than Rs.10,00,000 in subset *b* for economic indicators, information flows, equity volatility, investor sentiment, and investment decisions. It also created three identical subsets like less than Rs.5,00,000 in subset *a*; Rs.500,000 – 10,00,000 in subset *b*; and more than Rs.10,00,000 in subset *c* for market liquidity. Size of investment has no significant influence information flows, equity volatility, investor sentiment, market liquidity and investment decisions.

5. CONCLUSION

To sum up, it exposes that economic indicators, information flows, and equity volatility play pivotal roles in shaping investor sentiment, market liquidity, and investment decisions in the stock market. Result validates hypotheses positing significant influences of antecedents on these financial factors, emphasizing the importance of real-time information and emotional sentiment in decision-making. Economic indicators and information flows, in particular, are found to strongly impact equity volatility, highlighting their relevance in market dynamics. Moreover, the results underscore the significance of equity volatility as a determinant of investment decisions. These findings provide valuable insights for market participants, aiding in more informed decision-making and risk management strategies, ultimately contributing to a deeper understanding of financial market complexities and efficiency. The findings shed light on the mediating roles of investor sentiment and market liquidity in the relationship between equity volatility and investment decisions. Equity volatility, as a measure of market uncertainty, is revealed to have direct influence on investment decisions. However, the study also unveils that investor sentiment and market liquidity act as partial mediators in this relationship. Investor sentiment reflects the emotional aspect of decision-making, while market liquidity captures the ease of asset conversion. Understanding these mediating factors enriches comprehension of the intricate mechanisms at play in financial markets, aiding in more nuanced investment strategies and risk management.

The influence of socio-economic factors on various aspects of financial decision-making. Age significantly impacts information flows, equity volatility, investor sentiment, market liquidity, and investment decisions, offering valuable segmentation into distinct subsets. Education also proves to be a significant factor, affecting information flows, equity volatility, and market liquidity, emphasizing the role of educational attainment in financial behaviors. Annual income showcases a significant influence across a range of financial parameters, reflecting its pivotal role in shaping financial decisions. However, the size of investment does not demonstrate a significant impact on the financial aspects under consideration,

implying that investment magnitude does not strongly affect the assessed financial variables. These findings collectively enhance understanding of the multifaceted interplay between demographic and financial factors, aiding in the development of tailored financial strategies and policies.

6. RESEARCH IMPLICATIONS

The study has practical implications for investors and financial professionals. Understanding how investor sentiment and market liquidity mediate the relationship between equity volatility and investment decisions can assist in the development of more informed and tailored investment strategies. Investors can adapt their portfolios and risk management techniques based on their risk tolerance and the prevailing market conditions. Investors can make more calculated risk assessments and implement risk mitigation strategies accordingly. The findings can encourage investors to reconsider the importance of portfolio diversification, especially during periods of heightened equity volatility. Understanding the psychological factors influencing investment decisions can lead to better investor education and interventions aimed at promoting rational decision-making. Knowing the mediating effects of investor sentiment and market liquidity on the relationship between equity volatility and investment decisions is essential for making more informed, rational, and resilient investment decisions in today's dynamic financial setting.

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