Behavioural Bias and Investment Decisions in Nepalese Share Market: The Mediating Role of Saving Behaviour

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Behavioural Bias and Investment Decisions in Nepalese Share Market: The Mediating Role of Saving Behaviour”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it 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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Report of Research Committee

Miss Barsha Kurunbang Limbu has defended research proposal entitled "Behavioural Bias and Investment Decisions in Nepalese Share Market: The Mediating Role of Saving Behaviour" 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 Mr. Dhruba Prasad Subedi and submit the dissertation for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the dissertation entitled "Behavioural Bias and Investment Decisions in Nepalese Share Market: The Mediating Role of Saving Behaviour" presented by Miss Barsha Kurunbang Limbu, 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 dissertation is worthy of acceptance.

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Abbreviations

AB	Anchoring bias
ANOVA	Analysis of Variance
AVB	Availability bias
HB	Herding bias
ID	Investment Decision
LA	Loss aversion
MA	Mental accounting
NEPSE	Nepal Stock Exchange Limited
OC	Overconfidence
S.D.	Standard Deviation
Sig.	Significance
SPSS	Statistical Package for Social Science
Std.	Standardized
SV	Saving behavior
T.U.	Tribhuvan University

Abstract

The study aimed to examine the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market. This study is categorized as a descriptive and causal comparative study. Population of the study is targeted to the Nepalese investors who have been engaged in buy and sell of shares in NEPSE. 408 respondents have been selected to collect the responses towards the study variables in Kathmandu valley. Convenience sample method is used to select respondents. Sample venue is the various brokerage firms. Since the study is concerned with behavioural biases, saving behavior and investment decision, the data are primary nature and the data are collected from the Nepalese share market investors. The questionnaire is chosen as research instrument to collect primary data. The quantitative analysis has been conducted by adopting statistical techniques. First of all, the study presented the analysis of demographic profile of the respondents. Descriptive statistics, correlation and regression analysis are performed to analyze the data. The statistics output is derived using SPSS. The study found that that saving behavior and anchoring bias are the most influential factors positively impacting investment decisions, while mental accounting has a significant negative effect. Overconfidence and availability bias also show significant positive influences, albeit to a lesser extent. In contrast, herding bias and loss aversion do not significantly affect investment decisions in this model. The findings of mediation effect of saving behavior highlight the crucial role of saving behavior as a psychological link that converts cognitive and emotional biases into tangible investment actions. The results support the notion that although biases directly impact investment decisions, their influence is notably intensified or mediated through an individual's saving habits. This deeper understanding of how biases, saving behavior, and investment choices are interconnected offers important insights into behavioral finance, especially within the context of emerging markets such as Nepal.

Keywords: Behavioural biases, investment decision, overconfidence, herding bias and saving behavior.

Chapter I
Introduction

1.1 Background of the Study

The stock market is important for an economy for a number of reasons, one of which is that it serves as a route for money (Zuravicky, 2005). Rasheed et al. (2021) asserted that it is also seen as a measure of a country's development and advancement. Additionally, the stock markets provide as a channel for individuals to make money through stock investments (Teweles & Bradley, 1998). The dividend income, capital appraisal, and protection against inflationary erosion of buying power are the main reasons why investors are drawn to stocks (Teweles & Bradley, 1998). Because of its many facets, stock markets are essential to an economy's smooth operation. It is impossible to overlook the significance of stable and balanced markets for a healthy economy. Businesses that operate in the economy are immediately disrupted by any impulsiveness or uncertainty in the stock market. Because of this, it is crucial to research and identify the factors that can influence the stock market, especially for emerging economies that have recently gained the status of emerging markets and are being considered for investment by investors worldwide because of their structural advancements and promising future prospects (Mangi, 2016).

The act of deciding which assets to buy or sell in order to reach a particular financial objective is known as an investment choice (Dash, 2010). This may apply to real estate, equities, bonds, and other kinds of assets. Making an investment choice usually entails examining a number of economic and financial aspects, including risk-return ratios, market trends, and business financials. According to Sharma and Sharma (2015), institutional and individual investors' decision-making is greatly impacted by biases and heuristics. The financial market has the potential for unheard-of profits, financial assets are readily liquid, and it offers individual investors a variety of options from which to select the assets that best suit their investment goals (Akhtar & Das, 2019).

Fundamentally, behavioral biases are regular patterns of judgmental divergence from the norm or from reason, frequently impacted by emotional or cognitive variables. Although they can appear in a variety of settings, their importance in the world of

investments and finance cannot be emphasized enough. Investors' views, attitudes, and actions are impacted by these biases, which have an impact on how they evaluate opportunities, control risks, and distribute their assets. According to academics like Bhattarai et al. (2020) and Kishori and Kumar (2016), investors usually make illogical judgments that diverge from logical ones that are impacted by psychological biases. A thorough framework in behavioral economics, heuristics and prospect theory provide deep insights into the many processes that influence human decision-making, especially in circumstances that are marked by ambiguity and uncertainty.

It is crucial to recognize the existence of a compelling phenomena that frequently influences the course of the Nepalese stock market, where corporate strength and economic fundamentals are vital factors. This phenomenon is known as herding behavior. Collective market movements can occur when investors rely their decisions more on the actions of others than on their own analysis or study of economic matters. Collective behavior is not just seen in international markets; it is also clearly seen in the domestic stock market, offering strong proof of the irrationality and inefficiency of the system. As a result, while making investment decisions, a large number of Nepali investors rely on print and digital media and consult with experts, family members, and their social networks. For example, the numerous ups and downs in stock prices demonstrate how investors' propensity for selective selling and mass buying has resulted in abnormally big profits. Due to the general pessimism among investors, the market index briefly reached its highest level ever recorded in August 2021, at 3,198.6, and has been steadily falling ever since. Furthermore, this phenomenon is occurring in the main market, where oversubscription has been observed for a number of firms with low ratings. The observed pattern implies that the different price swings in Nepal's stock market may have been significantly influenced by herding behavior (Gurung et al., 2024).

Systematic biases in decision-making are frequently caused by the intricate network of cognitive and affective processes that make up the human mind. These biases can significantly impact people's decisions, risk tolerance, asset allocation, and overall financial performance in the realm of investing (Kazmi, 2024). These biases have an effect on financial markets, influencing asset prices, market dynamics, and even the stability of the financial system, thus their influence on investment decision-making

extends beyond individual investors. Both regular investors and financial experts must comprehend these biases and their impact. Making better educated, logical, and disciplined decisions might result from being aware of these biases. It also emphasizes how crucial financial education, advisory services, and regulations are in reducing the negative impacts of these biases on individual financial security and market stability.

1.2 Problem Statement

Previous studies in psychology have identified many biases that influence people's decision-making. Although these biases can affect judgments in a variety of contexts, they particularly affect financial and investing decisions. When investors absorb information, they establish preferences and make judgments, which can be explained by behavioral biases (Krishnapriya, 2023). Since it has a direct bearing on total stock market profits and losses, understanding investment biases is essential. A major issue that frequently results in subpar performance and investment returns for investors is deviating from the optimum choices. Overconfidence, for instance, might result in excessive trading, which raises taxes and brokerage costs and eventually lowers the trade's profit (Patel, 2023). Herding behavior, or the propensity to follow the herd, can be a contributing factor to stock market booms and busts. Another factor affecting investment outcomes is disposition bias, which occurs when consumers sell winning stocks too soon and hang onto loser equities for too long.

Most of the earlier empirical research, including studies by Rasheed et al. (2021), Subedi and Bhandari (2024), and Rehmat et al. (2023), examined at how financial literacy mediated the association between behavioral biases and share market investing decisions. However, the empirical investigations do not adequately address the mediation function of saving behavior. Theoretically, saving behavior is also a factor in investment decisions as, before investing in financial assets, investors must manage their budget, which is derived from their debt and equity management practices. The lack of research on saving behavior and its mediation function in the interaction between behavioral biases and share market investing decisions is therefore another problem in this field of study.

People make decisions that are illogical, ineffective, and inconsistent, mostly when faced with uncertainty. Since rational investors weigh the risk and return of an

investment when evaluating equities and never allow their subjective opinions to sway their decision-making, irrational investor behavior renders the market inefficient (Shiller, 2002). Given the aforementioned facts, it is critical to identify the behavioral elements that influence investors' choices on the Nepalese stock exchange and the degree to which these factors impact their choices, with saving behavior acting as a mediating factor. The study formulates the following research questions by concentrating on the issue statement:

i) What are the factors affecting investment decision in Nepalese share market?
ii) What is the impact of anchoring bias, overconfidence, herding bias, loss aversion, availability, mental accounting and saving behaviour on investment decision in Nepalese share market?
iii) How saving behavior plays a mediating role in the relationship between anchoring bias, overconfidence, herding bias, loss aversion, availability, mental accounting and investment decision in Nepalese share market?

1.3 Objectives of the Study

The study has the major aim to examine the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market. To support the major objective, the following further specific objectives are derived based on the research questions;

i) To identify the factors affecting investment decision in Nepalese share market.
ii) To examine the impact of anchoring bias, overconfidence, herding bias, loss aversion, availability, mental accounting and saving behaviour on investment decision in Nepalese share market.
iii) To analyze the mediating role of saving behavior in the relationship between anchoring bias, overconfidence, herding bias, loss aversion, availability, mental accounting and investment decision in Nepalese share market.

1.4 Hypotheses of the Study

The study has developed the hypotheses for the study of the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market.

H_1: Anchoring bias has significant effect on investment decision in share market.
H_2: Overconfidence has significant effect on investment decision in share market.
H_3: Herding bias has significant effect on investment decision in share market.
H_4: Loss aversion has significant effect on investment decision in share market.
H_5: Availability bias has significant effect on investment decision in share market.
H_6: Mental Accounting has significant effect on investment decision in share market.
H_7: Saving behaviour has significant effect on investment decision in share market.
H_8: Saving behaviour mediates the relationship between anchoring bias, overconfidence, herding bias, loss aversion, availability bias, and mental accounting and investment decision in share market.

1.5 Rationale of the Study

There are a number of scholarly, practical, and contextual reasons for the study's justification.

The capital market in Nepal is still in its infancy. The Nepalese stock market shows indications of volatility fueled by investor mood, hearsay, and psychological biases, in contrast to developed markets where investors frequently depend on financial facts and logical analysis. Studying how behavioral biases (such as herd mentality, loss aversion, and overconfidence) affect investment choices in this situation is therefore essential. The majority of research on behavioral finance is focused on industrialized nations. In the Nepalese environment, empirical research examining the impact of psychological biases on individual investors is lacking. Furthermore, little is known about the mediating function of saving behavior—that is, how people's propensity to save may affect or modify the influence of these biases on investment choices. Social, cultural, and economic considerations all have a significant impact on saving behavior in a developing country like Nepal. Deeper insights into investor psychology may be gained by comprehending how saving behaviors moderate the interaction between behavioral biases and investing decisions. Strong saving tendencies, for instance, may act as a buffer against rash investing choices influenced by behavioral biases.

The study's conclusions can help regulators like SEBON create investor protection laws, help financial advisers and institutions provide better financial education and advising services, and help individual investors become more conscious of their own

prejudices and make more logical choices. The topic of behavioral finance is expanding, and this study adds to it, particularly in emerging countries. It adds empirical support to theoretical theories that explain investment decision-making by demonstrating how saving behavior might serve as a mediator. Programs for financial literacy that are suited to the Nepalese population can be developed with the aid of an understanding of the psychological foundations of investing behavior. It could also have an impact on national policies regarding capital market growth and family savings. This study is important because it attempts to close the gap between behavioral finance theory and actual investing behavior in Nepal. It also takes into account a saving behavior that is an important but frequently disregarded mediator. The results can help people make better decisions on a personal and policy level. This work provides a strong conceptual and empirical foundation for future researchers and is a useful contribution to Nepal's scant literature on behavioral finance. In addition to improving theoretical knowledge, it establishes the framework for further research into the application of psychology to financial decision-making in developing economies.

1.6 Limitations of the Study

The study has the following restrictions and is just being carried out for academic purposes:

i) Because the respondents were chosen from the Kathmandu Valley, the study's findings could not accurately reflect answers from other regions of the nation.
ii) The study's sample size of respondents is small.
iii) Because respondents could give biased answers, the study might not be reliable or consistent.
iv) Along with mediating variable of saving behavior, anchoring bias, overconfidence, herding bias, loss aversion, availability, and mental accounting are the only behavioral bias variables.

Chapter II
Literature Review

2.1 Conceptual Review

2.1.1 Concept of Investment Decision in Share Market

Investment choices determine the creation of wealth. They include purchasing property to resell for a profit. Investing might lead to financial security and wealth accumulation (Brunsson, 2014). Decisions to purchase assets are referred to be investment decisions as they are undertaken with the intention of making money (Anum, 2017). Predicted earnings, growth rates, company risk and creditworthiness, and investor objectives all influence investment choices (Statman, 2017). The judgment of investors or a group of investors about the use of cash for the acquisition or purchase of an asset is included in state investment choices (Rasool & Ullah, 2020). Investors must choose the greatest options available to them while constructing a portfolio. They must consider their objectives, their risk tolerance, and market research (Kartini & Nahda, 2021).

Rasheed et al. (2021) defined an investment choice in the share market as the process of deciding how, where, and when to invest money in stocks or company shares in order to generate a return. It entails examining a number of variables, including market trends, a company's financial standing, risk levels, anticipated returns, and the investor's personal financial objectives and risk tolerance. Assessing whether purchasing, owning, or disposing of a specific stock would increase the investor's wealth over time is necessary to make a wise investment choice. Both technical research (looking at historical stock prices and trading volumes) and fundamental analysis (analyzing a company's profits, assets, and management) can have an impact on these choices. In the end, share market investing choices are very important for long-term financial planning and portfolio management.

2.1.2 Behavioural Biases of Investors

The idea of behavioral biases of investors, as defined by Saleem et al. (2023), refers to the emotional and psychological inclinations that affect investors' choices and frequently cause them to act impulsively or contrary to sound financial principles. Behavioral finance acknowledges that people's investing decisions are frequently

influenced by emotions, cognitive mistakes, and social factors, in contrast to classical finance theory, which holds that investors are completely logical and always aim to maximize profits. The following are examples of common behavioral biases: anchoring (relying too much on the first piece of information received), herd behavior (following the herd without independent analysis), loss aversion (fearing losses more than valuing equivalent gains), and overconfidence (thinking one knows more than one actually does). Poor investment choices, such hanging onto lost equities over an extended period of time or making rash transactions amid market turbulence, might result from these biases (Wali et al., 2022). Investors must comprehend behavioral biases in order to make better decisions and control risk.

Overconfidence

This study's first element is overconfidence, which Shefrin (2006) defined as the extent to which investors assess their own talents and competencies. Typically, overconfident investors believe they know the market better than others. Michailova (2010) asserted that of all the criteria, it is the most important and tested. Odean (1998) asserted that traders who trade more often earn returns that are noticeably lower than those of the market. Experts in behavioral finance have shown that when investors are overconfident, they overestimate their expertise and underestimate the danger of uncontrollable occurrences. The research of overconfidence is still expanding globally, particularly in collectivist societies like Pakistan. Previous research has demonstrated that Asian cultures have a substantially higher prevalence of overconfidence behavior than Western societies.

Anchoring

Anchoring is the second issue that this study is looking at. People are impacted by anchoring when they base their decisions on prior values (Tversky & Kahneman, 1974). for selling or evaluating the various securities at a later time, other investors use the original purchase price as a guide for making investment selections. People frequently base present pricing on historical values. When making financial decisions, investors occasionally reflect on prior events and evaluate themselves. Because the stock market does not react at the same intensity level because many factors contribute to those reactions, anchoring leads investors to believe that if certain stocks reacted at a certain point in time last year to a certain intensity level, the reaction would be the same at that

particular point in time this year (Blankenship et al., 2008). When this phenomenon shows up in their judgment, they typically make the wrong decisions. Anchoring is a significant phenomenon in which stock market investors make judgments based on their estimations of a range of share values based on past trends, which is entirely irrational from the investors' point of view.

Loss Aversion

Loss aversion is another behavioral component that was brought to the financial industry with the introduction of prospect theory, a groundbreaking theory that served as the foundation for behavioral finance. Kahneman and Tversky were the first to create the Prospect theory (1979). Contrary to conventional wisdom in the financial industry, it describes the mental states that influence a person's decision-making process and leads to the conclusion that people are not necessarily risk-averse. From a stock market standpoint, investors typically respond differently to their investment selections depending on their prior market knowledge (Kudryavtsev et al., 2013). In order to get over their sense of loss or to make up for their financial loss, individuals start taking greater risks when they lose money on an investment. However, investors become more risk averse to prevent losses or to preserve their favorable financial position in the market when they have some financial success with their prior financial decisions. The aforementioned conduct is illogical, and as a result of this mindset or loss-averse stock market activity, they can end up becoming the targets of irrational choices.

Herding Behavior

Behavior of herds in the stock market Herding, or the propensity of investors to follow the broader group of stock market investors, is another important and commonly observed behavior (Tan et al., 2008; Khan & Rizwan, 2018). Investors who engage in herding behavior appear to disregard the basic idea of stock prices and instead base their decisions on the conventional process of weighing risk and return. Instead, they tend to follow the choices made by the greater number of investors and adjust their own investments accordingly. Investors typically engage in this type of conduct when the state of the market is unpredictable and they find it difficult to trust the information at their disposal. In these situations, they merely imitate or mimic the actions of a bigger group of investors in an attempt to shield themselves from the unpredictable environment (Caparrelli et al., 2004).

Availability Bias

Availability bias occurs when investors make decisions based on information that is simple to recall rather than taking into account all relevant information. This bias may contribute to market inefficiencies, such as overreactions to recent news events, which might lead to short-term stock price volatility (Sharma et al., 2024). Zhang and Das (2023) emphasized that news that is widely reported or emotionally charged is frequently given greater weight when investors are making judgments. Furthermore, according to Agarwal and Ranjan (2022), investors usually rely on well-known and easily available sources, such friends, family, or domestic news, which reinforces biased judgment and leads to preferences for local equities over foreign ones.

Mental Accounting

The Two Pocket Theory, often known as Mental Accounting Bias, was introduced by Thaler (2015). The behavioral bias theory states that an investor handles each component of the portfolio independently. Investors, for instance, classify assets based on capital gains or income rather than total return. Therefore, the investors' mental categorization of asset classes has an impact on the investment. Researchers have offered models of mental accounting and observed how it influences people's decision-making, including investment-related decisions, and have discovered that it plays a major role (Dadashi et al., 2023). To find out how gender and behavioral biases affect portfolio performance, Lee et al. (2013) performed a research. According to this study, men are more prone to mental accounting bias than women. The Chandra (2008) found that mental accounting bias significantly and favorably influences investing choices. The impact of behavioral biases on investing decisions was the subject of a different study by Jain et al. (2020), which gathered information from equities investors in India. The findings demonstrated that investing decisions are considerably and favorably impacted by mental accounting.

2.1.3 Mediating Role of Saving Behaviour

The way that saving behaviors impact the way that psychological biases impact investors' judgments is known as the mediating function of saving behavior in the link between behavioral biases and stock market investing decisions. Overconfidence, herd mentality, and loss aversion are examples of behavioral biases that frequently cloud investors' judgment and result in less-than-ideal financial choices. Saving behavior, on

the other hand, serves as a mediator that may either increase or decrease these impacts. Disciplined saving, for example, may provide investors more money and a longer investing horizon, making it easier for them to resist biases like overtrading or short-term panic selling. On the other hand, bad saving practices may make biased, impulsive judgments worse. The significance of financial discipline in controlling irrational inclinations is therefore highlighted by the fact that saving behavior explains how behavioral biases influence stock market investing decisions (Kumar & Goyal, 2015; Shefrin & Statman, 1985).

2.2 Theoretical Review

According to the Efficient Markets Hypothesis (EMH), which holds that the market is rational and constantly working to become efficient, the actual price of securities is a good indicator of fundamental values. However, this hypothesis does not take into account the rational behavior of investors (Waweru et al., 2008).

In contrast to EMH, behavior finance contends that the stock market is not informationally efficient (Ritter, 2003). Despite their extensive knowledge, expertise, and years of experience in buying and selling stocks, investors may not always act rationally because they have access to perfect information. The behavior theory investigates how investors' cognitive processes and psychological effects influence their investing decisions. The study of behavior finance examines psychological aspects and how they affect investment choices. It also explains how investors make mistakes while making decisions about their investments. Some theories on how investors' psychological behavior influences their decision to purchase or sell.

2.2.1 Heuristic Theory

By simplifying the process of evaluating probabilities and forecasting values, heuristics which are characterized as rules of thumb make decision-making easier, particularly in complex and unpredictable contexts (Ritter, 2003). (Kahneman & Tversky, 1987). Although these heuristics are often very helpful, especially when time is of the essence (Waweru et al., 2008), they can occasionally result in biases (Kahneman & Tversky, 1987; Ritter, 2003). When adding three factors representativeness, availability bias, and anchoring appear to have been among the first authors to examine the components of

heuristics. Additionally, Waweru et al. (2008) included two elements into heuristic theory: overconfidence and gambler's fallacy. People who place too much emphasis on recent experience are clearly representative. When constructing their expectations for the future, investors place an excessive amount of weight on fresh information (Fuller, 2000). When assessing a particular topic, concept, approach, or conclusion, the availability heuristic bias is a mental shortcut that depends on the first instances that spring to mind (Kumar & Chandra, 2008). The behavioral problem known as overconfidence occurs when investors overestimate their own talents and believe they are skilled. According to Ritter (2003), the desire to invest excessively in what one is comfortable with leads to overconfidence when there is minimal diversity. Anchoring is the process of making decisions that need quantitative evaluations and may be impacted by recommendations. People have anchors, or points of reference, in their minds, such as past market values. They don't adequately adapt this previous reference to the new information they learn (Waweru et al., 2008). Gamblers the idea that a tiny sample might be representative of the parent population from which it is taken gives rise to fallacy bias (Statman, 1999). More specifically, the gambler's fallacy occurs in the stock market when individuals make incorrect predictions about the reversal points that are thought to signify the end of strong (or weak) market returns. Furthermore, those who are susceptible to status quo bias are more likely to choose less-than-ideal options (Waweru et al., 2008). Excessive usage of readily available information is known as availability bias. Despite the basic ideas of "diversification of portfolio management for optimization," this bias shows itself in the stock trading industry as a preference for investing in local businesses that investors are familiar with or can quickly learn about (Waweru et al., 2008).

2.2.2 Prospect Theory

The focus of prospect theory is on how investors' value systems affect their subjective decision-making. According to Waweru et al. (2008), prospect theory explains several mental states that influence a person's decision-making processes, such as regret aversion, loss aversion, and mental accounting.

People experience regret when they commit errors. Refusing to sell declining shares and being prepared to sell gaining ones helps investors avoid regret. Additionally, investors are more likely to regret keeping losing equities for an extended period of

time than they are to regret selling winning stocks too quickly (Forgel & Berry, 2006). The variation in the mental penalty people experience from an equal size increase or decrease is known as loss aversion. Research indicates that people are more upset about the possibility of losses than they are happy about comparable benefits (Barberis & Thaler, 2001). Furthermore, it has been shown that a loss that follows a previous gain is less painful than normal, but a loss that follows a loss appears to be more painful than usual. Furthermore, Lehenkari and Perttunen (2004) showed that the negative correlation between investors' capital losses and the selling tendency may be strengthened by both good and negative returns in the past, indicating that investors are loss averse. Although risk aversion is a frequent investor habit, it can lead to poor decisions that negatively impact an investor's wealth (Barber & Odean, 2001). According to Barberis and Thaler (2001), mental accounting is "the process by which people think about and evaluate their financial transactions." Investors can arrange their portfolio into distinct accounts by using mental accounting (Barberis & Thaler, 2001; Ritter, 2003). Based on his own empirical research, Rockenbach (2004) proposed that, although it is helpful for arbitrage-free pricing, connections between various investment options are frequently not formed.

2.3 Empirical Review

Gupta et al. (2025) researched on behavioral finance investment to provide a precise understanding of the way psychological aspects influence investment decision making. This study explored behaviorial finance, a field of study that sheds light on how real investors' actions differ from the ideal rationality presupposed by neoclassical finance theory, in order to investigate how psychological aspects impact investment decisions. The study then investigated the primary cognitive and motivational biases—confirmation bias, overconfidence, loss aversion, herding behavior, etc.—that influence decision-making, primarily at the migratory phases. Additionally, this study employed Principal Component Analysis and Exploratory Factor Analysis using SPSS 26. The study discovered that the choice to invest is heavily influenced by regret aversion, risk perception, herd behavior, and biases and heuristics.

Gurung et al. (2024) examined the impact of behavioral biases on investment decisions among Nepalese general individuals who actively participate in the country’s stock market, considering overconfidence, representative, anchoring, regret aversion, and

herding biases as predicting variables, with investment decisions as the response variable. Using a structured questionnaire containing 379 data, the study used a linear regression model to determine correlations. The study found that regret aversion, anchoring, and overconfidence biases significantly impacted Nepalese investors' investment choices. On the other hand, there was no discernible correlation between herding behavior and investment decisions, and representational bias had a little effect on selections. Therefore, research implied that individual investment decisions in the Nepalese financial market are more influenced by behavioral biases. To make educated judgments, preserve financial stability, and promote market growth, investors, advisors, and legislators must recognize and overcome these biases.

Subedi and Bhandari (2024) explored the impact of psychological factors on investment decisions within the Nepalese share market, considering the mediating role of financial literacy. A structured questionnaire was used to gather information from 410 individual investors in the Kathmandu Valley, and SmartPLS 4.0 was used for analysis. The results showed that psychological variables significantly and favorably influence investing decisions, and that psychological biases frequently result in less-than-ideal investment choices. Higher financial literacy enables investors to lessen the negative consequences of these biases, leading to more logical and knowledgeable investing choices. The study made clear how important it is to increase financial education initiatives in order to empower investors and boost market efficiency in general. In order to provide investors the skills they need to comprehend financial products, market dynamics, and risk management techniques, recommendations included incorporating financial literacy programs into the national curriculum and other government efforts.

Amgain (2024) aimed to provide broader overview of traditional finance theories, introducing and emphasizing the significance of behavioral finance, examining the behavioral biases and how they contribute to the risk-averse and risk-seeking attitudes and proposing a future research direction through the construction of a taxonomy model of investor’s psychology in the form of a causal framework that impact on investment decision. 23 research publications in the domains of behavioral finance and investment decision-making were included in the study, which used a methodical literature review technique. The global financial crisis served as justification for the 2008–2023 time frame and the selection of 2008 as the base period. The results indicated the influence

of behavioral biases on investing decisions and theoretical advancements, as well as a thorough review of the literature on behavioral finance and investor psychology. Understanding the intricate interactions between behavioral biases impacting investing decisions was made easier by the taxonomy approach. A suggested a taxonomy model, defining numerous biases as independent variables including emotional, cognitive, and financial biases. The results showed illogical stock market behavior driven by artificial intelligence and fear-based feelings. The importance of risk perceptions and financial literacy as moderating variables, as well as the research implications for investors, portfolio managers, and policymakers, were underlined in the study.

Shunmugasundaram and Sinha (2024) investigated the erffect of behavioral variables on investment decisions through a serial mediation of overconfidence and disposition effects. Using a structured questionnaire, the authors evaluated the behavioral biases influencing life insurance policyholders' investment choices by serially mediating the effects of disposition and overconfidence. A snowball sampling approach was used to choose the 501 life insurance customers who were included in the study. The study's findings demonstrated that behavioral biases affect life insurance policyholders' investing choices. The findings also validated the serial mediation hypothesis, which holds that behavioral biases impact life insurance policyholders' investing choices through disposition effects and overconfidence. Additionally, it added disposition effects and overconfidence as serial mediators between investing choices and behavioral biases.

Kazmi (2024) aimed to investigate how behavioural aspects affect investment decisions under conditions of uncertainty. This research examined the complicated process of making investment decisions, which are impacted by both illogical and reasonable human behaviors. Heuristics, prospect theory, personality characteristics, emotions, moods, and environmental influences are among the variables in behavioral finance that are explored. Overconfidence, representativeness, anchoring, regret aversion, hindsight, herding effect, and home bias are among the major psychological biases taken into account. A survey questionnaire was used in the study to collect data, and SPSS software was used for regression analysis. The findings demonstrated that behavioral biases had a substantial impact on investing choices, with heuristic behaviors having a greater impact than prospect theory and personality characteristics.

The study's conclusions gave investors and financial institutions important new information about the significance of taking psychological aspects into account when making investment decisions.

Saleem et al. (2023) analyzed into the investment choices and analysed the influence that behavioural factors and financial literacy play in the process. The study identified the direct influence of behavioural biases such as anchoring, optimism bias, and loss aversion on investing decisions by analyzing primary data from individual investors in the Lahore region. These people took part in the research. The study's results indicate that investing decisions might be less negatively impacted by cognitive biases when one has a strong grasp of finance. In other words, the study discovered that while financial knowledge moderates the impact of anchoring, regret and loss aversion, and availability bias, these factors have a significant impact on investment decisions.

Sharma and Prajapati (2024) aimed to investigate and outline various biases influencing investment decision-making by reviewing a wide array of research in the field of behavioral finance. Using data from research published from the seminal work in 1974 to the most recent contributions up to 2024, it looked at the unique behavioral patterns displayed by individual investors. In order to provide a formal knowledge of how the detected biases appear in investment behaviors, they were divided into seven different kinds. Overconfidence and herd mentality were the most commonly reported behavioral biases among investors, according to the survey.

Rehmat et al. (2023) conducted a study to identify the impact of behavioral biases on individuals' investment decisions. Since most people lack the in-depth information and skill necessary to make wise selections and are unaware of the behavioral biases influencing their choices, the focus was on directly analyzing the influence of behavioral variables on the investing decisions of retail investors. The investigation was primary, and structural equation modeling was used to construct the correlations. The study's participants were Pakistani retail individual securities market investors. Prior to data collection, a small sample was used to assess the validity and reliability of the instrument. To ascertain the influence of behavioral biases on financial decisions through the mediation of risk perception, this study also included financial literacy as a moderating variable. SmartPLS was utilized to figure out the impact. The findings

demonstrated that the connection between behavioral biases and investing decisions is highly impacted by moderator financial competence. Likewise, it is determined that risk perception has a large mediating impact. Every independent variable had a substantial influence on investment decision-making, with the exception of loss aversion.

Krishnapriya (2023) made an effort to assess the impact of behavioral biases in investment decision-making in stock market. A survey questionnaire was created, and 243 investors' answers were gathered. Both descriptive and inferential statistics have been used in the study. The study's primary goals were to identify the emotional and cognitive biases that influence investor choices and to ascertain if behavioral biases and investing choices are related in any way. Their demographic profile, including age, gender, educational background, and monthly income, was determined by this study. The largest percentage of responders (around 44%) are in the 25–30 age range out of 200. Males make up roughly 52% of the total. The majority of responders are recent graduates who make less than $25,000 a month. This study demonstrated, using an ANOVA table, a strong relationship between respondents' behavioral biases—such as herd bias, overconfidence, availability bias, mental accounting, and regret aversion—and their investing decisions.

Patel (2023) sough to understand how psychological biases impact investment decision-making. In order to investigate how psychological biases affect Indian investors' investing decisions, this study focused on their particular setting. The Indian financial market is a perfect place to study how emotional and cognitive variables influence investment choices since it has seen significant expansion and diversity in recent decades. To find and understand the most common psychological biases influencing Indian investors' investing behavior, this study drew on data from surveys, interviews with Indian investors, and a thorough review of the body of current literature. This study primarily addressed three biases: loss aversion bias, availability bias, and overconfidence bias. Important conclusions emphasized how important cognitive biases including loss aversion, availability bias, and overconfidence are in influencing investing decisions. Furthermore, the way these prejudices appear and affect people is influenced by socioeconomic and cultural elements that are specific to India.

Wali et al. (2022) investigated the behavioral biases that influence a stock trader's performance. Comparing the investing practices of investors in Islamabad and Peshawar was another goal. The purpose of the study was to see whether their financial choices, namely in the stock market, differed. As independent variables, mental accounting, herding, anchoring, and overconfidence were examined in relation to investor trading success. For this purpose, the hypotheses were formulated using behavioral finance literature as a basis. Since the research is based on primary data, the questionnaire was used to gather information from individual investors in Peshawar and Islamabad. The results showed that behavioral biases are used by investors in both Peshawar and Islamabad when making investment decisions. The decision-making of investors in Peshawar and Islamabad, and therefore their trading success, is positively and significantly impacted by overconfidence, anchoring bias, mental accounting, and herding.

Rasheed et al. (2021) aimed at investigating the influence of herding, overconfidence, anchoring, and loss aversion on the decision-making style of investors. Additionally, as the conventional paradigm of finance asserts that financial literacy is directly linked to the degree of irrational outcomes, it also examined the function of financial literacy. Data from investors trading in Lahore, Karachi, and Islamabad was collected in order to investigate this connection. The suggested relationships were established through the use of structural equation modeling, or SEM. The findings showed that investors' decision-making style is greatly impacted by behavioral biases. The moderation analysis's findings showed that financial knowledge is crucial for reducing bias in judgment.

Areiqat et al. (2019) investigated the impact of behavioral finance variables (overconfidence, loss aversion, risk perception, and herding) on stock investment decision-making at the Amman Stock Exchange (ASE), as well as which of these variables has the greatest relative importance. Since there aren't many local studies on behavioral finance, this study is significant, and the researchers hope it will raise awareness of the topic. The study comprised 165 individual investors who were engaged in the Amman Stock Exchange's trading rooms during the study period. Following acceptance of the validity and reliability of the questionnaire, data were gathered using a research-purposes questionnaire and analyzed using statistical

software (SPSS) and multiple regression and hierarchical regression analysis, among other statistical tests. Three behavioral factors overconfidence, loss aversion, and herding affect the investing decisions of individual investors, according to the research, which showed that behavioral finance had an effect on the Amman Stock Exchange. Additionally, the results showed that the variable with the largest relative importance was overconfidence. The results recommended that additional study be done to determine how behavioral finance influences various risks and returns at ASE and that investors trading at ASE base their stock investment selections on scientific principles.

Madaan and Singh (2019) investigated the effect of behavioral biases on investment decision-making on the National Stock Exchange. 243 investors' answers to a questionnaire are collected through survey replies. This study included both descriptive and inferential statistics. The four behavioral biases that were investigated in this study were overconfidence, anchoring, disposition effect, and herding behavior. The results showed a significant positive influence of herding bias and overconfidence on investing choices. All things considered, the results demonstrated that individual investors lack experience and are more prone to psychological errors. Individual investing decisions are influenced by these four behavioral biases, according to the study's findings.

Aziz and Khan (2016) investigated the behavioral elements that influence individual investor decision-making and performance on the Pakistan stock exchange. An individual investor's investment choice and performance may be influenced by behavioral traits such as overconfidence, representativeness, anchoring, mental accounting, loss aversion, and regret aversion. A research was done to establish which behavioral qualities have the most influence on the Pakistan stock exchange, as well as their impact on investors who trade in the Pakistan stock exchange. This study looked at the concepts of prospect theory and heuristic. Prospect theory includes loss aversion, regret aversion, and mental accounting, whereas heurist theory includes representativeness, overconfidence, anchoring, gambler fallacy, and availability bias.
Primary sources formed the basis of this investigation. 150 individual Pakistani stock market investors made up the sample data. According to preliminary results, prospects have minimal effect on investment success, however heuristics have a significant beneficial influence. The results were produced by regression analysis and subsequently examined with statistical SPSS. The results showed that the gambler's

fallacy, availability bias, anchoring, overconfidence, and representativeness all positively affect investment success.

Bakar and Yi (2016) analyzed on how psychological variables affected investors' choices in the Malaysian stock market to narrow the demographic and geographic divide between Malaysia and other countries. Two hundred investors between the ages of eighteen and sixty who were engaged in the Malaysian stock market in the areas of Klang Valley and Pahang were given questionnaires. According to the findings, herding behavior has no bearing on investor decision-making, but overconfidence, conservatism, and availability bias have a major impact. Additionally, psychological factors have been found to be gender-dependent.

Table 1

Summary of Empirical Review

Authors (Date)	Objectives	Methodologies	Findings
Gupta et al. (2025)	To explore a precise understanding of the way psychological factors influence investment decision making.	Exploratory Factor Analysis, Principal Component Analysis.	The choice to invest is heavily influenced by heuristics and biases, herd behavior, regret aversion, and risk perception.
Gurung et al. (2024)	To examine the influence of behavioral factors on investment decisions among Nepalese people.	Linear regression model	The study found that regret aversion, anchoring, and overconfidence biases significantly impacted investing choices. Investment

			decisions did not significantly correlate with herding tendency.
Subedi and Bhandari (2024)	To examine the effect of psychological factors on investment decisions within the Nepalese stock market, considering the mediating role of financial literacy.	Regression analysis.	Investment decisions are positively and significantly impacted by psychological variables.
Amgain (2024)	To provide broad overview of finance theories, introducing and focusing the significance of behavioral finance.	Systematic literature review approach.	Investment decisions are influenced by the psychological and behavioral biases of investors.
Shunmugasundaram and Sinha (2024)	To analyze the effect of behavioral variables on investment decisions through a serial mediation of overconfidence and disposition effects.	Correlation and Regression analysis.	Behavioral biases and investing decisions are serially mediated by disposition effects and overconfidence.
Kazmi (2024)	To investigate how behavioural variables affect investment decisions under conditions of uncertainty.	Regression analysis.	Behavioural biases significantly play the roe of making investment decisions.
Sharma and Prajapati (2024)	To investigate and outline various biases influencing investment decision-making.	Systematic review of literature.	The most commonly reported behavioral biases

			among investors are herd mentality and overconfidence.
Saleem et al. (2023)	To analyze the role of behavioural biases and financial literacy for investment decision.	Correlation and Regression.	Investment decisions are heavily influenced by variables including availability bias, regret and loss aversion, and anchoring; however, this effect is mitigated by financial knowledge.
Rehmat et al. (2023)	To analyze behavioral factors' role for retail investors' investment decisions.	Structural equation modeling.	Every independent variable had a substantial influence on investment decision-making, with the exception of loss aversion.
Krishnapriya (2023)	To assess the role of behavioral biases in investment decision-making.	Correlation and Regression analysis.	The respondents' behavioral biases herd bias, overconfidence, availability bias, mental accounting, and regret aversion have a substantial

			correlation with their investing decisions.
Patel (2023)	To identify the influences of psychological biases on their investment choices.	Comprehensive analysis of existing literature, data from surveys, and interviews with Indian investors,	Important conclusions emphasized how important cognitive biases including loss aversion, availability bias, and overconfidence are in influencing investing decisions.
Wali et al. (2022)	To investigate the role of behavioral biases that influence investment behavior.	Regression analysis.	The decision-making of investors in Peshawar and Islamabad, and therefore their trading success, is positively and significantly impacted by overconfidence, anchoring bias, mental accounting, and herding.
Rasheed et al. (2021)	To analyze the effect of herding, overconfidence, anchoring, and loss	Structural equation modeling (SEM)	Investors' decision-making style is greatly

	aversion on the decision-making of investors.		impacted by behavioral biases.
Areiqat et al. (2019)	To analyze the impact of behavioral finance variables (overconfidence, loss aversion, risk perception, and herding) on stock investment decision-making at the Amman Stock Exchange.	Multiple regression and Hierarchal regression analysis	Overconfidence, loss aversion, and herding are three behavioral characteristics that influence the investing decisions of individual investors.
Madaan and Singh (2019)	To investigate the effect of behavioral biases on investment decision-making.	Inferential statistics and descriptive statistics analysis.	Herd mentality and overconfidence significantly influence investing choices in a positive way.
Aziz and Khan (2016)	To know the behavioral elements that influence individual investor decision-making and performance on the Pakistan stock exchange.	Regression analysis	The gambler's fallacy, availability bias, anchoring, overconfidence, and representativeness all contribute to successful investment.
Bakar and Yi (2016)	To assess the impact of psychological factors on investors' decision-making in the Malaysian stock market	Correlation and Regression analysis.	While herding behavior has little impact on investor decision-making, overconfidence, conservatism, and

	availability bias have a big impact.

2.4 Research Gap

The study reviewed the studies of Rasheed et al. (2021), Patel (2023), Krishnapriya (2023), Rehmat et al. (2023), Amgain (2024), Subedi and Bhandari (2024) and Gurung et al. (2024) before carrying out the complete study. The study of Rasheed et al. (2021) considered herding, overconfidence, anchoring, and loss aversion biases, whereas studies of Patel (2023) and Gurung et al. (2024) capitalized overconfidence, availability bias, and loss aversion as the dimension of behavioural biases. Similarly, studies of Krishnapriya (2023) and Rehmat et al. (2023) put further variable mental accounting in addition to the variables herding, overconfidence, anchoring, and loss aversion biases. Addressing the considered variables in the previous studies, the first gap is that the study will consider the biases of herding, overconfidence, anchoring, loss aversion, availability and mental accounting into one room to predict the investment decision in Nepalese share market.

The second research gap is that the study will also examine the mediating role of saving behavior in the relationship between behavioural biases and investment decision in Nepalese share market, which has not been examined by the previous studies. The previous studies included the studies of Rasheed et al. (2021), Subedi and Bhandari (2024) and Rehmat et al. (2023) examined the mediating role of financial literacy in relationship between behavioural biases and investment decision in share market, but not the mediating role of saving behavior.

Chapter III
Research Methodology

3.1 Research Design

A design for research serves as a guide for carrying out a study with the greatest amount of control in order to get the information that is needed. According to Creswell (2014), there are three different kinds of study designs: mixed methods, quantitative, and qualitative. In order to investigate comparable phenomena in the Nepalese context that have previously been studied in other nations, the quantitative technique was used for this study. Researchers may use static data to develop powerful interpretations thanks to this strategy (Creswell, 2014). This research is classified as a comparative descriptive and causal study. Descriptive research is used to assess the behavioural biases, saving behavior and investment decision in Nepalese share market. In addition to descriptive research, a causal comparative research design is applied to analyze the causal effect relationship between behavioural biases and investment decision with moderating role of saving behavior in Nepalese share market.

3.2 Population and Sample

According to Malhotra and Peterson (2014), the target population is a group of people who have a certain set of traits that the researcher is looking for. The study's target population consists of Nepalese investors who have purchased and sold NEPSE shares. To gather responses to the research variables in the Kathmandu Valley, 408 respondents were chosen. Respondents are chosen using the convenience sample approach. The different brokerage firms are an example of a venue.

3.3 Nature and Sources of Data

Since the study is concerned with behavioural biases, saving behavior and investment decision, the data are primary nature and the data are collected from the Nepalese share market investors.

3.4 Data Collection Process

The approaches used to identify the variables being assessed and to gather relevant data are referred to as data collecting methods (Malhotra, 2013). Primary data is utilized in the study's execution. The research tool of choice for gathering primary data is the

questionnaire. To ensure content validity, the questionnaire is first created by going over the empirical research and consulting with the supervisor. The questionnaire's questions are divided into categories according to major factors and demographics. Demographic related questions are multi choice type, whereas variables related questions are Likert scale type with strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5) for each statements. The statements belonged to the variables anchoring bias, herding bias, overconfidence, loss aversion, availability bias, mental accounting, saving behavior and investment decision have been sourced from the studies of Waweru et al. (2008), Pompian (2006), Ahmed et al. (2022) and Xiao and Fan (2002).

Data is subsequently obtained by sending out questionnaires via Google Form and paper form to those who have actively participated in the Nepalese share market. Visits to different brokerage businesses in the Kathmandu Valley are used to get responses.

3.5 Conceptual Framework

An integrated conceptual framework that may be utilized to accomplish the goal of this study is depicted in Figure 1, which is based on the examination of the results of the major empirical investigations.

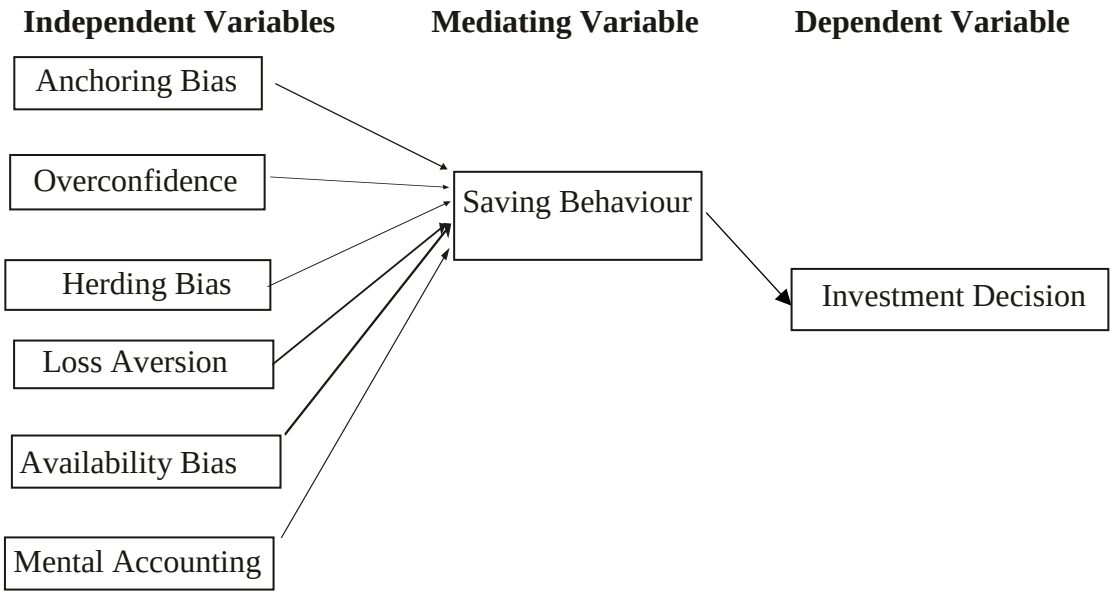

Figure 1: Conceptual Framework

Source: Rasheed et al. (2021), Patel (2023), Krishnapriya (2023), and Rehmat et al. (2023)

3.6 Definition of Variables

Investment Decision

In the share market, an investment decision is the act of deciding if, when, and where to spend money on buying stocks or shares of firms that are publicly traded (Rasheed et al., 2021). In order to make this choice, a number of criteria must be examined, including the financial performance of the firm, market circumstances, industry trends, and the investor's own financial objectives and risk tolerance (Amgain, 2024). Either capital gains (an increase in the stock price) or dividends (a part of the company's earnings given to shareholders) are the two ways that investors hope to recoup their investment. Because the share market may be unpredictable and impacted by global, political, and economic events, making wise investment selections sometimes involves seeking advice from financial specialists as well as conducting thorough research and strategic planning. The ultimate objective of every share market investing choice is to optimize profits while skillfully controlling dangers (Krishnapriya, 2023).

Anchoring Bias

The term "anchoring bias" describes the propensity of investors to base their financial decisions unduly on an initial piece of information, or the "anchor" (Krishnapriya, 2023). For instance, even if the present state of the market or the company's fundamentals do not support such expectations, an investor may become fixated on a stock's previous high price and use it as a benchmark, anticipating the stock to return to that level (Amgain, 2024). This bias can result in bad financial decisions, such overpaying for a stock based on out-of-date or irrelevant information or clinging onto a failing company in the hopes that it would rise to its former high. Anchoring can skew logical reasoning and discourage investors from assessing fresh information impartially, which raises the possibility of losses (Rasheed et al., 2021). Making better and more informed investing decisions requires an awareness of and ability to control this cognitive bias.

Overconfidence

An investor's propensity to overestimate their knowledge, abilities, or capacity to forecast market movements is known as overconfidence bias in investing decisions (Rasheed et al., 2021). Investors may take excessive risks, trade too frequently, or disregard crucial information and cautions as a result of this psychological bias, which

might make them think their assessments are more accurate than they actually are. An overconfident investor, for instance, can believe they can regularly beat the market or choose profitable stocks without doing enough study or diversifying their holdings (Subedi & Bhandari, 2024). Because it lessens the impartiality and discipline required for wise decision-making, this conduct frequently leads to worse than ideal investing outcomes (Amgain, 2024). Investors that are overconfident may also be less open to suggestions or fresh data that challenges their preconceptions. Maintaining a balanced investing plan and avoiding costly share market errors need an awareness of this tendency (Rehmat et al., 2023).

Herding

The propensity of investors to follow the majority or a bigger group's activities without doing their own research or evaluating whether such actions are in line with their own financial objectives is known as herding bias in investment decisions (Subedi & Bhandari, 2024). Fear of missing out or the conviction that the majority must be correct are the main causes of this prejudice. For instance, when the stock market is booming, a lot of investors could rush to purchase well-liked stocks only because other people are doing the same, even if the stocks are overpriced. In a similar vein, investors may liquidate their assets during panic attacks just because other investors are doing so, which might result in losses (Rasheed et al., 2021). Because herding tendency magnifies market movements based on emotion rather than logic or facts, it can result in asset bubbles or abrupt market collapses. Understanding herding tendency enables investors to make more autonomous and knowledgeable choices based on their risk tolerance and research rather than the actions of the masses (Krishnapriya, 2023).

Loss Aversion

The propensity of investors to significantly favor avoiding losses over achieving comparable returns is known as loss aversion bias in investing decisions. Due to this psychological bias, people experience more pain when they lose money than when they win the same amount (Rehmat et al., 2023). Instead of reducing their losses and redistributing their assets more sensibly, investors may act irrationally by holding onto lost equities for an extended period of time in the hopes that they would rise. Additionally, they could pass up potentially lucrative chances out of a simple fear of losing, even if the risks are manageable. This prejudice may result in lost opportunities

for development or unduly cautious investing tactics (Amgain, 2024). Making logical investing decisions based on long-term objectives and objective analysis, rather than emotional responses to transient market volatility, requires an understanding of and ability to manage loss aversion (Rasheed et al., 2021).

Availability Bias

The tendencies of investors to base their decisions on information that is most current, readily remembered, or emotionally compelling rather than on a thorough examination of all pertinent facts is known as availability bias (Rehmat et al., 2023). Because individuals often overestimate the significance or probability of events that immediately spring to mind like recent market news, well-liked equities, or eye-catching financial headlines this bias arises. An investor could, for example, overinvest in a company that has just made headlines for its impressive performance, expecting it will keep rising, while disregarding long-term patterns or basic research (Rasheed et al., 2021). An uneven portfolio, rash judgments, and poor risk assessment can result from availability bias. Investors must be aware of this tendency in order to make sure that their choices are supported by thorough investigation and a comprehensive grasp of the financial environment, not simply the most obvious or memorable facts.

Mental Accounting

It's common for people to regard money differently based on its source, purpose, or the mental "account" to which it is assigned, rather than seeing all monies as part of a single overall financial picture, is known as mental accounting bias in investment decisions (Krishnapriya, 2023). For instance, an investor may be extremely cautious with their normal income or savings while treating a tax return or lottery wins as "extra" money and taking greater risks with it. This might result in illogical investment behavior, such as using one chunk of money to make aggressive investments and another to make conservative ones, even if both have the same financial objective. Poor asset allocation and lost chances to maximize returns might arise from mental accounting. In order to overcome this prejudice, one must consider all available resources in a comprehensive manner and base investment choices not on subjective or artificial differences between different forms of money but rather on overall financial objectives, risk tolerance, and prudent financial planning (Rehmat et al., 2023).

Saving Behaviour

The financial practices and choices people or households make to set aside a portion of their income with the goal of investing in equities securities are referred to as saving behavior for stock market investments (Lusardi & Mitchell, 2014). Cultural norms, risk tolerance, financial knowledge, economic level, and access to financial markets are some of the variables that affect this behavior. In addition to reflecting a preference for future financial stability, people's decision to save rather than spend their whole income and invest it in stocks also promotes capital formation and economic growth. Promoting saving habits for stock market investments can be extremely important in developing nations in order to mobilize domestic resources for sustained growth. Lusardi and Mitchell (2014) assert that financial literacy plays a crucial role in influencing decisions about investing and saving, since knowledgeable people are more inclined to engage in financial markets and make future plans. Therefore, encouraging prudent saving practices is crucial to increasing financial inclusion and stock market participation.

3.7 Method of Data Analysis

Statistical methods have been used to do the quantitative analysis. The research first provided an examination of the respondents' demographic characteristics. The data is analyzed using regression analysis, correlation, and descriptive statistics. SPSS is used to create the statistics output.

Demographic Profile Analysis

The analysis and display of the traits of those who took part in a survey or research is known as the demographic profile of respondents. Features including age, gender, education, employment, income, marital status, and geography are frequently included in this research. The study analyzed the participant demographic profile data using frequency and percentage.

Analysis of Descriptive Statistics

The process of properly arranging and summarizing data in order to comprehend its key characteristics can be referred to as descriptive statistics analysis. It entails describing the fundamental properties of a dataset using statistical metrics including mean, median, mode, standard deviation, variance, frequency, and percentage. The study used the

mean and standard deviation to analyze the descriptive nature of the variables behavioural biases, saving behavior and investment decision.

Correlation Analysis

A statistical technique for determining the direction and degree of a link between two or more variables is correlation analysis. It assists in ascertaining if a rise or fall in one variable is correlated with a rise or fall in another. The study used the correlation coefficient to analyze the relationship between behavioural biases, saving behavior and investment decision.

Regression Analysis

Making predictions, seeing sequences, and figuring out the kind and strength of correlations between variables are all made easier with regression analysis. Additionally, it enables the study to account for the influence of confounding variables and evaluate the effects of several factors at once. The study performed the regression analyze to analyze the effect of behavioural biases on investment decision with mediating role of saving behavior.

Regression Model:

The following multiple regression model is used to ascertain the impact of behavioural biases such as anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour on investment decision.

$$ID = \alpha + \beta_1 AB + \beta_2 OC + \beta_3 HB + \beta_4 LA + \beta_5 AVB + \beta_6 MA + \beta_7 SB + e \quad \text{……..(i)}$$

Similarly, to examine the impact of mediating variable saving variable on investment decision, following regression model is expressed.

$$ID = \alpha + \beta_1 SV + e \quad \text{……..(ii)}$$

Where,

ID = Investment decision

AB = Anchoring bias

OC = Overconfidence

HB = Herding bias

LA = Loss aversion

AVB = Availability bias

MA = Mental accounting

SV = Saving behaviour

α= Constant

βi = Regression coefficients

e= Error terms

3.8 Reliability Test

Reliability test is performed for the items included in the variables of the study before analyzing the descriptive statistics, correlation statistics and regression statistics.

Table 2

Reliability Analysis

Variables	No. of Items	Cronbach Alpha
Anchoring bias	5	0.894
Overconfidence	5	0.846
Herding bias	5	0.825
Loss aversion	5	0.763
Availability bias	5	0.752
Mental accounting	5	0.859
Saving behaviour	5	0.877
Investment decision	5	0.935

Source: Field Survey, 2025

As illustrated in Table 2, the Cronbach's alpha values for the research variables—namely Anchoring Bias, Overconfidence, Herding Bias, Loss Aversion, Availability Bias, Mental Accounting, Saving Behavior, and Investment Decision—were recorded as 0.894, 0.846, 0.825, 0.763, 0.752, 0.859, 0.877, and 0.935 respectively. These values indicate a high level of internal consistency among the items used to measure each construct. According to widely accepted statistical standards, a Cronbach's alpha value of 0.70 or above is considered indicative of acceptable reliability (Nunnally &

Bernstein, 1994). In this study, all the variables exceed this minimum threshold, signifying that the survey items consistently reflect the underlying theoretical constructs they are intended to measure.

The highest reliability was observed for the variable Investment Decision ($\alpha = 0.935$), suggesting a very strong internal consistency among the items measuring investors' decision-making behavior. Similarly, variables such as Anchoring Bias ($\alpha = 0.894$), Mental Accounting ($\alpha = 0.859$), and Saving Behavior ($\alpha = 0.877$) also demonstrated high reliability, underscoring the robustness of the measurement instruments in capturing behavioral and financial traits. The remaining variables—Overconfidence, Herding Bias, Loss Aversion, and Availability Bias—also showed satisfactory reliability, with alpha values ranging between 0.752 and 0.846.

In summary, the reliability of the questionnaire utilized in this study is strongly supported by the consistently high Cronbach's alpha values across every factor. This dependability guarantees that the data that was gathered is appropriate for additional statistical analysis, including regression, correlation, and structural equation modeling, in addition to being consistent. As a result, the results obtained from these assessments may be interpreted with assurance considering their measurement accuracy and internal validity.

Chapter IV

Results and Discussion

This chapter outlines the analysis of demographic profile of respondents, descriptive analysis, correlation analysis, regression analysis and discussion.

4.1 Analysis of Demographic Profile of Respondents

This section includes the analysis of demographic profile of respondents using frequencies and percentages.

Table 3

Respondents' Profile

Demography		Frequency	Percentage
Gender	Male	285	69.9
	Female	123	30.1
Age (in years)	Less than 25	85	20.8
	25-40	163	40.0
	41-55	142	34.8
	Above 55	18	4.4
Education	SLC or SEE	34	8.3
	High School	102	25.0
	Bachelor	132	32.4
	Master or Above	140	34.3
Marital status	Single	119	29.2
	Married	289	70.8
Occupation	Student	80	19.6
	Government Employee	21	5.1
	Private Employee	163	40.0
	Self-Employee	105	25.7
	Professional Worker	39	9.6
Monthly income	Less than Rs. 25000	80	19.6
	Rs. 25001-Rs. 50000	226	55.4
	Rs. 50001 – Rs. 100000	62	15.2
	Rs. 100001 –Rs. 200000	20	4.9
	Above Rs. 200000	20	4.9

Source: Field Survey, 2025

Table 3 presents the demographic profile of the participants involved in the study, detailing their distribution based on age, gender, education, occupation, marital status, and monthly income. The statistics are presented in terms of frequencies and corresponding percentages, providing a comprehensive overview of the sample characteristics.

According to the data, the majority of the respondents were male, accounting for 69.9% of the total sample, while female participants made up 30.1%. This suggests a noticeable gender gap, with male respondents showing a relatively higher level of engagement or availability for the study compared to their female counterparts. In terms of age distribution, participants were categorized into three major age groups. The largest segment of respondents, representing 40%, fell within the 25 to 40-year age bracket, highlighting the dominance of young adults in the study. This group is often characterized by increasing financial awareness and active economic participation. The second-largest group, comprising 34.8% of respondents, was in the 41 to 55-year range, indicating the inclusion of individuals likely to be in more financially stable and career-established phases of life. Meanwhile, 20.8% of the participants were below the age of 25, reflecting the presence of younger, possibly newer entrants into the financial or investment landscape. There is least percentage of the respondents with the age of above 55 years i.e. 4.4%.

The data concerning educational qualifications revealed that respondents had varying levels of education. Specifically, 8.3% had completed SLC or SEE, 25% had finished high school, 32.4% held a bachelor's degree, and 34.3% had obtained a master’s degree or higher. This distribution illustrates that a significant proportion of the respondents were well-educated, with more than two-thirds having attained at least a bachelor’s degree. Such educational attainment is likely to influence their financial literacy and investment behavior. Regarding marital status, 70.8% of the participants were married, while the remaining 29.2% were single. This demographic detail helps in understanding the life stage and possible financial responsibilities of the respondents, as marital status can affect financial decisions and risk tolerance. In terms of occupational background, the respondents represented a diverse set of employment categories. Students comprised 19.6% of the sample, suggesting a considerable interest in financial matters among the younger, possibly more tech-savvy generation. Government employees

accounted for 5.1%, while private-sector employees formed the largest group at 40%, indicating strong representation from the corporate or organizational sector. Self-employed individuals made up 25.7%, highlighting entrepreneurial engagement among the sample population. Additionally, professional workers, such as doctors, engineers, and lawyers, constituted 9.6%, reflecting the inclusion of high-skilled professionals in the study.

Similarly, the data on monthly income showed a broad range of earnings among the participants. Approximately 19.6% of respondents earned less than Rs. 25,000 per month, while the largest income group, comprising 55.4%, reported earnings between Rs. 25,001 and Rs. 50,000. This indicates a concentration of middle-income individuals in the sample. Another 15.2% of participants earned between Rs. 50,001 and Rs. 100,000, suggesting a relatively smaller group of higher earners. The remaining respondents were evenly split, with 4.9% each earning between Rs. 100,001 and Rs. 200,000 and more than Rs. 200,000 per month, indicating a limited but present representation of the upper-income bracket.

Overall, the demographic profile indicates a study sample composed predominantly of young to middle-aged, educated, working individuals, with a balanced distribution across different income levels and occupational categories. These characteristics provide valuable context for interpreting the study's findings related to financial behavior, market participation, or investment preferences.

4.2 Analysis of Descriptive Statistics

This section presents the analysis of descriptive statistics that have been computed for the responses provided by 284 male and 124 female respondents towards the constructs of the variables under the study.

Table 4

Descriptive Statistics

Variables	Mean	Standard Deviation	Std. Error of Mean
Anchoring bias	4.46	.439	.026
	4.49	.832	.075
Overconfidence	4.46	.300	.018
	3.87	.763	.069
Herding Bias	4.34	.340	.020
	4.34	.681	.061
Loss Aversion	4.23	.239	.014
	4.16	.607	.055
Availability Bias	4.40	.206	.012
	4.40	.636	.057
Mental Accounting	4.66	.332	.020
	4.59	.707	.063
Saving Behaviour	4.42	.458	.027
	4.46	.676	.061
Investment Decision	4.63	.373	.022
	4.49	.862	.077

Source: Field Survey, 2025

As presented in Table 4, the descriptive statistics for the anchoring bias indicate that the mean value of responses from the male group was 4.46, while the female group reported a slightly higher mean of 4.49. The corresponding standard deviations were 0.439 for males and 0.832 for females. Additionally, the standard error of the mean were 0.026 and 0.075 respectively. These results suggest that both male and female respondents had a generally favorable perception towards the anchoring bias, as reflected by mean values exceeding 3.00, that means level of agree lies between agree and strongly agree. The higher mean value and standard deviation among female respondents indicate a stronger and less consistent level of agreement with anchoring bias statements compared to male respondents. The standard error values suggest that

the sample means are expected to deviate from the true population means by 0.026 for male and 0.075 for female.

For the second variable, overconfidence, the male group reported a mean score of 4.46, while the female group reported a slightly lower mean of 3.87. Both values surpass the benchmark of 3.00, that means level of agree lies between agree and strongly agree indicating that respondents generally agreed that their overconfidence motivates them to invest in stock market. The difference in mean values 0.59 higher for males shows slightly stronger agreement among male participants. The standard deviation values were 0.300 for males and 0.763 for females, suggesting that male responses were more consistent. The standard error of the mean was calculated as 0.018 for the male group and 0.069 for the female group, indicating the expected deviation of the sample mean from the true population mean.

Regarding the third variable, herding bias, both the male and female group had an equal mean response of 4.34, that means level of agree lies between agree and strongly agree. The corresponding standard deviations were 0.340 and 0.681 respectively. These results show that both groups generally agreed that herding bias that they have followed in share market, with males expressing slightly higher and more consistent levels of agreement. The standard errors of the mean were 0.020 for males and 0.061 for females, indicating small expected deviations from the population mean.

For the variable of loss aversion, the mean values for male and female groups were 4.23 and 4.16 respectively, that means level of agree lies between agree and strongly agree. The standard deviations were relatively low, at 0.239 for males and 0.607 for females, with corresponding standard errors of 0.014 and 0.055. The high mean values i.e. above 4.00 suggest that respondents perceive that they feel the pain of a financial loss more strongly than the pleasure of a similar financial gain. Furthermore, male respondents demonstrated slightly higher agreement and greater consistency in their responses, as reflected by the higher mean and lower standard deviation.

In terms of availability bias, both male and female respondents reported a mean of 4.40, that means level of agree lies between agree and strongly agree with standard deviations of 0.206 and 0.636 respectively. These values indicate that both groups recognized tend

to make investment decisions based on recent news or events. Again, male participants showed slightly stronger agreement and more consistent responses. The standard error of the mean was 0.012 for the male group and 0.057 for the female group, indicating minimal deviation from the population mean.

Similarly, descriptive statistics of mental accounting present that the average value of the responses towards the statement of mental accounting from the perspective of male and female are 4.66 and 4.59 and such responses have been deviated by 0.332 and 0.707 respectively. The results reveal that both male and female participants have been positively agreed that they set different budgets for different types of investments and treat money earned from dividends or bonuses differently from my regular income when investing. The standard error of mean are 0.020 from male and 0.063 from female participants.

Regarding saving behavior, male respondents reported a mean of 4.42 and female respondents reported a mean of 4.46, that means level of agree lies between agree and strongly agree with standard deviations of 0.458 and 0.676 respectively. These values indicate that both groups recognized as they regularly set aside a portion of my income for future investment or savings and they have a clear savings plan to meet my long-term financial objectives. Again, female participants showed slightly stronger agreement and less consistent responses. The standard error of the mean was 0.027 for the male group and 0.061 for the female group, indicating minimal deviation from the population mean.

Lastly, the responses related to the overall construct of investment decision in share market revealed very high mean values 4.63 for males and 4.49 for females that means level of agree lies between agree and strongly agree. These results reflect a strong sense of carefully analyzing all available information before making any investment decision and their investment decisions are influenced more by my personal judgment than by market experts. The standard deviations were 0.373 for males and 0.862 for females, suggesting slightly less consistent responses among female participants. The standard errors of the mean were 0.022 for males and 0.077 for females, indicating that the sample means closely approximate the population means.

The descriptive statistics across all variables reveal that both male and female respondents generally exhibited a high level of agreement with behavioral finance constructs influencing investment decisions, with mean values consistently exceeding 4.00. While male participants tended to show slightly higher consistency in their responses, as reflected by lower standard deviations and standard errors, female respondents often reported comparable or even higher mean values in several dimensions. This suggests that both genders are similarly affected by biases such as anchoring, overconfidence, herding, loss aversion, availability, mental accounting, and saving behavior when making investment decisions in the stock market, though with slight variations in intensity and consistency.

4.3 Correlation Coefficient Results

This section includes the analysis of the results of the relationship between the variables.

Table 5

Correlation Coefficients

Variables	1	2	3	4	5	6	7	8
AB1	1							
OC2	.405**	1						
HB3	.475**	.358**	1					
LA4	.379**	.320**	.620**	1				
AVB5	.584**	.289**	.691**	.873**	1			
MA6	.845**	.489**	.651**	.576**	.753**	1		
SB7	.710**	.295**	.624**	.505**	.704**	.841**	1	
ID8	.801**	.577**	.570**	.526**	.669**	.801**	.826**	1

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

Note: The abbreviations presented in Table 5, AB1, OC2, HB3, LA4, AVB5, MA6, SB7 and ID8 represents anchoring bias, overconfidence, herding bias, loss aversion, availability bias, and mental accounting, saving behavior and investment decision respectively.

The correlation coefficient results presented in the last row of Table 5 indicate that investment decision (ID) exhibits significant positive relationships with all independent variables, including anchoring bias (r = 0.801), overconfidence (r = 0.577), herding bias (r = 0.570), loss aversion (r = 0.526), availability bias (r = 0.669), mental accounting r = 0.801) and saving behaviour (r = 0.826). These results reveal that investment decision in share market is positive and significantly associated with all behavioural bias and saving behavior. However, overconfidence, herding bias, loss aversion, and availability bias have moderate positive relation, whereas anchoring bias, mental accounting, and saving behavior are highly positively associated with investment decision.

Similarly, the mediating variable saving behavior (SB) has the positive and significant relationship with all independent variables, including anchoring bias (r = 0.710), overconfidence (r = 0.295), herding bias (r = 0.624), loss aversion (r = 0.505), availability bias (r = 0.704), mental accounting r = 0.841). These results reveal that the saving behaviour is positive and significantly associated with all behavioural bias. However, overconfidence has low positive correlation, and herding bias and loss aversion have moderate positive relation, whereas anchoring bias, availability bias and mental accounting are highly positively associated with investment decision.

The correlation analysis highlights that both investment decision and saving behavior are significantly influenced by various behavioral biases. Investment decisions show strong positive associations with anchoring bias, mental accounting, and saving behavior, suggesting that these factors play a critical role in shaping how individuals approach investments. Meanwhile, moderate relationships with overconfidence, herding bias, loss aversion, and availability bias further emphasize the multifaceted nature of investor behavior. Similarly, saving behavior is significantly correlated with all behavioral biases, with the strongest links observed with mental accounting, anchoring bias, and availability bias. These findings underscore the importance of psychological and behavioral factors in financial decision-making, indicating that enhancing financial awareness around these biases could lead to more rational investment and saving practices.

4.4 Goodness of Fit of Regression Model

Before analyzing the regression result, it is essential to check at first the fitness of the regression model. In this section, the results of model summary and ANOVA are presented.

Table 6

Model Summary and ANOVA

R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
.937	.877	.875	.202	407.760	.000

In Table 6, the multiple correlation coefficient is calculated to be 0.937, which indicates a strong relationship between the behavioural bias (anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour) and the dependent variable, investment decision. This high value suggests that the relationship is highly explainable, demonstrating a good level of predictive power. In other words, the Pearson correlation between the behavioural bias included in the regression model and investment decision is highly predictable.

The coefficient of multiple determination (R-square) is found to be 0.877, meaning that 87.70% of the total variation in investment decision can be explained by the variation in the independent variables: anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour. The remaining 12.30% of the variation is unexplained by these variables, implying that there are other variables outside the scope of the regression model that contribute to this variation. The regression model is resulted powerful and satisfactory because more than 70% of the variation in investment decision is accounted for by the selected predictors.

The Adjusted R-square value of 0.875 indicates that when additional predictors are included in the regression model, 87.50% of the variation in investment decision will be explained. It means the addition of more predictors would not significantly improve the explanatory power of the model, confirming its effectiveness. The standard error of estimate is computed to be 0.202, meaning that the estimated value of investment

decision, as predicted by the independent variables, may vary by approximately 0.202 units from the actual observed values.

To assess the overall fit of the regression model, the study employs a one-way ANOVA test. The F-ratio's p-value (Sig.) is 0.000, which is less than 0.05 at the 95% confidence level, indicating that the regression model is statistically significant. This result confirms that the six independent variables and one mediating variable anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour collectively and statistically significantly predict the dependent variable, investment decision.

4.5 Regression Results

In this part of the study, regression analysis is performed to examine the impact of various predictors on investment decision. The predictors, included in the regression model are anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour.

Table 7

Regression Analysis

Model	Unstandardized Beta	Standard Error	Standardized Beta	t	Sig.
(Constant)	.758	.123		6.142	.000
Anchoring bias	.476	.033	.489	14.274	.000
Overconfidence	.366	.022	.358	16.453	.000
Herding bias	-.039	.032	-.032	-1.218	.224
Loss aversion	.109	.059	.075	1.851	.065
Availability bias	.163	.074	.111	2.198	.029
Mental accounting	-.517	.061	-.433	-8.456	.000
Saving behaviour	.686	.037	.641	18.424	.000

Dependent Variable: Investment Decision

Table 7 presents the regression results for investment decision in Nepalese stock market**,** which has been regressed on the anchoring bias, overconfidence, herding bias,

loss aversion, availability bias, mental accounting and saving behaviour. The results of regression statistics includes unstandardized beta coefficients, standard errors, standardized beta coefficients, t-statistics, and significance values, all of which help in understanding the relationship between each predictor and the dependent variable, investment decision.

The regression model suggests that, if all selected variables (anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour) are held at zero, the investment decision is estimated to be 0.758. The beta coefficient for anchoring bias is 0.476, which is statistically significant at the 5% significance level (p = 0.000). This means that for every 1% increase in anchoring bias, investment decision is expected to increase by 0.476%. The standard error for this estimate is 0.033, indicating that the actual coefficient may vary by this amount. The beta coefficient for overconfidence is 0.366, which is statistically significant at the 5% significance level (p = 0.000). This means that for every 1% increase in overconfidence, investment decision is expected to increase by 0.366%. The standard error for this estimate is 0.022, indicating that the actual coefficient may vary by this amount. The beta coefficient for herding bias is -0.039, which is statistically insignificant at the 5% significance level (p = 0.224). This means that for every 1% increase in herding bias, investment decision is expected to decrease by 0.039%. The standard error for this estimate is 0.032, indicating that the actual coefficient may vary by this amount. The beta coefficient for loss aversion is 0.109, which is statistically insignificant at the 5% significance level (p = 0.065). This means that for every 1% increase in loss aversion, investment decision is expected to increase by 0.109%. The standard error for this estimate is 0.059, indicating that the actual coefficient may vary by this amount. The beta coefficient for availability bias is 0.163, which is statistically significant at the 5% significance level (p = 0.029). This means that for every 1% increase in availability bias, investment decision is expected to increase by 0.163%. The standard error for this estimate is 0.074, indicating that the actual coefficient may vary by this amount. The beta coefficient for mental accounting is -0.517, which is statistically significant at the 5% significance level (p = 0.000). This means that for every 1% increase in mental accounting, investment decision is expected to decrease by 0.517%. The standard error for this estimate is 0.061, indicating that the actual coefficient may vary by this amount. The beta coefficient for saving behaviour is 0.686, which is statistically significant at

the 5% significance level (p = 0.000). This means that for every 1% increase in saving behaviour**,** investment decision is expected to increase by 0.686%**.** The standard error for this estimate is 0.037, indicating that the actual coefficient may vary by this amount.

As of results presented in Table 8, the regression model on equation first can be estimated as follow:

$ID = \alpha + \beta_1 AB + \beta_2 OC + \beta_3 HB + \beta_4 LA + \beta_5 AVB + \beta_6 MA + \beta_7 SB + e$ ……..(i)

$ID = 0.758 + 0.476 AB + 0.366 OC - 0.039 HB + 0.109 LA + 0.163 AVB - 0.517 MA + 0.686 SB + e$

Furthermore, regarding the degree of effect on the investment decision, saving behavior has the greatest effect because of the highest standardized beta of 0.641 and followed by anchoring bias with standardized beta of 0.489, whereas the least affecting variable is the herding bias standardized beta of -0.032.

The regression analysis highlights that saving behavior and anchoring bias are the most influential factors positively impacting investment decisions, while mental accounting has a significant negative effect. Overconfidence and availability bias also show significant positive influences, albeit to a lesser extent. In contrast, herding bias and loss aversion do not significantly affect investment decisions in this model. These findings suggest that individual psychological traits and behavioral patterns play a critical role in shaping investment decisions, with some biases enhancing and others hindering rational financial behavior.

4.6 Mediation Analysis

This section deals with the analysis of mediation effect of saving behavior between the behavioural bias and investment decision.

Table 8

Mediation Analysis

Relationship	Total effect	Direct effect	Indirect effect	Confidence Interval		t	Conclusion
				LL	UL		
AB>SB>ID	0.780 (0.000)	0.421 (0.000)	0.358	0.723	0.837	26.994	Partial mediation
OC>SB>ID	0.590 (0.000)	0.374 (0.000)	0.216	0.509	0.671	14.250	Partial mediation
HB>SB>ID	0.692 (0.000)	0.108 (0.012)	0.583	0.594	0.789	13.966	Partial mediation
LA>SB>ID	0.768 (0.000)	0.214 (0.000)	0.554	0.647	0.890	12.463	Partial mediation
AVB>SB>ID	0.979 (0.000)	0.253 (0.000)	0.726	0.873	1.085	18.131	Partial mediation
MA>SB>ID	0.955 (0.000)	0.431 (0.000)	0.523	0.885	1.024	26.916	Partial mediation

Table 8 presents the statistics results of mediating effect of saving behavior between the behavioural bias (anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting) and the investment decision in share market. The statistics include coefficients of total effect, direct effect, indirect effect, confidence interval and t-statistics. The mediation results in Table 8 confirm the significant mediating role of saving behavior (SB) in the relationship between behavior biases and investment decision in share market (ID). Each behavioral bias (bias (anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting) shows a significant total effect on investment decision, and the indirect effects mediated through saving behaviour are statistically robust, with confidence intervals that exclude zero, confirming partial mediation.

For example, anchoring bias (AB) shows a significant total effect of 0.780 ($p<0.05$), with a direct effect of 0.421 ($p<0.05$), and indirect effect of 0.358, mediated by saving behavior (SB). Similarly, overconfidence (OC) shows a total effect of 0.590 ($p<0.05$),

with a direct effect of 0.374 ($p<0.05$), and indirect effect of 0.216, mediated by saving behavior (SB). Both results underscore that while these biases directly influence ID, the majority of their impact is transmitted through saving behaviour.

These findings highlight the crucial role of saving behavior as a psychological link that converts cognitive and emotional biases into tangible investment actions. The results support the notion that although biases directly impact investment decisions, their influence is notably intensified or mediated through an individual's saving habits. This deeper understanding of how biases, saving behavior, and investment choices are interconnected offers important insights into behavioral finance, especially within the context of emerging markets such as Nepal.

4.7 Hypotheses Test Results

The study developed the hypotheses for the study of the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market. The results of the hypotheses test results are presented and analyzed in this section.

Table 9

Hypotheses Test Results

Hypotheses	Relationship	Coefficients	P-value	Decision
H_1	AB>ID	0.476	0.000	Supported
H_2	OC>ID	0.366	0.000	Supported
H_3	HB>ID	-0.039	0.224	Rejected
H_4	LA>ID	0.109	0.065	Rejected
H_5	AVB>ID	0.163	0.029	Supported
H_6	MA>ID	-0.517	0.000	Supported
H_7	SB>ID	0.686	0.000	Supported
H_8	Behavioural Bias>SB>ID		0.000	Supported

Table 9 presents the hypotheses test results which includes the coefficients, p-value and the decision.

H_1: Anchoring bias has significant effect on investment decision in share market.
The coefficients and p-value for the effect of anchoring bias on investment decision are found to be 0.476 and 0.000 respectively and this results reveal that anchoring bias has positive effect on investment decision and significant as well at 95% confidence level. Therefore, hypothesis of anchoring bias has significant effect on investment decision in share market is supported.

H_2: Overconfidence has significant effect on investment decision in share market.
The coefficients and p-value for the effect of overconfidence on investment decision are found to be 0.366 and 0.000 respectively and this results reveal that overconfidence has positive effect on investment decision and significant as well at 95% confidence level. Therefore, hypothesis of overconfidence has significant effect on investment decision in share market is supported.

H_3: Herding bias has significant effect on investment decision in share market.
The coefficients and p-value for the effect of herding bias on investment decision are found to be -0.039 and 0.224 respectively and this results reveal that herding bias has negative effect on investment decision but insignificant at 95% confidence level. Therefore, hypothesis of herding bias has significant effect on investment decision in share market is rejected.

H_4: Loss aversion has significant effect on investment decision in share market.
The coefficients and p-value for the effect of loss aversion on investment decision are found to be 0.109 and 0.065 respectively and this results reveal that loss aversion has positive effect on investment decision, but insignificant at 95% confidence level. Therefore, hypothesis of loss aversion has significant effect on investment decision in share market is rejected.

H_5: Availability bias has significant effect on investment decision in share market.
The coefficients and p-value for the effect of availability bias on investment decision are found to be 0.163 and 0.029 respectively and this results reveal that availability bias has positive effect on investment decision and significant as well at 95% confidence level. Therefore, hypothesis of availability bias has significant effect on investment decision in share market is supported.

H_6: Mental Accounting has significant effect on investment decision in share market.

The coefficients and p-value for the effect of mental accounting on investment decision are found to be -0.517 and 0.000 respectively and this results reveal that mental accounting has negative effect on investment decision and significant as well at 95% confidence level. Therefore, hypothesis of mental accounting has significant effect on investment decision in share market is supported.

H_7: Saving behaviour mediates the relationship between anchoring bias, overconfidence, herding bias, loss aversion, availability bias, and mental accounting and investment decision in share market.

From the results of mediation effect statistics results of saving behaviour, the study found that p-value of total effect and direct effect as less than 0.05 and with confidence intervals that exclude zero for all behavioural bias, confirming partial mediation. Both results underscore that while these biases directly influence investment decision, the majority of their impact is transmitted through saving behaviour. Therefore, the hypothesis of saving behaviour mediates the relationship between anchoring bias, overconfidence, herding bias, loss aversion, availability bias, and mental accounting and investment decision in share market is supported.

In conclusion, the results provides strong empirical evidence supporting the significant influence of specific behavioral biases namely anchoring bias, overconfidence, availability bias, and mental accounting on investment decisions in the share market. While herding bias and loss aversion did not show statistically significant effects, the presence of a partial mediating role of saving behavior reveals the complex psychological mechanisms that underlie investor actions. These findings highlight the necessity of considering both direct and indirect behavioral influences when analyzing investment behavior, offering valuable insights for investors, financial advisors, and policymakers aiming to enhance decision-making processes in the context of emerging markets.

4.8 Discussion

The present study has aimed to examine the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market. To fulfill the aim, the study employed descriptive statistics, correlation

statistics and regression statistics tools as the method of data analysis. Behavioural biases include the variables of anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behavior is considered to be mediating variable. The variables are sourced from the studies of Rasheed et al. (2021), Patel (2023), Krishnapriya (2023), and Rehmat et al. (2023). The results of the study showed that saving behavior and anchoring bias are the most influential factors positively impacting investment decisions, while mental accounting has a significant negative effect. Overconfidence and availability bias also show significant positive influences, albeit to a lesser extent. In contrast, herding bias and loss aversion do not significantly affect investment decisions in this model. Furthermore, the mediation results confirm the significant mediating role of saving behavior (SB) in the relationship between behavior biases and investment decision in share market (ID).

The findings of this study are partially consistent with those of previous researchers, including Krishnapriya (2023), Gurung et al. (2024), Subedi and Bhandari (2024), Amgain (2024), Rasheed et al. (2021), and Patel (2023), who have examined the influence of behavioral biases on investment decisions. For instance, Krishnapriya (2023) identified a significant relationship between investment decisions and behavioral biases such as herd behavior, overconfidence, availability bias, mental accounting, and regret aversion among investors. Gurung et al. (2024) also reported that overconfidence, anchoring bias, and regret aversion had a statistically significant influence on investment decisions, although herding behavior was found to have no meaningful impact in their analysis. Likewise, Subedi and Bhandari (2024) emphasized the role of psychological factors, demonstrating a positive and significant effect on how investors make decisions in financial markets. In a similar vein, Amgain (2024) concluded that behavioral biases stemming from investor psychology exert a considerable influence on investment behavior. Rasheed et al. (2021) further supported these findings by asserting that various behavioral biases significantly shape investors' decision-making styles. Patel (2023) reinforced this argument by highlighting the importance of cognitive biases particularly overconfidence, availability bias, and loss aversion in determining individual investment preferences and choices.

However, while the current study aligns with these prior studies in many respects, it differs in certain critical aspects. Specifically, this study found a negative effect of

herding bias and mental accounting on investment decisions in the context of the Nepalese share market, which contrasts with some earlier findings that reported a positive or insignificant relationship. This divergence in results indicates that contextual factors, such as market structure, investor awareness, or cultural influences, may shape the impact of behavioral biases differently across countries or regions. Therefore, the results are considered only partially consistent with the aforementioned studies.

On the other hand, the present findings are fully consistent with the study conducted by Rehmat et al. (2023), which found that all behavioral biases examined except for loss aversion had a significant effect on investment decision-making. This provides further validation for the patterns observed in the current research.

Moreover, the positive and significant effects of anchoring bias, overconfidence, and availability bias observed in this study lend strong support to the Heuristic Theory of behavioral finance. According to this theory, investors rely on mental shortcuts or "heuristics" when making complex financial decisions under uncertainty. These heuristics, while sometimes useful, can also lead to systematic errors or biases, causing deviations from rational investment behavior as proposed by traditional finance theories. The findings highlight the importance of acknowledging these psychological influences when analyzing investment patterns, as understanding them can contribute to the development of more effective investment strategies and help investors avoid common pitfalls associated with biased decision-making.

Chapter V
Summary and Conclusion

5.1 Summary

An economy depends on the stock market since it serves as a conduit for money, a gauge of a country's development, and a place for investors to make investments. It offers capital appraisal, dividend income, and a buffer against the depreciation of buying power due to inflation. A healthy economy, particularly in emerging nations, depends on the stock market operating properly. Analyzing a range of financial and economic aspects, including market trends, business financials, and risk-return considerations, is necessary for making investment decisions. Investors' perceptions, attitudes, and actions are impacted by behavioral biases, which are regular patterns of deviation from the norm or rationality in judgment. These biases have an impact on how investors evaluate opportunities, manage risks, and allocate their assets. The path of the Nepalese stock market has been greatly influenced by herding behavior, in which investors make decisions based more on the actions of others than on analysis or study into economic matters. This tendency, which is not exclusive to global markets, has caused selective selling and mass purchasing, which have raised stock values by unusually high amounts. Financial experts and regular investors alike must comprehend these biases and their impact. In addition to highlighting the significance of financial education, advisory services, and regulatory measures intended to lessen the negative effects of these biases on individual financial well-being and market stability, awareness of these biases can result in more informed, logical, and disciplined decision making.

Several biases have been found in psychological study to affect decision-making, especially when it comes to money and investments. Gains and losses in the stock market are directly impacted by these biases, therefore understanding them is essential. Poor performance and less than ideal returns might result from deviating from the optimum investing choices. Bubbles and busts can be caused by overconfidence, disposition bias, and herding behavior. Financial literacy's mediation function in the link between behavioral biases and share market investing decisions has been the subject of empirical research. Research on saving behavior and its mediation function

in the connection between behavioral biases and investment choices in the Nepalese stock market is, nonetheless, lacking.

The study has aimed to examine the relationship between behavioural biases and investment decision with mediating role of saving behavior in Nepalese share market. The quantitative approach has been selected in this study to examine the similar phenomenon in Nepalese context that has already been researched in different countries. This study is categorized as a descriptive and causal comparative study. Descriptive research is used to assess the behavioural biases, saving behavior and investment decision in Nepalese share market. In addition to descriptive research, a causal comparative research design is applied to analyze the causal effect relationship between behavioural biases and investment decision with moderating role of saving behavior in Nepalese share market. Population of the study is targeted to the Nepalese investors who have been engaged in buy and sell of shares in NEPSE. 408 respondents have been selected to collect the responses towards the study variables in Kathmandu valley. Convenience sample method is used to select respondents. Sample venue is the various brokerage firms. Since the study is concerned with behavioural biases, saving behavior and investment decision, the data are primary nature and the data are collected from the Nepalese share market investors. The research tool of choice for gathering primary data is the questionnaire. To ensure content validity, the questionnaire is first created by going over the empirical research and consulting with the supervisor. The questionnaire's questions are divided into categories according to major factors and demographics. While variables-related questions are of the Likert scale type, with strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5) for each sentence, demographic-related questions are multi-choice. The statements belonged to the variables anchoring bias, herding bias, overconfidence, loss aversion, availability bias, mental accounting, saving behavior and investment decision have been sourced from the studies of Waweru et al. (2008), Pompian (2006), Ahmed et al. (2022) and Xiao and Fan (2002). Statistical approaches were used to do the quantitative analysis. The study began by presenting the examination of the respondents' demographic characteristics. To examine the data, regression analysis, correlation, and descriptive statistics are used. To obtain the statistics output, SPSS is used.

5.2 Conclusion

Demographic profile presents a study sample composed predominantly of young to middle-aged, educated, working individuals, with a balanced distribution across different income levels and occupational categories. These characteristics provide valuable context for interpreting the study's findings related to financial behavior, market participation, or investment preferences. The investment profile data highlights that the study sample includes a diverse range of investors in terms of experience and portfolio size. The presence of both new and experienced investors, as well as low to high investment volumes, provides a well-rounded understanding of the stock market participation landscape among the respondents.

Both male and female respondents are similarly affected by biases such as anchoring, overconfidence, herding, loss aversion, availability, mental accounting, and saving behavior when making investment decisions in the stock market, though with slight variations in intensity and consistency.

The correlation analysis highlights that both investment decision and saving behavior are significantly influenced by various behavioral biases. Investment decisions show strong positive associations with anchoring bias, mental accounting, and saving behavior, suggesting that these factors play a critical role in shaping how individuals approach investments. Meanwhile, moderate relationships with overconfidence, herding bias, loss aversion, and availability bias further emphasize the multifaceted nature of investor behavior. Similarly, saving behavior is significantly correlated with all behavioral biases, with the strongest links observed with mental accounting, anchoring bias, and availability bias. These findings underscore the importance of psychological and behavioral factors in financial decision-making, indicating that enhancing financial awareness around these biases could lead to more rational investment and saving practices.

87.70% of the total variation in investment decision can be explained by the variation in the independent variables: anchoring bias, overconfidence, herding bias, loss aversion, availability bias, mental accounting and saving behaviour. The remaining 12.30% of the variation is unexplained by these variables, implying that there are other variables outside the scope of the regression model that contribute to this variation. The

regression model is resulted powerful and satisfactory because more than 70% of the variation in investment decision is accounted for by the selected predictors.

The regression analysis highlights that saving behavior and anchoring bias are the most influential factors positively impacting investment decisions, while mental accounting has a significant negative effect. Overconfidence and availability bias also show significant positive influences, albeit to a lesser extent. In contrast, herding bias and loss aversion do not significantly affect investment decisions in this model. These findings suggest that individual psychological traits and behavioral patterns play a critical role in shaping investment decisions, with some biases enhancing and others hindering rational financial behavior.

The findings of mediation effect of saving behavior highlight the crucial role of saving behavior as a psychological link that converts cognitive and emotional biases into tangible investment actions. The results support the notion that although biases directly impact investment decisions, their influence is notably intensified or mediated through an individual's saving habits. This deeper understanding of how biases, saving behavior, and investment choices are interconnected offers important insights into behavioral finance, especially within the context of emerging markets such as Nepal.

5.3 Implications

Based on the findings, several practical implications can be drawn for policymakers, brokerage firms, and individual investors:

Practical Implications:

The study clearly demonstrates that behavioral biases such as anchoring, mental accounting, overconfidence, and availability bias significantly influence investment and saving behaviors. This suggests a pressing need to integrate behavioral finance principles into financial education and advisory services. Educational programs should not only focus on technical knowledge but also on increasing awareness of psychological tendencies that affect financial decisions. This can help individuals recognize and mitigate irrational behaviors, ultimately fostering more informed and disciplined financial planning.

Implications for Policymakers:

Policymakers can play a vital role by designing national financial literacy campaigns and incorporating behavioral finance into the curriculum of schools and universities. Given the influence of biases like anchoring and overconfidence, regulatory bodies could encourage transparency in investment information and promote unbiased financial advice through certified advisors. Moreover, policies that incentivize savings and rational investment such as tax benefits on long-term investments or structured saving schemes could help align individual behavior with long-term financial well-being. Regulatory frameworks should also consider behavioral tendencies while drafting investor protection guidelines to reduce the impact of misleading market signals.

Implications for Brokerage Firms and Financial Advisors:

Brokerage firms and financial advisors can use these findings to enhance client engagement and tailor investment strategies. Understanding that clients may be anchored to initial prices, overly compartmentalize funds (mental accounting), or rely on recent information (availability bias), firms should provide personalized investment advice that takes these biases into account. Training advisors in behavioral finance would enable them to guide clients more effectively, helping them avoid common pitfalls and improve decision-making. Digital platforms can also be enhanced to include behavioral nudges and educational prompts to support more rational investing.

Implications for Investors:

For individual investors, the findings emphasize the importance of self-awareness in financial behavior. Recognizing one's own biases such as the tendency to stick to initial judgments (anchoring) or to overestimate personal knowledge (overconfidence) can lead to better financial decisions. Investors should strive to base their investment choices on objective analysis rather than emotion or cognitive shortcuts. Engaging in financial literacy programs, consulting unbiased financial advisors, and regularly reviewing one's investment approach can help counteract the negative effects of behavioral biases and promote long-term financial success.

Implications for Future Researchers:

For future researchers, these findings open several avenues for deeper exploration into the psychological dimensions of financial decision-making. First, the strong influence of anchoring bias, saving behavior, and mental accounting on investment decisions suggests a need for more nuanced studies on how these biases develop and interact with demographic or socio-economic factors. Researchers could further investigate how cultural, educational, or economic contexts may moderate the impact of these biases. Additionally, the negative influence of mental accounting on investment decisions presents an opportunity to explore how individuals' internal money management strategies might hinder optimal investment outcomes, and how financial literacy programs could be tailored to address this issue.

Moreover, the insignificant role of herding bias and loss aversion in the regression model, despite their theoretical importance, calls for more focused studies to understand under what conditions these biases become more or less relevant. Longitudinal studies could also be valuable in examining how behavioral biases evolve over time and with changing market conditions or life experiences. Finally, future researchers may benefit from employing mixed-method approaches, combining quantitative data with qualitative insights, to gain a more comprehensive understanding of the psychological processes behind financial behavior. These directions could contribute to developing more effective interventions and educational programs that promote rational financial decision-making.

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Appendix-A

Survey Questionnaire

Dear Sir / Madam,

I am Barsha Kurunbang Limbu, a MBS student at Shanker Dev Campus, Tribhuvan University. As a partial fulfillment of the requirements for the degree of Master in Business Studies, I am carrying out a study titled "Behavioural Bias and Investment Decisions in Nepalese Share Market: The Mediating Role of Saving Behaviour". I am kindly requesting you to spare a few minutes of your valued time to fill out this questionnaire as sincere and as truthfully as possible. The data being collected is purely for academic purpose and be treated in strict confidential.

Section A

1. Personal Information

Name of Respondent (Optional):……

Age (In years):

a. Less than 25 ( ) b. 25-40 ( ) c. 41-55 ( ) d. Above 55 ( )

Gender:

a. Male ( ) b. Female ( )

Academic Qualification:

Formal Education	
SLC or SEE	
High School	
Bachelor	
Master and above	

Marital Status:

Single	
Married	

Occupation:

Student	
Government Employee	
Private Employee	
Self- Employee	
Professional Worker	

Monthly Income:

Below Rs. 25000	
Rs. 25001 to Rs.50000	
Rs. 50001 to Rs. 100000	
Rs. 100001 to Rs. 200000	
Above Rs.200000	

SECTION B

Please indicate your degree of agreement or disagreement on the following behavioral factors and investment decision related statement. Choose one box for each statement.

(1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; 5=Strongly Agree)

2. Anchoring Bias

Code	Statements	1	2	3	4	5
AB1	I tend to rely heavily on the first piece of information I receive (e.g., stock price or news) when making investment decisions.					
AB2	I often compare a stock's current price to its past high or low before deciding to buy or sell.					
AB3	I find it difficult to adjust my investment decisions even after receiving new or updated market information.					
AB4	The initial purchase price of a stock strongly influences my decision to hold or sell it.					
AB5	I often use target prices or analyst forecasts as a fixed reference point when evaluating stocks.					

3. Overconfidence

Code	Statements	1	2	3	4	5
OC1	I believe I can consistently predict stock market movements better than the average investor.					
OC2	I am confident in my ability to pick winning stocks without relying heavily on expert advice.					
OC3	My investment decisions are usually right, even if others disagree with me.					
OC4	I trade more frequently because I trust my judgment more than market trends.					
OC5	I rarely second-guess my investment decisions once I've made them.					

Herding Bias

Code	Statements	1	2	3	4	5
HB1	I rely on my previous experiences in the market for my next investment.					
HB2	Other investors' decisions of choosing stock types have impact on my investment decisions.					
HB3	Other investors' decisions of buying and selling stocks have impact on my investment decisions.					

HB4	I usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market.					
HB5	I forecast the changes in stock prices in the future based on the recent stock prices.					

4. Loss Aversion

Code	Statements	1	2	3	4	5
LA1	I feel the pain of a financial loss more strongly than the pleasure of a similar financial gain.					
LA2	I tend to hold on to losing stocks longer, hoping they will recover.					
LA3	I avoid selling stocks at a loss, even if it would be the rational decision.					
LA4	I am more concerned about avoiding losses than making gains in my investment decisions.					
LA5	A small loss in my investment portfolio affects me more emotionally than a similar gain excites me.					

5. Availability Bias

Code	Statements	1	2	3	4	5
AVB1	I rely more on easily accessible information than on in-depth financial reports.					
AVB2	I consider recent performance of a stock more important than its long-term fundamentals.					
AVB3	If a stock has been in the news a lot, I am more likely to consider it for investment.					
AVB4	I often invest based on information that is vivid or emotionally striking, even if it's not statistically significant.					
AVB5	I tend to make investment decisions based on recent news or events I remember well.					

6. Mental Accounting

Code	Statements	1	2	3	4	5
MA1	I set different budgets for different types of investments (e.g., long-term vs. short-term) even if my overall return is affected.					
MA2	I treat money earned from dividends or bonuses differently from my regular income when investing.					
MA3	I avoid selling a stock that is at a loss, even if it would be better for my overall portfolio.					
MA4	I separate my investments into categories (e.g., 'safe', 'risky') and manage them independently.					
MA5	I often invest windfall gains (e.g., lottery, inheritance, bonuses) more freely than regular income.					

7. Saving Behaviour

Code	Statements	1	2	3	4	5
SB1	I regularly set aside a portion of my income for future investment or savings.					
SB2	I prefer saving money in low-risk instruments even if returns are lower.					
SB3	Before making any large purchase, I consider how it will affect my savings or investment goals.					
SB4	I have a clear savings plan to meet my long-term financial objectives.					
SB5	I prioritize saving over spending for non-essential items					

Investment Decision

Code	Statements	1	2	3	4	5
ID1	I carefully analyze all available information before making any investment decision.					
ID2	I seek advice from financial advisors or experts before making major investment decisions.					
ID3	I often make quick investment decisions based on gut feeling rather than detailed analysis.					
ID4	My investment decisions are influenced more by my personal judgment than by market experts.					
ID5	I tend to rely on past experience when choosing stocks to invest in.					

Thank You for Your Kind Cooperation.

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