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BEYOND RATIONAL PIETY: HERDING BEHAVIOR AND THE COGNITIVE ARCHITECTURE OF ISLAMIC INVESTMENT DECISIONS

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ABSTRACT: This study examines how representativeness bias and emotion shape Islamic investment decisions through herding behavior among Indonesian Islamic stock investors. The study contributes to behavioral Islamic finance literature by positioning herding behavior as a cognitive-emotional mechanism in which representativeness bias acts as the dominant trigger while emotion amplifies collective investment tendencies. Using a quantitative approach and PLS-SEM, data were collected from 324 investors who actively transact in Islamic stocks in Indonesia. The findings reveal that representativeness bias significantly influences herding behavior and Islamic investment decisions, while emotion strengthens the relationship between representativeness bias and herding behavior. Herding behavior also mediates the influence of cognitive and emotional factors on investment decisions. These findings imply the importance of strengthening behavioral financial literacy and critical investment judgment to reduce irrational collective behavior in Islamic capital markets.

Keywords: Islamic Investment Decision; Herding Behavior; Representativeness Bias; Emotion; PLS-SEM

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INTRODUCTION

Islamic stock investment in Indonesia has expanded within a market environment increasingly shaped by retail participation, digital brokerage platforms, social-media investment narratives, and rapid information circulation. This growth creates a practical problem: investors now encounter more access to Sharia-compliant instruments, but not necessarily better judgment in interpreting them. In such conditions, investment decisions are no longer formed only through financial analysis or religious screening; they are shaped by the speed with which investors convert market cues into action. Behavioral finance shows that investors under uncertainty often rely on simplified judgment rules rather than full informational evaluation (Barberis, 2018; Gigerenzer, 2018). This problem becomes more consequential in Islamic stock markets because Sharia compliance may create a sense of normative legitimacy, while behavioral shortcuts continue to influence how investors select, follow, and justify investment decisions (Chaffai & Medhioub, 2018; Loang & Ahmad, 2023).

The central theoretical problem is that Islamic finance scholarship often treats investment behavior through compliance, ethics, and product legitimacy, while behavioral finance treats investors as psychologically bounded actors exposed to bias, sentiment, and social influence. These two traditions do not conflict, but they rarely meet with sufficient analytical precision. Sharia screening defines the permissible universe of investment, yet it does not explain how investors cognitively process signals inside that universe. Representativeness bias is important here because investors may interpret firm image, recent performance, or perceived similarity with past winners as evidence of future value. Prior studies show that behavioral biases significantly affect investment decisions, especially in contexts where investors rely on salient cues, prior experience, and subjective interpretation rather than objective valuation alone (Jain et al., 2020; Mahmood et al., 2024; Rasheed et al., 2018).

This study also addresses the underdeveloped role of herding behavior in Islamic investment decisions. Herding is often described as mere imitation, but this interpretation is too narrow. Herding may instead function as a social validation mechanism through which investors transform private uncertainty into collective confidence. When investors observe majority movement, they may treat the crowd not as noise, but as evidence. This mechanism is consistent with social transmission theory, which explains how beliefs spread and gain market power through repeated observation and communication among investors (Hirshleifer, 2020). Empirical studies on herding further show that collective movement intensifies during uncertainty, market stress, and sentiment-driven episodes (Alexakis et al., 2023; Indārs et al., 2019; Kizys et al., 2021). In Islamic stock markets, this matters because investors may simultaneously respond to market popularity, perceived Sharia legitimacy, and peer-based confirmation.

Emotion adds a further layer to this behavioral structure. Investment decisions are not made by cognition alone; they are made by cognition under affective pressure. Fear, excitement, anxiety, and euphoria can alter how investors interpret information, how much confidence they place in familiar patterns, and how quickly they follow collective behavior. Research on financial emotion and investor sentiment shows that affective states shape market reaction, attention, and collective convergence (Aharon, 2021; Ballinari et al., 2022; Griffith et al., 2020; Ren & Wu, 2020; Smales, 2021). This suggests that emotion should not be treated merely as a direct predictor of investment decisions. It may instead intensify the conversion of representativeness bias into herding behavior, making the crowd appear more credible precisely when independent judgment becomes more fragile.

This study, therefore, examines how representativeness bias, herding behavior, and emotion explain Islamic investment decisions among active Islamic stock investors in Indonesia. The academic contribution lies in specifying a cognitive-social-affective mechanism of Islamic investment behavior. Representativeness bias is proposed to shape investment decisions through two pathways: directly, as a private cognitive shortcut, and indirectly, through herding behavior as a social validation process. Emotion is further positioned as a reinforcing mechanism that strengthens the movement from cognitive bias to herding behavior, thereby explaining how affective pressure converts biased pattern recognition into collective investment action. This contribution advances behavioral Islamic finance by moving beyond a rational-compliance model and offering a more precise framework in which Sharia-based investment decisions remain normatively regulated, yet behaviorally vulnerable to bias, emotion, and crowd-based validation.

THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Representativeness Bias and Islamic Investment Decision

Representativeness bias explains how investors evaluate investment opportunities by relying on similarity, familiarity, and perceived pattern consistency rather than objective probabilistic reasoning. Behavioral finance argues that investors frequently interpret current market conditions through simplified analogies with prior events, causing them to overestimate the predictive value of salient information and recent performance patterns (Barberis, 2018; Gigerenzer, 2018). In investment settings, representativeness bias encourages investors to classify firms as "good" or "bad" based on limited cues such as firm image, prior return trajectories, and socially visible market narratives (Jain et al., 2020). Empirical evidence further demonstrates that behavioral biases significantly shape investment decisions, particularly in emerging markets where informational asymmetry and speculative interpretation remain substantial (Mahmood et al., 2024; Rasheed et al., 2018).

In Islamic capital markets, representativeness bias may become more influential because investors operate within dual layers of evaluation: financial expectation and Sharia compliance. Although Sharia screening regulates the permissibility of investment instruments, it does not eliminate heuristic judgment in assessing investment quality. Investors may therefore continue to rely on simplified cognitive shortcuts when interpreting Islamic stocks. Prior research also shows that investor attitudes, past behavior, and subjective evaluation significantly influence investment intentions and decision-making processes (Akhtar & Das, 2019; Raut et al., 2018). Accordingly, representativeness bias is expected to exert a significant influence on Islamic investment decisions.

H1: Representativeness bias has a positive effect on Islamic investment decisions.

Herding behavior refers to the tendency of investors to imitate the actions of other market participants when making investment decisions. Conventional explanations often interpret herding as irrational crowd-following driven by informational uncertainty. However, behavioral finance suggests that herding also emerges from cognitive validation processes, where investors perceive collective market movement as confirmation of their own prior beliefs (Hirshleifer, 2020). In this context, representativeness bias becomes a critical antecedent because investors interpret majority action as evidence that their pattern recognition is correct.

Empirical studies confirm that behavioral bias significantly contributes to collective market behavior. Research on individual equity investors demonstrates that heuristic reasoning frequently intensifies imitation tendencies under uncertain market conditions (Jain et al., 2020; Kiymaz et al., 2016). Studies on Islamic stock markets further show that herding behavior exists even in Sharia-compliant investment environments, particularly during periods of volatility and informational instability (Chaffai & Medhioub, 2018; Loang & Ahmad, 2023). Regime-dependent analyses similarly indicate that herding intensifies under market stress and uncertainty (Kabir & Shakur, 2018; Kizys et al., 2021). Therefore, investors affected by representativeness bias are more likely to engage in herding behavior because majority action appears to validate their heuristic interpretation of market conditions.

H2: Representativeness bias has a positive effect on herding behavior.

Herding behavior influences investment decisions because investors often use collective movement as a substitute for independent evaluation. Under uncertain market conditions, following the majority reduces psychological pressure and perceived decision risk. Behavioral finance literature explains that investors tend to interpret widespread market participation as evidence of investment credibility, even when objective information remains limited (Hirshleifer, 2020). This process transforms collective behavior into a social signal capable of shaping financial judgment.

Prior empirical findings demonstrate that herding behavior significantly affects investment decisions in emerging and Islamic stock markets. Studies during crisis periods reveal that collective investor movement intensifies when uncertainty and sentiment dominate market interpretation (Alexakis et al., 2023; Bougatef & Nejah, 2022). Sentiment-based studies also show that social influence and investor mood strengthen convergence in stock-market behavior (Choi

& Yoon, 2020; Li et al., 2023). In Islamic investment contexts, herding may become particularly influential because investors simultaneously respond to market trends, peer validation, and religious legitimacy cues. Consequently, stronger herding behavior is expected to increase Islamic investment decisions.

H3: Herding behavior has a positive effect on Islamic investment decisions.

Representativeness bias may not only influence Islamic investment decisions directly, but also indirectly through herding behavior. Investors who rely on heuristic interpretation are likely to seek confirmation from collective market action before translating judgment into investment decisions. Herding therefore functions as a behavioral transmission mechanism through which private cognitive bias becomes collective financial action.

Behavioral finance studies indicate that collective market behavior often emerges when investors interpret others' actions as informational signals under uncertainty (Indārs et al., 2019). Research on social sentiment and market synchronization similarly demonstrates that shared investor attention and collective interpretation can transform individual perceptions into coordinated investment behavior (Chue et al., 2019; Li et al., 2023). In Islamic capital markets, this mediated structure is particularly relevant because investors may combine heuristic reasoning with social validation before making investment decisions. Therefore, herding behavior is expected to mediate the relationship between representativeness bias and Islamic investment decisions.

H4: Herding behavior mediates the effect of representativeness bias on Islamic investment decisions.

Emotion constitutes an important affective mechanism that shapes how investors interpret market information and respond to uncertainty. Behavioral finance argues that emotions such as fear, excitement, anxiety, and euphoria influence investor judgment by altering risk perception and confidence in decision-making (Griffith et al., 2020). Emotional states may therefore intensify the tendency of investors to rely on heuristic reasoning and collective market behavior.

Empirical evidence demonstrates that investor sentiment and emotional pressure strengthen herding behavior, particularly during volatile market conditions (Aharon, 2021; Ren & Wu, 2020). Sentiment-analysis research also confirms that emotional market signals influence investor convergence and irrational collective movement (Ballinari et al., 2022; Parveen et al., 2021). In addition, studies on investor attention during crisis periods show that emotional uncertainty increases dependence on socially visible market cues (Smales, 2021). In Islamic stock investment, emotion may therefore strengthen the influence of representativeness bias on herding behavior because emotionally affected investors are more likely to perceive majority behavior as a reliable signal under uncertainty.

H5: Emotion positively moderates the effect of representativeness bias on herding behavior.

RESEARCH METHOD

This study used a quantitative explanatory design to examine how representativeness bias, emotion, and herding behavior explain Islamic investment decisions among active investors in Indonesian Islamic stocks. The population consisted of investors who regularly conducted transactions in Islamic stocks listed in the Indonesian capital market. A total of 324 valid responses were used for analysis, providing an adequate empirical basis for testing direct, mediating, and moderating relationships in the proposed behavioral finance model. Respondents were selected based on their active involvement in Islamic stock transactions, since the study required participants who had actual market experience rather than abstract investment knowledge. This criterion was essential because representativeness bias, emotion, and herding behavior are psychological tendencies that become meaningful when investors repeatedly face market information, price movement, and social signals.

The research instrument was developed from established behavioral finance measures and adapted to the context of Islamic stock investment. All items were measured using a Likert scale. Representativeness bias was defined as decision-making based on stereotypical thinking or analogy that may lead investors to make inaccurate financial decisions that do not improve returns. Herding behavior referred to the tendency of investors to follow others in making

investment decisions. Emotion was understood as a complex affective reaction toward a particular object, extending beyond simple positive or negative feeling. Investment decision was defined as the action or policy taken to allocate capital into an asset with the expectation of future return. The measurement structure is presented below.

Table 1. Measurement of Research Variables

Variable and Definition	Indicators and Scale
Representativeness Bias. Decision-making based on stereotypical thinking or analogy that may lead investors to make inaccurate financial decisions that do not improve returns (Shefrin, 2007).	Indicators: (1) Basic financial concept, (2) Firm image, (3) Accounting information, (4) Internal information, (5) Investment, (6) Overreaction anomaly/winner-loser effect (Shefrin, 2007; Zahera, 2018). Scale: Likert.
Herding Behavior. Investor behavior that tends to imitate others in making investment decisions (Subash, 2012).	Indicators: (1) Individual risk-taking behavior, (2) Market capitalization, (3) Decision-making based on majority opinion, (4) Trading volume/turnover (Subash, 2012). Scale: Likert.
Emotion. A complex affective reaction toward a specific target that extends beyond simple positive or negative feeling (Kuzmina, 2010).	Indicators: (1) Primary emotion including happiness and sadness, (2) Secondary emotion including euphoria, melancholy, and panic (Kuzmina, 2010). Scale: Likert.
Islamic Investment Decision. An action or policy taken in capital placement into an Islamic asset with the expectation of profitable future return (Umairoh, 2012).	Indicators: (1) Rational, (2) Intuitive, (3) Dependent (Umairoh, 2012). Scale: Likert.

Data were collected through a structured questionnaire distributed to Islamic stock investors in Indonesia. Before analysis, the responses were screened to ensure completeness, consistency, and relevance to the respondent criteria. The questionnaire items were arranged to capture both cognitive and affective dimensions of investment behavior. Representativeness bias measured how investors rely on familiar patterns, firm image, accounting signals, and market anomalies when interpreting investment opportunities. Herding behavior captured the extent to which investors consider majority voices, market capitalization, trading activity, and risk-taking cues. Emotion captured affective states that may intensify or weaken market judgment. Investment decision captured rational, intuitive, and dependent decision styles, because apparently investors are not machines, despite many financial models pretending otherwise.

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). This technique was appropriate because the model examined multiple latent constructs, mediation through herding behavior, and moderation through the interaction between emotion and representativeness bias. The analysis followed two stages. First, the measurement model was assessed to evaluate indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Second, the structural model was tested to examine path coefficients, significance values, mediation effects, and moderation effects using bootstrapping. The model tested whether representativeness bias and emotion influence herding behavior, whether herding behavior shapes Islamic investment decisions, and whether emotion strengthens the effect of representativeness bias on herding behavior. This procedure allowed the study to move beyond simple association and clarify the behavioral mechanism through which cognitive bias and emotional reaction jointly produce collective investment decisions in Islamic capital markets.

RESULTS

The measurement model evaluation presented in Table 2 demonstrates that the proposed constructs achieved an acceptable level of reliability and convergent validity, indicating that the indicators consistently captured the intended behavioral dimensions of Islamic investment decision-making. The loading patterns suggest that the constructs were empirically stable and conceptually coherent, particularly for emotion and herding behavior, where the indicators reflected relatively strong internal consistency. The findings also indicate that the behavioral dimensions examined in this study are not fragmented psychological tendencies but

interconnected cognitive and affective mechanisms that operate systematically within investor decision processes. In behavioral finance research, this stage is crucial because weak measurement quality would reduce complex investor psychology into statistical decoration rather than meaningful theoretical explanation.

Table 2. Validity and Reliability Measurements

Constructs	Items	VIF	Loading	C. Alpha	CR-(rho_a)	CR-(rho_c)	AVE
	EMO1	1.491	0.764	0.817	0.838	0.877	0.641
Emotion	EMO2	1.554	0.824				
	EMO3	2.418	0.827				
	EMO4	2.059	0.785				
	HB1	2.151	0.83				
	HB2	2.268	0.845				
Herding Behavior	HB3	1.67	0.795	0.837	0.838	0.891	0.672
	HB4	1.684	0.81				
	ID4	1.153	0.566				
	ID5	1.532	0.816				
Islamic Investment Decision	ID6	1.304	0.721	0.697	0.723	0.815	0.528
	ID7	1.454	0.778				
	RB1	1.33	0.761				
Representativeness Bias	RB2	1.408	0.843	0.651	0.671	0.811	0.590
	RB3	1.185	0.692				

The collinearity assessment further indicates that the indicators did not exhibit problematic multicollinearity, suggesting that each item contributed distinct explanatory information to its respective construct. This condition strengthens the interpretive credibility of the structural model because the relationships among representativeness bias, emotion, herding behavior, and Islamic investment decisions were not distorted by overlapping measurements. The relatively stronger psychometric performance of herding behavior and emotion also reinforces the argument that Islamic stock investment behavior is shaped by intertwined cognitive and affective mechanisms rather than purely rational calculation. Following the assessment of convergent validity and reliability, the next stage evaluates discriminant validity using the Heterotrait–Monotrait Ratio (HTMT) and Fornell–Larcker criterion, as presented in Table 3.

Table 3. The Measurements of Discriminant Validity (HTMT & Fornell-Larcker)

HTMT	Emotion	HB	IAD	RB
Emotion				
Herding Behavior	0.550			
Islamic Investment Decision	0.514	0.735		
Representativeness Bias	0.425	0.708	0.887	
Emotion x Representativeness Bias	0.160	0.145	0.115	0.087
Fornell-Larcker	**Emotion**	**HB**	**IAD**	**RB**
Emotion	0.801			
Herding Behavior	0.477	0.820		
Islamic Investment Decision	0.398	0.579	0.727	
Representativeness Bias	0.318	0.531	0.597	0.768

The discriminant validity results demonstrate that the constructs maintained sufficient empirical distinction from one another. The HTMT values remained below the commonly accepted threshold, indicating that the latent variables did not measure overlapping conceptual domains. Similarly, the Fornell–Larcker criterion confirmed that the square root of the AVE for each construct exceeded its correlations with other constructs, supporting construct uniqueness within the model. These findings are important because the study investigates closely related behavioral finance dimensions that could easily converge conceptually if the measurement structure lacked precision. The results therefore support the argument that representativeness bias, emotion, herding behavior, and Islamic investment decisions operate as theoretically distinguishable yet

structurally interconnected mechanisms within Islamic stock investment behavior. After confirming the adequacy of the measurement model, the analysis proceeded to structural model evaluation to examine the direct, mediating, and moderating relationships among the constructs, as presented in Table 4.

Table 4. Model Summary of Causation Results

Hypothesized Paths	Effect	*t*-value	*p*-value	f^2	Adj. R^2
Representativeness Bias → Herding Behavior (HB)	0.436	8.712	0.000	0.281	0.394
Representativeness Bias → Islamic Investment Decision	0.404	6.626	0.000	0.213	0.448
Herding Behavior → Islamic Investment Decision (IAD)	0.364	5.889	0.000	0.174	
Representativeness Bias → HB → IAD	0.159	5.017	0.000	–	–
Emotion × Representativeness Bias → HB	0.096	2.159	0.031	0.019	–

Note: Path coefficients represent standardized estimates obtained through bootstrapping in PLS-SEM. The f^2 values indicate the effect size of exogenous constructs on endogenous constructs, where values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively. Adjusted R^2 values indicate the explanatory power of the structural model for endogenous variables. Indirect effects represent mediation and moderated mediation relationships tested through bootstrapping procedures.

Source: Processed research data using SmartPLS 4 (2025)

The structural model evaluation presented in Table 4 demonstrates that representativeness bias emerged as the strongest predictor of herding behavior and Islamic investment decisions, confirming the central role of cognitive simplification in shaping investor judgment under uncertainty. Emotion also exerted a significant influence on herding behavior and strengthened the relationship between representativeness bias and collective investment tendencies, indicating that emotional reactions intensify investors' susceptibility to socially reinforced decision patterns. The mediation results further reveal that herding behavior functions as a critical behavioral transmission mechanism linking cognitive bias and emotional response to Islamic investment decisions. These findings suggest that investment behavior in Islamic capital markets cannot be adequately explained through rational evaluation alone, since investor decisions are simultaneously shaped by heuristic interpretation, emotional reinforcement, and social imitation dynamics.

The overall model fit assessment also indicates that the proposed structural model achieved an acceptable level of predictive and explanatory adequacy. The SRMR values of 0.083 for the saturated model and 0.085 for the estimated model remained within acceptable thresholds, indicating a satisfactory level of model fit between the observed and estimated covariance matrices. The d_ULS values of 0.834 and 0.872, as well as the d_G values of 0.254 and 0.257, further demonstrate consistency between the empirical data structure and the proposed model specification. In addition, the NFI values of 0.752 and 0.751 indicate an adequate comparative model fit for behavioral finance research employing PLS-SEM. The relatively close chi-square values between the saturated model (477.889) and estimated model (479.855) also suggest that the structural specification maintained stable estimation without substantial model distortion. Collectively, these findings support the robustness of the proposed behavioral finance framework in explaining Islamic investment decisions among active Islamic stock investors in Indonesia. The complete conceptual and structural relationships among the constructs are illustrated in Figure 1.

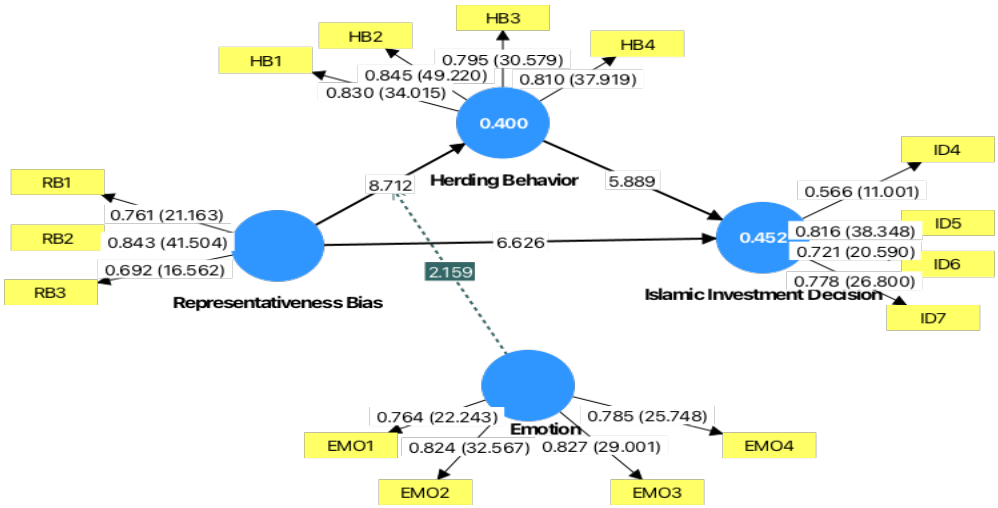

Figure 1. The Path Presentation.

DISCUSSION

The empirical puzzle is that Islamic investment decisions appear normatively anchored in rational screening, ethical preference, and religious compliance, yet the findings demonstrate that investor judgment remains structured by behavioral shortcuts. I argue that this tension is not a contradiction but the central contribution of the study: Islamic investment does not remove cognitive bias; it relocates bias within a morally regulated market environment. Representativeness bias becomes the cognitive gate through which investors interpret firms, market signals, and prior performance. This interpretation is consistent with behavioral asset-pricing scholarship that treats investors as bounded interpreters rather than neutral processors of information (Barberis, 2018), and with decision research that views heuristics as rules of judgment under uncertainty rather than mere irrational residues (Gigerenzer, 2018). Within this logic, Islamic stock investors may comply with Sharia screening while still relying on familiar analogies, salient firm images, and perceived winner patterns as substitutes for deeper valuation judgment (Mahmood et al., 2024; Rasheed et al., 2018).

The theoretical gap concerns the inadequacy of rational-choice explanations for understanding why investors follow market crowds after receiving information that should support independent judgment. I suggest that herding is not only social imitation; it is cognitive validation. The crowd appears to confirm what representativeness bias has already suggested. Evidence on individual equity investors shows that representative bias, anchoring, loss aversion, and herding operate as ranked behavioral forces in investment decision-making (Jain et al., 2020). Social transmission theory further explains how beliefs acquire market power when investors observe, discuss, and repeat the same interpretive signals (Hirshleifer, 2020). This matters because representativeness bias does not operate as a private error alone. It becomes stronger when other investors appear to recognize the same pattern. Prior investment-decision studies similarly show that past behavior, financial literacy, and behavioral bias jointly influence investor judgment rather than allowing information to act in isolation (Raut, 2020; Kiymaz et al., 2016).

The result that representativeness bias shapes Islamic investment decisions directly demonstrates that cognitive bias does not require herding to become consequential. Investors may decide independently while still acting through simplified mental models. This distinction separates two pathways: first, a private cognitive pathway in which representativeness bias structures individual judgment; second, a social-behavioral pathway in which the same bias gains market force through herding. Stock-market intention research confirms that investment behavior is shaped by attitudes, subjective norms, perceived control, and behavioral experience rather than by objective information alone (Akhtar & Das, 2019; Raut et al., 2018). Behavioral finance frameworks also show that recurrent biases influence how investors define risk, opportunity, and evidence (Mittal, 2019). The implication is that Islamic compliance defines what may be bought, but it does not guarantee how well investors reason about what they buy. This interpretation is reinforced by evidence that overconfidence and loss aversion distort market performance

(Bouteska & Regaieg, 2020), while personality characteristics shape investment choices beyond formal financial information (Oehler et al., 2018).

The effect of representativeness bias on herding behavior clarifies the social life of cognitive bias. In Islamic capital markets, herding should not be reduced to irrational mimicry. It also reflects the search for confirmation in a market where investors face uncertainty, Sharia screening, firm-level information, and peer-generated signals. Islamic stock-market evidence shows that herding exists within Sharia-compliant markets, particularly when investors confront asymmetric information and changing market states (Chaffai & Medhioub, 2018). The COVID-19 context further demonstrates that Sharia-compliant stocks are not insulated from collective investor behavior under stress (Bougatef & Nejah, 2022). Islamic GCC evidence similarly indicates that economic and political uncertainty can intensify herding among Islamic investors (Loang & Ahmad, 2023). More broadly, regime-dependent herding research shows that crowd-following varies across market conditions rather than appearing as a fixed behavioral defect (Kabir & Shakur, 2018; Kizys et al., 2021).

The mediating role of herding behavior provides the strongest theoretical refinement. Representativeness bias shapes Islamic investment decisions partly because it first becomes collective movement. Bias therefore travels from cognition, to social confirmation, to investment action. Herding formation studies show that trading volume and crisis conditions can convert individual judgments into collective market behavior (Alexakis et al., 2023). Emerging-market evidence also demonstrates that investors interpret the actions of others as informational cues when market uncertainty rises (Indārs et al., 2019). Sentiment-based research strengthens this interpretation by showing that investor mood and social media sentiment intensify irrational convergence in stock markets (Choi & Yoon, 2020; Li et al., 2023). Aggregate sentiment also increases stock return synchronicity, indicating that investors may move together not because information becomes superior, but because shared attention and affect compress independent judgment (Chue et al., 2019).

The moderating role of emotion adds the final conceptual layer. Emotion strengthens the movement from representativeness bias to herding behavior, which means affect does not merely accompany investment judgment; it changes the authority of the crowd. Fear and uncertainty can intensify herding because investors seek social confirmation when individual judgment becomes psychologically costly (Aharon, 2021). Sentiment-analysis evidence shows that emotional signals are embedded in market behavior and alter financial interpretation (Ballinari et al., 2022). Research on stock-market emotion also demonstrates that affective responses shape investor evaluation rather than remaining external to financial reasoning (Griffith et al., 2020). During crisis periods, investor mood and attention further modify market reactions and return dynamics (Ren & Wu, 2020; Smales, 2021). This explains why emotion operates as an accelerant: it makes familiar patterns feel more credible and majority behavior feel more legitimate. Investor-sentiment research during COVID-19 confirms that affective bias can alter investment decisions under stress (Parveen et al., 2021), while financial literacy may reduce but not automatically eliminate behavioral distortions (Rasool & Ullah, 2020).

The managerial implication is that Islamic investor protection should not stop at disclosure, Sharia screening, or product education. These instruments remain necessary, but they are incomplete when investors misread signals through representativeness bias and then validate those signals through herding. Regulators, Islamic financial institutions, and investment platforms should therefore treat behavioral literacy as part of market governance. Investor education should train investors to distinguish evidence from familiarity, popularity from quality, and majority movement from valid information. Platform design should also incorporate bias-warning prompts, decision checklists, cooling-off mechanisms, and risk-framing tools before investors act on crowded trades. The broader implication is that Islamic capital-market development requires compliant instruments, and also cognitively disciplined investors capable of preserving judgment under uncertainty.

CONCLUSION AND FURTHER STUDY

This study concludes that representativeness bias constitutes the primary behavioral mechanism shaping Islamic investment decisions among active Islamic stock investors in Indonesia, both directly and indirectly through herding behavior, while emotion strengthens the

transformation of cognitive bias into collective investment action. The findings demonstrate that Islamic investment decisions cannot be adequately explained through rational-compliance frameworks alone because investor judgment remains embedded within heuristic interpretation, affective reinforcement, and socially validated market behavior. The study contributes to behavioral Islamic finance by repositioning herding behavior not merely as imitation, but as a cognitive-social transmission mechanism through which biased perception becomes collective financial action. Nevertheless, this study is limited by its cross-sectional design, its focus on Indonesian Islamic stock investors, and its reliance on self-reported behavioral measures that may not fully capture dynamic market reactions during periods of extreme volatility. Future studies should therefore examine longitudinal behavioral change, compare Islamic and conventional investors across different market environments, and integrate experimental or real-time trading data to observe how emotion and representativeness bias evolve during market turbulence. The practical implication is that Islamic capital-market governance should move beyond product compliance and incorporate behavioral investor protection through financial literacy programs, bias-awareness interventions, and platform-based decision architectures designed to reduce irrational collective investment behavior.

ETHICAL DISCLOSURE

All participants provided written informed consent prior to participation. They were informed about the study's purpose, their voluntary participation, the right to withdraw at any time, and the confidentiality of their responses.

CONFLICT OF INTERESTS

The authors declare no conflict of interest.

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