



Behavioural Biases and Market Resilience: An Egyptian Perspective on Prospect Theory

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Abstract

This study analyses how prospect theory affects individual investment decisions on the Egyptian Stock Exchange amidst political and economic instability. This study creates a new ground to the limited Egyptian literature by investigating the impact of the recent Russian-Ukrainian war and the Israeli-Palestinian geopolitical conflict on the investment behaviour. Unlike prior research that concentrates on the macroeconomics variables and financial policies, this research has been focusing on the behavioural lens to interpret these effects. Through empirical data on how certain biases affect decision-making, it merges the behavioural finance theory and turbulent regimes. Data were collected on 300-investor structured survey through reliability and validity tests, normality tests, correlation tests, and OLS regression modelling. The findings are that loss aversion and regret aversion significantly affect investor 95

choice amidst instability, and mental accounting and self-control has no effect. These results are in line with existing behavioural finance literature (Otaify, 2023; Gamal & Wahba, 2025) and advances its application in markets with increased economic and political uncertainty. The study concludes with practical implications on investors and regulatory policies, and underscores improved financial choice-making processes and effective regulatory policies amidst instability in emerging markets.

Keywords: Prospects, Geopolitical Risk, Political and Economic Instability, Investment Decision, Egypt.

JEL Classification: G41, G11, D14 and D91

Introduction

Why do investors stubbornly hold onto declining assets, even when the numbers clearly indicate it is time to let go? Traditional finance would have us believe that investors act rationally, processing information objectively, markets are efficient and reacting logically to the market signals. Yet, that is simply not the case, especially in periods marked by turbulence and unpredictability.

This is where behavioural finance gives a better understanding. Unlike traditional models that think people are always rational and have perfect information, behavioural finance recognises that real-life biases matter. Prospect theory, developed by Kahneman and Tversky (1979), shows that people look at outcomes based

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on perceived gains and losses instead of total wealth. Loss aversion is defined as how people fear losses more than they value equivalent gains, and regret aversion is articulated as the fear of making a mistake causes them to do nothing or be overly careful. These feelings are especially strong in unstable markets. When there is constant uncertainty, these biases are not just minor issues; they greatly affect how investors behave.

Over the past two decades, global financial systems have been perpetually unsettled by trade disputes, wars, fluctuating interest rates, and energy market disruptions. In the GCC, where economies are deeply tied to oil, price shocks and geopolitical unrest consistently undermine investor confidence and market stability. Egypt has also felt the effects. The country has faced several currency drops, high inflation, and increasing pressure on its foreign reserves. With this instability, investors have to deal with a situation where uncertainty is common. In these situations, careful thinking does not often make decisions; instead, feelings and emotional responses often come first.

For developing markets like Egypt, the risks are greater. Market systems are not well developed, people know little about finance and its instruments, and organisations often struggle to handle shocks well. The Egyptian Stock Exchange has expanded, but it still faces problems like inflation, currency changes, and unclear policies. These situations make people's biases stronger, so it is vital to look at how fear of loss and regret develop in such unstable settings.

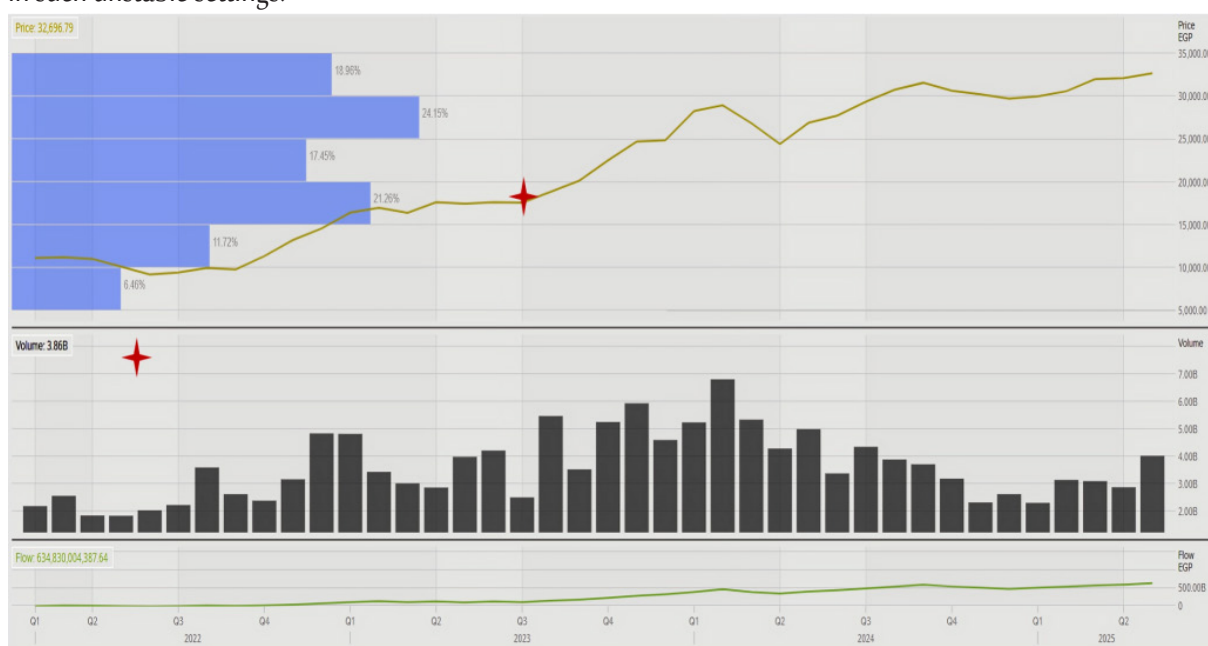


Figure 1: EGX30 (2022 - 2025)

Figure 1 shows the performance of the EGX30 in the period of February 2022 and May 2025. The index experienced a short-lived downturn following the Russian–Ukrainian war in mid to late 2022 and increased volatility during the Israeli–Palestinian geopolitical conflict in late 2023. Despite these fluctuations, the EGX30 secured a steady upward trend, amplified by devaluation-led liquidity, economic policy reforms, and state-owned driven investments. This reflects that whilst external shocks strengthened psychological biases, Egyptian investors adapted and recovered the market.

Figure 2 illustrates the EGX70 performance over the same period, which mirrors the EGX30 trend by including 40 other companies. An observable decline during the first three quarters in 2022, reflecting the global market fluctuations, before resuming a persistent upward trend. The late 2023 witnessed the geopolitical conflict introduced volatility, seen through volume spikes and price, however, the long-run momentum maintained positive, assuming that small and mid-cap stocks also showed resilience.

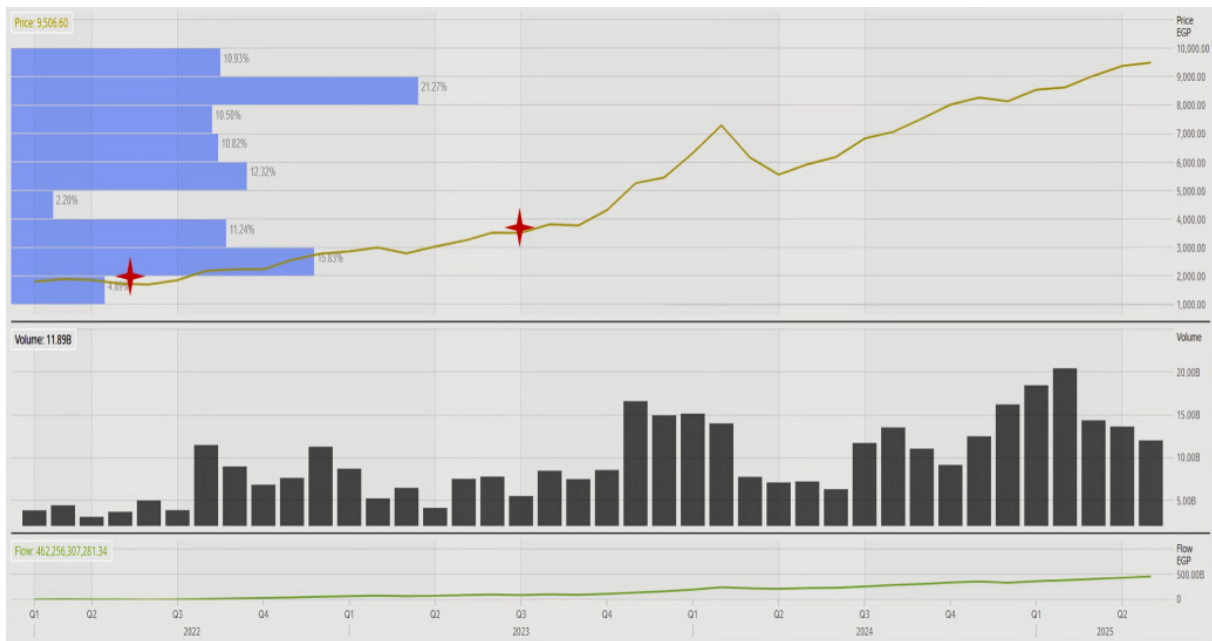


Figure 2: EGX70 (2022 - 2025)

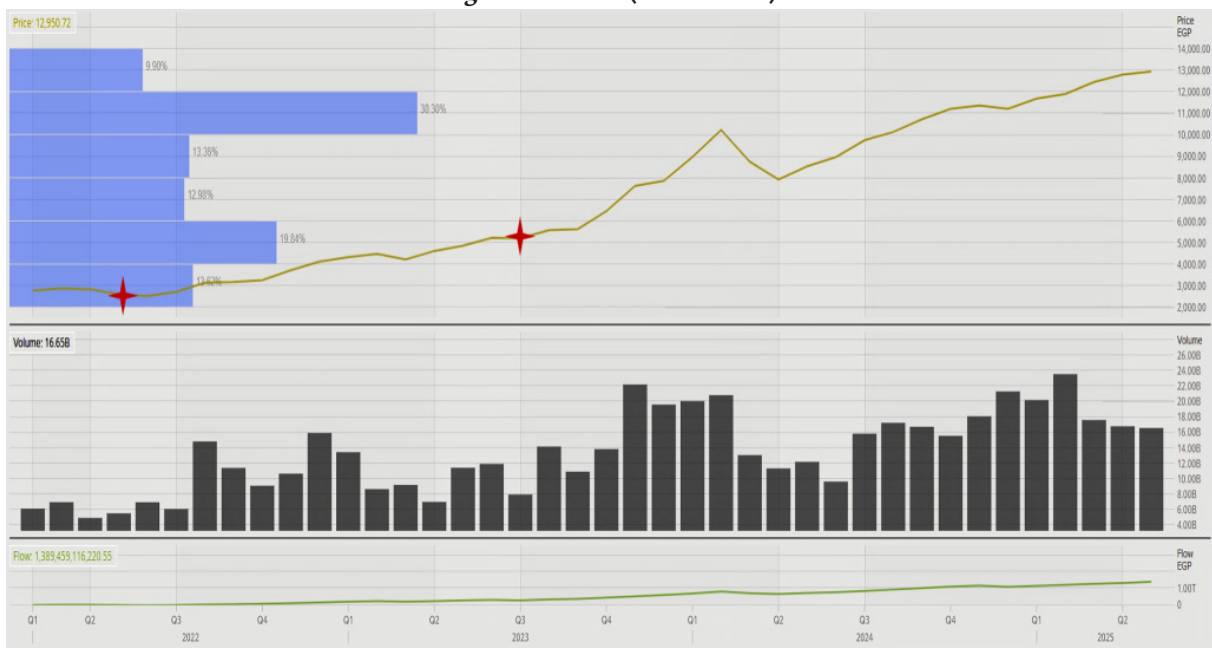


Figure 3: EGX100 (2022 - 2025)

Figure 3 reflects the EGX100 index, showing similar dynamics. The Russian–Ukrainian war led to a short-term deterioration in mid to late 2022, and late 2023 was marked by increased volatility associated with the regional geopolitical conflict. However, the EGX100 sustained growth, with prices increasing consistently into 2025. The broad view coverage of the EGX100 supports the view that investors across a wide range of companies were affected only temporarily by the geopolitical uncertainty.

Taken together, the EGX30, EGX70, and EGX100 all reflect that while geopolitical crises such as the Russian-Ukrainian war and the Israeli–Palestinian conflict created temporary disruptions and observable volatility, they did not pause the long-term upward trend of Egypt's stock market. This resilience, highlights the

dominant role of the domestic economic reforms and policies, devaluation, and investment strategies in the dynamic stock market, overcoming any instability.

This study is composed as follows: Section 2 covers the theoretical foundations and literature review; Section 3 explains the methodology applied, including how sample was taken and how data was analysed; Section 4 shares the analysis of the study; Section 5 discusses the results; and Section 6 wraps up with implications, recommendations, and limitations.

Theoretical Framework and Literature Review

Investment Decision-Making: From Rational Models to Instability-Embedded Behavioural Finance

Investment decision-making is far from an easy choice; it is a complicated trade-off between what humans want later on and willing to sacrifice right now. While Kishori and Kumar (2016) frame it as a choice of delaying present consumption for larger future gains, this account overlooks the uncertainty that actually dominate investor behaviour. Classical financial theories, such as Expected Utility and the Efficient Market Hypothesis, as articulated by Sharpe (1964), Fama (1970), and Hirshleifer (1985), proposed rational, utility-maximising individuals operating in efficient markets where information is both disseminated and transparent.

Yet, the real world consistently questioned these assumptions. Some advocates, who admittedly still support the classical paradigm, maintaining that rational decision-making and efficient markets generally prevail (Ben Ameer et al., 2019). However, the evidence is overwhelming: investors frequently act irrationally, swayed instead by their emotions, subjective risk perception (Kumar & Goyal, 2015). This recognition has raised the importance of behavioural finance: a field that compiles concepts from economics, finance, and psychology to explain the human tendencies that disrupt neat and rational models.

The application of behavioural finance paradigm is crucial, particularly in contexts of political and economic instability. Unlike the traditional framework, under which partial stability is assumed, behavioural finance takes into account uncertainty and instability as normal conditions rather than exception. Fragments in the current global systems, derived by occurrences of trade wars, fluctuations in prices of commodities, geopolitics, are rather to be treated as ordinary than some extraordinary factors.

In the emerging markets and Gulf Cooperation Council (GCC) region, markets are featuring turbulences, accounted for the prices of crude oil, local political developments and economic reforms. Egypt is no exception of this situation. The repeated EGP devaluation, dynamic inflation rates, changing structural reforms, alongside spill over effects from other countries are affecting the economy dramatically (Saunders, 2023). Hence, the emerging economies like Egypt, behavioural effects are amplified due to the lack of financial literacy, weak institutional structures, and market inefficiency (Hafez, 2021; and Otaify, 2023). Under this paradigm, emerging economies fundamentals are built on unstable basis, due to its nature of consistent political and economic instability.

Investors operating in such markets, behavioural responses such as prospects as the stability in such markets is no longer the regular condition, but rather an underlying reality, under which investment decision must be made. Thus, behavioural finance is more likely to be implied to take into account these emotional and psychological responses. Oppositely, with the classical model based on the rationality, which is more likely to be observed in developed countries, investors make decisions based clearer rules of regulations, available information, and stable eco-political systems.

Accordingly, this study explores this phenomenon by applying behavioural finance to the Egyptian context, specifically viewing political instability as the main driver of investment behaviour rather than a secondary factor. By reflecting instability as the underlying market condition, the research aims to bridge the gap between the rational financial theories and the practical decision-making patterns observed in

emerging markets. This focus provides a more holistic perspective on how investors view an environment where stability is the regular condition, allowing for a better understanding of investment choices in the face of persistent volatility.

Embedded Instability in Prospect Theory and Investment Decisions

1- Stability to Instability: Embedding Uncertainty in Prospect Theory

Prospect theory, developed by Kahneman and Tversky (1979) and refined years later, questions the rational-actor assumptions of expected utility theory proposed by Von Neumann and Morgenstern (1953). It believes that decision-making is not shaped only by rational assessment but also by emotional and psychological factors, specifically when environments are dynamic. In situations marked by political and economic instability, such as ongoing currency crises or changing regulatory policies, the affectionate component of decision-making amplifies. Hence, instability becomes integrated in the very basis of the prospect theory, influencing how individuals respond to risk.

The theory's core dimensions are loss aversion, regret aversion, mental accounting, and self-control, are especially observable in unstable contexts. For example, loss aversion rises when uncertainty heightens the fear of financial losses; regret aversion strengthens as unspeculative situations, make choices more difficult; mental accounting deepens as individuals allocate their finances to manage volatility; and self-control is examined under immediate pressures. Empirical studies have reported the association of prospect theory across financial landscapes (Khan & Butt, 2024; Iram et al., 2024), ensuring its relevance under unstable conditions. Recognising instability as a vital factor within behavioural paradigm shifts the lens: rather than treating crises as an exceptional period, individuals perceive them as an ordinary aspect. This undermines the vitality of prospect theory when analysing markets featured by chronic turbulences, where instability is not an exception but a defining condition.

2- Loss Aversion

Loss aversion is the tendency to perceive losses as roughly twice as painful as equivalent gains. This is a central pillar of prospect theory developed by (Kahneman & Tversky, 1979). This effect is magnified in unstable contexts, where the stakes feel higher and the fear of loss is immediate. Political shocks, sudden devaluations, or policy uncertainty can heighten the emotional reaction to potential setbacks, making investors even more sensitive to prospective losses.

While some criticism arises around the definition of losses and gains as '*punishments*' or '*rewards*', such critiques often overlook the ways instability exaggerates emotional responses. In fragile markets, even minor downturns are treated as existential threats, overshadowing the rationality of risk and return. Consequently, loss aversion is no long a mere bias; it became a vital survival mechanism during crisis periods.

Empirical research consistently concedes the impact of loss aversion across diverse contexts (Yuwono & Elmadiani, 2021; Hafez, 2021; Gupta & Shrivastava, 2022; Otaify, 2023). In volatile environments, investors are more likely to hold onto losing positions, driven not by rational expectation, but by fear of political or economic fallout that would make realising losses feel catastrophic.

3- Regret Aversion

Regret aversion is defined when individuals avoid making decisions to secure themselves from the emotional pain of probable future regret (Landman, 1987). While this can be behavioural disorder under normal circumstances, caused primarily from the errors of commission or omission, it becomes especially observed in environments characterised by uncertainty, where sudden policy changes or geopolitical events can retroactively turn a decision into a cause for regret. In politically or economically unstable conditions, investors might delay decisions, to avoid the emotional pain and consequences of a wrong movement

rather than analytical issues. This fear of regret is uniquely existent when conditions change rapidly, making even rational choices vulnerable to reversal.

Studies on regret aversion show mixed results, indicating neutral, positive, or negative effects (Shafqat & Malik, 2021; Ardini & M. Si, 2023; Rahawarin, 2023). However, Otaify (2023) provides compelling evidence from Egypt, asserting that investors' avoidance of decision-making under heightened uncertainty lowers overall market engagement. Instability, in other words, elevates regret aversion from a marginal concern to a central behavioural driver.

4- **Mental Accounting**

Mental accounting as referred by Rabin & Thaler, (2001) how individuals categorise and treat money differently based on its source or intended use. In dynamic environments, this bias structuring becomes a protective mechanism. Individual may divide the assets into "*safe reserves*" versus "*spendable funds*" each treated with distinctive emotional and financial setting. For instance, in economies experiencing inflation or subsidy removals, investors may separate their funds into foreign-currency "*security accounts*" and local-currency "*daily-use accounts*" segmented by perceived risks.

This reflects not only personal finance strategies and thoughts, but also responses to instability, where differentiation in the wealth units is both psychological and practical. Empirical work consistently shows mental accounting's influence on investor behaviour (Thaler, 2015; Hunguru et al., 2020; Anwar et al., 2023; Dadashi et al., 2023). In unstable markets, this often leads to strong investment in short-term assets, and under investment in productive long-term assets, reinforcing instability rather than anticipating and mitigating it.

5- **Self-Control**

Robbins & Judge (2009) framed self-control bias as the tendency to prioritise immediate compensation over long-term benefit, often resulting from an internal versus external locus of control. Unstable economies, featured by inflation, political unpredictability, or market collapses, undermine self-control, in specific external locus viewpoint, as all these previously mentioned factors are uncontrollable and can only dealt with by self-restraining oneself. Hence, investors facing persistent fluctuations may prefer liquid assets or short-term gains, even if it dilutes future growth.

Accordingly, by shifting priorities toward securing a short-term survival rather than long-term financial planning and incentives, investors believe they might mitigate these effects. This weakened financial thought reflects not intelligence, but heightened anxiety, fear and diminishing capability to deal with any delayed outcomes. Researchers support the significant effect of self-control on investment decision-making (Smith et al., 2019; Sapkota, 2023; Sharma et al., 2025). Under political and economic instability, enduring self-control becomes increasingly difficult, as systematic and unsystematic shocks negatively affect their confidence in long-term financial planning and strategies, reflecting how this bias is relevant in crisis economies.

6- **Comparative Insight: Stability versus Instability in Investor Behaviour**

In stable and well-developed economies, classical models and theories frequently explain investor behaviour adequately. Instability-driven biases may happen, but typically under extreme circumstances. However, in politically and economically unstable environments, such as Egypt or parts of the GCC, behavioural deviations and distortions are not exceptions (Ruch, 2020; and Kiptoo, 2024). Instead, they are persistent and embedded: loss aversion, regret aversion, mental accounting, and self-control bias are amplified, making instability itself the central lens for understanding investment decisions. Consequently, this study seeks to provide an endeavour to examine whether Egyptian individual investors are affected by prospect-driven biases amid political and economic instability. Furthermore, to bridge the gap of the focus on

the macroeconomics variables and policies on the investment choices, disregarding the behavioural component within the times of instability.

Research Methodology

Study Problem and Objectives

Even though behavioural finance is becoming popular around the world, research about Egypt is still scattered. Most of the research has looked at financial knowledge (Youssef et al., 2021; Otaify, 2023), the effects of outside shocks like COVID-19 (Hafez, 2021; Elbendari & Moharam, 2023), or how investors are classified (Gamal & Wahba, 2025). However, the connection between political and economic instability and behavioural biases has not been studied enough. This study aims to fill that gap by saying that instability is not just a background issue but also a key reason for mistakes in investment choices.

The study here has two main goals. For individual investors, the findings explain the psychological biases that are most harmful during unstable times, providing strategies to build stronger resilience. For policymakers, the research shows the importance of better financial education, strong protections for investors, and rules designed for markets that often face instability. By placing behavioural finance in the context of difficulties and uncertainty, this study gives a clear understanding of how investors act in Egypt, with ideas that could also help other emerging economies facing similar problems.

Study Hypotheses and Conceptual Model

- H_1 : It is expected that prospect theory has a significant effect on the individual's investment decision.
- H_{1a} : It is hypothesised that loss aversion significantly influences individual investment decisions.
- H_{1b} : It is expected that regret aversion significantly affects individual investment decisions.
- H_{1c} : It is hypothesised that mental accounting has a significant effect on individual investment decisions.
- H_{1d} : It is expected that self-control has a significant impact on individual investment decisions.

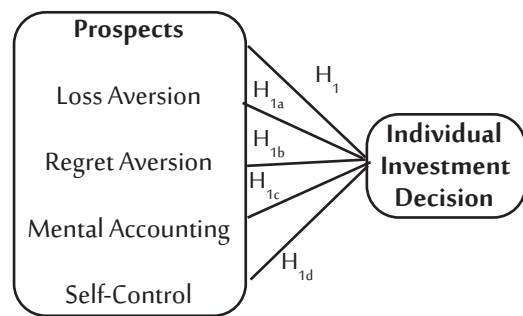


Figure 4: Conceptual Model

Target Population and Sample Design

The target population for this research is composed of Egyptian individual investors who are currently active in the Egyptian Stock Exchange (EGX) or had prior experience in investment. The EGX was selected due to its dynamics, high levels of trading activity, liquidity, and low constraints to entry and exit, which make it in particular fitting for examining individual investment decision-making. According to Bougie and Sekaran (2019), in cases where the population is undefined, an optimal sample size would be 384.

To ensure generalisation of the results, the study deployed online platforms to distribute surveys, primarily through social media platforms. These platforms offer high reach, enabling access to respondents across diverse governorates of Egypt. Initially, the study employed conventional non-probability sampling techniques. To expand participation, respondents were encouraged to disseminate the questionnaire with other potential investors, thereby starting a snowball sampling process. This hybrid strategy improves the tendency of obtaining a diversified and representative set of responses that reflect the characteristics of the wide investor community.

Data Gathering and Methodology

The research design involved two phases. The first involved a pilot study, including market experts interviews to assess the feasibility of the research gap, followed by the distribution of 30 questionnaires to

test the reliability and validity of the constructs. The questionnaires employed a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) and included 20 items: 4 related to individual investment decisions and 16 reflecting prospect theory within the behavioural finance framework.

In the main study, a structured questionnaire was presented to the Egyptian individual investors. Although alternations, such as behavioural experiments, laboratory simulations, and in-depth interviews could have provided qualitative and controlled perspective, they were deemed relatively less practical due to resource constraints and limited scalability. Structured questionnaires were hence chosen for their scalability, standardised, and unbiased responses, enhancing statistical reliability, comparability, and generalisability. The following equations present the quantitative formulation of the model:

$$IID = \alpha + \beta_1 P + \varepsilon \quad (1)$$

Where: *IID* denotes the Individual Investment Decision, and *P* represents the Prospects. *B_{1P}* represents the coefficient of Prospects.

$$IID = \alpha + \beta_{1LA} + \beta_{2RA} + \beta_{3MA} + \beta_{4SC} + \varepsilon \quad (2)$$

Where: Similar to the first model, *IID* denotes individual investment decision. *LA* refers to the Loss Aversion, *RA* represents Regret Aversion, *MA* stands for Mental Accounting, and *SC* denotes to Self-Control. *B_{1LA}*, *B_{2RA}*, *B_{3MA}*, *B_{4SC}* stand for the coefficients of the variables as listed, respectively.

To assess the relationships amongst the study variables, Pearson correlation matrix analysis took place to examine the relationships amongst these constructs, followed by Ordinary Least Squares (OLS) regression analysis. Prior to conducting the model, primary statistical assumptions were answered: normality was tested, multi-collinearity was examined by deploying the Variance Inflation Factor (VIF), and linearity was tested by plotting standardised residuals against predicted values. These procedures ensured the robustness, reliability, and accuracy of the statistical outcomes.

Data Analysis

Demographics Profile and Investment Preferences

The demographic profiles (Table 1) of the 300 participants shows that 58% are males and 42% females. The majority are single (52.7%), and nearly half (48.7%) hold a bachelor's degree, suggesting a well-educated sample. Employment data show that 64.7% are employed, 12.7% self-employed, and 22.7% unemployed, with 38% reporting annual incomes exceeding EGP 100,000. The age distribution is balanced, with the largest segment (28.6%) aged 16–24 and the smallest (12.7%) aged 60 and above.

Investment outlook (Table 2) reveals that 52.7% adopt active investment strategies, while 47.3% follow market portfolios to mitigate risk. Blue-chip stocks are the

Table 1: Demographics Profile n=300

Demographics	Features	Frequency	Percentage
Gender	Female	126	42%
	Male	174	58%
Marital Status	Single	158	52.7%
	Married	52	17.3%
	Married with Kids	62	20.7%
	Others	28	9.3%
Age Group	16-24	86	28.7%
	25-30	62	20.7%
	31-40	50	16.7%
	41-59	64	21.3%
	60+	38	12.7%
Education Level	High School Diploma	26	8.7%
	Bachelor of Science/Arts	146	48.7%
	Master's Degree	64	25.3%
	Ph.D.	38	17.3%
Annual Income	55,000 – 65,000	54	18%
	65,001 – 75,000	52	17.3%
	75,001 – 85,000	44	14.7%
	85,001 – 100,000	36	12%
	100,000+	114	38%
Employment Status	Unemployed	68	22.7%
	Employed	194	64.7%
	Self-employed	38	12.7%
Years of Experience	< 1 Year	144	48%
	1 – 3 Years	74	24.7%
	3 – 5 Years	28	9.3%
	5 – 10 Years	30	10%
	10 Years <	24	8%

Table 2: Investment Outlook n=300

Investment Preference	Features	Frequency	Percentage
Investment Preference	I prefer developing my own portfolio of financial assets	158	52.7%
	I tend to follow the market and invest in mutual funds or exchange trades funds	142	47.3%
Preferred Investment Choice	I will invest in an optimised portfolio of stocks and bonds	110	36.7%
	I will invest in blue chip stocks	130	43.3%
	I will invest in government bonds	60	20%

most preferred investment instrument (43.3%), followed by mixed stock–bond portfolios (36.7%) and government bonds (20%). This expresses that Egyptian investors are engaged into the market on their own and prefer developing their own portfolios featuring primarily a safe mix of assets.

Reliability and Validity

Reliability and validity were tested utilising multiple tests. Cronbach's Alpha has reported a range from 0.701 to 0.899, reflecting acceptable internal consistency. For the validity, factors loadings range from 0.5 to 0.7. This confirms that the observed variables are adequately represented (Table 3).

Normality Test

Normality tests along with the Kolmogorov-Smirnov and Shapiro-Wilk tests demonstrated that prospects exhibited normal distribution patterns ($p < 0.05$). Regardless, the sample size of 300 enables the use of parametric tests. According to Green and Salkind (2013) the precision of results increases with larger sample sizes.

Correlation Matrix and Multicollinearity Test

The study deployed a Pearson Correlation Matrix (Table 4) to examine the relationships amongst prospect dimensions and individual investment choices. Multi-collinearity was assessed using the Variance Inflation Factor (VIF), with all values falling beneath the recommended threshold of 2.5 (Osemeke et al., 2024), indicating no multi-collinearity problems. Accordingly, the regression analysis could be conducted accurately (Table 5).

Regression Analyses (Ordinary Least Squares; OLS)

A multiple regression analysis was undertaken after ensuring that all the important statistical assumptions were satisfied. Two Ordinary Least Squares (OLS) models were developed to examine the relationship between prospect dimensions and individual investment decisions. The first model tested the main hypothesis (H1), while the second assessed the effect of each prospect dimension solely. Tables 8 and 9 present the model summaries and parameter estimates, with explanatory variables accounting for 29.5% and 39.35% of the change in investment decisions. The statistical significance of the models was tested, as all p-values were beneath 0.05 (Tables 6 and 7).

Table 3: Reliability and Validity Tests

Constructs	Statements	Cronbach's Alpha	Composite Reliability	AVE	Item	Loading
Prospects	16	0.771	0.574	0.706	P ₁	0.701
					P ₂	0.627
					P ₃	0.530
					P ₄	0.624
					P ₅	0.546
					P ₆	0.601
					P ₇	0.671
					P ₈	0.546
					P ₉	0.523
					P ₁₀	0.776
					P ₁₁	0.699
					P ₁₂	0.751
					P ₁₃	0.597
					P ₁₄	0.531
					P ₁₅	0.527
					P ₁₆	0.501
Loss Aversion	3	0.779	0.515	0.642	LA ₁	0.806
					LA ₂	0.758
					LA ₃	0.649
Regret Aversion	6	0.728	0.519	0.624	RA ₁	0.802
					RA ₂	0.587
					RA ₃	0.774
					RA ₄	0.699
					RA ₅	0.566
					RA ₆	0.559
Mental Accounting	3	0.847	0.649	0.664	MA ₁	0.880
					MA ₂	0.855
					MA ₃	0.902
Self-Control	4	0.755	0.535	0.510	SC ₁	0.708
					SC ₂	0.792
Individual's Investment Decision	4	0.861	0.542	0.563	SC ₃	0.809
					SC ₄	0.740
					IID ₁	0.735
					IID ₂	0.905
					IID ₃	0.785
					IID ₄	0.528

Table 4: Pearson Correlation Matrix

	P	LA	RA	MA	SC	IID
P	1					
LA	0.773**	1				
RA	0.611**	0.662**	1			
MA	0.812**	0.465**	0.276**	1		
SC	0.512**	0.030	-0.125*	0.376**	1	
IID	0.253**	0.164**	0.208**	0.185**	0.139**	1

Discussion of Results

Table 8 provides a holistic overview of the research findings, showing that prospects have a significant impact on the Egyptian individual investment decisions, leading to the acceptance of H_1 . The regression model results led to a standardised coefficient of **0.317** for prospect theory variables, which explains that investor behaviour in Egypt cannot be thoroughly observed through rational decision-making theories and lens.

On the contrary, psychological tendencies rooted in constructs, such as loss aversion and regret aversion are arising strongly, specifically under the ongoing political and economic uncertainty. These research finding is supported with earlier researches by (Youssef et al., 2021; Hafez, 2021; Metwally, 2023; Elbendari & Moharam, 2023; Metawa et al., 2024; Gamal & Wahba, 2025), which collectively conceded how behavioural distortions became more sound during periods of heightened uncertainty.

Table 9 disaggregates the results, demonstrating the influence of the critical psychological prospect-constructs: loss aversion, regret aversion, mental accounting and self-control. Loss aversion reflects the likelihood of how Egyptian investors fear potential losses intensely than they perceive equivalent gains. In times of political instability, inflationary stress, currency devaluation, or international economic turbulences, Egyptian investors appear particularly sceptical, prioritising to secure wealth over the pursuit of high gains.

Hafez (2021) believed that 61% of Egyptian investors show strong loss-averse tendencies, while Otaify (2023) highlighted how such behaviours directly affect overall market capitalisation. These results suggest that instability increases the perceptions of risk, strengthening the risk-free and safe portfolio strategies among individual investors.

With this being, it reflects how investor emotions can shape and move the market dynamics; hence, H_{1a} has been accepted.

Regret aversion also showed as a significant construct, as individual investors aim to minimise the psychological stress linked with making decisions that may later prove wrong and lead to regret. In volatile environments, such as Egypt, whether driven by global insecurity, geopolitical conflicts, or domestic economic reforms, Egyptian investors believed to avoid high-risk investments that might lead to any significant disappointment if they turn out unsuccessful.

This research finding aligns with the outcomes of Youssef et al. (2021) and Otaify (2023), who reported that regret aversion motivates investors to develop defensive portfolios, as reflected in their investment preferences, in order to secure themselves a safe financial and investment position, against any unexpected emotional discomfort. This behaviour is highly expected and relevant during the periods of turbulence, amplifying the emotion of evading '*getting things wrong*', leading to the acceptance of H_{1b} .

Table 6: First Model ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	66.665	15	4.444	9.327	0.000
Residuals	135.331	284	0.477		
Total	201.997	299			

Table 7: Second Model ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	91.225	29	3.146	7.668	0.000
Residuals	110.771	270	0.410		
Total	201.997	299			

Table 8: First Model Parameter Estimates

Model	Unstandardised Coefficients		T-Statistics
	Beta	Std. Error	
Constant	-0.372	0.526	-0.708
Prospects	0.317	0.137	2.317*
Adjusted R Square		0.295	

Table 9: Second Model Parameter Estimates

Model	Unstandardised Coefficients		T-Statistics
	Beta	Std. Error	
Constant	0.028	0.530	0.052
Loss Aversion	0.075	0.019	3.947*
Regret Aversion	0.301	0.121	2.486*
Mental Accounting	-0.029	0.099	-0.287
Self-Control	0.066	0.082	0.807
Adjusted R Square		0.393	

Oppositely, the other two behavioural constructs, mental accounting, and self-control were revealed statistically insignificant in this study, leading to the rejection of H_{1c} and H_{1d} . Even though earlier literature has reported some relevance of these biases (Youssef et al., 2021; and Hafez, 2021), their insignificant impact in the research findings may reflect the differentiated investment culture shaped by Egypt's ongoing economic reforms, specifically during the times of the global and regional geopolitical conflicts. In a market featured by current political and economic crises, ranging from skyrocketing interest rates and unstable inflation rates, investors may have gradually adopted a novel approach of becoming more accepting to the idea of business cycle fluctuations.

Investors assess money distinctively in accordance to its origination and intended usage through mental accounting. According to Ozkan & Ozkan (2020), this behavioural bias leads people to take wrong financial decisions. The research believes that Egyptian investors show relatively rational money behaviour, because they do not split their funds into different classes. The research by Singh & Kumar (2022) and Novandalina et al. (2022), reported that investors in some emerging economies treated their money as an entire unit.

Similarly, the research conceded that self-control bias does not have a significant effect when investors make investment decisions. The research of Atmaningrum et al., (2021) reported that self-control does not affect long-term investment behaviour. The possibility that Egyptian investors might be following self-restrained and planned investment methods fearing the losses or regrets.

The comparative picture from other emerging economies supports this interpretation of events. In Turkey, Yalçiner (2024) linked amongst the persistent currency depreciation, institutional fragments and political instability to the market psychology, where lack of regulations and government power might lead to serious financial crises. Similarly, in Argentina, Chavez (2021) stated that during the times of political and economic instability, and especially when foreign reserves are threatened, the fundamental principles of valuation to the assets shift significantly and by then quantification will be relying on the degree of risk tolerance.

Overall, the findings reflect that the modern behavioural finance model offers crucial understanding to the investment decision-making process under the cases of instability. Specifically, Egyptian investors showed vulnerability to some of the prospect-driven biases, with loss aversion and regret aversion integrated into much of their financial choices, behaviours and attitudes during unstable times. These findings suggest that investment decisions are not made out of the blue, however, they are considering the wide political and economic insecurities, where uncertainty is the norm.

Research Limitations, Recommendations and Conclusion

Practical Implications

The findings of the study provide important implications for the financial consultants, policymakers, and individual investors. Understanding behavioural biases and how they are amplified by political and economic instability can help in developing targeted educational programmes, policy adjustments, and advisory services to the public seeking to mitigate the risk. By doing the prior exercises, the government can ensure that the public will be armed by proper investment strategies during the times of political and economic discomfort.

The practical implications stemming from the research findings are double-fold. On one hand, for government bodies and institutions, it is crucial; there is a practical importance to complement Egypt's existing Financial Inclusion Strategy (2022–2025). While the strategy already addresses the values of financial literacy, women's empowerment, and entrepreneurship, it does not sufficiently tackle topics related to the behavioural finance, financial crises management, and financial risk management. By overcoming such de-

ficiency, financial education programmes might go beyond the plain foundational financial literacy, and help the public recognise psychological biases, manage and mitigate the risks more effectively. Additionally, the market regulators and policymakers must collaborate to have a joint effort to provide such educational programmes to all age brackets of the society, starting from the school education to the adults' programmes.

On the other hand, individual investors, the findings highlight the necessity of developing a greater sense of loss aversion and regret aversion in a manner of not maximising losses, but managing and mitigating risk effectively, particularly within unstable moments. Developing diversified portfolios with different sectors, based on fundamental analysis, whilst evading the psychological and hasty decision is crucial during these periods. Furthermore, individual investors must understand the importance of financial consultancy services that would help them to enrich their experiences, without giving up on a reliable investment opportunity. Eventually, financial education does not stop at a certain level of experience, thus, keeping oneself updated with the market dynamics is crucial.

Research Limitations and Recommendations for Future Academic Research

Even though this study provides informative outcomes on the way prospect theory is integrated into the investor behaviour in Egypt in times of political and economic instability, it does have certain limitations. First, the dependence on online surveys and snowball effect carries out probable sampling bias, as investors without internet access may be underrepresented. However, efforts were made to distribute the survey across multiple online platforms to ensure balanced participation. Second, the use of self-reported questionnaires increases the concerns about response accuracy. To mitigate this, validity and reliability tests were conducted to enhance the credibility and generalisability of the findings. Third, the cross-sectional design restricts the ability to observe behavioural changes across different stages of crises. This limitation was partially resolved by comparing Egypt's context with other emerging economies to provide further interpretation.

These limitations recommend several prospects for future research. A longitudinal design could capture the trend of behavioural biases during unstable political and economic conditions. Experimental and case study approaches could also create environments to test investor decisions under uncertainty, offering more dynamic insights. To sum it up, the findings report that Egyptian investors are affected by behavioural biases during unstable political and economic contexts, particularly loss aversion and regret aversion, while mental accounting and self-control were insignificant. The study sheds light on the importance of integrating behavioural finance, crisis management, and financial risk management into education and policy frameworks. Integrating these behavioural dimensions could enhance financial inclusion, promote economic stability, and support more sound investment decision-making in emerging markets.

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