How Investors Interpret Risk in the Pakistan Stock Exchange: Lived Experiences of Retail Traders

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Abstract

This study examines how retail investors in the Pakistan Stock Exchange (PSX) understand and experience risk, with particular emphasis on their subjective interpretations rather than objective or quantitative measures. The focus is on capturing investors' lived experiences, perceptions, and meaning-making processes through which risk is constructed and negotiated in everyday trading decisions. A qualitative phenomenological design was employed, using semi-structured interviews with twelve active retail traders to elicit nuanced accounts of their investment experiences. The findings reveal that risk is perceived as a complex interplay of market volatility, political uncertainty, liquidity constraints, and information asymmetry. Participants expressed strong concerns regarding insider advantages and weak regulatory enforcement, which heightened their sense of vulnerability. Behavioural factors such as loss aversion, overconfidence, and herding were found to exert a significant influence on investment decisions, while social networks and collective narratives further shaped perceptions of uncertainty. Emotional and cultural framing also played a central role, as many traders relied on tacit knowledge, peer advice, and faith-based rationalisations when navigating risk. Despite these systemic challenges, investors adopted adaptive strategies such as portfolio diversification, stop-loss mechanisms, and experiential learning to cope with market uncertainty. Overall, this study contributes to the growing body of behavioural finance research in emerging economies by illuminating the lived dimensions of risk and underscoring the need for greater transparency, stronger regulatory frameworks, and targeted investor education in Pakistan's equity market.

Keywords: Pakistan Stock Exchange, Retail Investors, Risk Perception, Behavioural Finance, Qualitative Research, Investor Psychology, Emerging Markets.

Introduction
Background of the Research
The Pakistan Stock Exchange (PSX) is one of the most active and, at the same time, unstable financial markets in South Asia, forming the backbone of capital formation and the investment environment in Pakistan (Saeed et al., 2023). By 2025, more than 500 listed companies were operating on the PSX with a market capitalization of approximately PKR 7.6 trillion, reflecting persistent fragility in investor confidence amid political, macroeconomic, and global shocks

(Zaman et al., 2025). Pakistani retail investors, who constitute nearly 40% of active market participants, play a central role in daily trading volumes but remain highly sensitive to perceived risk and uncertainty (Naseem & Zaman, 2025). Recent qualitative research further suggests that such risk perceptions are not shaped solely by financial indicators but are also influenced by ethical, technological, and institutional contexts that affect how individuals process uncertainty and trust information (Ahmed et al., 2025; Rehmat, Hassan, Rumaan, Baig, & Abrar, 2025; Zeb et al., 2025). Consequently, behavioural biases, weak regulatory frameworks, and macroeconomic instability have created a setting in which risk is not merely financial but also psychological, shaping how individual traders experience, interpret, and respond to market uncertainty.

The PSX has also remained highly vulnerable to global contagion and domestic crises. During the COVID-19 pandemic, trading volumes initially collapsed and then surged sharply as speculative activity intensified, highlighting how retail investors' decision-making is often driven by emotional reactions rather than rational assessments (Parveen et al., 2023). In the post-pandemic period, fluctuations in interest rates, exchange rates, and investor sentiment continue to fuel market volatility, further complicating risk evaluation among retail traders (Khattak et al., 2025). At the same time, the growing penetration of financial technologies and digital platforms is reshaping how investors access, interpret, and act upon market information, often amplifying both opportunities and vulnerabilities in emerging markets such as Pakistan (Arzu et al., 2025a; Rehmat, Hassan, Rumaan, Baig, & Abrar, 2025). This evolving techno-financial landscape reinforces the need to view risk in the PSX not only as an economic phenomenon but also as a socio-psychological and technological one.

Problem Statement

Although the PSX cannot be undervalued, little in the qualitative research has explored how retail investors personally perceive and manage risk within such a volatile financial context (Islam et al., 2023). A large part of the available literature is dedicated to quantitative modelling of behavioural biases, macroeconomic variables, or herd behaviour. Although practical, these methods do not reflect the lived experiences of individual traders who are subjected to uncertainty and changeable economic policies, emotional stressors, and uncertain information. According to Asad et al. (2022), such perceptions of investors towards risk are entrenched in the social moods and experience, and it is imperative that such perceptions are explored directly through their stories. In the absence of these insights, academic and policy discourse is prone to simplify investor behaviour to abstract forms without considering the highly human aspects of risk perception that determine investment returns in the stock market in Pakistan.

Research Questions

Three major questions determine the focus of this study:

1. What is the perception of financial and non-financial risks by the retail investors in the Pakistan Stock Exchange in their trade?
2. What are their personal experiences and tendencies of behaviour that affect their decision-making in uncertain conditions?
3. What is the reconciliation of the macroeconomic changes and market volatility, and the personal approach of risk management through the lenses of retail traders?

Research Objectives

The objectives of this study are threefold.

1. To critically analyse the subjective risk perceptions of retail investors in the PSX.
2. To determine how personal experiences, feelings and biases in behaviour impact reactions to uncertainty

3. To provide empirically based information that can help shape policy measures to increase the resilience of retail investors in the Pakistani capital market.

Significance of the Study

This study has importance in a number of ways. Theoretically, it provides a missing link by providing a phenomenological view of the psychology of investors in the particular financial environment in Pakistan to supplement the existing primarily quantitative literature. It can offer a subtle insight to practitioners on how traders think and act in response to risk, indicating trends that could affect trading volumes, market stability and asset pricing. To policymakers, the outcomes are a guide on how to structure investor protection strategies, education and regulatory interventions that are congruent with the reality that retail participants have to contend with. Finally, it is not only necessary to pay attention to macroeconomic indicators but also to the subjective definition of risk used in the trading activities in Pakistan.

The present research adopts a qualitative phenomenological design, which will help to put the experiences of the retail traders in the PSX into perspective. Twelve participants actively involved in retail trading and involved in semi-structured interviews were used to ensure diversity in terms of age, trading experience and scale of investment. The interview transcripts were manually subjected to thematic analysis to determine recurring themes, sub-themes and underlying patterns in traders' interpretation and reaction to risk. The study aims to provide an in-depth explanation of the internalisation, negotiation, and action of risk in the equity market of Pakistan, because it will privilege the narratives of participants.

Literature Review
Theoretical Framework

Rationalist and behavioural finance have long been viewed as competing frameworks for explaining how investors interpret risk. Classical financial theory, such as the Efficient Market Hypothesis (EMH), assumes that investors are rational and that all available information is fully reflected in stock prices (Mikołajek-Gocejna & Urbaś, 2023). However, empirical evidence from emerging economies such as Pakistan consistently shows that retail traders frequently violate these assumptions. Behavioural finance therefore offers a counter-narrative by emphasizing the role of cognitive biases, heuristics, emotions, and socially embedded judgement in shaping investment behaviour (Boso et al., 2025; Rehmat, Hassan, Khan, & Abrar, 2025). Prospect theory, for instance, explains why individuals value losses more strongly than equivalent gains, leading to context-dependent risk aversion or risk-seeking behaviour that cannot be captured by purely rational models. Behavioural explanations have been particularly salient in the context of the PSX. Kashif et al. (2021) demonstrate that herding behaviour exerts a strong influence on market dynamics, indicating that investors often imitate the actions of others rather than relying on fundamental analysis. Similarly, Rashid et al. (2022) show that biases such as overconfidence, representativeness, and anchoring significantly distort rational investment decision-making. These behavioural distortions are further reinforced by institutional and technological environments, where financial narratives and digital platforms shape how uncertainty is interpreted and acted upon in emerging markets (Arzu et al., 2025b; Ashraf et al., 2025).

Qualitative scholarship further highlights that investor perceptions are deeply embedded within social and cultural contexts. Asad et al. (2022) reveal that collective moods, particularly optimism and pessimism, influence investors' tolerance for risk in ways that are not visible in purely quantitative models. Likewise, Khan et al. (2021) argue that heuristic biases such as availability and representativeness are culturally mediated, particularly through long-term orientation and shared social beliefs. This emphasis on lived experience aligns with contemporary qualitative and phenomenological traditions, which view risk perception as something that is actively constructed

through meaning-making rather than passively received from market signals (Braun et al., 2022; Rehmat, Hassan, Rumaan, & Abrar, 2025). Taken together, these perspectives suggest that the way retail investors in Pakistan conceptualize and manage risk emerges from the interaction of cognitive biases, emotional dispositions, technological narratives, and socio-cultural conditions. Consequently, a phenomenological approach is especially well-suited to uncovering how these investors experience, interpret, and respond to uncertainty in the PSX, moving beyond what can be explained by statistical or rationalist models alone.

Behavioural Biases and Risk Perception

Behavioural biases are always a significant determinant in the understanding of risk in the PSX. Rehan et al. (2021) stress that investor overconfidence is a frequent cause of underestimating market risks. Thus, the traders hold on to the falling stocks longer than expected by the rational models. Abideen et al. (2023) build on the same viewpoint and demonstrate that behavioural biases, including loss aversion and confirmation bias, strongly bias investment decisions, which results in risk judgments that do not reflect objective market signals. Parveen et al. (2023) also demonstrate that the biases of panic selling, and herd mentality were intensified in the COVID-19 pandemic, leading to the significant volatility of the PSX. On the same note, Gawande et al. (2023) declare that behavioural finance has rearranged conceptualisations of market risk in the entire world, which supports the definition that the psychology of the investor is the key point in financial behaviour. These trends in Pakistan highlight the ways that individual investors will perceive risks not as abstract possibilities but as experienced realities, guided by biases and feelings.

Herding and Social Influence

The behaviour of herding is also essential in the PSX, as it shows group, and not individualistic, decision-making. Kashif et al. (2021) empirically validate the idea that herding exists in various market states in Pakistan and that retail investors tend to follow other investors in both the upward and downward market. Such action has a direct effect on risk interpretation, where traders view the aggregate market behaviour as a proxy of credible information. Bhatti et al. (2023) note that the technical analysis does not often explain risk assessment in retail investors. Still, rather than social cues and peer networks, herding is a logical and emotional reaction to uncertainty. Almansour et al. (2023) expand on this by showing that social influence mediates the risk perception in the sense that peer validation decreases perceived uncertainty despite market fundamentals indicating the opposite. Taken together, these studies indicate that risk interpretation is a socially constructed phenomenon in the PSX, in which personal perceptions are embedded into the broader community behaviours.

Macroeconomic Indicators and Risk Interpretation

The macroeconomic instability is at the heart of determining the conceptualisation of risk by the retail traders in Pakistan. Zaman et al. (2025) show that the changes in GDP growth, inflation, and exchange rates have a substantial effect on investor confidence, and it tends to increase perceived risks in the PSX. On the same note, Khattak et al. (2025) give testimony that stock prices are directly influenced by fluctuations in interest rates and exchange rates, and retail traders tend to understand changes as indicators of imminent market declines. According to Said et al. (2021), investor overreaction increases macroeconomic volatility, particularly in times of crisis, such as the global financial crash, when retail investors in Pakistan reacted to short-term shocks by interpreting them as structural risks. Setiawan et al. (2022) further contextualise this by revealing how the COVID-19 pandemic enhanced the risk perceptions between Islamic and G7 markets, where PSX investors were more sensitive to the external shocks. The findings reflect that in

Pakistan, the macroeconomic variables are not merely objective variables but subjective triggers that influence the way the traders internalise and react to risk.

Alternative Assets, ESG, and Risk Diversification
How retail investors understand risk is being influenced more and more by diversification opportunities, especially in alternative assets and socially responsible investments. According to Majeed et al. (2024), the concept of cryptocurrencies is being construed as a hedge and as a speculative risk by Pakistani investors, which evidences the change in the way traders think about portfolio safety. Bayram et al. (2023) consider the Islamic-compliant portfolios and disclose that dealing with Shariah non-compliance risk has become a key focus. Traders know compliance with the rules of religion as a risk avoidance strategy. Sharif and Jawaid (2025) take this discussion a step further by examining how ESG factors are being factored into Shariah stock screening in Pakistan and reveal that the non-financial risks, including environmental and governance issues, are increasingly becoming material to the decision-making process of investors. These lessons point out that the risk in PSX is no longer confined to financial volatility but encompasses ethical, religious and sustainability issues that make a difference in the perceptions of the investors.

Corporate Governance and Risk Efficiency
Institutional structures are also a mediator of risk perception by investors. Khattak et al. (2025) disclose that the form of the board and the quality of audit affect the efficiency of investment considerably and determine the way the retail traders perceive the credibility of the listed companies. Investors tend to view sound governance systems as decreasing uncertainties, whereas poor governance is understood to increase risks of fraud or malpractices. The finding can be added to the fact that Naseem and Zaman (2025) mention that corporate transparency and regulatory reliability continue to be the key determinants of the decision-making of retail investors in Pakistan. These lessons imply that risk is not merely about the trend in the market but also about the trust of the institution. Retail investors incorporate their perceptions of risk in the quality of governance of the firms they hold shares in, and the micro-level firm practices are correlated with the macro-level perceptions of market reliability (Ali et al., 2022).

Gaps in Existing Research
Although there is an increasing literature on the behaviour of investors in Pakistan, there still exist gaps. To begin with, the existing literature is primarily quantitative as it deals with the modelling of relationships between behavioural biases, macroeconomic variables and investment returns. Although useful, these methods are not in touch with the actual lives of retail investors. The fact that Asad et al. (2022) take a qualitative approach is rare, and the authors state that subjective interpretations of risk require capturing. Second, although research articles, including the ones by Kashif et al. (2021) and Rashid et al. (2022), affirm that herding and behavioural errors do exist, they do not discuss how individual investors themselves recount the herding experiences and how they come to terms with them when forming their trading strategies. Equally, macroeconomic volatility is both well-documented (Zaman et al., 2025; Khattak et al., 2025), but little is known about the internalisation of such shifts by retail investors in their own risk frameworks. Third, new topics like ESG integration (Sharif & Jawaid, 2025) and cryptocurrency adoption (Majeed et al., 2024) have been considered technically, but not what the retail investor in Pakistan perceives as a risk diversifier or risk amplifier. The micro-level of governance and institutional trust has not been well researched. Although research recognises their importance (Khattak et al., 2025), there is not much information regarding the interpretation of individual investors of governance signals in their daily decision-making. All these gaps lead to the need to conduct qualitative, phenomenological

research to give voice to the retail investors, which would provide a more humanistic perspective on risk in the PSX.

Methodology
Research Design
The qualitative phenomenological design was chosen in this study to understand the lived experiences of retail investors in the Pakistan Stock Exchange (PSX). The phenomenological method was best suited since the study was all about how people perceive and construct the meaning of risk in the dynamic and unpredictable world of stock trading (Ismaulina, 2025). In contrast to quantitative surveys, which reduce investor conduct to numerical results, phenomenology allows for a detailed interaction with the subjective experiences of the participants, in which the meanings that they attribute to uncertainty, volatility, and decision making is captured. The research was not directed towards testing of pre-set hypotheses but aimed at revealing regularities of meaning in the stories of trading retailers. This methodology was in line with the aim of the research of determining the way individual investors perceive and react to both financial and non-financial risks in their day-to-day trading practices. The study also provided a more detailed description of investor's psychology in the PSX than the existing numerical models by placing the voices of participants at the heart of its description.

Sampling Strategy
The participants of the research were twelve retail investors who were actively dealing in the PSX. A purposive sampling (Patton, 1990) was carried out to select participants so that they met specific inclusion criteria: They had to be people who trade with their own money and have at least two years' experience trading and were not professional brokers or institutional investors. This attention to retail investors was significant since in many cases, they do not have access to sophisticated financial instruments and access to inside information and therefore their risk perceptions are different to the ones of institutional investors. The sample was selected to include a wide range of experiences with an emphasis on diversity. Participants were of varied ages, genders and size of investment, some trading small amounts of money and others trading large portfolios. The study had the advantage of being able to compare the change in the interpretation of risk with experience by including experienced traders as well as relatively new participants. The sample size of twelve was adequate in the phenomenological investigation because it was rich and not too voluminous to saturate the data.

Data Collection
The data were collected through semi-structured interviews where the participants were interviewed either in-person or through a secure online source as per the availability and wishes of the participants. The interviews lasted from 30 to 45 minutes, and this time was sufficient to allow the participants to describe their experiences without feeling pressured. An open-ended protocol incorporating the domains of personal understanding of risk, experience with market volatility, decision making during uncertainty and contemplation of macroeconomic or political shock guided the interviews. The semi-structured format was flexible: although all participants were to answer a set of core questions, the interviewer encouraged more details and further enquiries about the areas that were particularly important to each participant. This approach made it possible to ensure comparability between the participants, as well as depth in individual reports. The interviews were carried out in both Urdu and English according to the choice of the participant and were transcribed into English to be analysed. The consent for audio recording was obtained to ensure accuracy in the transcription and analysis.

Data Analysis
The analytical method applied to the data was manual thematic analysis. It started with various readings of the transcripts in order to become acquainted with the content. The first set of codes was produced by finding repeated words, phrases and ideas that were found repeatedly through the accounts of the participants. Such codes were further categorised into larger sub-themes, which in turn were further categorised into five overarching themes that represented the key trends in the process of risk interpretation among retail investors in the PSX. The coding was done in cycles, with data and interpretation constantly moving in order to ensure that the identified themes fairly reflected the experiences of the participants. Convergence and divergence of opinions were also noted: on one hand, most of the participants showed a similar perception of risks, whereas on the other hand, the difference in responses provided information about the influence of personal conditions on individual interpretations. The findings contained quotations of participants to highlight essential aspects so that the analysis was based on lived experiences. The analysis was carried out in a state of reflexivity. The personal assumptions regarding the PSX and investment behaviour might affect interpretation and so was sensitive to participants owning the way they framed their experiences instead of assigning external categories. The thematic analysis allowed the originality of the voices of investors to be maintained by prioritising the emic perspective.

Ethical Considerations
The study focused on ethical integrity. The research purpose, procedures, and rights of participants were explained in detail in the form of information sheets. Data collection was informed, and participants were assured that they could participate at will and that their participation would not be penalised in any way. The confidentiality was kept. All participants were given pseudonyms, and all identifying information was taken out of transcripts. Recordings and transcripts were kept in a safe place, and only the researcher had access to them. The participants were made to understand that the information they provided would be utilised in the academic field only, which would not be a secret. Interest in the interviews, particularly on the topic of financial losses or stress due to trading, was found to be sensitive. The interviewer ensured the provision of a conducive atmosphere in which participants could freely express their good and bad experiences. This ethical method promoted trust and honest considerations, which supported the depth of the data.

Participants' Profile
The table below gives a summary of the demographic and trading attributes of the participants. Although anonymity is ensured by means of pseudonyms, the range of age, gender, and size of investment is indicative of the heterogeneity of retail investors in the PSX. The table below provides an overview of the profile of the participants:

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Table 1: *Participant Profiles*

Participant	Age	Gender	Years of Trading Experience	Investment Scale (PKR)	Trading Frequency	Education Level
P1	34	Male	6	2 million	Daily	MBA
P2	29	Female	4	500,000	Weekly	BBA
P3	42	Male	10	5 million	Daily	M.Com
P4	27	Female	3	300,000	Weekly	BA Economics
P5	39	Male	7	1.5 million	Monthly	MBA
P6	31	Male	5	800,000	Daily	BS Accounting
P7	36	Female	8	2.5 million	Weekly	MBA
P8	44	Male	12	6 million	Daily	MSc Finance
P9	33	Female	6	1 million	Weekly	BBA
P10	40	Male	9	3 million	Daily	MBA
P11	28	Male	4	400,000	Monthly	B.Com
P12	35	Female	7	1.8 million	Weekly	MBA

The heterogeneity of this sample ensured that the study yielded a variety of possible views, including small-scale investors who only trade occasionally and more experienced participants who trade every day and have high volumes. Such differences enhanced the thematic analysis as they showed similarities and differences in the interpretation of risk among the various investor profiles.

Findings and Discussion

The chapter follows the lived experiences of retail traders in the Pakistan Stock Exchange (PSX). It is organised around five related themes that summarise how investors make sense of risk in an information asymmetric, volatile and socially embedded market. They are defined as: (1) Perceived Market Volatility and Uncertainty, (2) Information Asymmetry and Trust in Institutions, (3) Emotional and Cognitive Bias in Risk Interpretation, (4) Social Influence and Collective Narratives and (5) Adaptive Strategies to Risk Mitigation. Collectively, they illustrate the role that structural factors, behaviour patterns and contextual pressures play in investment decision-making in the equity markets in Pakistan.

Theme 1: Perceived Market Volatility and Uncertainty

Retail traders always referred to volatility as one of the most direct ways in which they felt risk. Participants described volatility as experienced uncertainty that affected their confidence and decision-making rather than as a technical statistical metric. A lot of them complained that the stock prices were fluctuating suddenly because of political announcements, fiscal policies or even international events and that they had to re-evaluate their positions daily. A participant said, "In this market, you go to bed with one price and you wake up with another story, as one of the participants explained." The ground always seems to be shifting under your feet. This feeling is complementary to that of Zaman et al. (2025), who have unveiled that inflationary shocks and exchange rate volatility informed stock valuations in Pakistan. Traders characterised these dynamics as undermining predictability and inculcating uncertainty in all investment decisions. On the same note, Khattak et al. (2025) emphasized the role of change in interest rates, which the participants cited as one of the strongest forces driving market turbulence. External shocks aggravated this uncertainty. Setiawan et al. (2022) emphasised the fact that the COVID-19

pandemic caused convergence in asset prices at the global level, which strengthened volatility in the Pakistani equities. The participants remembered panic moments when rumours about lockdown caused people to sell in large numbers. The same Said et al. (2021) reported, where the authors recorded overreactions to global crises, according to which uncertainty was not just reasonable but also felt. Retail traders often referred to volatility as a paradox–a threat and opportunity. Some of them were terrified by the prospect of incurring immediate losses, whereas others in the stormy markets were enjoying the prospect of imminent speculative gains. Bhatti et al. (2023) verified that volatility tended to induce high-risk choices by investors when the returns in the short term were attractive. Naseem and Zaman (2025) further contributed that the volatility was exacerbated by the inconsistent policies of the government, so that structural uncertainty was as threatening as the price fluctuations themselves. Concisely, volatility was the key to the interpretation of risk in PSX. The accounts of lived experiences demonstrate how investors have been caught between fear and speculation and have been continually negotiating in the face of uncertainty as an inevitable aspect of the financial situation in Pakistan.

Theme 2: Information Asymmetry and Trust in Institutions
The other central theme that arose after reading the accounts of the participants was the unequal access to information. Retail traders often complained that institutional investors, brokers and insiders had faster or superior information, and the small traders were at a disadvantage (Fox, 2024). Information asymmetry was said by many to be a game that was tilted towards the small player. One of the respondents observed, "By the time we get to know about it, the major players are already in action. It is always catching up, and that is the actual danger." This is consistent with Kashif et al. (2021), who demonstrated that in PSX, herding behaviour was frequently due to information gaps, in which retail investors used institutional signals. Retail traders were also found to rely on speculation, which intensified biases when reliable information was not available, which was also similar to the results of Abideen et al. (2023). The level of institutional trust, or the lack of it, affected the perceptions of risk intensively. Numerous respondents expressed their doubts regarding the Securities and Exchange Commission of Pakistan (SECP), which, according to them, often allows unproven insider trading or price fixing. According to Rashid et al. (2022), this laxity in enforcing the regulations increased the number of behavioural mistakes and predisposed retail traders to harm. On the other hand, some mentioned that they felt more confident when regulators expressed themselves openly or took a firm action, which validated Almansour et al. (2023), who postulated that institutional credibility is an intermediary between the behavioural aspects and the decision-making. Some of the participants defined trust as a circumstance that is not only fair in the market, but also ethical. As Sharif and Jawaid (2025) established, incorporating the ESG concept into the shariah screening increased investor confidence. On the same note, Bayram et al. (2023) demonstrated that shariah-compliant portfolios reduced compliance risks, which were also reflected by participants who found the transparency of religiously consistent investment products essential. The institutional trust and information asymmetry were two concepts that could not be separated in informing the way the investors perceived risk. Where data was slow or opaque, traders talked about risk as being unknowable; where there was good communication between institutions, risk was talked of as manageable.

Theme 3: Emotional and Cognitive Biases in Risk Interpretation
In addition to the structural barriers, traders often admitted that their own feelings and inclinations influenced the risk interpretation. The central roles of uncertainty processing were played by fear, greed, optimism and regret. With one respondent acknowledging, "Sometimes I see the analysis tell me to hold, and fear tells me to sell. Later, regret eats me alive. The greatest risk is my feelings."

One of the most essential points that Parveen et al. (2023) made was that COVID-19 increased the level of investor sentiment and biases that led an individual to panic-related decisions. This was in line with the descriptions of rash selling by the participants in crises. The same was observed by Rehan et al. (2021), who indicated that the behavioural factors had a substantial impact on investment performance, which is a manifestation of how emotions tend to override rational thought. There was also a strong appearance of heuristic biases, including the rule of thumb. Khan et al. (2021) demonstrated the application of mental shortcuts in making decisions by investors, especially when they lacked long-term orientation. Following gut feelings or repeating previous patterns without further assessment were the descriptions of traders. According to Gawande et al. (2023), these actions are consistent with the behavioural finance theories, in which biases interpret risk in a more biased manner than objective probabilities. Another tendency, which was widespread in the reports, was overreaction. Said et al. (2021) noted that investors often overreacted to global events, whereas Rashid et al. (2022) emphasised that behavioural mistakes did not help to select stocks well. The respondents also remembered selling out whole portfolios upon hearing about some small economic news, which highlights the experience of these biases. Notably, risk perception was a mediator in itself. Almansour et al. (2023) discovered that biases were filtered by personal risk perception to influence decision-making. Abideen et al. (2023) also noted that the presence of distorted perceptions of probabilities enhanced perceived risks. The accounts of traders demonstrated that feelings were not only the determinants of their behaviour, but they also formed the way in which they interpreted the market signals. The theme demonstrates that the interpretation of risk was heavily tilted by cognitive and emotional frames, indicating that lived experiences of risk go well beyond the calculation of risk.

Theme 4: Social Influence and Collective Narratives
Risk interpretation in the PSX was a social process rather than an isolated process that was influenced by networks, peer groups, and shared stories. Retail traders often said that they used WhatsApp groups, market forums, and peer discussions to make decisions. One respondent answered, "I first see what the group is saying before I buy or sell. Although I may disagree, it makes me feel sure that I am not the only one who makes this choice." Social mood proved to have a substantial impact on risk tolerance, as evidenced by Asad et al. (2022), which is also in line with the dependence of traders on communal validation. Kashif et al. (2021) also demonstrated the development of herding behaviour when individuals can act according to the sentiment of the group instead of analysing independently. Social narratives usually offered psychological comfort. Khan et al. (2021) emphasised that social context moderated biases because the support of the group made people less apprehensive about risky trades. Bhatti et al. (2023) also discovered that the decision-making process tended to be based on communal agreement, and participants supported this view by talking about participating in waves of buying. The media further enhanced these stories. In the COVID-19 case, Parveen et al. (2023) found that news cycles affected the sentiment of investors. The respondents explained how panic was brought on by alarming headlines and how hopeful stories led to masses of rallies. Gawande et al. (2023) stated that behavioural finance acknowledges the importance of familiar stories in the formation of hazard perception. Social influence was therefore a two-edged sword. It minimised anxiety in the community, but at the same time, it resulted in herd behaviour and poor timing. Rehan et al. (2021) affirmed that social pressures occasionally led to strategy distortions, which were also reflected in the losses suffered by the participants in their attempt to act upon market whispers. The lived experiences of retail traders indicate that the PSX risk is socially constructed, and peer and storytelling influence how individuals perceive uncertainty and respond to it.

Theme 5: Adaptive Strategies for Risk Mitigation

Retail traders reported developing adaptive strategies to reduce the risk despite volatility, asymmetry, and biases. These were diversifying portfolios to look at other asset options and emphasised the aspect of resilience and pragmatism in dealing with uncertainty. One respondent said, "The only way I can sustain myself is by diversifying my money. When one side fails, I have the other at least to support me." The most popular strategy was diversification." According to Bhatti et al. (2023), retail investors became more and more inclined to diversification to cope with risks, which is reflected in the stories of participants. Almansour et al. (2023) highlighted that such decisions were determined by risk perception because investors sought to be emotionally stable by moving to safer instruments. The orientation was also focused on the long-term. Khan et al. (2021) discovered that long-term views decreased the use of heuristics, and subjects reported that the daily stress decreased when investments were held over months or years. This was also the case with Naseem and Zaman (2025), who claimed that patience enabled traders to endure volatility. The other adaptation was alternative assets. The study by Majeed et al. (2024) depicted how cryptocurrencies were viewed as hedges, and some of the participants referred to trying digital assets when PSX went down. According to Bayram et al. (2023), the shariah-compliant portfolios decreased the exposure to regulatory risks, which is in line with the interest of traders in ethical investments. Institutional structures also informed adaptation. Sharif and Jawaid (2025) posited that the inclusion of ESG in the screening of Shariah contributed to confidence, and participants emphasised the role of clear guidelines in assuring them. Khattak et al. (2025) also included that tracking of monetary indicators assisted the investors to revise strategies in advance, which was also supported by the interviewee, who referred to the announcement of the central bank as a signal indicator to rebalance. The governance structures also influenced adaptive practices. Khattak et al. (2025) stressed that board composition is essential in investment efficiency, and respondents indicated that they used governance shifts as risk signals. Zaman et al. (2025) reaffirmed the significance of monitoring the macroeconomic conditions in creating adaptive strategies. Therefore, adaptation became not only a logical but also an emotional need, enabling traders to live in an environment of volatility and uncertainty. The five themes show that the retail investors in the PSX understand the risk in a mix of structural conditions, emotional filters, social networks and adaptive practices. Their environment was framed by volatility, information asymmetry, and trust issues and interpreted by cognitive biases and collective narratives. Simultaneously, adaptive strategies were a manifestation of resilience and innovativeness in risk reduction (Kacicka, 2023). As experience shows, the risk in the PSX is neither rational nor chaotic in nature, but rather a socially constructed interpretation that is continuously bargained in a volatile institutional environment.

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Table 2: *Thematic Analysis of Findings*

Theme	Sub-theme	Codes	Description
Perceived Market Volatility and Uncertainty	Fluctuating indices	"Unpredictable shifts," "daily swings," "sudden drops"	Participants consistently described the PSX as highly unstable, with daily and weekly movements creating anxiety.
	Policy and macroeconomic shocks	"Government policies," "IMF agreements," "currency depreciation"	Investors linked volatility to unpredictable state interventions, inflation, and global economic spillovers.
Information Asymmetry and Trust in Institutions	Limited access to reliable data	"Insider information," "lack of transparency," "rumors"	Participants expressed frustration with uneven access to credible information, feeling disadvantaged compared to institutional investors.
	Distrust of regulatory bodies	"Weak SECP role," "manipulation," "market rigging"	A recurrent theme was skepticism about regulators' effectiveness in protecting retail investors.
Emotional and Cognitive Biases in Risk Interpretation	Overconfidence and speculation	"Gut feeling," "luck," "quick profit"	Many participants admitted relying on instinct or speculative bets despite acknowledging risks.
	Fear and panic-driven decisions	"Sell in panic," "can't sleep," "loss aversion"	Strong emotional responses influenced risk perception, often leading to premature exits from trades.
Social Influence and Collective Narratives	Peer and family influence	"Friends' advice," "WhatsApp groups," "shared tips"	Investment decisions were shaped by social interactions, with trust in peer groups often outweighing formal analysis.
	Media and online forums	"Social media," "TV channels," "market gossip"	Retail traders acknowledged heavy reliance on news outlets and online discussions, amplifying herd behaviour.
Adaptive Strategies for Risk Mitigation	Diversification	"Multiple sectors," "gold and stocks," "real estate mix"	Participants reported spreading investments across assets to cushion risks.
	Cautious trading and learning	"Small trades," "stop-loss," "self-education"	Investors emphasised gradual learning, adopting conservative strategies, and using tools like stop-loss orders.

Summary of Findings

The analysis showed that retail investors in the Pakistan Stock Exchange view risk as a structural, psychological and social interaction. The unpredictability, which was transferred to the emotional stress, was created by the market volatility and political insecurity. The lack of information and low trust in the institutions strengthened the sentiments of vulnerability as investors were left to feel the insider benefits (Whitelaw et al., 2024). Their trading behaviour was influenced by emotional and cognitive biases like loss aversion, overconfidence, and herding, which frequently resulted in inefficient performance. The understanding of risks through social influence by peer networks and collective storytelling also mediated how risks were comprehended and occasionally lowered anxiety, but also subjected traders to misinformation. Nevertheless, in spite of these difficulties, the retail investors actively worked out the adaptive strategies combining the elements of diversification, technical instruments, tacit knowledge, and even faith-based framing. In general, risk was more than a concept depending on statistics but rather an existential experience that was characterised by uncertainty, distrust, mental stress, and cultural contextualisation.

Practical Recommendations

Improving investor performance on the PSX needs institutional and individual levels of intervention. To restore confidence in the fairness of the market, regulators must impose more disclosure obligations and impose more stringent punishment on insider trading (Leonardo & Gunawan, 2024). Investor education programs should focus on behavioural biases like loss aversion and overconfidence, as well as technical trading skills, and should be given priority by the brokerage houses and the Securities and Exchange Commission of Pakistan. Retail-trader financial literacy programs may promote disciplined risk-taking behaviour, such as diversification and stop-loss plans. The development of open, timely and accessible information systems would eliminate reliance on rumours and peer networks, and this would minimise susceptibility to misinformation (Bragazzi & Garbarino, 2024). Social influence might be more constructively used by encouraging the creation of more believable investor associations or forums, which would encourage collective knowledge-sharing but would discourage speculative herding.

Future Research Directions

This study can be further developed in the future by conducting comparative studies in other emerging markets to see if similar risk perception patterns develop in environments with different strengths of regulations. Longitudinal research can be done to see how the interpretation of risk is done by retail investors over various market cycles, including bullish and bearish market cycles. Mixed-methods techniques that would include both qualitative narratives and quantitative behavioural data might provide more detailed information about the interaction of psychological biases with structural conditions in influencing the outcomes of trading (Xing, 2024). Studies can also explore gender, class and regional variations in retail investor experiences in Pakistan, which will throw light on whether the demographic variations may result in different interpretations of risk (Nawazish & Ali, 2023). Lastly, future work can explore the role that digital trading platforms and algorithmic tools can play in changing the lived experience of risk by retail investors, especially as the adoption of fintech in Pakistan is on the rise.

Conclusion

This study aimed to explore the perspective of retail investors about risk perception and understanding with reference to their lived experiences and not necessarily objective quantitative market measures at the Pakistan Stock Exchange. The results show that risk is no longer perceived

in an absolute sense of numerical volatility but of a multi-layered phenomenon driven by structural uncertainties, information asymmetry, behavioural biases and social dynamics. Political turmoil, liquidity, and regulatory laxity consistently added to the sense of vulnerability, and investors were left relying on informal networks and on their own heuristics. These findings resonate with previous research that has found that there is a weak level of trust in the financial institutions in Pakistan, but it also sheds more light by showing how traders incorporate such challenges in their day-to-day decision-making. The significant contribution of this study is that it sheds light on the emotional and cultural aspects of risk. The forces of loss aversion, overconfidence and herding were created, and religious and social stories provided support and rationality on risk-taking. Instead of having risk as a financial variable, participants conceptualised risk based on their own experience, group norms and coping mechanisms. This puts risk interpretation in the position of an experienced reality as a mixture of rational calculation and affective and cultural logic. The study also points to the agency of retail investors who take advantage of hybrid methods such as diversification, technical analysis and tacit knowledge in order to mitigate the uncertainties. These measures are, nonetheless, limited by systematic problems of the lack of information distribution and the ineffective implementation of the market regulations. Finally, the study highlights the need to make substantial regulatory changes, improve transparency and conduct specific investor education to empower retail traders. This study will help understand the field of behavioural finance in the emerging economies better, because it places the perceptions of investors at the centre of the research. It highlights that for better market results in Pakistan; one should not only concentrate on economic basics but also on psychological and cultural factors that characterize the experience of risk among investors.

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