

# **Factors Influencing Individual's Decision on Investment in Capital Market**

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By:

Nirajan Poudyal

Shanker Dev Campus

Campus Roll No.: 27/074

Exam Roll No: 5830/018

T. U. Registration No.: 7-2-205-207-2013

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## CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Factors Influencing Individual’s Decision on Investment in Capital Market**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Nirajan Poudyal

## REPORT OF RESEARCH COMMITTEE

MR. Nirajan Poudyal has defended research proposal entitled “**Factors Influencing Individual’s Decision on Investment in Capital Market**”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

.....  
Asso. Prof. Dr. Kapil Khanal  
Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

.....  
Asso. Prof. Dr. Sajeeb Kumar Shrestha  
Head of Research Department

Dissertation Viva Voce Date:

.....

## APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Factors Influencing Individual’s Decision on Investment in Capital Market**” presented by Nirajan Poudyal a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Asso. Prof. Dr. Kapil Khanal  
Dissertation Supervisor

.....

Internal Examiner

.....

Internal Expert

.....

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha  
Chairman, Research Committee

.....

Asso. Prof. Dr. Krishna Prasad Acharya  
Campus Chief

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## Abbreviations

AM	Arithmetic Mean
ASE	Athens Stock Exchange
CV	Coefficient of Variation
KMO	Kaiser-Meyer-Olkin Measure of sampling Adequacy
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
NSE	Nairobi Stock Exchange
NYSE	New York Stock Exchange
PCA	Principal Component Analysis
SEBON	Securities Board of Nepal
SEC	Securities Stock Exchange
TSX	Toronto Stock Exchange
UAE	United Arab Emirates

## Abstract

The opening of Nepal's capital market has created new investment opportunities for both individuals and institutional investors. Investment decisions are typically guided by various decision-making tools, which are based on the premise that market variables and information structures influence investor choices and market outcomes. This study aims to analyze how different determinants affect investment decisions in the Nepalese stock market and to explore the relationship between these determinants and investment decisions. Primary data was collected through structured questionnaires distributed to investors, and the responses were coded and statistically analyzed using SPSS. The study employs both descriptive and analytical research methods: the descriptive approach identifies factors influencing individual investment decisions, while the analytical approach examines the impact of factors such as affordability, information, and herding on these decisions. The findings reveal that investment decisions are a critical tool for addressing organizational issues and disciplinary proceedings. Overconfidence bias was found to significantly influence investor behavior, with overconfident investors believing they are superior to their peers and the market index. The study also highlights the importance of psychological factors like overconfidence, anchoring, disposition, and herding in investment decision-making. All surveyed respondents acknowledged the influence of these psychological aspects. For Nepali investors, understanding the impact of psychological factors such as herding, anchoring, and overconfidence is crucial for making informed investment decisions. This insight emphasizes the significant role of human psychology in assessing investment decisions accurately.

***Key Words:*** *Investment Decision, Overconfidence, Anchoring, Disposition Effect and Herding*

## CHAPTER- I

### INTRODUCTION

#### **1.1 Background of the Study**

As a method for elucidating investor behavior and its impact on decision-making, behavioral finance has garnered a lot of attention in recent years. In the 1970s, research into individual investor behavior first appeared. Behavioral finance looks at how decisions about buying or selling financial assets are made and provides an explanation for these choices. Its essential spotlight is on the mental ideas that financial backers use to direct their monetary choices (Vidya, 2021).

The hypothesis gave by (Kahneman and Tyeovsky, 1979; Kahneman, 1982) characterizes conduct finance. Investors might not always appear to be the most logical people to make investments, according to Kahneman and Tyeovsky (1979). These behaviorists hold the belief that investors may act irrationally when making investment decisions. "A quickly creating region that agreements with the impact of brain science on the way of behaving of monetary experts" is the way Shefrin (1999) depicted social money. The factors that influence an individual investor's stock selection have been the subject of numerous behavioral finance studies.

To describe the variables affecting the way of behaving of individual financial backers, Meriks et al. (2004), for example, utilized five classifications: bookkeeping data, emotional/individual, nonpartisan data, advocate suggestion, and individual monetary necessities. Nagy and Obenberger (1994) utilized seven arrangements: social importance, mental self-view/firm-picture occurrence, impartial data, customary abundance amplification, bookkeeping data, advocate underwriting, and individual monetary requests.

Al-Tamimi (2005) utilized a five-class way to deal with look at individual financial backer conduct in the monetary business sectors of the Unified Bedouin Emirates. Advocate recommendations, neutral information, accounting information, personal financial requirements, and coincidences between one's self and company image were all included in these categories. However, to this point, there has been insufficient research

on investor behavior with an emphasis on emerging nation stock markets. The purpose of this study was to investigate the factors that influence individual investors' decisions on the Nepali stock market.

The concentrate likewise plans to research how various elements impact individuals' money management ways of behaving and how those activities are affected without help from anyone else. The study also looked at how each factor was affected by investors' overall investing behavior. By integrating all three aspects of investor behavior, this study contributes significantly to the body of knowledge on behavioral finance in developing nations, particularly Nepal.

## **1.2 Problem Statement**

Financial backers' mental contemplations likewise affect their venture choices, notwithstanding market peculiarities. While making financial exchange ventures, individual financial backers are impacted by various elements, including temperament, social bias, mental discord, delegate inclination, arrogance, and group conduct. The ongoing review accentuates the significance of conduct factors in impacting venture choices in this climate. According to Ahmed, Ahmed, & Usman (2011), decisions made by investors regarding the stock market have a significant effect on the trend of the market, which in turn has an effect on the economy.

Consistently, a large number of choices are made overall in the corporate area. This expression additionally applies to speculation choices. Investing decisions are influenced by a wide variety of behavioral factors. The psychological makeup of investors, which influences their financial behavior, is one type of one of these variables. Various examination have been led in Nepal to more readily figure out financial backers' (Bhattarei, 2020).

Various examinations have been directed in Nepal to all the more likely comprehend financial backer way of behaving and what it means for the exhibition of ventures. For instance, studies conducted by Thapa (2014), Dangol and Manandhar (2020), and Gnawali (2021) demonstrated that investors in Nepal are influenced by behavioral biases in their investment decisions. The connection between the financial planning dynamic cycle and social predispositions in Nepal has not been experimentally examined, in spite

of an immense number of concentrates on understanding financial backer way of behaving having been directed.

The purpose of this study is to determine whether investor and decision-making behaviors adhere to the theoretical framework of rational decision-making. Additionally, it establishes the causal relationships between three proposed behavioral biases and each decision-making step. Moreover, the impact of a few segment factors on social predispositions is likewise explored. Accordingly, this exploration will endeavor to recognize the social elements impacting venture decision pursuing as they are influencing the choices made by financial backers in the Nepalese stock trade. According to Shrestha and Silwal (2017), there are numerous behavioral factors that influence investment decision-making, but none have been studied specifically in relation to the Nepal Stock Exchange.

In recent years, both the stock market in Nepal and the number of new investors seeking investment opportunities have increased dramatically. Even in this day and age of financial education, many investor's still exhibit behavioral biases that influence their stock selection. Regulators, financial institutions, and individual investors need to know a lot about these biases in order to come up with effective strategies and solutions and improve investment outcomes and market efficiency (Kadariya, 2012).

Enhancing investor safety, market efficiency, and overall investment outcomes in the Nepalese stock market are the study's ultimate objectives. The aftereffects of this study will shape the establishment for creating centered financial backer instruction drives and strategy intercessions pointed toward working on monetary proficiency and empowering more sensible decision-production among Nepalese financial backers. Examining the social components affecting financial backers' activities at the Nepal Stock Trade (NEPSE) is urgent (Kumar et al., 2022).

The recurrence of specific predispositions among Nepalese financial backers is affected by financial and segment factors. Asia has relatively little research on behavioral finance compared to other industrialized nations (Das, 2012). According to Barberis and Thaler (2003; Hirshleifer 2001), behavioral finance assumes that the information structure and

characteristics of market participants continuously influence individual investors' actions and the market's performance.

The purpose of this study is to look into how behavioral biases affect Nepalese investors' decisions to buy stocks. The study will delve into the following specific questions:

- i. What are the behavioral factors of investors that influence investment decision of Nepalese share market?
- ii. How do behavioral bias factors such as overconfidence, anchoring, disposition effect, and herding bias relate to investing decisions made in the Nepalese share market?
- iii. What is the effect of factors of behavioral bias (overconfidence bias, anchoring bias, disposition effect bias and herding bias) on investment decision of Nepalese share market?

### **1.3 Objectives of the Study**

The primary objective of this study is to investigate how investors in the Nepalese share market are influenced by behavioral biases. Moreover, coming up next are the examination's particular objectives:

- i. To evaluate the behavioral bias-related aspects influencing Nepalese share market investment decisions.
- ii. To investigate the connection between behavioral bias components (herding, anchoring, disposition effect, and overconfidence biases) and share market investment decisions in Nepal.
- iii. To examine how behavioral bias factors overconfidence, anchoring, disposition effect, and herding affect investors' choices in the Nepalese share market.

### **1.4 Research Hypothesis**

The following hypothesis shown below:

H1: Investment decisions are significantly influenced by overconfidence bias.

H2: Mooring predisposition essentially affects speculation choice.

H3: Investment decisions are significantly influenced by disposition effect bias.

H4: Investing decisions are significantly influenced by herding bias.

### **1.5 Rationale of the Study**

The public authority, monetary consultants, organizations recorded on Nepal's stock trades, and confidential financial backers ought to all observe this report. The components that influence financial backers' independent direction are significant since they will affect their future monetary objectives. Identifying the most significant factors influencing investor behavior will have an impact on businesses' future strategies and plans. Monetary counselors can suggest speculations that best suit their clients by considering these viewpoints. Lastly, the government will be able to adjust necessary laws and other policies that are necessary to both satisfy investors' wishes and improve market efficiency if the key determinants are identified.

### **1.6 Limitations of the Study**

- The sample size of in this study has only from the individual investors of NEPSE.
- The study mostly relied on primary sources of information about the factors that influence investors. As a result, the validity of the data supplied by the respondents determines how reliable the study's conclusions are.
- This study is not considering other biases such as mental accounting, representation bias, and gambler fallacy.
- The findings of the study only based on cross-sectional data. Therefore, it may vary.

## **CHAPTER- II**

### **LITERATURE REVIEW**

This part manages audit of hypothetical and experimental review directed by various researchers in various time connected with this theme. This section features the writing that is accessible in concerned subject regarding my insight, research work, and important concentrate on this point, survey of articles and audit of proposition work performed already. Subsequently, first area is connected with hypothetical audit and second segment connected with experimental survey followed by research hole.

#### **2.1 Conceptual Review**

Behavioral biases have a significant impact on stock investing and frequently lead to subpar outcomes for investors. These predispositions, which can affect both common financial backers and expert asset supervisors, are a consequence of the manner in which human minds process data and make decisions. Stock investment decisions are frequently influenced by the significant behavioral biases listed below:

##### **2.1.1 Investment decision**

The investigation of social money centers around what feelings and mental blunders mean for financial backers' ways of behaving by examining mind action (Kengatharan 2014). A huge piece of the examination in the field of social money comes from the investigation of how the cerebrum functions. To put it another way, it is the study of how people think, reason, and act, like investors. These propensities will mislead financial backers while picking a stock to purchase or make them act hastily because of the choices made by others. Thereby exposing them to activities that involve taking risks. The behavioral finance hypothesis has an impact on the heuristics hypothesis, also known as "basic guidelines." This last option chooses dynamic easier especially in perplexing and uncertain circumstances by using savvy instinct to handle an issue. Heuristics in like manner work pursuing choices more straightforward to take by detecting a portrayed arrangement of models to survey (Jordan et al. ; Block & Hirt, 2012).

Lim (2012) investigated the connection between mental dispositions and the Malaysian stock market's tendency to herd investors' financial backing and the tendency toward

overconfidence and traditionalism. He discovered that lament, overconfidence, and a tendency toward traditionalism are the primary factors that influence the independent path taken by financial backers. However, it was discovered that financial donors' autonomous direction was little affected by herding behavior. The review's discoveries were pertinent to before examinations led in a few nations. Kengatharan (2014) zeroed in on the Colombo Stock Trade while looking at factors affecting financial backers' choices. Besides, the connection between the parts showed that crowding, presumptuousness, prospects, and market qualities influence financial backers' opportunities for hypothesis at the Colombo stock trade. The excess factors displayed to medium affect adventure determinations, except for mooring, which shown a high effect.

### **2.1.2 Behavioral biases**

#### **Overconfidence**

Because of this inclination, financial backers will generally misjudge their own abilities and estimate precision. Financial backers that are pompous may exchange unnecessarily and face more serious dangers challenges they accept they enjoy a cutthroat benefit (Mitroi & Stancu, 2014).

#### **Anchoring**

Various benchmarks, such as popular news stories or historical stock prices, are frequently used by investors to guide their decisions. By securing, they might create preposterous assumptions in view of irrelevant data or stick onto losing positions for a lengthy timeframe (Shin & Park, 2018).

#### **Herding**

People naturally tend to follow the crowd and imitate other people's actions, especially when things are unclear. This can bring about air pockets and frenzies in the financial exchange, when financial backers buy when others are purchasing, framing an air pocket, or sell when others are selling, creating a frenzy (Yu et al., 2018).

#### **Confirmation bias**

Data that upholds a financial backer's previous perspectives or thoughts on a venture is regularly searched out and liked by financial backers. Negative decisions may be made if contradictory information is ignored or minimized.

**Loss aversion**

Contributing apprehension as often as possible pushes individuals to face outlandish challenges trying to lessen misfortunes. According to Lin (2011), this could result in selling winners too quickly or holding onto losing positions for an excessive amount of time.

**Regency bias**

Investors place a greater emphasis on recent events or performance rather than the larger historical context. According to Spiwoks and Bizer (2018), this may cause individuals to pursue recently successful stocks without considering their long-term prospects.

**Availability heuristic**

People frequently rely on information that is simple to obtain. Investors may, as a result, prioritize more recent news or readily available data over potentially relevant but less accessible information (Mueller & Brettel, 2012).

**Endowment effect**

When contrasted with identical resources they don't claim, financial backers ordinarily put a higher worth on resources they as of now have. This might make individuals cling to ventures in any event, when there are better possibilities somewhere else on the grounds that they feel OK with them (Rogerm, 2009).

**Gambler's fallacy**

This predisposition is the possibility that even in situations where past occasions are detached, they in any case affect future occasions. This can show up in stock financial planning as the conviction that a stock will pivot since it has been down for quite a while (Dowie & Willows, 2016).

**Disposition effect**

Financial backers frequently offer winning stocks too early to secure in gains, while clutching bombing stocks for an exorbitant measure of time trying to forestall misfortunes. This practice can lead to missed opportunities and an unbalanced portfolio. To lessen the impact of behavioral biases on investment decisions, investors can use strategies like creating a clear investment plan, maintaining a diverse portfolio,

conducting extensive research, and consulting financial experts. According to Odean et al. (2010), investors can also make decisions that are more logical and impartial by being aware of these biases and regularly evaluating the investments they make.

### **2.1.3 Traditional finance**

The assumption of conventional finance is that an investor is a rational individual who is able to process all information objectively. In any case, social money depends on observational proof that proposes financial backers are one-sided, act unreasonably, and let their feelings impact even little ventures. For instance, an understudy contacts a web-based firm or organization for composing help, and there are two choices to browse. The student will probably choose the local business over the foreign one because it is local. This happens in light of the fact that, like a financial backer, the researcher's predispositions impacted the decision. Due to his overconfidence and familiarity with the local business, the student invested in it. The student will invest in the local company despite the impressive performance and record of the foreign company (Markowitz, 1952).

As per the customary way of thinking, the monetary market is productive and could precisely mirror its actual worth. The underpinning of this contention is the conviction held by customary money that financial backers have restraint. Conduct finance, then again, battles that market peculiarities are brought about by market instability. Since these financial backers need outright poise, there are limitations. Stock costs rise and reduction because of market unpredictability, so a lopsided market (Shefrin & Statman, 1985).

### **2.1.4 Behavioral finance**

The investigation of social money incorporates standard monetary ideas with mental ideas to understand and make sense of what mental and profound perspectives mean for financial backers' independent direction and the way of behaving of monetary business sectors accordingly. Rather than the Productive Market Speculation (EMH), which proposes that markets are dependably proficient and that financial backers are entirely normal, conduct finance recognizes that financial backers can go astray from completely objective way of behaving because of mental inclinations, profound responses, and restricted judiciousness. The field of conduct finance coordinates ideas from brain research and financial matters to grasp the manners by which feelings and mental

predispositions influence monetary decisions. The disposition effect, anchoring, herding, and loss aversion are just a few of the biases that are examined in this theory as they relate to investing decisions.

Behavioral finance's fundamental concepts include cognitive bias, prospect theory, mental accounting, framing, regret aversion, behavioral finance, and market anomalies. Social money means to give experiences into how markets can veer from the gauges of customary money models and how financial backers can all the more ably explore monetary direction by fathoming these mental inclinations and ways of behaving. It influences portfolio the board, resource valuing, and our cognizance of market blasts and crashes. Moreover, it has affected the production of speculation strategies that think about financial backers' mental imperatives and inclinations, for example, robo-consultants and conduct portfolio hypothesis, which plan to decrease the impact of financial backers' close to home direction.

## **2.2 Theoretical Review**

### **2.2.1 Modern portfolio theory (MPT)**

MPT was created by Harry Markowitz and sets that financial backers can make an ideal portfolio by expanding their property and considering the gamble return compromise of different resources. MPT emphasizes the significance of maintaining a mix of assets that are not perfectly connected in order to reduce total portfolio risk. In the 1950s, Harry Markowitz developed the financial theory known as Modern Portfolio Theory (MPT), which is also referred to as portfolio theory or portfolio management theory. It provides a framework for building and optimizing investment portfolios to either maximize returns for a given level of risk or minimize risk for a given level of return. MPT is a fundamental concept in finance that has significantly influenced portfolio management and investing strategies.

The reasonable utilization of Present day Portfolio Hypothesis includes the accompanying advances:

1. Recognize the universe of accessible resources and gauge their normal returns and dangers.
2. Work out the connections between all sets of resources for grasp their connections.

3. Find the best asset combinations that offer the best risk-reward tradeoff to build the efficient frontier.
4. Decide the financial backer's gamble resistance and inclinations to choose a fitting portfolio along the proficient wilderness.

MPT, which is extensively utilized in the field of investment management, is the foundation for several portfolio management strategies, such as risk-parity portfolios, index investing, and passive investing. However, as with any financial model, MPT has some flaws. It is based on a number of assumptions, such as the normal distribution of asset returns and stable correlations that may not be true in all market scenarios. However, MPT remains an essential instrument for deciding how to allocate portfolio assets.

### **2.2.2 Efficient market hypothesis (EMH)**

The Efficient Market Hypothesis (EMH) is a finance theory that says financial markets are efficient and that asset prices accurately reflect all available information. To put it another way, the theory says that when determining a product's price, financial markets excel at taking into account all of the information that is available. Subsequently, it becomes trying for financial backers to beat the market or produce uncommon returns through dynamic exchanging or speculation methods consistently.

The Efficient Market Hypothesis (EMH) holds that financial markets accurately reflect all available information and that asset prices always fully absorb all relevant data. In this thought, all open data is now estimated into the protections, making it difficult to reliably outflank the market through stock choice or market timing. Economist Eugene Fama's work on the Efficient Market Hypothesis (EMH) has had a significant impact on the banking sector ever since it was first presented in his doctoral thesis in the 1960s. The hypothesis is based on three forms: the weak form, the semi-strong form, and the strong form of EMH.

Proponents of the Efficient Market Hypothesis argue that it is difficult to consistently beat the market without taking on more risk. As a result, passive investment strategies like exchange-traded funds (ETFs) and index funds that aim to replicate the performance of a broad market index are frequently recommended.

### **2.2.3 Herd behavior theory**

People follow the actions of others, creating informational cascades and financial market trends, according to the concept of herd behavior. Investors may join the herd without thoroughly evaluating the facts, which could result in market booms or crashes. In the fields of behavioral finance and social psychology, the concept of "herd behavior theory" refers to the tendency of individuals to imitate the decisions or actions of a larger group. This peculiarity habitually brings about a cascading type of influence where a sizable number of individuals follow similar way of behaving without essentially considering the hidden standards or rationale. Crowd conduct in the monetary business sectors can hugely affect how resource values and market developments are framed over the long and short terms.

Market bubbles and crashes can be caused by herd mentality when asset prices diverge from their intrinsic worth. A great deal of financial backers might hurry into a resource during an air pocket, pushing its cost well over its natural worth. In the end, a change in investor mood causes a huge sell-off, which dramatically lowers prices and bursts the bubble. When selecting investments, herd mentality is also prevalent. Investors can follow investing trends, recommendations from friends or the media, or the moves of well-known investors without realizing the risks. This might bring about an absence of broadening and elevated weakness to showcase perils.

### **2.2.4 Prospect/loss-aversion-theory**

According to Prospect Theory, when faced with risk and uncertainty, people make decisions. This theory says that when it comes to gains, people tend to avoid taking risks and seek them out when it comes to losses. The way investors behave is influenced by the framing of possible gains or losses, which results in different risk-taking attitudes. According to prospect theory, investor preference defies the conventional utility function, which uses expected utility to evaluate investments. This hypothesis was developed in 1979 by psychologists Daniel Kahneman and Amos Tversky to explain how investors behave in risky situations. These experts' findings indicate that individuals evaluate the potential benefits and losses associated with a decision, taking into account a specific reference point like the purchase price of the investment, the decision maker's

expectations, or the relevant past. The way a problem or result is framed affects how useful it should be.

Prospect theory says that when people lose money, they feel more stressed than when they earn a certain amount of money. People will hold onto lost stocks in the hope that their value will rise because they will work harder to avoid losses than to make profits. Tversky and Kahneman assert that people are risk takers who are willing to suffer losses (Johnson, 2002). Since the utility function is convex for losses, even though people feel pain when they lose, they do not suffer twice as much. It is concave for gains because people feel good when they win, but not twice as good when they gain twice.

### **2.2.5 Capital asset pricing model (CAPM)**

The CAPM model interfaces the efficient gamble (beta) of a resource with the market in general and the resource's projected return. This theory says that an asset's expected return should be related to its beta, a metric that shows how sensitive it is to market changes. The Capital Asset Pricing Model (CAPM) is a popular financial tool that analysts and investors use to calculate the expected return on a single asset or portfolio of assets. It is frequently used as a standard to determine whether an asset is appropriately priced, overpriced, or underpriced. It provides a framework for comprehending the relationship between an investment's risk and projected return. William Frank Sharpe originally introduced the CAPM in 1964, Jan Mossin and John Lintner later refined it all alone. Various principal assumptions support the model, including the gamble free rate, market portfolio, effective business sectors, and levelheaded financial backers. The methodical gamble measure, beta, is the main part that decides the normal return in the single-factor model presented by CAPM. It doesn't consider different components like firm-explicit attributes or winning financial circumstances that could influence a resource's return.

## **2.3 Empirical Review**

Under this audit of broadly and globally distributed articles directed by researchers in creating and created capital market.

Altaf and Jan (2023) study on the behavioral biases in investing behavior that are related to generational theory. Generational biases have an impact on millennials' investment

decisions, according to this study. Fear of missing out, socially conscious investing, overconfidence, herding, and inclination are the independent variables in this study, with investment intention serving as the dependent variable. Overviews were conveyed, an example of 674 people was studied, and they were led online through LinkedIn, Facebook, and Twitter. The findings demonstrated that visionaries' fear of losing money positively influences their willingness to invest. These outcomes infer that hopeful may be awkward with the contributing possibilities they can't exploit. Furthermore, their fear of missing out may be a sign of their optimistic propensity to keep up online connections with their peers. This study also tried to think about how millennial investors might be affected by generational biases. Then again, these biases could influence the millennial age alone as well as might be shown.

Ali et al. (2023) conducted a research on real estate investment decisions in COVID-19 crisis: the effect of perception and behavioral biases. The study aims to find out how investor perceptions of assets and behavioral characteristics associated with investment decisions during the COVID-19 pandemic in Pakistan's real estate industry are linked. The review utilized fractional least square underlying condition demonstrating to gather a sum of 189 useable examples using a study based instrument. PAV, OC, and HD significantly predicted the decision to invest, whereas DE and RA had little influence on real estate investment decisions, according to the study's findings. In addition, this research found that PAV is the most important predictor of real estate investment decisions made during the COVID-19 pandemic. The review's discoveries, as per the creators, support the ramifications of strategy for controllers, administrators, and monetary organizations.

Abideen et al. (2023) examined on do behavioral biases affect investors' investment decision making? Evidence from the Pakistani equity market. The study aims to determine how investors' investment decisions are affected by behavioral biases. Crafted a methodical questionnaire and gathered data through random sampling. SPSS's structural equation modeling (SEM) was used to tabulate and refine the data of 600 out of 687 respondents. By demonstrating that there is no significant correlation between basic anomalies and overconfidence bias (OB), the findings back up the rejection. Despite the substantial body of evidence indicating that investor behavior can contribute to FA in the market, this finding suggests that investors' overconfident behavior does not explain

fundamental anomalies (FA). The review's experimental proof incorporates constraints concerning the causal connection between a few factors. Hence, we recommend that to additional location the issues raised by this, future examination in this field ought to search for reasonable instruments and utilize the instrumental variable technique.

Dirir (2022) researched on an examination of behavioral biases that affect investors' decision-making: (A case study of Pakistanis investors). Various predispositions or tendencies that have been inspected in the creating discipline of conduct finance fundamentally affect a financial backer's ways of behaving. As a result, the purpose of this paper is to make a second attempt at determining how investors' decision-making is affected by behavioral biases. Overconfidence, the disposition effect, anchoring biases, and herding behavior biases are just a few of the biases that influence the financial backer's investment behavior and are the focus of this study. Along these lines, information were accumulated utilizing the Likert scale from interviews and numerous straight relapse examination. In general, the experimental discoveries from an example of 260 members in the Pakistani securities exchange show that crowding predispositions and carelessness affect financial backers' capacity to go with objective choices. However, the investors' decision-making process is largely unaffected by the disposition effect and anchoring. At last, this exploration will be valuable to direct financial backers to keep away from mental predispositions while leading speculations. Additionally, it will serve as a reference for upcoming empirical behavioral finance research.

Adil, et al. (2022) investigated on how financial literacy moderate the association between behavior biases and investment decision? The study's goal is to investigate how behavioral biases, such as overconfidence, risk aversion, herd mentality, and temperament, affect gender differences in investing choices. The creators likewise take a gander at what monetary education means for how distinctions in sexual orientation in conduct predispositions and it are interceded to contribute decisions. Cross-sectional exploration was thought about in the review. For the purpose of this survey, data were gathered from 253 individual investors in the Delhi-NCR region via a methodical questionnaire. The validity and reliability of the data have been evaluated using the Cronbach's alpha test and the Pearson correlation test, respectively. The hypothesis was evaluated in the study using hierarchical regression analysis. Overconfidence had a positive and statistically significant impact on investing decisions among male investors,

while risk aversion and herding had a negative and statistically significant impact. In any case, it was resolved that demeanor had no genuinely huge effect. The discoveries showed that hazard avoidance and group mindset essentially affected the financial planning choices made by female financial backers. However, the decision to invest was statistically unaffected by overconfidence or inclination. It has been demonstrated that financial literacy has a significant impact on the investments made by both male and female investors. As per the discoveries of the connection impact among male financial backers, monetary proficiency significantly affected the communication among presumptuousness and speculation choice.

Weixiang, (2022) investigated on an empirical assessment of financial literacy and behavioral biases on investment decision: Fresh evidence from small investor perception. An investor must be able to make intelligent investment decisions in order to have sufficient financial literacy. However, the heuristic bias, the framing effect, cognitive illusions, and herd mentality are all factors that contribute to the development of behavioral biases, or illogical behavior, in the decision-making process. The current study focuses on how financial literacy and behavioral biases affect investment decisions, particularly stock market investments. A representative sample of 450 individual investors was evaluated for the study. An organized poll was planned utilizing the Likert's scale technique to evoke the examination factors, and the information gained were dissected utilizing the SEM strategy. As per the discoveries, there was a genuinely critical connection between heuristic predisposition and the improvement of conduct predisposition in navigation. However, behavioral biases are adversely affected by cognitive illusions, the herd mentality, and the framing effect. Also, financial backers frequently stick to heuristic inclinations as opposed to other nonsensical systems while making speculation decisions. As a result, individual investors' choices are greatly influenced by their financial literacy. interests in the financial exchange.

Kartini and Nahda (2021) conducted a research on behavioral biases on investment decision: A case study in Indonesia. The relationship between emotions and cognition in financial decision-making has been clarified by a paradigm shift from standard to behavioral over the past 20 years in the field of finance. This study aims to investigate the ways in which various psychological factors influence investment decisions. The two sorts of mental parts being scrutinized are the mental and emotive viewpoints. From a

cognitive point of view, we investigate how anchoring, representativeness, loss aversion, overconfidence, and optimism biases influence investment decisions. In the meantime, an affective analysis of herding behavior and investment decisions is conducted. In view of an overview technique and snowball testing, a quantitative system is applied, yielding 165 surveys from individual Yogyakarta financial backers. The One-Sample t-test is also used to test each and every hypothesis. The review's decisions show that each of the variables representativeness, hopefulness, carelessness, misfortune revulsion, mooring predisposition, and crowding conduct hugely affect money management decisions. The effect of social impacts on financial backers' decisions is featured by this result. It adds to the existing body of information regarding the dynamics of investor behavior and improves investors' capacity to make better-informed decisions by eliminating all potential biases.

Chaturangi (2021) conducted a research on the impact of behavioral biases on investment decision making: Reference to individual investors of Colombo stock exchange. Conventional money's model portfolio hypothesis, capital resource valuing model, and old style choice hypothesis all make the presumption that financial backers arrive at obvious end results about their ventures. However, their explanation of stock market behavioral biases was inadequate. Due to cognitive and emotional biases, investors act irrationally. Prospect theory, heuristics, constrained rationality, and framing all show how illogical investing decisions can be for some people. Most of prior research has zeroed in on the predispositions of institutional financial backers in Sri Lanka. Regardless, the momentum study is legitimate by the disconnected outcomes and compelled way to deal with the review factors of prior research directed in Sri Lanka. This study investigated how investment decisions are influenced by behavioral biases. Making an investment decision is the dependent variable; herding, loss aversion, and overconfidence are the independent factors. Utilizing an appropriate sampling strategy, 200 individual investors who participate in the Colombo Stock Exchange received a standardized questionnaire with a five-point Likert scale. The findings demonstrate that investing decisions are significantly influenced by overconfidence. Herding and loss aversion have a significant impact on investment decisions due to the volatility of the Sri Lankan stock market and the unpredictability of information. The work has added to the hypothetical comprehension of prospect hypothesis' misfortune repugnance and heuristic hypothesis' presumptuousness and crowding. The study has implications for policymakers looking

into biases in previous policy changes, financial advisors getting better at what they do, and individual investors learning more about how they behave.

Vidhya (2021) conducted a research on behavioral biases and its impact on investment decision making: an empirical study of Indian stock market. Most of individual financial backers, as per regular money hypotheses, settle on coherent monetary choices liberated from the effect of their feelings or characters. However, in reality, a variety of factors, such as feelings, intuitions, and sentiments, significantly influence their investment decisions. The ongoing review takes a gander at what social predispositions mean for their money management decisions and furthermore attempts to pinpoint the a large number that influence those decisions. In the Keralan region of Trissur, an example of 100 value financial backers is utilized for this review. The review's discoveries demonstrate that various conduct inclinations, including misfortune revulsion, group, presumptuousness, and hopeful predisposition, are especially impeding to beginner dealers.

Dangol and Manandhar (2020) analyzed the effects of four heuristic biases on the rationality of Nepalese investors' investment decision-making: representativeness, availability, anchoring and adjustment, and overconfidence bias. To decide what heuristics mean for speculation choices, they likewise took a gander at the directing job of the inward locus of in the middle between. Each of the four heuristic biases is strongly associated with irrationality in investing decision-making, as shown by the study's findings. The findings of the study also indicate that the locus of control has a significant moderating effect on the relationship between the availability, representational, and anchoring heuristic biases and investing choices. In any case, the review finds no proof of a directing impact on the relationship between effective financial planning choices and pomposity predisposition.

Quddoos, (2020) examined study on impact of behavioral biases on investment performance in Pakistan: The moderating role of financial literacy. The purpose of this study is to discover the moderating effect of financial literacy on the hypothesized relationships between certain behavioral biases and investment performance. Information is gathered through survey from the financial backers exchanging at Pakistan Stock Trade (PSX). The data were analyzed using Structured Equation Modeling (SEM), which

revealed that only anchoring and overconfidence biases had a significant impact on investment performance. The findings also demonstrate that investors' performance is unaffected by their level of financial literacy. The current study's findings, which are expected to be useful for investors and policymakers, test the moderating role of financial literacy between behavioral biases and investment decision outcomes.

Shrestha (2020) conducted a study on the factors influencing Nepalese investors' stock market investing decisions. The market-related variable (MRV), the risk-and-return-related variable (RRV), and the business-related variable (CRV) are the three primary variables that influence investment decisions. Risk-related variables like past returns, projected returns, company risk, and liquid securities are included. Market-related variables include market data, market price per share, dividend growths, and so on. Company-related variables include the management group, financial results, size, EPS, and DPS. According to the findings of this study, Nepalese investors' investment decisions are less influenced by market-related variables (MRV), risk and return-related variables (RRV), and business-related variables (CRV). There is a positive and huge coefficient of business related variable (CRV) in each relapse model. As a result, the company-related variables of Nepalese businesses serve as the foundation upon which Nepalese investors base their investment decisions.

Rana (2019) carried out a study to investigate the variables related to individual investors' stock investment decisions. The concentrate likewise means to explore how financial backers, as indicated by their segment credits, view the general significance of different angles while going with speculation choices. The review utilizes test reactions from 106 individual financial backers that were accumulated utilizing an organized poll overview among January and April 2019. The study employs exploratory factor analysis to identify the common variables that influence the sample investors' stock investment decisions. The factor analysis revealed that the sample investors' decisions regarding stock investments in Nepal were influenced by six common factors: factors relating to the fundamentals of the market; factors relating to the size and competition of the industry; factors relating to goodwill and market share; factors relating to corporate governance and positioning; factors relating to earnings and image; and factors relating to decision-making. According to the sample investors, the results also demonstrate that fundamental

market factors had the highest relative relevance among the six categories that were retrieved.

Madan and Singh (2019) conducted a research on an analysis of behavioral biases in investment decision-making. The growing field of behavior finance has demonstrated that a wide range of biases have a significant impact on the actions of individual investors. As a result, 243 investor survey responses are gathered to create a questionnaire, which is part of an ongoing effort to assess the impact of behavioral biases on the National Stock Exchange's investing decision-making process. Both unmistakable and inferential measurements were utilized in this review. The current study examines overconfidence, anchoring, disposition effect, and herding behavior as four behavioral biases. The discoveries exhibit that grouping predisposition and presumptuousness fundamentally impact speculation choices in a gainful manner. The general discoveries show that singular financial backers are not so much proficient but rather more prone to commit mental errors. The study's findings also show these four behavioral biases that affect individual investment decisions. This study will be helpful to financial intermediaries in providing advice to their clients. Extra examination can be directed to inspect extra conduct inclinations that influence venture choices.

Chhapra et.al (2018) conducted a research on an empirical investigation of investor's behavioral biases on financial decision making. Specialists have over and over again shown that financial backers' nonsensicalness is an inborn reality (Statman, 2008). Subsequently, this examination is an extra endeavor to assess the effect of social inclinations on monetary decision-production at the Pakistan Stock Trade (PSX). A comfort test procedure is used to make a review poll and accumulate reactions from an example of 250 PSX financial backers. Carelessness, overanalyzing, crowd mindset, mental predisposition, and the financial backer's knowing the past impact are instances of social inclinations. Five social inclinations are tried for their effect on speculation choices utilizing different relapse models. The results show that the hindsight effect, herd mentality, overconfidence, overthinking, cognitive bias, and herd mentality all have a positive impact on investment decisions. Overall, the findings suggest that changes in investment decisions are largely attributable to behavioral biases. Monetary counselors will actually want to exhort clients all the more really in light of the fact that to this

review. Conceivably the best way to reduce these biases is through financial backer instruction and preparing.

Khalid (2018) examined a study on impact of behavioral biases on investment decision making with moderating role of financial literacy. With a moderating role played by financial literacy, the purpose of this study is to investigate the effects of overconfidence bias and herding bias on investment decision making. Investors, employees, and graduate students comprised the population. The convenience method was used to choose 200 people from the sample. Using a structure questionnaire adapted from various papers, data were gathered. To examine the outcome, correlation and regression analysis were carried out. The Outcomes show that presumptuousness predisposition and crowding inclination emphatically affect speculation direction and Monetary Proficiency decidedly affects venture navigation. In view of the outcomes and conversations of the review discoveries as well as the limits, hypothetical and reasonable ramifications of the review have been given.

Zahera (2018) investigated whether the investors exhibit behavioral biases in investment decision making? A systematic review. Through a review of research articles in the field of behavioral finance, the purpose of this paper is to investigate and describe a number of biases in investment decision-making. It likewise incorporates a portion of the scientific and primary work and how this has advanced over the course of the years to make conduct finance a laid out and explicit area of study. Individual investors, institutional investors, and financial advisors' behavioral patterns are all included in the study. The examination papers are investigated based on looking through the watchwords connected with conduct finance on different distributed diaries, gathering procedures, working papers and a few other distributed books. These papers were collected over a number of years, starting with the first one, which was published in 1979 and laid the groundwork for this field, and continuing through the most recent ones (2016). These articles are isolated into inclinations wise, year-wise, country-wise and writer Wise. All examination devices that have been utilized by creators connected with essential and auxiliary information have likewise been incorporated into our table. Another period of comprehension of human feelings, conduct and opinions has been begun which was before overwhelmed by the investigation of monetary business sectors. In addition, academics, businesses, financial intermediaries, and entrepreneurs are all paying attention

to this field, increasing its significance. The study focuses more on individual and institutional investors as well as the investors of financial advisors. However, the behavior of intermediaries through which some of these investors invest should be examined, focusing on the expanding economies and breaking down the population into a variety of variables to benefit from some unproven hypotheses. 17 distinct types of biases have been identified and summarized in this study in the form of tables.

Aduda, et al. (2017) determined the financial performance and behavior of individual investors when in the NSE listed shares. A questionnaire survey and secondary data from CMA and NSE were used in the study. It was found that some investors acted irrationally when making decisions, which frequently led to them losing money on their investments. Male financial backers made up most of the people who answered, demonstrating that they are positive about their ability to beat the market. Since the vast majority of the financial backers had four year certifications, they were sufficiently accomplished to settle on astute speculation decisions. Worked on stock trade, impact from companions, family, and associates, expansion, the executives solidness, amount of offers accessible, stock capitalization level, and family and strict foundation were different attributes that were displayed to affect venture conduct.

Gupta and Ahmed (2017) examined on the impact of behavioral biases on investor's behavior in Indian stock market. The Capital Asset Pricing Model, the Efficient Market Hypothesis, and Modern Portfolio Theory are examples of traditional financial theories that are based on the assumption of perfectly functioning financial markets and investor behavior. Put in an unexpected way, these speculations contend that any new data entering the market is expeditiously integrated into stock costs, subsequently blocking the capability of getting more noteworthy gains simply through ownership of insider information about the organization. In any case, various experimental examinations have proactively been led that show that financial backers' decisions are impacted by a large number of conditions as opposed to being simply sane while exchanging the financial exchange. Deciding the various conduct inclinations that influence financial backers' dynamic cycle is the principal objective of the ongoing paper. 380 Delhi/NCR residents provided the necessary data to test for loss aversion, regret aversion, herd behavior, overconfidence bias, and cognitive dissonance bias. Head Part Examination was additionally utilized to analyze the data accumulated. These inclinations were found to

reasonably affect financial backers' independent direction. These outcomes will help financial backers in diminishing gamble and boosting profits from their ventures by enlightening the most pervasive social predispositions to which they are powerless. Also, it will uphold monetary guides in making individualized resource distribution plans and portfolios for their clients.

Verma (2016) examined a study on impact of behavioral biases in investment decision and strategies. This study is assess the and distinguish the social predispositions include in the financial backers decision going with while taking venture choice and furthermore recognize the effect of the conduct inclinations include in the navigation. Typically, behavioral biases result in irrational or incorrect decisions due to variation in judgments in a given situation. These studies focus on some of the behavioral biases that investors use to make investment decisions. When making decisions about investments, investors exhibit a number of behavioral biases that influence those decisions. These studies identify a number of common biases and develop methods for overcoming them. Individuals need to recognize the predispositions and foster the techniques to conquer these inclinations and individuals require legitimate designations methodologies and distinguish the gamble and return in venture choice.

**Table 1**

*Review of Empirical Studies*

Authors	Variables	Methodology	Findings
Altaf and jan (2023)	Independent Variables: Fear of missing out, socially responsible investing, overconfidence, herding and disposition. Dependent Variables: Investment intention	1. Questionnaire were distributed. 2. survey was conducted on a sample of 674 participants 3. The survey was conducted online through Facebook, Twitter, and LinkedIn.	The findings demonstrated that millennials' fear of losing money positively influences their decision to invest. According to these findings, millennials might be uneasy about the investing opportunities that they are unable to take advantage of. Millennials' propensity to keep in touch with their peers online may also be a sign of their fear of missing out.
Ali et al.	Independent variables:	1. A survey-based	PAV, OC, and HD significantly

(2023)	asset quality, asset price and asset value, overconfidence, herding, disposition effect and risk aversion	asset instrument was utilized in the study to collect 189 valid samples in total.	was predicted the decision to invest, whereas DE and RA had little influence on real estate investment decisions, according to the study's findings. Besides, this study found that PAV is the main figure foreseeing land speculation choices made during the Coronavirus emergency.
Abideen, et. al (2023)	Independent Variables: herding bias, the disposition effect and the overconfidence bias (OB). Agenda differences (AD), technical anomalies (TA), and fundamental abnormalities (FA) are the mediating variables. Moderator Variables: Knowledge of Finances Independent Variables: Investment Decision	1. Designed a structured questionnaire to collect the data. 2. Random sampling method were used. 3. Sample of 600 out of 687 respondents. 4. Tabulate and refine data were into SPSS. 5. Analysis through structural equation modeling (SEM).	By demonstrating that there is no significant correlation between basic anomalies and overconfidence bias (OB), the findings back up the rejection. This finding suggests that financial backers' arrogance isn't the reason for crucial oddities (FA), regardless of the assemblage of existing exploration recommending that financial backers' activities could prompt FA on the lookout.
Dirir (2022)	Independent Variables: overconfidence, disposition effect, anchoring biases, and herding behavior biases	1. multiple regression analysis 2. The Likert scale was employed during the interview process to gather data. 3. sample of 260 participants	The findings demonstrate that investors' rational decision-making is influenced by the variables of overconfidence and herding bias. Though, the attitude impact and securing irrelevantly affect the financial backers' choice cycle
Thambireddy, et. al (2021)	Independent Variables: regret aversion bias, overconfidence bias,	1. The paper examines the biases through a survey	The study demonstrates that investors are irrational and heavily influenced by their feelings when making

	self-attribution bias, cognitive dissonance bias, herd instinct, attribution bias, conservative bias, and over-optimism bias.	2. The survey was done through a Structured questionnaire.	financial decisions.
	Dependent Variables: investment decisions	3. The tools used in this research are SPSS and excel	
		4. collected primary data from 214 investors	
Samal and Mohapatra (2021)	Independent Variables: Overconfidence, Herding, Cognitive Dissonance, Regret aversion and Loss aversion	1. Primary data collected through own developed structured questionnaire.	Investment decision-makers look at a wide range of factors in depth, regardless of the amount of information at their disposal, to prove their irrationality and, as a result, attempt to steer clear of financial uncertainties.
	Dependent Variables: investment decisions	2. A total of 101 respondents have filled up.	
Chathuranga and Bandara (2021)	Independent Variables: overconfidence, loss aversion and herding	1. Sample of 200 individual investors	The findings demonstrate that investment decision-making is influenced positively and significantly by overconfidence. Herding and loss aversion have a significant positive effect on investment decision-making due to the Sri Lankan stock market's volatility and lack of information.
	Dependent Variables: investment decision making	2. using a convenient sampling method	
		3. structured questionnaire based on five-point Likert scale was distributed	
Mittal (2019)	Independent Variables: Herd instinct, Availability biases and Hind sight biases.	1. Study Follows comprehensive literature review approach.	– Behavior finance has been described as an emerging field of finance in the majority of published works. This indicates that this area has received little worthwhile research in the developing economy. This review of the literature assists in identifying significant research gaps in this field.
	Dependent Variables: investors' performance	2. a funnel approach to decrease the number of behavior biases.	
		3. Study Uses	

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		Emerald, JSTOR, INSTEAD, ELSEVIER, Science Direct, Google Scholar	
Madaan and Singh (2019)	Overconfidence, anchoring, disposition effect, and herding behavior are examples of independent variables. Investment choices are dependent variables.	1. research has applied inferential statistics and descriptive statistics 2. A survey is created, and 243 investors' replies are gathered through it. 3. cross-sectional study and Quantitative method used for data analysis 4. Sample size for the study was 385. 5. SPSS software used for statistical computation	The discoveries exhibit that grouping predisposition and presumptuousness fundamentally impact speculation choices in a gainful manner. Overall, the findings suggest that individual investors lack knowledge and are more likely to commit psychological errors.
Kanojia, Singh and Goswami (2018)	Independent Variables: overconfidence, herd behavior, cognitive dissonance, disposition effect, representative bias, mood and cultural bias. Dependent Variable: decision making	1. Study follows the survey research methodology. 2. sample size of 602 provides 3. Convenience sampling was used to distribute the questionnaire. 4. using the SPSS (22.0) package	The examination of the review uncovers that respondents gets greatest affected by delegate predisposition, trailed by presumptuousness, mental cacophony and demeanor impact. However, respondents are unaffected by herd behavior.
Chhapra, et. al	Independent Variables: overconfidence, over	1. To gather responses, a survey	According to the findings, the hindsight effect, herd mentality,

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(2018)	thinking, herding, cognitive bias, and hindsight Dependent variables: investment decision	questionnaire created. 2. Sampling technique is Convenience sampling. 3. sample of 250 investors of PSX 4. Multiple regression models are used to test influence	is overconfidence, overthinking, and cognitive bias have a significant impact on investment decisions.
Gupta and Ahmed (2017)	Independent Variables: Loss Aversion, Regret Aversion, Herd Behavior, Overconfidence and Dissonance bias Dependent variables: individual investor's decision	1. Factor Analysis and Cronbach's Alpha test were used on SPSS 210 for analyzing the data 2. Primary data has been collected. 3. questionnaires were distributed to respondents	The study's findings demonstrate that following the herd or being confident in one's abilities and knowledge is acceptable up to a certain point, but that going beyond that point could result in poor investment decisions.

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## 2.4 Research Gap

A research gap is a topic or area in which it is difficult to answer a specific question due to a lack of information. The investor ought to be aware of the risks and benefits. Then again, a ton of examination has been finished in Nepal on the options made by individual financial backers. Moreover, earlier examination on the effect of limited and segment attributes on financial backers' effective financial planning choices.

Exact examinations propose that financial backers with more noteworthy monetary information will generally settle on better venture choices (Nofsinger and Sias, 1999), while financial backers who make successive exchanges and display presumptuousness will generally have lower profits from their speculations (Hair stylist and Odean, 2001). On the other hand, other studies have shown that investors tend to overreact to news and

events, indicating emotional and cognitive biases (De Bondt & Thaler, 1985), and that people make irrational decisions because they are more sensitive to losses than to gains (Tversky & Kahneman, 1974). Moreover, financial backers are much of the time affected by the feelings and activities of others, demonstrating social impact (Brown and Reilly, 2009), and accessibility predisposition, where financial backers depend too intensely on promptly accessible data, can prompt unfortunate speculation choices and lower returns (Odean, 1998).

In view of above exact survey and setting alligation in Nepal, conduct finance is as yet startling area of exploration. There are restricted exploration found in Nepal that uncover social elements impact nature of speculation decision making of individual financial backers who put resources into Nepal Stock Trade. This study therefore explains the aforementioned gap.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

The various sequential steps that a researcher must follow in order to study a problem with specific goals in mind are referred to as research methodology. As a result, this chapter outlines the research's overall strategy. This part comprises of exploration configuration, test size and choice cycle, information assortment methodology and information handling procedures and instruments.

#### **3.1 Research Design**

The examination configuration utilized in this study is easygoing similar and elucidating. A descriptive study design is used to measure, compare, and classify the characteristics of the independent variables—also known as the dependent variables—that have an impact on the profitability of the banks. While leading the examination, this concentrate likewise utilized the casual near research plan. It is frequently used to study the general state of individuals and organizations because it inquiries into people's thoughts and actions (Cooper & Schindler, 2003). Moreover, the examination configuration utilized in this study is a blend of relaxed near and spellbinding.

#### **3.2 Population and Sampling**

This study's population includes all 226 NEPSE-listed businesses. Out of all out recorded organizations, just the financial backers from business banks representatives are the example of this review. The examining information was gathered from individuals putting resources into the capital market in Nepal. For regression analysis, Hair et al. (2011) state that the minimum sample size (N) should be 10 times the total number of items, so  $N=(10 \times 25) = 250$ . Be that as it may, this review utilized 400 example size to test the speculation. When selecting sample organizations for this study, the convenience sampling method is utilized.

#### **3.3 Nature and Source of Data**

This concentrate just utilized essential wellspring of information by utilizing review among individual financial backers who put resources into NPESE. An orderly survey with a five-point Likert scale is utilized to assemble information. The information are helpful for speculation since this study utilized an elucidating strategy to inspect the

causal connection between the review factors. The reliability of the data gathered from the questionnaire will be checked by experts. After experts were contacted, a few parts of the questionnaire were changed to improve the validity of the data for this study, which will evaluate the questionnaire's face validity.

### 3.4 Data Collection Procedures

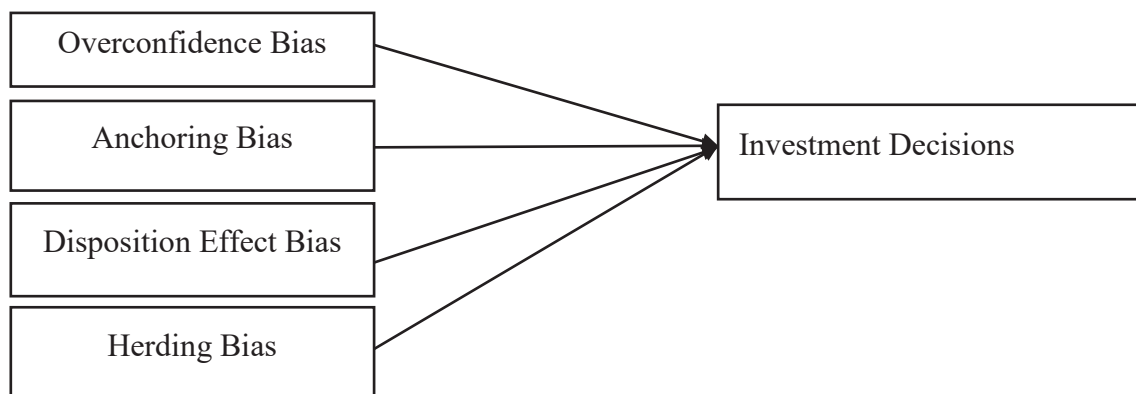
Data obtained by sending a softcopy of the questionnaire to 400 respondents via email. Several tools in the SPSS program were utilized for analysis following the collection of data. A variety of statistical and mathematical methods have been used to achieve the study's objective. The statistical techniques that were utilized in this investigation are regression analysis, correlation analysis, and descriptive statistics.

### 3.5 Research Framework and Definition of Variables

The exploration structure shrouded in this part was created by a study of the hypothetical and experimental writing. Investment decisions were the study's dependent variables, while overconfidence, anchoring, disposition, and herding biases were the study's independent variables.

**Figure 1**

*Research framework*



(Source: Modified from Dirir, 2022)

#### 3.5.1 Definition of variables

The dependent variable in this study is the amount of individual investment decisions, which are measured using a psychometric tool designed to evaluate investor financial behavior.

## **Dependent variable**

### ***Stock investment decisions***

The NEPSE's institutional financial backers' choices were affected by presumptuousness, mooring, demeanor impact inclination, and grouping bias. Additionally, these investors mentioned the trading activities of the other institutional investors. An investment choice is a calculated move that distributes funds to maximize return. The investor's characteristics, such as whether they are an individual or a corporation, as well as their investment objectives and risk tolerance, play a role in the decision.

## **Independent variables**

In this section, four variables—herding bias, disposition bias, anchoring bias, and overconfidence bias—constituted the independent variable.

### **Overconfidence bias**

Cognitive bias known as "overconfidence bias" can cause us to overestimate our abilities in certain areas. A great many people accept they are more canny, more dependable, or have more promising times to come than the common individual. Mittal (2019) found that pomposity inclination significantly affects money management choices. Dirir (2022) backs the investment decision, so it probably doesn't matter much. The penchant to misjudge our abilities and information in a specific field is known as carelessness predisposition. Individuals' impression of risk and accomplishment are commonly wrong since they regularly have deceptions about their capacities, attributes, or lead.

### **Anchoring bias**

The securing inclination is a sort of mental predisposition that makes us depend a ton on the main snippet of data we are given about a subject. Venture choices are emphatically associated with securing inclination. similar to Dirir's findings (2022), but Ali et al. do not support them. (2023). Additionally, anchoring bias has a significant negative impact on investment decisions, as Artif (2023) demonstrates. Anchoring bias is the tendency of people to put too much weight on the first piece of information they learn about a subject. Individuals use such data as a kind of perspective point, or anchor, to make ensuing decisions, paying little mind to how precise it is.

### Disposition effect bias

The disposition effect bias has a negligible relationship with investment decision, despite having a significant negative impact. Chaturangi backs this up (2021). Additionally, this contradicts the findings of Gupta (2017) and Madan (2019). One of the conduct predispositions that has been examined the most is the attitude impact. This impact alludes to the affinity, at a specific second, to sell victors more effectively than washouts, with champs and failures being resources that have expanded in esteem or diminished in esteem since their securing.

### Herding bias

Grouping predisposition adversely affects effective financial planning choices, as Chhapra (2018) has shown. Similar to Narahari's (2021) findings, the investment decision is supported by Madan (2019), albeit insignificantly. Herd mentality bias occurs when a person justifies a behavior by pointing to the fact that a large number of other people are doing the same thing. This could manifest as trading an asset simply because other traders believe it is a hot commodity in terms of trading psychology, which could result in asset bubbles.

### 3.5.2 Measurement of variables

**Table 2**

*Measurement of Variables*

Variable	Measurement	Expected Sign	Source
ID	Better portfolio than expected, lower risk compared to market general		Positive relation with explanatory variables. (Bajracharya, 2018)
OC	Skills and knowledge of stock market, ability enough to manipulate the investment	-	Insignificant impact on investment decision Dirir (2022) and Pompian (2011)
AB	Price indexes and past experience as reference points,	+	Positive and significant relationship. Shin and Park (2018) & Wright and Anderson (1989)
DEB	Wrong decision of selling purchasing, past performance of the stock	+	Pompian (2011) shows significant impact on decision

HB	Other investors' decisions, react quickly to the changes of other investors' decisions.	-	Insignificant and negative relation. Ali, et. al (2023) and Kengathram & Kendatharam (2014)
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### 3.6 Data Analysis Tools

The researcher personally reviewed the primary data that was gathered through the use of questionnaires. The items on the questionnaire dealt with four types: overconfidence bias, herding bias, anchoring bias, and disposition effect bias. The questionnaires were personally answered by individual investors. Because it prompted respondents to respond as soon as possible, this strategy was appropriate. Data analysis and presentation are the first steps in any research project. A variety of descriptive and inferential tool types were used to examine the data in this study to guarantee accurate results. A variety of statistical and mathematical methods have been used to achieve the study's objective.

#### 1. Descriptive statistics:

To accomplish the elements of social predispositions that impact venture choice of Nepalese offer market that depict the conduct part of this factors these instruments have been utilized, mean and standard deviation.

#### 2. Correlation analysis

To examine the association between conduct predisposition parts (crowding, securing, demeanor impact, and carelessness inclinations) and offer market speculation choices in Nepal.

#### 3. Regression analysis

to investigate how investors' choices in the Nepalese share market are influenced by behavioral bias factors such as anchoring, disposition effect, overconfidence, and herding.

### 3.7 Baseline Model

Venture choice was picked by the concentrate as a reliant variable. The independent factors are overconfidence bias, herding bias, anchoring bias, disposition effect bias, and anchoring bias. Using this model, the effects of herding, anchoring, disposition effect, and overconfidence biases on investment decisions were investigated.

**Model 1**

$$ID = \beta_0 + \beta_1 OC_{it} + \beta_2 AB_{it} + \beta_3 DE_{it} + \beta_4 HB_{it} + \dots + e_{it}$$

Where,

ID = Investment Decision

OC = Overconfidence Bias

AB = Anchoring Bias

DE = Disposition Effect Bias

HB = Herding Bias

$\beta_0$  = Constant when all independent variables are Zero

$\beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \dots$  = Corresponding coefficients

## **CHAPTER – IV**

### **RESULTS AND DISCUSSIONS**

Investing decisions are significantly influenced by behavioral biases. These predispositions are mental inclinations that can lead financial backers to pursue sub-standard or nonsensical choices, frequently going astray from conventional monetary hypotheses that accept normal direction. The study's objective was to investigate the factors that influence individual investors' stock market choices in Nepal. Additionally, the study aims to investigate how individuals' own investing behaviors are influenced by various factors.

The study also looked at how each factor was affected by investors' overall investment behavior. This study makes a significant contribution to the existing literature on behavioral finance in developing nations, particularly Nepal, by combining all of these aspects of investor behavior.

#### **4.1 Data analysis and presentation**

This chapter discusses the outcomes of the analysis performed during the data collection process. It tends to the assessment and understanding of the essential information that was assembled from 400 respondents by means of survey.

Using the main data, we examine how individual NEPSE investors' investment decisions are affected by behavioral biases. Gathered information have been dissected as in relapse coefficient of two factors. The conclusions reached through the data analysis will fulfill the primary objective of this study.

##### **4.1.1 Respondent profile**

In this study, the majority of respondents (264) were women, or 66% of the total respondents (Table 3).

**Table 3***Demographics Characteristics of Respondents (N=400)*

Respondent Character	Frequency	Percentage (%)
Gender		
Male	136	34
Female	264	66
Age		
Under 25	8	2
26-35	336	84
36-45	40	10
46-55	12	3
Over 55	4	1
Profession		
Student	12	3
Salaried Private	64	16
Business	280	70
Salaried Government	40	10
Professor	4	1
Marital Status		
Single	48	12
Married	328	82
Widow	24	6
Qualification		
+2	12	3
Bachelors	96	24
Masters	292	72

*Source: Self- Survey, 2023*

### 4.1.2 Reliability test

**Table 4**

*Reliability Test (N=400)*

Cronbach's Alpha	Cronbach's Alpha Based on	
	Standardized Items	N of Items
.833	.831	5

The purpose of a reliability test is to assess the measuring instrument's internal consistency, or dependability. Cronbach's alpha coefficient ranges from 0 to 1, with a higher value representing greater reliability. At last, Cronbach's alpha coefficient ought to be higher than 0.70 for example 0.833. This scale has great inward legitimacy and dependability. Cronbach's alpha with standardized items of 0.831 is the reliability test.

### 4.1.3 Descriptive Analysis of Variables

**Table 5**

*Descriptive Statistics of Behavioral Biases (N=400)*

Variables	Min	Max	Mean	SD	Skew	Kurt	Rank
Investment Decision	1.00	4.40	2.202	.5537	.518	1.228	5
Overconfidence	1.00	5.00	2.453	.59660	.245	.610	2
Anchoring	1.00	5.00	2.456	.72414	.706	.481	1
Disposition Effect	1.00	4.40	2.433	.68299	.736	.254	3
Herding	1.00	4.20	2.397	.65419	.590	.066	4

*Source:* SPSS Output

Descriptive statistics on investors' investment decisions and factors are presented in Table 5. The variables are measured using the five behavioral bias factors. The five-point Likert scale was used to determine the overall result that each factor provided. In the context of Nepalese investors, this demonstrates sound investment decisions.

### 4.1.5 Correlation analysis

Under this section, to achieve research objective two to examine the relationship between overconfidence, anchoring, disposition, herding and investment decision. Correlation has been used.

**Table 6***Correlation between Dependent and Independent Variables*

	Decision	Overconfidence	Anchoring	Disposition	Herding
Inv. Decision	1				
Overconfidence	0.025	1			
Anchoring	-0.050	0.037	1		
Disposition	0.107*	0.081	-0.094*	1	
Herding	-0.024	-0.008	0.118**	-0.004	1

\*\* . Correlation is significant at 0.01 level (2-tailed).

\* . Correlation is significant at 0.05 level (2-Tailed).

*Source:* SPSS Output

In the Nepalese stock market, overconfidence biases have a positive relationship with investment decision, but the relationship is insignificant ( $r=0.025$ ) and  $P > 0.05$ . Likewise, Securing inclination adversely related with venture choice with unimportant relationship ( $r = - 0.050$ ,  $P > 0.05$ ). At the 0.05 level of significance ( $r = 0.107$ ,  $P 0.05$ ), the disposition effect was found to be significantly and positively related to other variables. Last but not least, there is a negative but insignificant relationship between herding bias and investment decision ( $r = -0.024$ ,  $P 0.05$ ).

#### 4.1.6 Regression Analysis

Regression analysis indicates movement direction but not relative movement in the variables under investigation. We can determine the relative movement in the variables with the use of regression analysis. Analysis of regression for the given variable.-have been computed and analyzed.

**Table 7***Model summary of investment decision*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765a	.585	.581	.42371

a. Predictors: (Constant), HB, OC, DE, AB

**Table 8***ANOVA table*

		Sum of				
Model		Squares	df	Mean Square	F	Sig.
1	Regression	99.843	4	24.961	139.035	.000b
	Residual	70.914	395	.180		
	Total	170.758	399			

a. Dependent Variable: ID

b. Predictors: (Constant), HB, OC, DE, AB

The tested model is suitable for further investigation, as shown by Table 7 ( $F = 139.035$ ;  $p$ -value 0.05). Additionally, the investment decision variation can be explained by the variation in independent variables (overconfidence, anchoring, disposition effect, and herding) with  $R^2 = 58.50\%$ .

**Table 9***Regression coefficients*

		Unstandardized		Standardized		
Model		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.082	.109		.754	.451
	OC	.095	.044	.080	2.154	.032
	AB	.375	.048	.342	7.811	.000
	DE	.110	.039	.122	2.791	.006
	HB	.376	.042	.393	9.028	.000

a. Dependent Variable: ID

*Source:* SPSS Output

Table 9 uncovers that OC affects venture choice ( $\beta = 0.080$ ,  $P < 0.05$ ). That is to say, in the event that OC expanded by 1 unit, ID prompts increment by 0.095 units. In a similar vein, AB has a positive and significant impact on the investment decision ( $P < 0.05$ ,  $\beta = 0.342$ ). This indicates that ID would increase by 0.375 units if AB increased by one unit. In a similar vein, DE has a positive and significant impact on the decision to invest ( $\beta = 0.122$ ,  $P < 0.05$ ). That is to say, in the event that DE expanded by 1 unit, ID prompts increment by

0.110 units. HB affects venture choice ( $\beta = 0.393$ ,  $P < 0.05$ ) which demonstrates that in the event that HB increment by 1 unit, ID prompts increment by 0.376 separately.

## 4.2 Discussion

In light of above survey, the main goal of the review shows the elements of conduct predispositions that impact venture choice of Nepalese offer market. All of the statements in the various sections, such as "overconfidence, anchoring, disposition, herding, and Investment decision," were accepted by the respondents. To put it another way, they think that the fair evaluation of their work and abilities, coupled with tied rewards or direct and indirect compensation, motivates them to work more efficiently. This shows great choice in venture.

In a similar vein, the second objective demonstrates the connection between the investment decisions made by the Nepalese share market and behavioral bias factors such as overconfidence bias, anchoring bias, disposition effect bias, and herding bias. The viable predispositions is fundamentally related with the venture choice in Nepalese financial exchange. Anchoring and disposition have been shown to have a significant correlation with those biases. It was discovered that anchoring and herding had the strongest positive correlation with the investment decision and disposition. The various relationship coefficient shows that level of the variety in speculation choice is made sense of by three factors viz. Disposition, overconfidence, and herding In contrast to Weeraratne's findings, the ANOVA for the regression model demonstrates that the relationship between the investment decision and the explanatory variables is statistically insignificant, which is in line with the findings of Fakai (2022) and Kellie (2018).

Ultimately, the third targets uncover the impact of elements of social predisposition (pomposity inclination, mooring predisposition, demeanor impact inclination and grouping inclination) on speculation choice. It depicts the R-square of the regression analysis of the dependent and independent variables, indicating that variation in the independent variables (overconfidence, anchoring, disposition effect, and herding) accounts for 58.50 percent of the investment decision. The decision to invest is significantly influenced by OC. That is to say, on the off chance that OC expanded by 1 unit, ID prompts increment. Also, AB, DE, and HB have a positive and significant effect on ID. This means that if AB, DE, and HB go up by one unit, ID goes up. This study is

predictable with the discoveries of Chhapra et al. (2018) yet go against with the discoveries of Dangol and Manandhar (2020); Adil, Singh and Ansari (2022).

## CHAPTER – V

### SUMMARY AND CONCLUSION

#### 5.1 Summary

The researcher used a structured questionnaire that was personally distributed to the respondents in order to collect data for the study. The target of the review was to recognize the elements affecting speculation choices in NEPSE. Regression showed that the most important factors were the firm's position and performance; interest rate; ease of borrowing money; management; volatile stock; opinions of majority shareholders; general and financial press coverage of the firm's stock; current economic indicator; contribution of the firm to social causes; firm's commitment to CSR; stock market value. Investor investment behavior is influenced primarily by overconfidence bias, anchoring bias, disposition effect bias, herding bias, and factors related to government holdings and industry stock market value. The majority of investors agree that their decision to invest aligns with their investment goals.

The information was gathered both in person and electronically, via Google Docs. The data that were gathered were then subjected to statistical analysis. In order to examine the responses and put the hypotheses to the test, reliability analysis, coefficient correlation analysis, and regression analysis were carried out. To lead the review, survey was fostered that included inquiries addressing the recognized factors which measure social predispositions in venture choices of individual financial backers in Nepal. According to related literature, these variables were also used to identify behavioral biases in individual investor investment decisions. The survey was conducted using convenience sampling, and the respondents who participated were university students. The purpose of the survey was to describe the economic and behavioral factors that influence individual investor decision-making on Nepal stock exchanges. From the example of 400 respondents the conceivable connection among reliant and free factors were analyzed. On a five-point Likert scale, respondents' responses ranged from strongly disagreeing to strongly agreeing.

Anchoring, overconfidence, the disposition effect, and herding behavior were the four specific behavioral biases that were the primary focus of this study. These predispositions were analyzed to comprehend their critical impact on individual venture navigation.

Future exploration can develop this establishment by investigating extra social predispositions that likewise assume basic parts in speculation decisions, each influencing dynamic in unmistakable ways. Additionally, a more comprehensive view of behavioral influences in various investment contexts could be provided by expanding the scope of future studies to investigate how these biases influence group or corporate investment decisions. Thusly, scientists can give further bits of knowledge into what these inclinations aggregately and separately mean for various degrees of navigation, from individual to authoritative. Better financial outcomes for individuals and businesses alike may result from this expanded research's contribution to more efficient strategies for mitigating the negative effects of behavioral biases on investment decisions.

## **5.2 Conclusions**

Overconfidence, anchoring, the disposition effect, and herding were found to have a significant impact on the investment decisions of Nepalese individual investors who have invested in NEPSE, according to the study's findings. According to the study, Nepalese investors will be more likely to make high-quality investment decisions if they choose stocks based on their skills, knowledge, and previous experiences. This approach upgrades their capacity to pick the right stocks. Furthermore, financial backers can choose stocks in view of market pattern examination and the trading choices of others. However, investing decisions tend to be of lower quality when heavily reliant on these external factors.

Overconfidence, anchoring, the disposition effect, and herding were also found to have a significant positive effect on investment decisions, according to the study. Investors' decisions regarding their stock investments are strongly influenced by these behavioral biases. According to the findings, these biases can have a positive and significant impact on investment decisions. More specifically, the study demonstrates that an increase in one unit's overconfidence, anchoring, disposition effect, and herding results in a corresponding increase in the units' investment decision-making. This suggests that understanding and possibly utilizing these biases can result in more successful investment strategies for Nepalese individual investors because their influence on investment decisions grows as these biases become more pronounced. In any case, it is additionally vital for financial backers to know about these predispositions to relieve likely adverse consequences on their venture results.

### 5.3 Implications

The scientist prescribes that the financial backers need to investigate the speculation factors cautiously utilizing the sensible business information prior to pursuing a venture choice. Because they have an impact on the share's market performance, investors should also be able to interpret economic and market indicators. Instead of focusing solely on one variable, they ought to evaluate all of the environment's variables. Financial backers truly do likewise have to enhance their interest in various organizations by fostering an arrangement of speculations to limit gambles and boost returns. This study looked at the factors that appear to have the most of an impact on each individual stock investor. It included not only the factors that had been looked at in previous studies and were derived from the current theories of behavioral finance, but it also introduced additional factors that were found to have an impact on stockholders' investment decisions in Nepal through personal interviews.

In the first place, future examination ought to endeavor to make sense of the general significance of choice factors have for individual financial backers settling on stock buy choices, also, the review was led among financial backers in Kathmandu. Thirdly, whether there are homogeneous clusters or groups of variables that form identifiable decision determinants that investors rely upon when making stock investment decisions can be verified by conducting the same study in the rest of the country.

The first step they can take is to take into account any additional characteristics that have an effect on individual stock investors in addition to those that have previously been investigated and derived from well-known theories of behavioral finance. The review's principal objective was to explain the overall meaning of different dynamic variables for individual stock purchasers. Another important objective of the study should be to determine which variables have the greatest and least impact on investors' investment decisions. Future examination projects should assess the impact of social predispositions on individual financial backers' stock putting dynamic in the Nepalese offer market.

Several contributions can be drawn from this research. The study will first and foremost add to the vast body of knowledge and confirm previous studies that found similar results. Second, the result will permit individuals and financial backers a commonsense method for avoiding and move past biases while deciding. In the end, the research will provide

valuable information for financial advisors and financial intermediaries in addition to financial advice.

Investor bias perceptions can be dispelled through the implementation of regulations by regulators. Dealers can use this review to decide the predispositions impacting financial backer way of behaving. By offering their clients sound advice, they are able to prevent investors from making poor decisions. Financial backers can assess their way of behaving freely with the guide of this review. They can likewise perceive productive stocks and increment their buys. The consequences of this study should be applied by speculation associations who wish to give more dependable suggestions and have top to bottom comprehension of financial backer qualities and monetary market variances. This system can assist future scientists with acquiring a superior handle of what various predispositions mean for speculation choices.

Anomalies in the market can be included in the future to see how they affect an investor's decision to invest in the Nepalese stock market. Other mental predisposition can likewise be utilized to decide speculation choice.

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## Annex: Questionnaires

Dear respondent,

I am conducting this questionnaire survey for an academic research as required by the MBS program. The title of my research is " **Factors Influencing Individual's Decision on Investment in Capital Market**" I would like to state that this research is purely for an academic purpose and I am simply interested in your candid and honest opinion. I assure you that strict confidentiality will be maintained and the information furnished by you will be used only for the academic purpose.

Thanking for your Cooperation

Niranjan Poudyal

MBS student

Shanker Dev Campus, Kathmandu

### Part I

Particular	Please Tick:		
Investment Avenue	a) Yes	b) No	
Gender	a) Male	b) Female	
Age	a) Under 25	b) 25-35	c) 36-45
	d)46-55	e)Above 55	
Qualification(Highest Degree)	a) +2	b) Bachelors	c) Masters
Marital Status	a) Married	b) Unmarried	
	c) Divorce	d) Widow	
Years of Experience	a) Less than 5	b) 5-15	c) More than 15
Profession	a) Salaried Private	b) Salaried Government	
	c) Student	d) Business	e) Professor
Education	a) Under Graduate	b) Graduate	
	c) Post Graduate	d) Professional	
Earning per month	a) up to 25000	b) 25001-50000	
	c) 50001-75000	d) above 75000	

## Part II

Below are several statements about you with which you may agree or disagree. Using the response scale below, indicate your agreement or disagreement with each item by choosing the appropriate number. Please give your responses as followings:

Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
1	2	3	4	5

### OC

1	I believe that my skills and knowledge of the stock market can help me to outperform the market	1	2	3	4	5
2	I feel I have ability enough to manipulate the investments in my favors	1	2	3	4	5
3	I feel that I am always lucky to invest in the best deals.	1	2	3	4	5
4	I take least time possible to analyses and rely on available market statistics	1	2	3	4	5
5	I conduct more trades in between the accounting periods.	1	2	3	4	5

### AB

1	My trading is affected by recent experiences in the market.	1	2	3	4	5
2	I use the purchase price the stocks as a reference points in trading.	1	2	3	4	5
3	I usually rely on past experience in the market for next investment.	1	2	3	4	5
4	I usually buy a stocks, which have fallen considerably from previous closing or all-time high.	1	2	3	4	5
5	I appear believe that past returns are indicative for future returns.	1	2	3	4	5

### DE

1	I prefer to depend on the past performance of the stock when take my investment decision over any other indices.	1	2	3	4	5
2	I use trend analysis to make investment decisions.	1	2	3	4	5
3	I buy the new equity offering of the same company, in which I have already invested.	1	2	3	4	5
4	I appear believe that past returns are indicative for future returns.	1	2	3	4	5
5	Before buying a share, I ignore the information in the market that conflate with mine.	1	2	3	4	5

HB

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1	Other investors' decisions of the stock volume have impact on your investment decisions.	1	2	3	4	5
2	Other investors' decisions of buying and selling stocks have impact on your investment decisions.	1	2	3	4	5
3	Other investors' decisions of choosing stock types have impact on your investment decisions.	1	2	3	4	5
4	You usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market.	1	2	3	4	5
5	After booking profits, I usually feel I could have waited.	1	2	3	4	5

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ID

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1	My investment reports better results than expected.	1	2	3	4	5
2	My investment in stock has demonstrated increased cash flow growth.	1	2	3	4	5
3	My investment in stocks has a lower risk compared to the market I general.	1	2	3	4	5
4	My investment in stocks has a high degree of safety.	1	2	3	4	5
5	My investment proceeds will be used in a way that benefits society.	1	2	3	4	5

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Thank you. Have a good day!

# Factors Influencing Individual's Decision on In...

By: Nirajan Poudyal

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**Abstract** The opening of Nepal's capital market has created new investment opportunities for both individuals and institutional investors. Investment decisions are typically guided by various decision-making tools, which are based on the premise that market variables and information structures influence investor choices and market outcomes. This study aims to analyze how different determinants affect investment decisions in the Nepalese stock market and to explore the relationship between these determinants and investment decisions. Primary data was collected through structured questionnaires distributed to investors, and the responses were coded and statistically analyzed using SPSS. The study employs both descriptive and analytical research methods: the descriptive approach identifies factors influencing individual investment decisions, while the analytical approach examines the impact of factors such as affordability, information, and herding on these decisions. The findings reveal that investment decisions are a critical tool for addressing organizational issues and disciplinary proceedings. Overconfidence bias was found to significantly influence investor behavior, with overconfident investors believing they are superior to their peers and the market index. The study also highlights the importance of psychological factors like overconfidence, anchoring, disposition, and herding in investment decision-making. All surveyed respondents acknowledged the influence of these psychological aspects. For Nepali investors, understanding the impact of psychological factors such as herding, anchoring, and overconfidence is crucial for making informed investment decisions. This insight emphasizes the significant role of human psychology in assessing investment decisions accurately. **Key Words:** Investment Decision, Overconfidence, Anchoring, Disposition Effect and Herding vi

**CHAPTER- I**

**INTRODUCTION**

**1.1 Background of the Study** As a method for elucidating investor behavior and its impact on decision-making, behavioral finance has garnered a lot of attention in recent years. In the 1970s, research into individual investor behavior first appeared. Behavioral finance looks at how decisions about buying or selling financial assets are made and provides an explanation