EFFECT OF PERCEIVED BEHAVIORAL FACTORS ON INVESTORS' INVESTMENT DECISIONS IN NEPSE

A Dissertation Submitted to the office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree of Business Studies

By

Pradeep Shrestha
Campus Roll No.: 584/074
Exam Roll No: 5888/18
T.U. Registration No.: 7-2-170-33-2013
Shanker Dev Campus

Putalisadak, Kathmandu
July 2024

Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "***Effect of Perceived Behavioral Factors on Investors' Investment Decisions in NEPSE***". 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 purpose.

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.

Pradeep Shrestha

Signature:

Date of Submission:

Report of Research Committee

Pradeep Shrestha has defended research proposal entitled "***Effect of Perceived Behavioral Factors on Investors' Investment Decisions in NEPSE***" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor Madhusudan Gautam and submit the dissertation for evaluation and Viva-Voce examination.

……
Madhusudan Gautam
Dissertation Supervisor

Dissertation Proposal Defended Date

.....

Dissertation Submitted Date

.....

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

Dissertation Viva-Voce Date

.....

Approval Sheet

We, the undersigned, have examined the dissertation entitled "***Effect of Perceived Behavioral Factors on Investors' Investment Decisions in NEPSE***" presented by Pradeep Shrestha 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.

.....
Madhusudan Gautam
Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

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

.....
Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

Acknowledgements

The successful completion of this research would not have been possible without the invaluable guidance and support of several individuals. I am profoundly grateful to Madhusudan Gautam for his exceptional supervision and guidance. His insightful criticism, encouragement, and advice significantly enhanced my research techniques and contributed to the high quality of this work.

I extend my heartfelt thanks to Associate Professor Dr. Sajeeb Kumar Shrestha and Associate Professor Krishna Prasad Acharya for their invaluable advice and encouragement throughout my academic journey. Their dedication to high standards and unwavering commitment to their students have been exemplary. Their devotion to academic excellence and their readiness to provide support have been truly inspirational.

I am deeply appreciative of the opportunity to study under such distinguished professors and mentors. Their unwavering help, inspiration, and guidance have been instrumental in my academic success. Thank you for your continued support and encouragement.

Pradeep Shrestha
Shanker Dev Campus

Table of Contents

List of Tables

List of Figures

Abbreviations

AD	:	Annon Domini
ANOVA	:	Analysis of Variances
B	:	Unstandardized Beta Coefficients
e	:	Error Terms
F-Value	:	Fishers Value
H	:	Alternative Hypotheses
HB	:	Heuristic Behavior
HEB	:	Herding Behavior
ID	:	Investment Decision
MS	:	Market Status
N	:	Number
NEPSE	:	Nepal Stock Exchange
PA	:	Prospect Attitude
P-Value	:	Probability Value
r	:	Coefficient of correlation
R	:	Multiple Correction Coefficient
R^2	:	Correlation Coefficient
Rs.	:	Rupees
S.D.	:	Standard deviation
Sig.	:	Significant
Std.	:	Standard
T	:	T-Statistic

Abstract

This study investigates the factors influencing investment decisions in Nepal's primary (IPO) and secondary markets, with a focus on heuristic behavior, prospect attitude, market status, and herding behavior. Utilizing descriptive and causal research designs, data were collected from a sample of 310 investors in Kathmandu District through structured questionnaires administered electronically and via personal visits. Responses were measured using a 5-point Likert scale. The data were analyzed using inferential statistical tools and Cronbach's alpha test, employing SPSS version 25.0 and MS-Excel. The findings reveal that prospect attitude and market status significantly influence investment decisions in both primary and secondary markets. Investors with a positive outlook towards risk and who carefully evaluate market conditions tend to make more informed investment choices. While heuristic and herding behaviors are present, their impact on investment decisions is less pronounced, indicating that rational assessments play a crucial role in shaping investment strategies.

These results underscore the importance of rational decision-making processes based on prospect attitudes and market evaluations. The study aligns with behavioral finance theories that highlight the influence of psychological biases and rational choices on investment behaviors. By providing empirical evidence within the context of Nepal's financial markets, the study highlights the nuanced interplay between cognitive biases and market fundamentals. Practical implications suggest the need for tailored investor education programs to enhance risk management skills and deepen market dynamics understanding. Effective communication strategies that offer transparent and reliable market information can mitigate heuristic biases and promote informed investment decisions. Regulatory authorities can leverage these insights to improve market transparency and investor protection measures, fostering a more conducive investment environment.

Keywords: *Investment decisions, Heuristic behavior, Prospect attitude, Market status, Herding behavior*

CHAPTER I
INTRODUCTION

1.1 Background of the Study

It is important to comprehend the unique behaviors of individual stock market investors for a number of reasons. First off, according to Barberis et al. (1998), investor behavior has a big impact on price stability, market dynamics, and overall efficiency. Examining investor behavior in the context of the Nepalese stock market, which is comparatively less investigated than established markets, might provide important insights on sentiment among investors, market oddities, and behavioral biases unique to this developing market (Poudyal & Pandey, 2020). To improve market stability and investor protection, policymakers and financial regulators must recognize these patterns of behavior in order to put mechanisms in place that might lessen the negative impacts of irrational investor behavior (Sharma & Koirala, 2018).

Furthermore, financial advisers and ordinary investors should take note of this findings. Investors might possibly achieve better financial results by making more informed judgments by having a better knowledge of common heuristic behaviors, prospect attitudes, market status perceptions, and herding tendencies (Tversky & Kahneman, 1974). A deeper knowledge of these behavioral characteristics enables financial advisers to better customize their recommendations for clients, leading to more sane investing strategies and improved financial planning (Ricciardi & Simon, 2000).

With a focus on three key goals, the research attempts to investigate the investing behaviors of individual investors in the Nepalese stock market. Its primary goal is to ascertain the state of investor activity in the Nepalese stock market at the moment. This entails a thorough evaluation of the decision-making processes of Nepalese investors, as well as an analysis of their risk tolerance, time horizons, and the variables influencing their choices (Poudyal & Pandey, 2020).

Second, the study intends to investigate how investment choices are influenced by heuristic behavior, prospect attitude, market conditions, and herding behavior. When investors make judgments in the face of uncertainty, they use heuristic behavior, which is defined as mental shortcuts or rules of thumb (Tversky & Kahneman, 1974).

Prospect theory, which contends that investors value profits and losses differently and hence make irrational decisions, is the source of prospect attitude (Kahneman & Tversky, 1979). Investors who engage in herding behavior adhere to the decisions made by others instead of making their own judgments (Banerjee, 1992). Recognizing how these variables interact with investing choices will help us understand how social influences and cognitive biases affect investor behavior in the Nepalese setting.

The study's final objective is to examine how investment choices are influenced by heuristic behavior, prospect attitude, market conditions, and herding behavior. By quantifying the influence of these behavioral aspects on investment decisions, this research will provide empirical support for their importance. The results have the potential to enhance the existing body of knowledge on behavioral finance and provide actionable suggestions for bettering investor education and market practices in Nepal (Ricciardi & Simon, 2000).

Securities are bought and sold in an orderly manner on the stock market. The stock market is populated with professionals, middlemen, and investors. Investors who are trying to buy or sell stocks quickly can be searching for excellent bargains, or they might be taking advantage of terrible offers that have a larger return but a higher risk. Indicators like liquidity and profitability, together with the level of risk involved, are considered when choosing the greatest investment opportunities. In addition, corporate securities, preference shares, debentures, bonds, and other financial instruments are available for purchase (NEPSE, 2013; UNCDF, 2016; Niroula, 2015). They are able to engage in both secondary and primary markets. Due to their participation in the secondary market, speculators are also investors. To invest in the best opportunities and consistently and securely recover their money, investors in particular should get a deeper grasp of market news, market indicators, and technical systems. Those who invest money in investment goods with the intention of turning a profit are known as individual investors. Generally speaking, the primary goal of an investor is to minimize risk while optimizing returns, in contrast to speculators who are prepared to assume more risk in exchange for returns that exceed average. Purchasing and selling stocks is how investors trade in the stock market, and it's important to comprehend the many behavioral and economic elements that affect their choices (Paudel, 2010).

Industry, commerce, government, and municipal governments raise long-term money on the stock market, commonly referred to as the capital market. The funds are given by banks, insurance companies, pension funds, and private investors. Typically, issuing houses and merchant banks handle the money distribution. The capital market, which is a market for shares and loans that reflect money raised after it has been raised, includes stock exchanges as well. Securities may be purchased and sold at a predetermined price on a stock market (Shrestha, Bhandari, & Joshi, 2013).

The main function of the stock market is to import marketability and liquidity, which in turn creates a steady and continuous market for the purchase and sale of securities at a competitive price. It also acts as a conduit for scarce resources and sporadic savings to flow into productive areas, supporting the nation's industrialization and economic growth (Dangol, 2013). The main goals of the stock market are to provide businesses lucrative investment opportunities and to give individuals access to liquidity so they may use it to borrow against future income or invest current money in order to achieve their desired consumption pattern. The capital market offers a means of sharing risk between the parties to a transaction since investing involves risk. Both the economy and the stock market are moving in the same direction. The Nepalese economy lacks a guiding framework, which means that there is a limited supply and demand for capital to invest in profitable businesses. Due to the absence of a risk-transfer mechanismwhich is related to the absence of a well-developed stock marketthere is a low demand for and supply of capital in Nepal for investments in profitable businesses (Raghunathan, 1992).

When compared to other nearby nations, the Nepalese stock market is quite small. Money is necessary for a nation's economy to grow. Nepal has to use its capital as efficiently as possible since it is a capital-poor nation. Securities are financial assets. The purpose of securities markets is to facilitate the exchange of financial assets. Thus, the market's purpose is to facilitate the exchange of securities between buyers and sellers. To enable the exchange of financial assets, the capital market is a system that links orders from buyers and sellers of securities. Today's world has made the stock market a global phenomenon, independent of the size of any one region (Ibbotson, Sindelar & Ritter, 1988).

The main source of funding for the nation's economic growth is the capital market. It completes vital tasks including creating financial assets, creating asset-related goods,

and turning institutional and consumer deposits into investments. Any nation's long-term growth is aided by a healthy securities market. Levine and Ross (2008). Right now, one of the global markets with the quickest rate of development is the capital market in Nepal. In recent years, it has increased quickly in line with the global financial market. The two parts of the Nepalese capital market are the main market and the secondary market. Businesses mostly use the primary market as a channel to directly mobilize the money of people towards investment goals. It is the center of the capital market, where governments and businesses may get long-term finance that stimulates the economy and the financial sector. It increases volume and diversifies the securities base by introducing new securities into the secondary market. The secondary market indicates the general state of the economy and offers liquidity for securities investments (Dangol, 2013).

1.2 Problem Statement

Recent years have seen a significant increase in the study of individual investors and their actions, and this topic is progressively drawing the interest of many academics outside of the field of economics. Due to the wide variety of market and investment opportunities provided by the globalization of financial markets during the last 20 years, there has been a rise in the number of small investors. Nevertheless, it adds complexity to the process of choosing investments. When it comes to investing, small investors often consider their requirements, goals, aspirations, and limitations. However, they won't be able to choose a lucrative investment.

A vast amount of empirical evidence suggests that genuine individual investors react differently from investors in these models (Lovaric et al., 2008). Portfolios of individual investors are often well-diversified. A large number of naive investors engage in risky, aggressive trading. Individual investors, on the other hand, use methodical processes as opposed to haphazard ones while making group purchases and sales.

Around the world, investors and financial advisors have been searching for investment strategies that provide exceptional returns. The most reliable one is yet to be found, however. Numerous studies have shown the importance of business-level fundamental characteristics in understanding patterns of stock return and future price fluctuations. Some examples of this type of work include the earning yield effect of

(Dahal, 2007), the size effect of (Khatri, 2017), the leverage effect of (Bhandari, 1988), the book-to-market effect of (Shrestha, 2016), the combined effect of beta, size, leverage, book-to-market equity, and earning yield of, and the annual reports and interviews with company officials of. These results suggest that past accounting metrics at the company level help forecast future profits. Dividends and capital gains are included in the return. The size of stock returns and the quantity invested are influenced by prospects and market opportunities in the future. In the realm of finance, investment choices are made often, much like stock returns. It has been shown that some criteria, such as size and book-to-market equity, have a stronger influence on stock returns. These factors are used in the research as an explanatory variable, demonstrating the occurrence of comparable results in the Nepalese context.

Zingales (1995) put out the overreaction theory, which holds that investors' excessive response to previous business performance is what caused the reversal and book-to-market consequences. But according to Zingales (1995), high book-to-market enterprises are likely to be riskier and need higher anticipated returns since past performance is likely to be negatively correlated with changes in systemic risk. Several research points to investors overreacting to past accounting growth rates. But, other studies have shown that the agony brought on by poor past performance accounts for the increased risk and return of high book-to-market enterprises. The analysis was motivated by the ongoing debate over whether the book-to-market effect or return reversal is caused by investor overconfidence or by the trade-off between risk and return.

The stock market's most obvious issues may be the fluctuating stock market indexes, the capital-centric trading system, the small number of wealthy investors, and their effects on the market. Niroula (2015) claims that a variety of factors, including investor understanding of risk return and investment profile, are contributing to the stock market's optimism and recent highs. Securities regulatory bodies' main objectives are to safeguard investors' rights and provide a favorable trading environment built on dedication and trust. Expanding and developing current facilities and infrastructure is another element. Neither the buying nor selling of certain stocks should be encouraged by authorities, nor are they required to provide specific investment advice. They also shouldn't provide investors with predetermined

investment ideas in order to aid in decision-making. But the government can act effectively and force the investment community to increase awareness.

The results are inconsistent, as can be seen from the literature review above. Large-scale research indicates that market capitalization and stock return are positively correlated, but that market-to-book value and returns are negatively correlated (Niroula, 2015). In contrast to the negative link between book-to-market ratio and cash flow yield and book-to-market value, the positive relationship between stock returns and earnings yield and size is shown to be more informative (Niroula, 2015). The primary factor influencing stock returns is book-to-market equity, and several studies have shown the inefficiency of the Nepalese stock market. These studies reveal that size and book-to-market equity are the most significant factors influencing stock performance, notwithstanding Nepal's capital market's inefficiency. Consequently, there is enough evidence of disagreement and disagreement in the existing literature. More data on the interactions between factors and stock returns is required, as the current gap supports.

In brief, the present study aims to address the following research query.

i. What is the current stock market behavior in Nepal among investors?

ii. Is heuristic behavior, prospect attitude, market conditions, herding behavior, and investment choice related?

iii. What effect do herd behavior, market conditions, prospect attitude, and heuristic behavior have on investing decisions?

1.3 Objectives of Study

Examining the behaviors of individual stock market investors is the aim of the research. To reach our objective, we have these particular goals. These are the following:

a. To identify the status of investor behavior in the Nepalese stock market.
b. To examine the relationship between heuristic behavior, prospect attitude, market status, herding behavior and investment decision.
c. To analyze the effect of heuristic behavior, prospect attitude, market status and herding behavior on investment decision.

1.4 Research Hypotheses

The study addresses the following alternative hypotheses that were developed in accordance with the study's goal and research approach.

H1: There is significant impact of heuristic behavior on investment decision.
H2: There is significant impact of prospect attitude on investment decision.
H3: There is significant impact of market status on investment decision.
H4: There is significant impact of herding behavior on investment decision.

1.5 Rationale of the Study

The research will assist investors in understanding which media outlets are best at offering comprehensive information on initial public offerings (IPOs) and secondary markets, as well as the factors to take into account before making an investment. For those who are considering investing in the secondary market and initial public offering, the research is crucial. It displays the state of Nepal's secondary market and initial public offering. This paper may serve as a foundation for future research on Nepal's secondary market and initial public offering. This study is helpful to companies who provide recommendations and financial portfolio and share advisory services to their customers. Beginner investors may learn about initial public offerings (IPOs) and secondary markets via this research. It may also be used to gauge an investor's investing style. Investors will be better equipped to understand their investments and make wise decisions as a result of this research. Students who want to do secondary market and initial public offering research will also find it useful. The analysis of Nepal's secondary market and initial public offering (IPO) laws, opportunities, challenges, and future prospects would be greatly aided by this research. The way that investors react to initial public offerings (IPOs) and secondary markets across various sectors will also be useful. This investigation may provide important information to the potential offering firm as well. It could be possible to determine the causes of Nepal's irregular initial public offering fluctuations.

All factors affecting an investor's behavior may be categorized into three groups in order to bridge the gap mentioned above: risk attitudes, awareness, and demography. It examined the main factors that affect investor behavior in the Nepalese stock market and how Nepalese investors decide which stocks to buy. In addition to

producing fresh findings, this study helps to overcome the limitations of earlier studies.

1.6 Limitations of the Study

Every research endeavor has a unique set of restrictions. In a similar vein, this research had many shortcomings. The following are some of the study's shortcomings:

a. The study deals with 310 investors form Kathmandu District.
b. The study only deals with heuristic behavior, prospect attitude, market status and herding behavior of investors though there are several in market.
c. The majority of the main data is collected by a research questionnaire. As a result, the data's trustworthiness and validity are determined by their source.
d. The findings of the study may not be applicable to all sorts of investors from national and international context.
e. Sophisticated tools have been applied for findings of the study.

CHAPTER II
LITERATURE REVIEW

2.1 Theoretical Review

Prospect Theory

The concept of prospect theory, first introduced by Amos Tversky and Daniel Kahneman in 1979, transformed our knowledge of how people make decisions in the face of uncertainty by emphasizing the disparities in how investors see possible rewards and losses. Prospect theory posits that decision-making processes are significantly influenced by how these outcomes are framed, in contrast to the traditional expected utility theory, which holds that people make rational decisions by taking into account the final outcomes and their associated probabilities (Kahneman & Tversky, 1979). When it comes to possible profits, investors are often risk conservative, favoring assured but smaller returns over bigger, uncertain ones. This behavior is a reflection of the idea of diminishing marginal utility, which is the decreasing sensitivity to additional benefits. As an example, people tend to feel more satisfied when they win $100 than when they win an additional $100.

On the other hand, when faced with possible losses, investors take more risks. Because of the psychological effects of loss aversion, they have a tendency to choose uncertain, greater losses over smaller, definite ones. The inclination to feel the anguish of losses more keenly than the satisfaction of comparable gains is known as loss aversion. The disutility of losing $100 is much greater than the utility of getting $100, sometimes by a ratio of two or more, according to studies by Kahneman and Tversky (Kahneman & Tversky, 1979). This explains the disposition effect, or the tendency of investors to hang onto falling equities in the hopes of a recovery rather than selling them.

In addition, the theory presents the idea of reference points, which play a critical role in defining how gains and losses are interpreted. The purchase price of a stock by an investor, the stock's most recent high price, or any other notable benchmark might serve as a reference point. Wealth fluctuations are not assessed in absolute terms, but rather in relation to this reference point. A $10 loss is incurred in relation to the $50 purchase price of the stock, not as part of the investor's whole portfolio, if the stock is

purchased for $50 and its price decreases to $40. Irrational decisions, such hanging onto lost investments and selling winning ones too soon, might result from this impression.

Moreover, prospect theory's value function is distinguished by its S-shape, which is convex for losses and concave for profits, respectively, suggesting risk-seeking and risk aversion. This shape illustrates how individuals react more strongly to changes in wealth when they are near the reference point and less strongly to changes when they are further away. Furthermore, the function represents loss aversion since it is steeper for losses than for profits (Kahneman & Tversky, 1979).

The application of prospect theory to the study of financial markets and investor behavior is significant. Many abnormalities in market behavior are explained by it, including the reasons why stock prices may overreact to news (because investors' reference points change) and why there is excessive trading (because investors constantly reevaluate their positions in light of shifting reference points). It also challenges the notion of market efficiency based on rational conduct, which serves as the foundation for the behavioral finance discipline.

To sum up, prospect theory provides a comprehensive understanding of investor decision-making by emphasizing the crucial functions of risk aversion, reference points, and loss aversion. It emphasizes that psychological biases and how decisions are framed affect investors and that they are not entirely rational actors. By recognizing the fundamentally human factors influencing financial choices, an understanding of these biases might result in better investing strategies and enhanced market forecasts.

Availability Heuristic

The availability heuristic is a cognitive bias that has a major impact on investor decision-making because it causes investors to make decisions based not on thorough and pertinent research, but rather on information that is most current or easily retrieved from memory. This heuristic, which was first presented by Amos Tversky and Daniel Kahneman in 1973, demonstrates how individuals gauge the probability of occurrences by considering how quickly they can recall instances (Tversky & Kahneman, 1973). When it comes to investing, this often leads to judgments being taken without doing a comprehensive study of all relevant facts, relying instead on

information that has been widely publicized in the media, high-profile market occurrences, or current news.

Overconfidence is one of the main effects of the availability heuristic in investing. Investors often overestimate their knowledge of the market or a specific investment when they depend only on information that is easily accessible. For example, an investor may overestimate the company's future performance after reading a lot of news headlines about its success, and they may base their investment choices on this distorted perspective. Due to investors' overconfidence in their expertise and ability to make predictions, especially in the face of inadequate or biased information, trading activity may grow (Barber & Odean, 2001).

Additionally, the availability heuristic plays a role in the development of market bubbles and their eventual collapses. Investors may rush to specific stocks or industries that get a lot of media attention, pushing up prices and resulting in an unsustainable bubble. The dot-com bubble of the late 1990s, in which widespread media attention and public excitement drove the explosive growth of internet-related businesses, is a prime example. As a result of investors ignoring basic research and valuations due to the steady supply of optimistic news, stock prices were inflated. When the bubble finally burst, the truth of overvaluations became evident, and many investors suffered large losses (Shiller, 2000).

Moreover, investors may overlook less dramatic but perhaps more significant information as a result of the availability heuristic. For instance, even if a firm has strong fundamentals and room for long-term development, investors may choose to ignore it in favor of more well publicized companies if it is not regularly covered by the media. This may lead to an inefficient use of resources, with money going into well-known ventures while other worthy prospects go unnoticed.

The availability heuristic also takes into account the impact of recent occurrences. Investors' assessment of future risks and returns might be distorted by their propensity to place an excessive amount of weight on previous events or results. For example, after a market collapse, investors may become too risk adverse, overestimating the probability of a further downturn and, as a result, completely shunning equities. On the other hand, during a stretch of consistent market expansion, investors may get too

sanguine, misjudging the likelihood of future falls and assuming unwarranted risks (Shefrin, 2000).

Investors have a few options for reducing the availability heuristic's influence. It is important to diversify your sources of information since depending too much on one, especially if it is sensationalistic, might result in a skewed opinion. Rather than basing judgments just on current news, investors should also concentrate on fundamental research, which looks at a company's financial stability, competitive position, and industry circumstances. Keeping an eye on the big picture might also help offset the propensity to be influenced by passing news stories and events.

To sum up, the availability heuristic has a big influence on investor behavior since it causes overconfidence, bubbles in the market, and the disregard of crucial information. Investing choices may be made more intelligently and sensibly if investors are aware of this cognitive bias and take steps to counteract its effects. Acknowledging the limits of easily accessible data and aiming for a thorough examination may improve investment results and promote more stable and effective markets.

Representativeness Heuristic

The representativeness heuristic is a cognitive bias that impairs investors' ability to make well-informed decisions by making them assess an investment's chance of success based on how representative it seems to be of a specific category or pattern rather than considering all relevant data. This heuristic, which was first proposed by Amos Tversky and Daniel Kahneman in the early 1970s, describes how individuals estimate the likelihood of an occurrence by comparing it to a mental prototype that already exists (Kahneman & Tversky, 1972).

When it comes to investing, the representativeness heuristic often leads investors to make decisions based on preconceived notions or prior experiences. For instance, even when individual technology businesses have fundamentally distinct qualities or confront particular obstacles, an investor may make the generalization that all technology companies will do well in the future if they have previously made money with technology equities. In certain industries or businesses, this over-reliance on observed patterns may result in overconfidence, ignoring important aspects including the competitive environment, financial stability, and state of the market.

The propensity to correlate a company's investment potential with its brand strength is a prevalent expression of the representativeness heuristic. Because it symbolizes success in the eyes of the investor, a well-known and respected brand might be seen as a secure and lucrative investment. Still, this view could ignore hidden financial problems or market hazards that might have an impact on the business's success. In the early 2000s, for example, a lot of investors put money into well-known corporations like General Electric (GE) and Enron, thinking that their solid track records and powerful brands would guarantee future success. Regrettably, when these firms had financial problems, these investors often disregarded important warning indications, resulting in significant losses (Akerlof & Shiller, 2009).

The propensity to believe that historical patterns will last forever is another instance of the representativeness heuristic in action. Without taking into account unexpected disruptions or shifting market dynamics, investors may assume that a stock that has done well in previous years would continue to do so. Popular stocks may be overvalued, and dangers may be underestimated as a consequence of this tendency. As a clear example, consider the 2008 housing market meltdown, which caused severe financial turbulence since many investors ignored the building indicators of an imminent collapse due to their conviction in continuously rising property prices (Shiller, 2008).

The representativeness heuristic also affects how news and earnings announcements affect investors. When a few firms in a sector post strong results, it might give investors the impression that the industry as a whole is doing well, which encourages them to invest in other companies in the same area without doing extensive due diligence. Investment bubbles may result from this, in which stocks rise in value due to widespread optimism rather than the performance of specific companies.

Investors might use a number of tactics to lessen the influence of the representativeness heuristic. Comprehensive fundamental analysis, which evaluates each investment opportunity on its own merits rather than depending on generalizations or trends, is one useful strategy. Analyzing financial accounts, comprehending the marketplace, and taking macroeconomic variables into account are all part of this. Moreover, the risk associated with biases towards any certain category may be mitigated by diversifying investments across several asset classes and industries.

Investors should also be conscious of their cognitive biases and actively work to overcome them. Establishing predetermined standards for investment choices, monitoring and modifying investment plans on a regular basis, and seeking the unbiased advice of financial experts are some ways to do this. The representativeness heuristic's drawbacks may also be avoided by maintaining a long-term view and concentrating on the intrinsic worth of assets rather than passing attention to passing trends.

The representativeness heuristic, in conclusion, emphasizes how investors may make biased decisions if they rely too much on perceived patterns and stereotypes. Investors may eventually improve financial results and stabilize markets by identifying and mitigating this cognitive bias and making more informed and logical investing choices.

Anchoring Heuristic

The anchoring heuristic is a cognitive bias that causes investors to over rely on the first piece of information they learn when assessing an investment, which has a substantial negative influence on their decision-making. This first piece of information, referred to as the "anchor," has the unwarranted ability to skew their perspectives and future assessments. Amos Tversky and Daniel Kahneman initially proposed the anchoring heuristic in the 1970s, showing how beginning values or estimations may act as standards for subsequent decisions even in cases where the anchor is arbitrary or unimportant (Tversky & Kahneman, 1974).

The anchoring heuristic may appear in a variety of ways when it comes to investing. One such situation is investors making choices based only on a stock's original purchase price. An investor may base their opinion of a stock's worth on the amount they paid when they purchased it, say, for $50 per share. Instead of objectively evaluating the business's present and future prospects, an investor may unreasonably hang onto the stock if its price drops to $40 and hope for it to rise to the $50 anchor price. Such actions as hanging onto failing assets for an extended period of time or selling winning investments before they reach the original anchor might result in less-than-ideal decisions (Montier, 2007).

The impact of early profit projections or analyst reports is another example. An early projection that a company's profits would increase by 20% may serve as an anchor for

investors. The original 20% estimate may still have an impact on investors, overvaluing the stock even if further information shows that the company's profits growth would be far slower. Investor choices that do not accurately represent the company's real financial health or market position may arise from this dependence on anchoring estimations, which may lead to investors ignoring fresh information that may be more accurate (Mousavi & Gigerenzer, 2011).

Investors' responses to prior performance data or market indexes may also be impacted by anchoring. Investors may tie their expectations for future market performance to a historical high, for instance, if a significant stock index, such as the S&P 500, hits a record high. This may give rise to irrational hopes for continuous expansion, which would encourage more risk-taking and perhaps excessive investment in overpriced markets. On the other hand, during market downturns, investors may become very pessimistic and risk averse, allowing them to lose out on rebound possibilities by tying their expectations to the lowest points (Shiller, 2000).

Investors have a few options for reducing the impact of the anchoring heuristic. Initially, people must to be cognizant of the possibility of anchoring bias and deliberately modify their decision-making procedures to offset its impact. This may include periodically reviewing and updating preliminary approximations or values in light of fresh data. Furthermore, using financial models and metrics as part of a systematic approach to investment research helps guarantee that choices are made based on thorough and impartial facts rather than hunches or preconceived notions (Kahneman, 2011).

Increasing the variety of information sources, you use is another smart move. Investing is likely to be less affected by a single piece of information if investors look for a variety of viewpoints and data sources. This strategy promotes a more knowledgeable and impartial assessment of possible investments. Additionally, by establishing predefined standards for the purchase and sale of assets, investors may become more disciplined in their decision-making and lessen the negative effects of anchoring bias on their portfolios.

To sum up, the anchoring heuristic has a big impact on investor behavior because it makes people rely too much on early information, which skews their decisions.

Investors may make better decisions by identifying and mitigating this cognitive bias, leading to more logical and knowledgeable investing selections. Financial markets may be made more stable by actively attempting to mitigate the effects of anchoring and improving investment results.

Regret Theory

A behavioral finance concept known as "regret theory" asserts that investment choices are influenced by investors' fears of regret. Even when an investor makes a reasonable option with the possibility of producing superior long-term results, they often steer clear of actions that they may later come to regret. Economists Robert Sugden and Graham Loomes initially proposed the notion in the early 1980s as an expansion of prospect theory (Loomes & Sugden, 1982).

According to regret theory, investor behavior may be greatly impacted by an emotional reaction to a bad choice or by anticipating such a reaction. Investors are worried about the possible emotional effects of their selections in addition to the actual results. This regret anxiety might cause investors to behave in a risk-averse manner, choosing safer, more dependable assets over ones that could provide larger profits. For example, a concern of second-guessing their choice if the firm fails might cause an investor to shy away from a promising but unpredictable technological startup.

The disposition effect, in which investors sell winning stocks too soon and hang onto losing equities for too long, may also be caused by this inclination to avoid regret. The desire to avoid the remorse that comes with recognizing a loss is what makes people reluctant to sell a losing investment. On the other hand, selling a successful stock too soon is driven by the regret of not locking in profits sooner rather than the fear of losing the gains (Shefrin & Statman, 1985). This conduct runs counter to the logical plan of reducing losses and allowing earnings to grow, which may ultimately provide superior results.

Herding behavior, in which investors follow the crowd rather than making their own judgments, is another example of regret theory in action. Investors who follow the herd tend to have less personal remorse since any losses they suffer are shared by others. During the dot-com bubble, when a lot of investors threw money into internet-related companies because they felt that everyone else was doing the same, this

tendency was clearly visible. Because the error was a communal one, individual remorse was lessened when the bubble burst and the broad losses were largely offset (Shiller, 2000).

Even when fresh evidence indicates that a change would be advantageous, investors' unwillingness to alter their investing strategy is influenced by regret theory. This inertia may originate from a concern of coming to regret switching from a tried-and-true technique, particularly if the new course of action does not provide the desired outcomes. For instance, in order to minimize the possibility of regretting a poor decision, an investor may choose to continue with a long-term bond investment even when there is evidence that switching to stocks will provide higher returns.

There are a few tactics that investors might use to lessen the impact of regret theory. To mitigate the emotional effect of individual investment results and provide a disciplined framework for decision-making, one strategy is to clearly define investing objectives and criteria. It may also be beneficial to routinely assess and modify investment portfolios based on rational standards as opposed to subjective feelings. Furthermore, diversification helps lessen the effect of any one investing choice, which lowers the possibility of regret (Markowitz, 1952).

Developing self-awareness and mindfulness, identifying the emotional components of investment, and purposefully counteracting them with reasoned reasoning is another successful approach. Financial adviser consultations may provide an outside viewpoint that helps balance objective counsel with subjective feelings. Getting knowledgeable about typical cognitive biases and how they affect judgment may also enable investors to make better decisions.

To sum up, regret theory emphasizes how strong an impact emotional reaction has on investor behavior, especially the dread of making poor judgments. Through comprehension and mitigation of this cognitive bias, investors may enhance their decision-making procedures, resulting in more logical and advantageous investing consequences. Investors may increase their financial performance by making more thoughtful and balanced judgments by acknowledging the influence of regret on their investing behavior.

These theories aid in the explanation of why investors would choose certain stocks to buy and sell as well as how cognitive biases may affect an investor's behavior.

Investment Decision

To make wise judgments, investors must gather enough information before to purchasing shares. Manandhar et al. (2010) state that reliable sources of this information include prospectuses, newspapers, annual reports, newsletters, and other official documents. Before making an investment, investors should carefully consider the business' track record, management, and important financial metrics including net worth, return on equity, and dividend per share. It is very discouraged to rely on rumors.

When applying for shares, it is important to take into account a number of indications. Profits are a crucial consideration; investors should seek for businesses exhibiting steady profits growth from year to year, although sporadic declines during recessions are tolerable. It is recommended to compare the profits with those of key rivals and ensure that they are considerably greater than the industry average (Factors to Consider When Analyzing Stocks, 2017). Another crucial metric is free cash flow, which shows how much money the business makes after reinvesting it to keep things running smoothly. This measure aids investors in determining the amount of money that may be taken out of the company without interfering with its ongoing operations.

The measurement of a company's efficiency in generating profits from its assets is called return on assets, or ROA. A business is said to be using its resources more effectively if its return on assets (ROA) exceeds that of its industry. For example, if two businesses have $100 worth of assets each, but only produce $5 in profits compared to $15 for the other, then the company with the higher earnings is the better investment (Factors to Consider When Analyzing Stocks, 2017). An additional important metric is return on equity (ROE), which takes into account the company's use of debt in addition to assets. To guarantee accuracy, ROE should only be compared within the same sector as it evaluates the company's use of investors' money. If a company's return on equity (ROE) surpasses the norm for its industry by a considerable margin, investors have to look into possible anomalies such recent acquisitions or stock buybacks.

Net margins, which are determined by dividing net income by sales, show how well a business turns sale into profits. While businesses with high net margins, like software, are naturally profitable, sectors with low net margins, like grocery shops, need

substantial sales to be profitable. Better businesses beat industry norms and surpass rivals in net margins (Factors to Take into Account When Analyzing Stocks, 2017).

Being well-informed about the company they are considering investing in is a hallmark of an educated investor. These investors are picky and only invest in businesses that have bright future prospects and large potential profits. On the other hand, a blind investor makes judgments about their investments without sufficient knowledge, depending only on hearsay from friends and family and market rumors. This often results in worse than ideal investment outcomes (Manandhar et al., 2010).

2.2 Empirical Review

Kumar (2009) examined the ways in which individual investors' preferences for lottery-type stocks are influenced by psychological and socioeconomic variables, especially in times of economic recession. The goal of the research was to comprehend how demographic traits influence investing decisions and how they affect stock returns and volatility. The research discovered that certain demographic and religious groupings, as well as urban residency and political affiliation, had a major impact on investing patterns in lottery-type equities. Stronger preferences for these equities were associated with higher mean underperformance for investors. This implies that people's attitudes about risk and gambling behavior influence their choices in the stock market and have an effect on financial results.

Huei-Wen (2011) investigated Taiwanese individual investors' investing habits and the state of financial innovation. The goal of the research was to clarify, for various demographic groups, how behavioral biases like herding, disposition effect, and overconfidence relate to rational decision-making. The analysis of these associations was done by the research using structural equation modeling (SEM) and a thorough survey with 430 respondents. The results showed that behavioral biases may drastically change the results of decisions made, even if logical decision-making is crucial to investing habits. Gender disparities in investing decision-making were highlighted by the different degrees of behavioral biases shown by male and female investors. This emphasizes how crucial it is to comprehend how psychological variables affect financial judgment in various market environments.

The intricate connection between the European Union's (EU) natural gas usage and economic development was studied by Balitskiy et al. (2014). The purpose of the

research was to evaluate the implications of energy security issues, namely the EU's reliance on Russian natural gas supplies. The research used panel time series data from 1997 to 2011 from 26 EU nations. It used a multivariate model that included variables related to total labor force and gross fixed capital creation. A long-term correlation between economic growth, natural gas consumption, and labor and capital inputs was found by the investigation. Economic growth and natural gas consumption were shown to be bidirectionally causal in the short run, with economic expansion having a beneficial impact on natural gas consumption. On the other hand, rising natural gas use had a short-term negative impact on economic expansion, demonstrating the intricate dynamics of the relationships between the energy markets. The results emphasised how crucial it is to diversify energy sources in order to reduce the economic risks brought on by energy reliance.

Vijaya (2014) examined behavioral aspects affecting retail investors in the Indian stock market in order to challenge established finance theories. The research used Principal Component Analysis (PCA) to identify and rank the elements influencing investor behavior. Overconfidence, anchoring, loss aversion, herd behavior, and market variables were the five main behavioral components that were found and examined. Investors and financial planners were able to comprehend basic behavioral biases and how they affected investing strategies thanks to the insights the studies gave. Acknowledging these elements enables investors to make better-informed choices that may increase profits and reduce the dangers brought on by behavioral biases.

Behavioral characteristics affecting individual investors at the Colombo Stock Exchange were investigated by Kengatharan and Kengatharan (2014), with an emphasis on the decision-making processes and performance results of these investors. The research looked at how market, prospect, herding, and heuristic variables affect investor choices in an effort to fill in the gaps in the behavioral finance literature. The research demonstrated the substantial effects of behavioral biases particularly anchoring and herding on investing decision-making via the use of SPSS data analysis. It's interesting to note that whereas some variables had a modest influence on judgments, others, like the herding factor's choice of stock, had no effect. The results indicated that enhancing investor outcomes and market efficiency requires a thorough knowledge of behavioral biases.

Ngoc (2014) looked at the behavioral elements that affected individual investors at the Vietnamese Ho Chi Minh Stock Exchange. Five majors behavioral factors herding, market, prospect, overconfidence-gambler's fallacy, and anchoring-ability bias were the focus of the research. Based on information gathered from 188 individual investors, the research demonstrated how these variables impact stock market dynamics and decision-making. Securities firms might use this information to enhance market efficiency and make better recommendations. Investors who are aware of these behavioral biases might make more logical choices that fit their risk tolerance and financial objectives.

In Khulna City, Bangladesh, Khan et al. (2015) investigated the variables affecting investors' choices to purchase shares. Driven by substantial investments in shares listed on the Chittagong Stock Exchange (CSE) and the Dhaka Stock Exchange (DSE), the research sought to comprehend the psychological, cultural, and socioeconomic elements influencing investing choices. The results emphasized how investor decision-making is influenced by market dynamics, prevailing economic circumstances, and business financial reports. This emphasized how crucial market knowledge and financial literacy are in determining the course and results of investing.

Bakar and Yi (2016) examined psychological aspects influencing investor behavior in the Malaysian stock market, challenging conventional finance assumptions of rational decision-making. The research employed a sample size of 200 investors from the Klang Valley and Pahang districts, focusing on availability bias, conservatism, and overconfidence. The results showed that these psychological elements had a substantial influence on decision-making processes, which in turn affected market inefficiencies. Investors may improve their investing strategies and reduce risks for better financial results by being aware of these biases.

In the capital city of India, Kanojia et al. (2018) looked at how behavioral biases affected investors' decision-making. Seven biases were found and examined in the research, including disposition effect, overconfidence, cognitive dissonance, mood, representative prejudice, and cultural bias. The results indicated that overconfidence and cognitive dissonance were the next biggest factors influencing investment choices, after representational bias. In order to improve market efficiency and investor

welfare, the research stressed that investors must be aware of these biases and take better educated and thoughtful choices when making investments.

An empirical research by Dang et al. (2019) looked at how accounting disclosures affect the choices made by individual investors in the Vietnamese stock market. The research used quantitative techniques, distributing survey questionnaires to investors and doing analysis using SPSS 22. Eleven accounting information elements were assessed by 82 items in the study model. The findings showed that whereas assets and accounting standards had little effect on purchasing, selling, and holding choices, income information had a considerable impact. It's interesting to note that mandated disclosures had less of an impact on investor decision-making than voluntary disclosures did. This emphasizes how crucial thorough and open financial reporting is in influencing investor attitudes and actions in developing economies.

Somathilake (2020) investigated what influences a person's choice of investments on the Colombo Stock Exchange (CSE). Examining the effects of accounting information, impartial information, and advocate suggestions on investment decisions was the goal of the research. 2020 saw the analysis of data from 150 active investors using inferential statistics including regression and correlation. The results showed that accounting information had less of an effect on investment choices than did neutral information and advocacy suggestions. The study's conclusionthat investors often display irrational decision-making tendenciessuggests that brokerage companies should improve the way they provide their customers with accurate information so they may make well-informed investment choices.

The effect of behavioral characteristics on investing success at the Pakistan Stock Exchange (PSX) was examined by Rehan et al. in 2021. The research examined herding, heuristics, market, and prospects as significant factors influencing investing choices using a sample of 155 individual investors. The results showed that behavioral characteristics and investing choices were positively correlated, with notable relationships found between market and herding. The research also emphasized how investing choices operate as a mediator between behavioral characteristics and investment outcomes. In order to improve market efficiency and investor returns, the study emphasized how crucial it is for institutional and individual investors to take behavioral biases into account when making investment choices.

The association between behavioral characteristics and stock market investing choices in Vietnam was examined by Cao et al. (2021). The research used structural equation modeling (SEM), confirmatory factor analysis (CFA), and exploratory factor analysis (EFA) to evaluate data from a survey of 250 investors. The findings showed that herding tendencies, prospects, markets, and heuristics were all important indicators of investing decision-making. According to the research, prospect has the greatest impact on investment success and decision-making. These results highlighted the intricate relationship between psychological variables and investment performance, highlighting the need for investors to identify and reduce biases in order to make the best financial decisions.

The observed behavioral elements impacting investor decision-making on the Nepal Stock Exchange (NEPSE) were studied by Karmacharya et al. in 2023. The research examined market, heuristic, and herding behaviors using structural model analysis and found that these behaviors had a major influence on investment success. The study revealed that investors often rely on market emotions, indicating that stock fundamentals and investor behavior work together to shape market dynamics. The research, which focused on the influence of behavioral variables on investment choices and market results, offered insights into investor behavior in developing countries using a sample of five metropolises in 2018.

The influence of negative media coverage on environmental, social, and governance (ESG) concerns on corporate reputation risks (CRR) and their value relevance on stock performance at the business level was examined by Wong and Zhang (2022). The research enhanced the resource-based approach and signaling theory using empirical methodologies, showing that business reputation is a crucial intangible asset affecting investor opinions. The study found that unfavorable ESG media coverage significantly lowers stock value, especially for smaller, less liquid companies outside the S&P 500. Diverse investor reactions to unfavorable media coverage were found in industry-specific studies, which has ramifications for market valuation and corporate communication tactics across various industries.

The significance of corporate reputation factors for individual investors in the Polish capital market was investigated by Nawrocki and Szwajca (2022). 417 investors participated in an online poll conducted by the research to evaluate a range of reputation factors, including social, financial, and informational elements. The results

showed that among Polish investors, informational components of a company's reputation had the greatest influence, indicating a preference for trustworthy and open corporate communication. The research offered valuable perspectives on the factors that investors consider when making decisions, emphasizing the complex role that reputational characteristics play in influencing investor attitudes and actions within the framework of the capital market.

The impact of mobile apps on the stock and mutual fund investing choices of retail investors was investigated by Nir et al. (2023). The Unified Theory of Acceptance and Use of Technology (UTAUT) framework was used in the research to investigate the predictive elements that impact investors' e-trading adoption habits. The research determined important drivers driving mobile app use for investing reasons, including effort expectation, performance expectancy, and habit, using a sample of 507 answers. The results highlighted how important perceived returns and technical usability are in influencing investor behavior. This has ramifications for financial advisers and technology companies looking to improve user acceptance and participation in developing financial markets.

The effect of corporate governance (CG) on retail investors' ownership levels in Indian listed corporations was examined by Chakraborty et al. in 2023. The research assessed the effect of CG features from 2014 to 2019 using panel data analysis and a wide CG-index based on regulatory frameworks. The findings showed that greater retail shareholdings were positively connected with high-quality corporate governance (CG), with audit and board information having a particular effect. In the context of the Indian stock market, the research offered insights for businesses looking to develop their corporate governance (CG) procedures in order to boost investor trust and regulatory compliance, hence improving market transparency and protecting investors.

Between 2008 and 2018, Azhgaliyeva (2023) carried out a thorough investigation to examine the factors influencing private investment in renewable energy in 13 economies, with a particular emphasis on Asian sub-economies. The study used a fixed effects panel model to statistically evaluate how public policies affect private investment from a range of funding sources, including public markets, corporate R&D, asset finance, and venture capital. The results showed three important insights: firstly, albeit to differing degrees, private investment in business R&D and asset

financing was favorably impacted by government spending on R&D. Second, especially in the Asian setting, feed-in tariffs greatly increased investments in renewable energy via public markets. Thirdly, the effects of tax incentives varied depending on the kind of funding. In conclusion, the expenses associated with technology and energy have become significant motivators for asset financing investments, particularly in Asian nations. The report emphasizes how crucial it is to implement targeted policy changes to encourage investments in renewable energy via a variety of financial channels.

Ah Mand et al. (2023) examined the impact of market circumstances on investor herding behavior in the stock market of a developing nation, concentrating on the differences between Islamic and conventional equities. The research employed Chang et al. (2000) herding behavior model based on cross-sectional absolute deviation of returns using daily data from 1995 to 2016. The results showed clear patterns: conventional equities did not show herding behavior in identical conditions, but Shariah-compliant stocks did show nonlinear correlations during market ups and downs. Furthermore, even though the correlation between herding behavior and market returns was not always strong, the research found considerable herding activity during market upturns. The resilience of these conclusions was confirmed in a variety of market scenarios, including the Asian and worldwide financial crises. By distinguishing between rational and irrational market actions under various economic situations, this study offers investors insightful information.

Almeida and Gonçalves (2023) used the VOSviewer 1.6.17 program to synthesize information from 166 publications in their thorough systematic literature study on investor behavior in the cryptocurrency market. The goal of the research was to pinpoint the sociodemographic traits, behavioral patterns, and trends that affect bitcoin investing choices. Important discoveries showed that herding behavior, which is primarily motivated by social influence and market mood, is common in the bitcoin market. The study found that because of the inherent unpredictability in the cryptocurrency market, many investors base their choices more on speculative mood than on basic analysis. The research also highlighted the inefficiencies in the bitcoin industry and pinpointed the sociodemographic traits that influence investment behavior. The results add to a systematic knowledge of the dynamics of the

cryptocurrency market and provide researchers, investors, and regulators with new perspectives on how to improve investor protection and market efficiency.

Using quantitative research techniques, Sapkota and Chalise (2023) investigated the influence of investor behavior on equity investment choices within the Nepalese stock market. A descriptive-analytical research approach was used in the study, which included 400 individual investors from leading brokerage companies as a sample. A self-administered closed-end structured questionnaire was used for data collection, and 293 individuals provided answers. Multiple regression analysis and correlation coefficients were used as analytical tools to investigate the connection between investor behavior and equity investing choices. The findings showed that investor behavior has a major impact on equity investing choices. Specifically, the results highlighted inclinations toward excessive trading, portfolio selling for profits, and overreactions and underreactions in the market. Surprisingly, in this situation, investor behavior was not significantly influenced by gender. To reduce irrational investing behaviors and improve market efficiency in Nepal's financial system, the research promotes focused measures such investor education and behavioral finance training.

Table 1

Literature Review

Author(s)	Objectives	Methods	Variables	Findings	Conclusion
Kumar (2009)	Examine the correlation between gambling propensity and investment decisions, particularly lottery-type stocks.	Aggregate and cross-sectional analysis.	Independent: Socioeconomic factors, lottery environments. Dependent: Investment in lottery-type stocks.	Preference for lottery-type stocks increases during economic downturns. Lottery-related underperformance among low-income investors. State lotteries and lottery-type stocks attract similar clienteles.	Gambling propensity and investment decisions are correlated.
Lin (2011)	Investigate rational investment decisions and behavioral biases among Taiwanese individual investors.	Survey (sampling survey of 430 respondents)	Independent: Demographic variables. Dependent: Disposition effect, herding, overconfidence.	Irrational biases exist in various decision-making stages. Gender differences in disposition effect, herding, and overconfidence.	Rational decision-making plays a role in investment behaviors among individuals.
Balitskiy et al. (2014)	Evaluate the relationship	Panel time series data	Independent: Natural gas	Long-run relationship	Natural gas consumption

	between natural gas consumption and economic growth in the EU.	analysis.	consumption, labor, capital. Dependent: Economic growth.	between economic growth and natural gas consumption. Bidirectional causality in the short run.	affects economic growth in the EU.
Vijaya (2014)	Identify factors influencing retail investor behavior in the Indian stock market.	Principal Component Analysis (PCA).	Factors: Overconfidence, Anchoring, Loss Aversion, Herd behavior, Market factors.	Five major factors influencing retail investor behavior identified. Useful for investors and financial planners.	Factors other than rationality influence investment decisions in the stock market.
Kengatharan & Kengatharan (2014)	Explore behavioral factors influencing individual investors at the Colombo Stock Exchange and their impact on investment performance.	Survey (questionnaires) and data analysis (SPSS).	Factors: Herding, Heuristics, Prospect, Market, Overconfidence, Anchoring.	Several behavioral factors affect investment decisions. Three variables influence investment performance.	Herding, overconfidence, and anchoring influence investment performance.
Ngoc (2014)	Investigate behavioral factors influencing decisions of individual investors at the Ho Chi Minh Stock Exchange.	Survey (188 responses).	Factors: Herding, Market, Prospect, Overconfidence, Anchoring.	Identifies five behavioral factors of individual investors.	Findings can help Securities Companies better understand investor decisions and improve stock market dynamics.
Khan et al. (2015)	Investigate factors influencing share investment decisions in Bangladesh's Khulna City.	Survey (sample of 270 investors)	Independent: Financial security examples, Market factors, Hedging factors, Economic factors, Corporate annual report. Dependent: Investment decisions.	Financial security examples have the most influence. Market, hedging, and economic factors also influence decisions. Corporate annual reports play a role.	Socio-economic, cultural, and psychological factors affect share investment decisions in Khulna City.
Bakar & Yi (2016)	Examine the impact of psychological factors on investors'	Questionnaires (sample size of 200 investors)	Independent: Psychological factors (Overconfidence,	Overconfidence, conservatism, and availability bias impact decision-	Psychological factors play a role in Malaysian investors'

	decision-making in the Malaysian stock market (Klang Valley and Pahang).		Conservatism, Availability bias, Herding behavior), Gender. Dependent: Investors' decision-making.	making. Herding behavior does not. Gender affects psychological factors' impact.	decisions, with gender differences noted.
Kanojia et al. (2018)	Investigate factors influencing individual investors in the Indian Stock market.	Correlation and regression analysis (data from 150 investors).	Independent: Accounting information, Neutral information, Advocate recommendation. Dependent: Individual investment decisions.	Neutral information and advocate recommendation influence decisions. Accounting information is less influential. Investors not always rational.	Accounting information is less influential in Indian stock market decisions; brokerage firms should communicate reliable information.
Dang et al. (2019)	Analyze the impact of accounting disclosures on individual investors' decision making in the Vietnam Stock Market.	Survey questionnaires (SPSS analysis, 82 items, 11 accounting information groups)	Independent: Income information, assets, accounting principles, policies, voluntary disclosures, mandatory disclosures. Dependent: Investment decisions.	Income information significantly affects decisions. Assets, principles, and policies have limited impact. Voluntary disclosures more effective.	Income information influences Vietnam stock market decisions more than other accounting factors.
Somathilake (2020)	Explore factors influencing individual investment decisions in the Colombo Stock Exchange.	Correlation and regression analysis (data from 150 investors).	Independent: Accounting information, Neutral information, Advocate recommendation. Dependent: Individual investment decisions.	Neutral information and advocate recommendation influence decisions. Accounting information is less influential. Rationality questioned.	Neutral information and advocate recommendation play a role in Colombo Stock Exchange decisions; investors not always rational.
Rehan et al. (2021)	Investigate the impact of behavioral factors on investment decisions and performance in the Pakistan Stock Exchange.	Questionnaires (sample size of 155 investors)	Independent: Herding, heuristics, market, prospects. Dependent: Investment decisions, investment performance.	Behavioral factors correlate with investment decisions and performance. Market and herding have positive associations.	Behavioral factors impact Pakistan Stock Exchange decisions and performance; market and herding are positively associated.
Karmachary a et al. (2022)	Examine perceived behavioral	Structural model analysis (data from 350	Independent: Market, heuristic,	Market, heuristic, and herding factors	Market, heuristic, and herding factors

	factors' impact on investment decisions and performance in the Nepal Stock Exchange.	investors).	herding factors. Dependent: Investment performance.	significantly impact investment performance. Investors rely on market information.	affect Nepal Stock Exchange decisions and performance; market information is crucial.
Wong & Zhang (2022)	Investigate the value relevance of corporate reputation risks (CRR) from adverse media coverage of ESG issues on stock performance.	Data analysis and regression (firm-level analysis).	Independent: Corporate reputation risks (CRR), ESG media coverage. Dependent: Firm valuation (stock performance).	Adverse ESG media coverage negatively impacts firm valuation, especially for smaller and less liquid firms. Industry differences noted.	Adverse ESG media coverage affects firm valuation; firm characteristics and industry play a role in investor reaction.
Nawrocki& Szwajca (2022)	Examine the importance of various aspects of a company's reputation for individual stock market investors in Poland.	Internet survey (417 individual investors).	Variables: Cognitive, affective aspects of reputation.	Informational aspects of company reputation are more important than financial, growth, and social aspects for Polish individual investors.	Informational aspects of company reputation hold the most importance for Polish investors.
Nair et al. (2023)	Investigate mobile apps' influence on investment decisions by retail investors in emerging financial markets.	Questionnaire (507 usable responses), UTAUT framework, Goal contagion theory.	Independent: Effort expectancy, Performance expectancy, Perceived return, Habit, Perceived risk. Dependent: Behavioral intentions to use mobile applications.	Effort expectancy, performance expectancy, and perceived return are primary determinants of behavioral intentions to use mobile apps. Habit influences adoption behavior. Perceived risk is not as important.	Mobile app usage for investment decisions is influenced by various factors, with perceived return being a key driver.
Chakraborty et al. (2023)	Examine the impact of corporate governance on retail investors' shareholding in Indian listed firms.	Panel data approach (2014–2015 and 2018–2019).	Independent: Corporate governance attributes, Audit and board information. Dependent: Retail shareholdings.	Firm-level corporate governance quality positively affects retail investors' shareholding. Investors focus on audit and board information. Impact varies with firm	CG practices, especially regarding audit and board information, influence retail shareholding levels in Indian firms. Regulators should monitor and strengthen governance quality.

				characteristics.	
Azhgaliyeva et al. (2023)	Analyze drivers of private investment in renewable energy for 13 economies, with a focus on Asian economies.	Fixed effects panel model (2008–2018).	Independent: Government renewable energy policies, Feed-in tariffs, Tax incentives, Technology costs, Energy prices. Dependent: Private investment in renewable energy by source of financing.	Government expenditure on R&D affects investment from asset finance and corporate R&D. Feed-in tariffs stimulate public market investment, especially in Asia. Tax incentives have mixed effects. Technology costs and energy prices affect asset finance investment.	Government policies and market conditions influence private investment in renewable energy, with variations across financing sources and regions.
Ah Mand et al. (2023)	Investigate market conditions' effect on herding behavior in an emerging economy's stock market (Islamic vs. conventional stocks).	Daily data (1995–2016), Herding behavior model of Chang et al. (2000).	Independent: Market conditions, Market return, Shariah compliance. Dependent: Herding behavior.	Herding behavior exists among Shariah-compliant stocks, with non-linear relationship to market return. Conventional stocks do not exhibit herding behavior. Market-wide herding exists during upmarkets.	Market conditions affect herding behavior in stock markets, especially among Shariah-compliant stocks. Investors' behavior is influenced by market conditions.
Almeida & Gonçalves (2023)	Conduct a systematic literature review on investor behavior in cryptocurrency markets.	Bibliometric analysis, systematic literature review (166 papers).	Variables: Herding behavior, Social influence, Public sentiment, Fundamentals, Socio-demographic characteristics, Market inefficiency.	Presence of herding behavior in crypto markets due to social influence and public sentiment. Market dominated by irrational investors. Uncertainty of fundamentals leads to dispersed beliefs. Socio-demographic characteristics and market inefficiency affect behavior.	Crypto investors often exhibit herding behavior influenced by social factors. Regulators and academics should consider these factors in crypto market regulation.

Sapkota & Chalise (2023)	Examine the influence of investors' behavior on equity investment decisions in Nepal.	Descriptive cum analytical research design, 400 individual investors' sample.	Independent: Investors' behavior, Gender. Dependent: Equity investment decisions.	Investors' behavior significantly influences equity investment decisions. Gender is not a significant factor.	Investors' behavior plays a crucial role in equity investment decisions in Nepal. Financial markets are influenced by investor behavior and irrationality.

2.3 Research Gap

In light of the previously examined literature, a particular research need regarding a thorough knowledge of investor behavior in the context of Nepal's stock market exists. Although a number of topics have been studied, including how investor sentiment affects market dynamics (Rehan et al., 2021) and how socioeconomic and demographic factors affect investment decisions (Sapkota & Chalise, 2023), there hasn't been enough research done on the key factors that particularly affect individual investors' decisions when choosing stocks in Nepal. In contrast to the complexities of stock market decision-making in this location, Azhgaliyeva (2023) concentrated on investments in renewable energy. Wong and Zhang (2022) similarly focused on corporate reputation concerns as opposed to the actions of individual investors.

Previous studies tend to extrapolate conclusions from urban investors (Somathilake, 2020), perhaps ignoring differences in investing behavior across Nepal's rural and varied socioeconomic backgrounds. Furthermore, a dearth of integrated studies that methodically examine how various factors interact to influence investment decisions in Nepal's stock market exists, despite the fact that some studies have examined prospect variables (Azhgaliyeva, 2023), market variables (Nawrocki & Szwajca, 2022), herding behavior (Karmacharya et al., 2023), and heuristic factors (Cao, Nguyen & Tran, 2021).

As such, the research gap highlights the need of conducting a targeted study on the joint impact of heuristic, herding, market, and prospect factors on investor behavior in the context of Nepal's stock market. Such a research would make a substantial contribution by offering complex insights that might guide behavioral finance theory developments as well as real-world applications for Nepali regulators and market players.

CHAPTER III
RESEARCH METHODOLOGY

The population and sample, sampling procedure, data type and source, data analysis tools, study framework, and variable definitions are all covered by the research methodology.

3.1 Research Design

The study used a descriptive and causal research designs. The study's independent variables include heuristic behavior, prospect attitude, market state, and herding behavior, whereas the dependent variable is the investor's investment choice. A selection of 310 investors is made. The research uses a regression model to show the relationship between the variables and descriptive statistical methods like standard deviation, mean, and percentage to explain the data gathered.

3.2 Population, Sample and Sample Procedure

The target population for the research is every individual investor in the stock market. The study's participants included all investors with DEMAT account holders who applied for initial public offerings (IPOs) and made secondary market investments in the Kathmandu District. Convenience sampling was used to choose 310 DEMAT account holders from the Kathmandu District who were applying for an initial public offering (IPO) and who wanted to engage in the secondary market. The purpose of the sample was to determine the investors' knowledge, views, sentiments, and attitudes about investing. A total of 500 questionnaires were sent out, and 396 responses were gathered. Only 310 of the responses, however, were relevant. 310 investors are chosen as a sample in accordance with this criterion. For the purpose of distributing surveys via Google survey in 2024, 310 respondents who are readily evaluated were chosen using the convenience sample approach.

3.3 Nature and Sources of Data

Original data is widely used in this study. A structured questionnaire is used to collect primary data from individual stock market investors. For the sake of the questionnaire, the investors are walk-in only. Knowledge of initial public offerings (IPOs) and secondary markets, along with elements like prospectus reading, educational background, and prior stock market experience, are all included in the questionnaire. These elements form the foundation for the investor's decision-making

style, which may be categorized as either intelligent or blind. These independent variables are used to assess an investor's awareness of stock market information as well as the risk involved in their activity. A five-point Likert scale is used to assess the majority of the items. A multiple-choice questionnaire was used to gauge investor preferences for both initial public offerings (IPOs) and secondary market stock purchases.

3.4 Data Collection Procedures

A five-point Likert scale, ranging from 1 to 5, is used in a typical questionnaire used to ask questions of individual stock market investors. 1. firmly agree; 2. disagree; 3. remain neutral; 4. disagree; and 5. strongly disagree. Consequently, choices 1 and 2 showed agreement with the claims, and choices 4 and 5 indicated disagreement. Researchers may gather data using this five-point Likert scale that goes beyond simple binary responses (agree or disagree). It makes it possible to gauge the intensity of respondents' views, providing a more comprehensive understanding of their thoughts.

3.5 Tools of Data Analysis

Descriptive statistics are used in this research along with main data analysis, which is carried out utilizing survey answers. Microsoft Excel was used to code the responses before SPSS was used to assess them. In this research, descriptive statistics like mean, standard deviation, and percentage were used along with regression modeling and correlation analysis. The demographic variable was explained using descriptive statistics. The variables mean, percentage, and frequency were used to define it. The relationship between dependent and independent variables may be ascertained by correlation analysis. Regression analysis is used to examine the effects of independent factors on the dependent variable, accounting for the possible impact of demographic variables as well.

Regression Model

Regression analysis is a statistical technique that uses one or more independent variables to predict values for the dependent variable. Finding the link between the independent and dependent variables is one of the key goals of a regression study. One or more independent variables that may aid in forecasting are chosen in order to predict the dependent variable. It makes it easier to evaluate how reliable the predictor

components (heuristic behavior, prospect attitude, market condition, and herding behavior) are in predicting the dependent variable, which is the investment decision. The link between one or more independent variables and a response, dependent, or target variable is explained using regression models. It may be calculated as follows:

$ID=\beta_0+\beta_1HB_1+\beta_2PA_2+\beta_3MS_3+\beta_4HEB_{4+}e$

Where,

ID	= Investment Decision
HB	= Heuristic Behavior
PA	= Prospect Attitude
MS	= Market Status
HEB	= Herding Behavior
β0	= Constant
β1 to β4	= Coefficient
e	= Error terms

3.6 Reliability

The Cronbach's analysis was used in the reliability research. The dependability and internal consistency of the measurements were evaluated using this method. A reliability value of 0.7 was recommended by Nunnally (1978); although, lower cutoff values have been employed in other investigations. As a result, the study's acceptable Cornbach's alpha was 0.7 or higher. Using SPSS software, the Cornbach's alpha test was conducted.

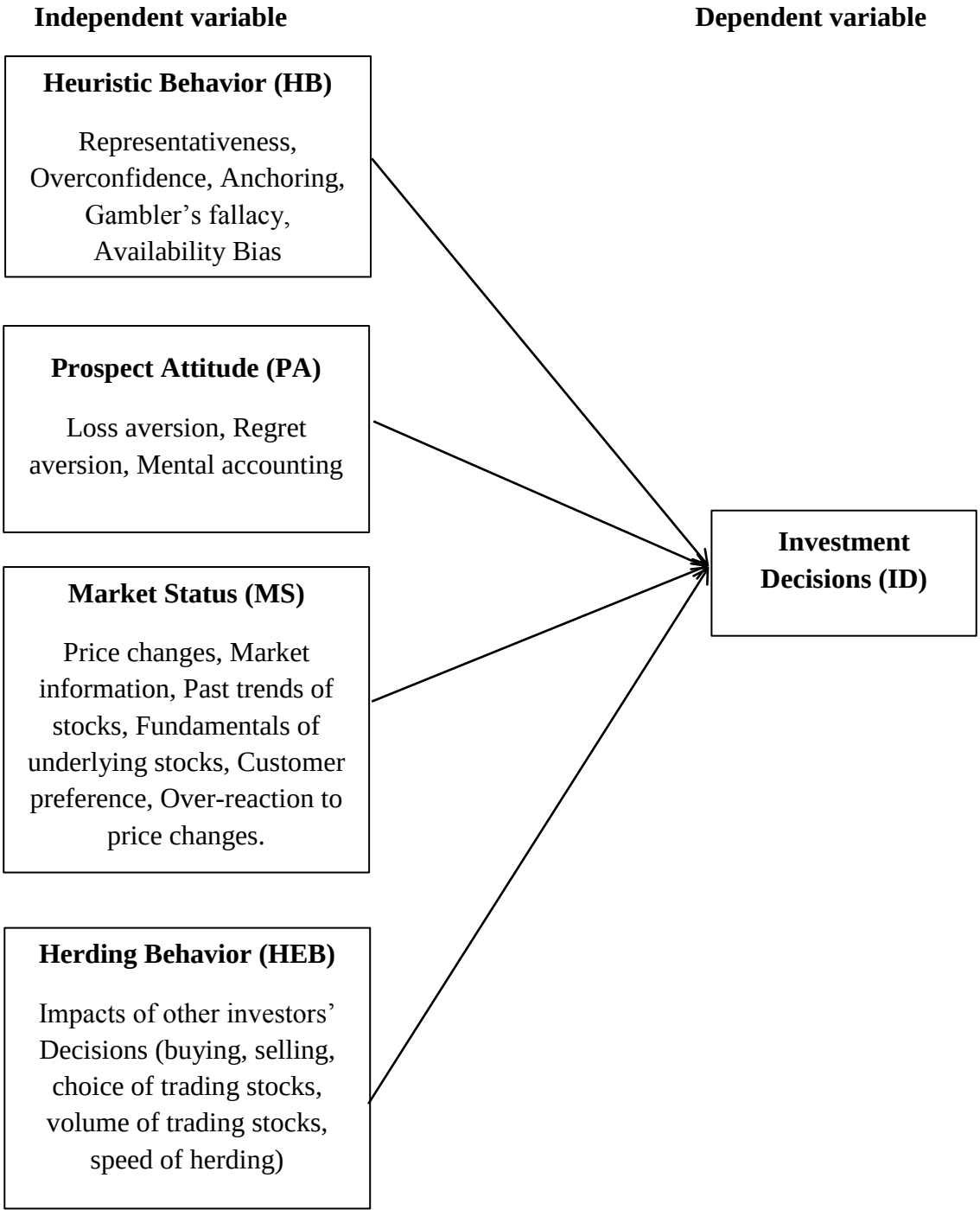
Cronbach's Alpha	N of Items
0.891	25

The internal consistency or reliability of a test or questionnaire is evaluated using a statistic known as Cronbach's Alpha. The test's items have a high degree of internal consistency and are well related to one another, as shown by their Cronbach's Alpha rating of 0.891. In this case, the phrase "N of Items" refers to the total number of questions or items in the exam of 25.

3.7 Conceptual Framework

The following is a list of the independent and dependent variables related to the study topic: individual stock market investor behavior in Nepal. The research categorized

the components into four groups: prospect variables, market variables, herding decision variables, and heuristic variables.



Source: Zingales (1995)

Figure 1: Research Framework

Definition of Variables

Heuristic Variables

A variety of mental heuristics known as "heuristic variables" may impact decision-making in complicated settings and provide prompt clues to speed up the process

(Tversky & Kahneman, 1974). Availability bias, Gambler's fallacy, representativeness, overconfidence, and anchoring are a few characteristics that affect the choices made by investors in the financial sphere. Representativeness may cause investors to underestimate the long-term effects of current events by supposing that established patterns will continue, according to Kahneman and Tversky (1973). According to Lichtenstein and Fischhoff (1977), overconfidence may boost risk tolerance and cognitive agility, which can lead to improved performance. Anchoring, which often leads to an attachment to past facts, is the practice of investors who base stock prices and investing strategies on prior trends (Tversky & Kahneman, 1974). Investors that are susceptible to the Gambler's Fallacy, which may occur when one misinterprets historical performance, wrongly assume that favorable market patterns will continue (Croson & Sundali, 2005). An over-reliance on easily accessible information is the fundamental source of availability bias, which may lead to a preference for well-known or easily accessible investment prospects over diverse options (Tversky & Kahneman, 1973). Collectively, these heuristic factors have a big impact on how investors act and choose in the financial markets.

Prospect Variables

Investor decision-making in the stock market is influenced by a variety of psychological elements referred to as prospect variables. According to Barberis and Thaler (2003), individual investors are often less influenced by attention-grabbing stocks when deciding whether to sell or buy because of the constraints placed on them by short-sale laws. The reason for this disparate effect is that investors are forced to choose which equities to sell based solely on what they now possess. However, when it comes to selecting what to purchase, investors have more options. Additionally, by assisting investors in efficiently managing their portfolios, the personal inventory structure has shown to provide more favorable outcomes. A few significant prospect variables are Regret Aversion, which influences decision-making to avoid regrets in the future and can sometimes prevent poor choices but also result in suboptimal decisions influenced by the fear of regret; Mental Accounting, a Richard H. Thaler framework in which people categorize their funds differently, which can lead to irrational decisions about spending and investing and can also cause people to occasionally miss important connections between investment opportunities (Barberis & Thaler, 2003; Tversky & Kahneman, 1991; Zeelenberg & Pieters, 2007; Thaler,

1999). The complicated landscape of investors' financial market decision-making is increased by each of these predicted factors.

Market Variables

A wide range of external factors known as "market variables" significantly impact the choices that investors make in the stock market. Depending on changes in the market price, stocks that investors favor, and consumer sentiment, investors may react to market circumstances either excessively or inadequately. Changes in fundamental values, market prices, and market knowledge are examples of these market aspects that investors often see as important occurrences that might affect their trading choices. Behavioral finance theories suggest that an investor's propensity to ignore a stock's fundamentals, extrapolate previous patterns into the future, and overreact or underreact to price movements may all be influenced by market conditions. An investor's decision-making process may be influenced by key market factors such as price changes, market knowledge, historical stock trends, customer preferences, and overreaction to price swings. The classic idea of market efficiency is challenged by the fact that these market characteristics, although not technically behavioral qualities, have a major effect on investor behavior and may affect decision-making processes in the stock market (Zingales, 1995). Behavioral and market elements must thus be integrated in order to fully understand how investors make stock market bets.

Herding Variables

One herding characteristic in investor behavior is the inclination of investors to follow the lead. The stock market's risk characteristics and performance metrics may be impacted by this phenomenon. Reputation-based herding is driven by prominent traders or investors; compensation-based herding is brought on by institutional money managers seeking to preserve year-end profits; and information-based herding is the result of investors reacting in unison to newly revealed information. Herding behavior can disrupt market efficiency and is of interest to psychology researchers and financial practitioners because it has the potential to cause price deviations from intrinsic value, which could impact investment opportunities and stock price movements, ultimately influencing risk and return models and asset pricing theories. Perceived risk, which is influenced by an investor's subjective worldview and personal risk tolerance, is another significant consideration in investment decision-

making. Investors' perceptions of risk may be influenced by the information at their disposal, and a lack of knowledge may cause danger to seem more real. Perceived risk plays a major role in investor behavior that determines stock market risk management and investing strategies since gender variations in risk-taking behavior also affect investment choices (Zingales, 1995; Shrestha, 2016).

Investment Decision

An "investment trade" is when a firm buys a share or debenture in another company with the intention of improving the first company's trade or business. The buying of stock and shares by one company from another is known as trade investment. One of the many reasons people invest in trading is to generate more income. A chosen investment, as defined by Niroula (2015), is the purchase of a financial or real asset by an individual or institutional investor with the goal of realizing a return proportionate with the risk taken during the investment period. To take advantage of events like interest, dividends, and stock splits, investors sometimes hang onto their assets for years or even decades. Investors often "ride out" downtrends in the hope that prices would rebound and any losses will ultimately be recovered, despite the fact that market volatility are unavoidable. Investors often place more weight on market fundamentals such as price-to-earnings ratios and management forecasts.

CHAPTER IV
RESULTS AND DISCUSSION

4.1 Results

By determining the state of investor behavior, studying the influence of these elements on investment choices, and investigating the links between behavioral characteristics and investment decisions, the research seeks to investigate individual investor habits in the Nepalese stock market. A demographic profile with a high level of educational attainment, a majority of respondents in the age range of 21 to 30, and a preponderance of male respondents is shown by a descriptive analysis. Significant connections between heuristic behavior, prospect attitude, market conditions, herding behavior, and investing choices are shown by correlation analysis. Regression analysis provides insights for enhancing investment strategies and maintaining market stability by quantifying the effect of these variables and demonstrating how they affect investment decisions together.

4.1.1 Respondents' Profile Analysis

Table 2 presents a detailed summary of the respondents' demographic profile, which includes information on gender, age, education level, trading frequency, and investing experience. The data indicates a younger and mostly male sample, with a majority of responders being in the age range of 21 to 30. The responders have excellent educational backgrounds; the majority have PhD degrees. The bulk of them have two to ten years of expertise in investing, and they typically trade infrequently. These demographic insights underline the need of taking these aspects into account when interpreting the results, as they are essential for comprehending the context and applicability of the survey findings.

The gender distribution of the respondents is shown in Table 2, which shows that men make up the majority of the respondents. In particular, 109 respondents, or 35.2% of the sample, are female, while 201 respondents, or 64.8% of the sample, are male. Males may be more interested in the setting of the research or more likely to participate in the survey, based on the considerable gender discrepancy observed. The results may not be as generalizable as they may be due to a gender bias in the data collection caused by the preponderance of male respondents.

Table 2

Respondents' Profile Analysis

Category		Frequency	Percent
Gender	Male	201	64.8
	Female	109	35.2
Age			
	Below 20 Years	22	7.1
	21-30 Years	160	51.6
	31-40 Years	106	34.2
	Above 40	22	7.1
Education Level			
	School Level	19	6.1
	Undergraduate	65	21.0
	Graduate	226	72.9
Investment Experience			
	Below 2 Years	121	39.0
	2-10 Years	150	48.4
	Above 10 Years	39	12.6
Frequency of Trading			
	Frequently	83	26.8
	Occasionally	140	45.2
	Rarely	87	28.1
Total		310	100

Source: Survey, 2024

The age distribution of the respondents shows that, with 160 respondents, or 51.6% of the total, the biggest age group is between the ages of 21 and 30. With 106 responders (34.2%), the age group of 31 to 40 years old is the second biggest. With 22 respondents each, or 7.1% of the sample, the respondents under 20 and over 40 years old constitute smaller groupings than the overall sample. Because the majority of respondents were in the age range of 21 to 30, it's possible that the results are more representative of the attitudes and actions of younger individuals, which might restrict our understanding of older or very young populations.

226 people (72.9%) are the most educated among the respondents, with an average of a master's degree. Those with just a high school education (19 respondents, 6.1%), and those with an undergraduate degree (65 respondents, 21.0%) come next. The survey results may be impacted by those with greater educational attainment, as shown by the large percentage of respondents with graduate-level education. This

might have an impact on how the study's findings on knowledge, awareness, and decision-making tendencies are interpreted.

The majority of respondents (150, or 48.4%) had between two and ten years of experience in investing, however experiences vary. Of the respondents, 121 persons (39.0%) have fewer than two years of experience, while 39 individuals (12.6%) have more than ten years of experience. The results may mostly represent the opinions of somewhat experienced investors, which may vary from those of rookie or very seasoned investors, as shown by the preponderance of respondents with intermediate investing experience (2–10 years). According to the respondents' trading frequency, 140 (45.2%) trade once in a while, 87 (28.1%) deal seldom, and 83 (26.8%) trade often.

4.1.2 Descriptive Analysis

A thorough examination of investor behavior and decision-making processes in the Nepalese stock market can be found in the introduction to Tables 3–9. These tables include information on investor herding patterns, risk attitudes, market views, and heuristic tendencies. They emphasize the strong relationships that exist between these variables and investment choices, highlighting how they together affect investor behavior and market dynamics. These results advance our knowledge of investor psychology and guide the development of policies that support rational decision-making and stable markets in Nepal.

Table 3

Status of Heuristic Behavior

Heuristic Behavior Items	Mean	SD
I consult with others ultimately choose my own investment.	4.20	0.977
I would invest in stock underestimating forecasting errors.	3.54	1.175
I would make investments based on previous trends.	3.93	0.97
I would make investments based on information that investors have access.	3.87	0.951
I would invest in stock without considering the effect of market return.	3.46	1.321
Weighted average mean and SD	3.80	1.08

Source: Survey, 2024

The status of heuristic behavior among stock market investors in Nepal is shown in Table 3, with mean scores and standard deviations (SD) across several heuristic assertions serving as indicators. The highest mean score of 4.20, with a standard deviation of 0.977, suggests that a sizable segment of investors seek advice from others before making their own financial choices. This implies a propensity to ask for guidance while retaining financial independence. On the other hand, statements like "I would invest in stock without considering the effect of market return" (mean = 3.46, SD = 1.321) and "I would invest in stock underestimating forecasting errors" (mean = 3.54, SD = 1.175) have somewhat lower mean scores, suggesting that respondents do not use these heuristic strategies as frequently. With a standard deviation of 1.08 and a weighted average mean score of 3.80 overall for all categories, Nepalese investors seem to exhibit a modest degree of heuristic behavior.

According to the results, investors often approach investing choices with varied degrees of heuristic dependence, even while they frequently rely on their own judgment and the counsel of others. This hybrid strategy may have varying effects on risk management tactics and investment results, affecting investor sentiment and market dynamics.

Table 4

Status of Prospect Attitude

Prospect Attitude items	Mean	SD
I consider levels of risk associated with particular stocks before investing in stock market.	4.20	0.759
I consider greater performance and a higher return on investment to avoid loss.	4.00	0.872
I would consider connections between various investment opportunities to prevent regretting a different choice.	4.04	0.814
I stay optimistic during great loss.	3.77	1.111
I invest in companies who has potential growth in future.	4.16	0.957
Weighted average mean and SD	4.03	0.90

Source: Survey, 2024

Table 4 provides an overview of investor prospect attitudes in the Nepalese stock market, with an emphasis on mean scores and standard deviations (SD) for different

attitude statements. The highest mean score of 4.20, with a standard deviation of 0.759, suggests that a considerable proportion of investors take stock risk into account before making an investment. This risk-aware strategy implies that investors have a tendency to evaluate and control risk as a component of their investment plan. Similarly, there is a strong tendency towards strategic investment planning and risk mitigation in statements like "I would consider connections between various investment opportunities to prevent regretting a different choice" (mean = 4.04, SD = 0.814) and "I invest in companies with potential growth in the future" (mean = 4.16, SD = 0.957). In contrast, there is a lower mean score for the statement "I stay optimistic during great loss" (mean = 3.77, SD = 1.111), which suggests that investors maintain a modest degree of optimism in the face of substantial financial losses. With a standard deviation of 0.90 and a weighted average mean score of 4.03 overall across all criteria, Nepalese investors seem to have a typically optimistic and risk-aware prospect attitude.

According to the research, Nepalese investors prioritize prospective profits and strategic planning while taking a balanced approach to risk assessment and investment decision-making. Their investing habits, methods for managing their portfolios, and the dynamics of the market as a whole may all be impacted by this mindset.

Table 5

Status of Market Status

Market Status Items	Mean	SD
I consider fundamentals of the underlying stock and stock price before trading stocks.	4.13	0.768
I believe that price change of stocks has impact on my buying behavior of stocks.	4.06	0.781
I would invest in stock according to financial information presented/ new information.	4.06	0.857
I would concentrate on popular stocks and seasonal price cycles for investment.	3.84	0.964
I prefer investing in higher market capitalized companies only	3.84	1.071
Weighted average mean and SD	3.99	0.89

Source: Survey, 2024

Table 5 presents a comprehensive examination of investors' impressions of the market situation in the Nepalese stock market. It includes information on mean scores and standard deviations (SD) for each statement. The highest mean score of 4.13, with a standard deviation of 0.768, suggests that a considerable proportion of investors think about the underlying companies' and their prices' fundamentals before making trading choices. This method to fundamental research implies that investors would rather have a comprehensive evaluation of market circumstances and financial data. A significant tendency to react to changes in the market and information updates is seen in statements like "I would invest in stocks based on financial or new information" (mean = 4.06, SD = 0.857) and "I believe that price changes of stocks impact my buying behavior" (mean = 4.06, SD = 0.781). The statements "I would concentrate on popular stocks and seasonal price cycles for investment" (mean = 3.84, SD = 0.964) and "I prefer investing in higher market capitalized companies only" (mean = 3.84, SD = 1.071) on the other hand, have slightly lower mean scores, indicating a moderate emphasis on market trends and company size in investment decisions. With a standard deviation of 0.89 and a weighted average mean score of 3.99 overall across all categories, Nepalese investors seem to have a balanced understanding of market status factors.

The results indicate that while making investment choices, Nepalese investors give importance to fundamental research and agility in response to market fluctuations. Their entire market involvement, risk management procedures, and investment strategies may all be impacted by this strategic approach. Policymakers and market players hoping to improve investor confidence, efficiency, and transparency in Nepal's stock market must comprehend these perspectives of the market's position.

Table 6

Status of Herding Behavior

Herding Behavior Items	Mean	SD
I would invest stock by following my friends' recommendation.	3.48	1.294
I would invest in the stock market as my relatives are investing.	3.39	1.254
I would follow the newspaper when buying/selling stocks.	3.65	1.11
I would follow the market information to trade.	3.95	0.921
I would follow active investors of stock market while trading stocks.	3.97	0.881
Weighted average mean and SD	3.69	1.09

Source: Survey, 2024

In Table 6, the frequency of herding behavior among stock market investors in Nepal is investigated. The mean scores and standard deviations (SD) for each behavioral assertion are provided. The statements that have the highest mean scores are "I would follow market information to trade" (mean = 3.95, SD = 0.921) and "I would follow active investors of the stock market while trading stocks" (mean = 3.97, SD = 0.881). These results point to a propensity among investors to base their judgments on market trends and the activities of seasoned traders. In contrast, the mean scores of statements such as "I would invest in stocks based on my friends" recommendations" (mean = 3.48, SD = 1.294) and "I would invest in the stock market because my relatives are investing" (mean = 3.39, SD = 1.254) are lower. This suggests that social and familial networks have a somewhat less pronounced influence on investment choices. With a standard deviation of 1.09 and a weighted average mean score of 3.69 overall across all criteria, Nepalese investors generally exhibit a modest degree of herding behavior.

According to the results, Nepalese investors emphasize market information and the activities of active market players in their trading tactics, notwithstanding their mild tendency toward herding. This kind of conduct has the potential to impact short-term swings in stock prices by adding to market volatility and momentum effects. Comprehending these herding tendencies is essential for formulating regulatory measures and investor education initiatives that encourage well-informed decision-making and reduce possible hazards linked to herd mentality in the stock market.

Table 7

Status of Heuristic Behavior

Heuristic Behavior Items	Mean	SD
I consult with others ultimately choose my own investment.	4.20	0.977
I would invest in stock underestimating forecasting errors.	3.54	1.175
I would make investments based on previous trends.	3.93	0.97
I would make investments based on information that investors have access.	3.87	0.951
I would invest in stock without considering the effect of market return.	3.46	1.321
Weighted average mean and SD	3.80	1.08

Source: Survey, 2024

An investigation of heuristic behaviors among stock market investors in Nepal is shown in Table 7, which includes mean scores and standard deviations (SD) for a variety of behavioral assertions. The highest mean score of 4.20, with a standard deviation of 0.977, suggests that a sizable segment of investors seek advice from others before making their own financial choices. This implies a propensity to retain financial autonomy while seeking outside counsel.

On the other hand, statements like "I would invest in stock without considering the effect of market return" (mean = 3.46, SD = 1.321) and "I would invest in stock underestimating forecasting errors" (mean = 3.54, SD = 1.175) have lower mean scores, indicating that respondents do not use these heuristic strategies as frequently. With a standard deviation of 1.08 and a weighted average mean score of 3.80 for all categories, Nepalese investors seem to exhibit a modest degree of heuristic behavior.

According to the results, investors show various degrees of reliance on streamlined decision criteria and prior experiences, even though they often integrate outside guidance into their decision-making processes. This hybrid strategy may have varying effects on risk management tactics and investment results, affecting investor behavior and market dynamics. Designing focused interventions and educational programs aiming at enhancing investor decision-making skills and promoting a more effective stock market environment in Nepal requires an understanding of these heuristic tendencies.

Table 8

Status of Investment Decision

Investment Decision Items	Mean	SD
I prefer IPOs than secondary market instruments.	4.12	0.999
I prefer buying share for long term holding.	4.14	0.863
I trade on stocks based on speculation.	3.92	0.976
I do not make any decision while investing in IPO	4.06	1.073
I observe past behavior of stock while investing in secondary market	4.15	0.915
Weighted average mean and SD	4.08	0.97

Source: Survey, 2024

Table 8 presents mean scores and standard deviations (SD) across a range of choice-related statements, analyzing the investment decision preferences of Nepalese stock market investors. Statements like "I observe past behavior of stock while investing in the secondary market" (mean = 4.15, SD = 0.915) and "I prefer buying shares for long-term holding" (mean = 4.14, SD = 0.863) have the highest mean scores, suggesting a strong preference for strategic and informed investment approaches.

Initial public offerings (IPOs) are preferred by investors, as shown by the statement "I prefer IPOs over secondary market instruments" (mean = 4.12, SD = 0.999). On the other hand, the statement "I trade stocks based on speculation" (mean = 3.92, SD = 0.976) has a somewhat lower mean score, indicating a moderate propensity for speculative trading practices. The weighted average mean score for all categories is 4.08, with a standard deviation of 0.97, suggesting that Nepalese investors often use a deliberate and decisive approach when making investment decisions.

According to the research, while making investing selections, Nepalese investors give serious consideration to stock behavior and long-term holding strategies. This inclination toward making well-informed decisions might strengthen the stock market's resilience and stability while also perhaps lowering speculative volatility. In order to create investor education programs and regulatory frameworks that support sustainable investing practices and market integrity in Nepal, it is imperative that these patterns of investment decision-making be understood.

4.1.3 Correlation Analysis

The correlation coefficients between behavioral factors (Prospect Attitude - PA, Market Status - MS, Herding Behavior - HEB, and Heuristic Behavior - HB) and Investment Decision (ID) among Nepalese stock market investors are shown in Table 9. To summarize, Table 9 presents actual data demonstrating the correlation between Nepalese investors' investment choices and heuristic behavior, prospect attitude, market state, and herding behavior. The aforementioned correlations serve to emphasize the intricate processes influencing investor behavior and stress the need of customized interventions aimed at promoting well-informed decision-making and sustained market expansion.

For every variable, statistically significant correlations are shown in Table 9 at the 0.01 level (2-tailed). To be more precise, the variables that are positively correlated

with investors' decision-making processes include market status (r = 0.490, p < 0.01), prospect attitude (r = 0.420, p < 0.01), and heuristic behavior (r = 0.359, p < 0.01).

Table 9

Relationship of Behavioral Aspects with Investment Decision

Variables	HB	PA	MS	HEB	ID
HB	1				
PA	.493**	1			
	(0.000)				
MS	.547**	.572**	1		
	(0.000)	(0.000)			
HEB	.443**	.344**	.511**	1	
	(0.000)	(0.000)	(0.000)		
ID	.359**	.420**	.490**	.271**	1
	(0.000)	(0.000)	(0.000)	(0.000)	

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

On the other hand, albeit not as strong, the association between Herding Behavior and Investment Decision is still favorable (r = 0.271, p < 0.01). This implies that while herding behavior affects investing choices to some degree, it has a less effect than heuristic behavior, prospect attitude, and market conditions. These results suggest that more decisive investment choices are likely to be made by Nepalese investors who have more heuristic tendencies, optimistic prospect attitudes, and careful analysis of market state indicators.

4.1.4 Regression Analysis

Table 10 displays the findings of a regression study that looked at how behavioral factors (Herding Behavior - HEB, Prospect Attitude - PA, Market Status - MS, and Heuristic Behavior - HB) affected Nepalese investors' investment decisions (ID). Empirical information about the impact of several behavioral factors on investment decisions in the Nepalese stock market can be found in Table 10. The findings point to a complex connection in which specific psychological and market-related elements have a major influence on investing decisions, highlighting the need of customized treatments that promote wise decision-making and increase investor resilience in volatile market conditions.

Table 10

Impact of Behavioral Aspects on Investment Decision

Model		Unstandardized Coefficients B	t	Sig.
1	(Constant)	1.57	6.486	0.00
	HB	0.07	1.339	0.181
	PA	0.202	3.02	0.003
	MS	0.36	5.013	0.000
	HEB	-0.003	-0.056	0.955
				R-square=.273
				F-value=28.695
				Sig.(F-value)=.000

First, a significant predictor of investment decision is Prospect Attitude (PA), with a coefficient of 0.202 ($t = 3.02$, $p = 0.003$). This suggests that investors are more likely to make wise investing choices if they have more optimistic views regarding possibilities, such as thinking about increased performance and returns while avoiding losses. This result emphasizes the psychological component of investing behavior, where risk perception and optimism are important factors in determining financial decisions.

Second, Investment Decision is highly influenced by Market Status (MS), with a coefficient of 0.36 ($t = 5.013$, $p < 0.001$). Those that keep an eye on stock prices, take into account the underlying components of equities, and respond to financial information often make better investing selections. This emphasizes how crucial strategic research and market knowledge are to directing investment plans for Nepalese investors.

The study's non-significant coefficients for Heuristic Behavior (HB) and Herding Behavior (HEB) show that these behaviors do not substantially influence Investment Decision (HB: 0.07, $t = 1.339$, $p = 0.181$; HEB: -0.003, $t = -0.056$, $p = 0.955$). This implies that while some investors could have heuristic decision-making inclinations or adhere to market trends, these actions do not regularly influence their investment decisions in a way that is statistically significant.

Regression model's overall explanatory power is modest, as it explains 27.3% of the variation in investment decision. The whole regression model is robust and fits the data well, as shown by the substantial F-value of 28.695 ($p < 0.001$), which also validates the importance of Prospect Attitude and Market Status as critical variables in influencing investment choices among Nepalese investors.

These results highlight the intricate interactions that exist in Nepal's stock market between psychological variables, market views, and investing behaviors. They contend that improving investor decision-making and creating a more robust and effective financial market environment may be accomplished via encouraging favorable prospect attitudes and raising market literacy. Policymakers, financial advisers, and educators who want to encourage wise investing habits and improve market stability in Nepal need to know these kinds of information.

Table 11

Summary of Hypotheses

Alternative Hypotheses	P-value	Results
H1: There is significant impact of heuristic behavior on investment decision.	0.181	Rejected
H2: There is significant impact of prospect attitude on investment decision.	0.003	Accepted
H3: There is significant impact of market status on investment decision.	0.000	Accepted
H4: There is significant impact of herding behavior on investment decision.	0.955	Rejected

4.2 Discussion

Significant correlations between behavioral elements (Herding Behavior - HEB, Market Status - MS, Prospect Attitude - PA, Heuristic Behavior - HB) and Investment Decision (ID) have been found by the present study's correlation analysis. Prospect Attitude and Market Status, in particular, exhibit positive associations with investment choices. These results are consistent with those of Lin (2011) and Rehan et al. (2021), who also emphasized the impact of market circumstances and rational decision-making on investment behaviors. This consistency shows that educated market perceptions and favorable prospect attitudes often result in more decisive investment

decisions across several settings, including Nepal and other markets previously researched.

This study's regression analysis confirms these relationships and highlights the importance of prospect attitude and market status as major determinants of investment decision, while heuristic and herding behaviors have less predictive effect. This is consistent with research by Kengatharan & Kengatharan (2014) and Bakar & Yi (2016), which found that psychological biases including herding behavior and overconfidence may not always influence investing choices. Consequently, the regression findings of the present study are consistent with other studies showing that investor choices are significantly influenced by logical evaluations of prospects and market fundamentals.

However, the relative significance of herding behavior, which has no discernible influence on investment decision, is where this research deviates from some other results. This contrasts with research by Ah Mand et al. (2023) and Rehan et al. (2021), which found that under certain market circumstances, there were significant herding effects. These differences show how subtle behavioral affects are in various marketplaces and imply that while herding behavior may be common in certain situations, its effects might differ greatly.

Overall, the results of this research reinforce the importance of rational decision-making based on prospect attitudes and market evaluations, which advances our knowledge of investor behavior. They emphasize the significance of customized methods for market communication and investing education that improve investor resilience and decision-making efficiency. This analysis reinforces the basis for well-informed initiatives targeted at enhancing market efficiency and investor outcomes in Nepal and other comparable developing markets by complementing and extending earlier studies.

CHAPTER V
SUMMARY AND CONCLUSION

5.1 Summary

The research examines the variables that impact investment choices in Nepal's secondary and main markets, with a particular emphasis on herding behavior, prospect attitude, market status, and heuristic behavior. Utilizing both descriptive and causal research techniques, the study includes 310 investors from the Kathmandu District as a sample. An electronic and in-person structured questionnaire with replies graded on a 5-point Likert scale is used for data collection. Analysis uses Cronbach's alpha test and inferential statistical methods using SPSS version 25.0 and MS-Excel.

The research shows that in both main and secondary markets, investment choices are highly influenced by prospect attitude and market conditions. Investors that exhibit a sanguine attitude towards risk and a thoughtful assessment of market circumstances often make more informed investing decisions. On the other hand, heuristic and herding behaviors are evident, but they have a less noticeable effect on investment choices, indicating that logical evaluations are crucial in determining investment tactics.

The results highlight the significance of rational decision-making processes based on the attitudes of prospects and assessments of the market. This is consistent with theories of behavioral finance that highlight the part that rational decision-making and psychological biases play in investing practices. The research highlights the complex interactions between cognitive biases and market fundamentals and provides empirical support for these ideas in the context of Nepal's developing financial markets.

The need for specialized investor education programs targeted at improving risk management abilities and encouraging a better comprehension of market dynamics among investors is one of the practical ramifications. Heuristic biases may be reduced, and better-informed investing choices can be encouraged by using effective communication techniques that provide clear and trustworthy information about market circumstances. Furthermore, by using these data, regulatory bodies may improve investor protection policies and market transparency, creating an atmosphere that is more favorable for investment.

Subsequent research directions may include conducting longitudinal studies to monitor changes in investor behavior throughout regulatory and economic cycles. Further understanding of how policy changes and technology improvements affect investor decision-making processes may also help to maximize investor welfare and market efficiency. Theoretical frameworks and useful techniques in behavioral finance and investment decision-making would both advance with such initiatives.

5.2 Conclusion

Investor behavior in Nepal's stock market nowadays is a result of a combination of rational decision-making driven by market conditions and prospect attitudes. Generally speaking, investors have an optimistic outlook on the future and weigh risk and reward carefully before making an investment. The state of the market, which takes into account both stock price and fundamentals, has a big impact on how investors behave. Even when it is seen, herding tendency does not substantially influence investing choices. This implies that rather than following the herd, Nepalese investors are more likely to depend on logical evaluations of prospects and market circumstances.

Significant correlations exist between these factors and the choices made while making investments. Investment decisions are strongly correlated with prospect attitude and market state, suggesting that investors who keep positive views on prospects and take market fundamentals into account are more likely to make profitable judgments. Despite their existence, herding and heuristic behavior do not significantly correlate with investing choices. This suggests that while some investors could have heuristic decision-making tendencies or imitate the activities of others, these behaviors do not consistently have a statistically significant impact on their investing choices.

The influence that these factors have on financial choices. The idea that logical evaluations of prospects and market circumstances successfully drive investor behavior is reinforced by the fact that prospect attitude and market status appear as major determinants of investment choices. On the other hand, in the context of Nepal's stock market, heuristic behavior and herding behavior do not strongly predict investment choices. This implies that while some investors may be impacted by these

behavioral inclinations, prospect attitudes and market evaluations have a greater overall influence on market choices.

The results highlight how crucial it is for investors in Nepal's stock market to make logical decisions based on positive prospect attitudes and knowledgeable market assessments. Herding and heuristic tendencies are evident, but they do not control investing choices, underscoring the complex interaction between psychological variables and market fundamentals in investor behavior. With the goal of encouraging knowledgeable and reliable investing practices in Nepal, these findings are essential for developing investor education initiatives and market regulations.

5.3 Implications

Practical Implications

Several theoretical insights, practical ramifications, and directions for future research arise from the study on investor behavior in Nepal's stock market. In practical terms, the results highlight the significance of focused investor education programs meant to encourage thoughtful decision-making. Programs have to concentrate on raising investors' knowledge of risk management techniques and encouraging a more thorough comprehension of market fundamentals. Effective market communication techniques are also essential, stressing the open and trustworthy distribution of information about the state and future potential of the market. It is also advised to strengthen regulatory measures to guarantee investor safety and market transparency, since this may increase investor engagement and trust.

Theoretical Implications

The study's theoretical ramifications emphasize how behavioral finance theories are validated and expanded upon in the context of developing markets like Nepal. The research confirms that prospect theory and rational choice theory are still relevant for comprehending how investor attitudes toward risk and perceptions of the market affect investment choices. Stronger behavioral element integration into economic models of investment decision-making may provide a more thorough framework for examining investor behavior and market dynamics in various scenarios.

Future Scope

In the future, research should take into account longitudinal studies to monitor how investor behavior evolves over time, especially in reaction to shifts in regulations and economic cycles. Another intriguing direction is to investigate how technology innovations like artificial intelligence (AI) and digital platforms affect investor decision-making and market efficiency in Nepal. In addition, improving market stability and investor outcomes would include assessing the efficacy of governmental actions meant to lessen heuristic biases and encourage rational decision-making. All of these paths offer to expand on our knowledge of Nepal's stock market investor behavior and provide insights into future efforts to enhance market efficiency and investor happiness.

REFERENCES

Ah Mand, A., Janor, H., Abdul Rahim, R., & Sarmidi, T. (2023). Herding behavior and stock market conditions. *PSU Research Review, 7*(2), 105-116.

Akerlof, G. A., & Shiller, R. J. (2009). *Animal spirits: How human psychology drives the economy, and why it matters for global capitalism*. Princeton University Press.

Almeida, J., & Gonçalves, T. C. (2023). A systematic literature review of investor behavior in the crypto currency markets. *Journal of Behavioral and Experimental Finance, 6*(3), 167-186.

Azhgaliyeva, D., Beirne, J., & Mishra, R. (2023). What matters for private investment in renewable energy?. *Climate Policy*, *23*(1), 71-87.

Bakar, S., & Yi, A. N. C. (2016). The impact of psychological factors on investors' decision making in Malaysian stock market: a case of Klang Valley and Pahang. *Procedia Economics and Finance, 35*, 319-328.

Balitskiy, S., Bilan, Y., & Strielkowski, W. (2014). Energy security and economic growth in the European Union. *Journal of Security & Sustainability Issues, 4*(2), 123-130.

Barber, B. M., & Odean, T. (2001). The internet and the investor. *Journal of Economic Perspectives, 15*(1), 41-54.

Breinlinger, L. & Glogova, E. (2003). Determinants of initial public offerings: a European time-series cross-section analysis. Working Paper, Financial Stability Report. Wien: Oesterreichische National Bank.

Brigham, E. F., & Houstan, J. (2011). *Introduction to Financial Management.* South Western Cengage Learning.

Cao, M. M., Nguyen, N. T., & Tran, T. T. (2021). Behavioral factors on individual investors' decision making and investment performance: A survey from the Vietnam Stock Market. *The Journal of Asian Finance, Economics and Business, 8*(3), 845-853.

Chakraborty, D., Gupta, N., Mahakud, J., & Tiwari, M. K. (2023). Corporate governance and investment decisions of retail investors in equity: do group affiliation and firm age matter?. *Managerial Auditing Journal*, *38*(1), 1-34.

Dahal, G. B. (2007). The Performance of Nepalese IPOs. *SEBON Journal 3*(1), 30-48.

Dang, T., Phan, T., Tran, V., Tran, T., & Pham, T. (2019). The impact of accounting disclosures on individual investors' decision making in Vietnam Stock Market. *Management Science Letters, 9*(13), 2391-2402.

Dangol, J. (2013). *Efficient market hypothesis and adjustment of stock prices in Nepal* (Unpublished doctoral dissertation). Faculty of Management, Tribhuvan University, Kathmandu.

Factors to consider when analyzing stocks. (2017). *Investopedia*. Retrieved from https://www.investopedia.com/articles/investing/100515/8-factors-consider-when-analyzing-stock.asp

Gitman, K.C., & Joehnk, J. (2012). Going public to pursue acquisitions. *The Quarterly Review of Economics and Finance, 47*(2), 331-351.

Huei-Wen, L. (2011). Elucidating rational investment decisions and behavioral biases: Evidence from the Taiwanese stock market. *African Journal of Business Management, 5*(5), 1630-1641.

Ibbotson, T., Sindelar, Q. R., & Ritter, R. (1988). Market liquidity and performance monitoring. *Journal of Political Economy, 101*(1), 678-709.

Kahneman, D. (2011). *Thinking, fast and slow*. Farrar, Straus and Giroux.

Kahneman, D., & Tversky, A. (1972). Subjective probability: A judgment of representativeness. *Cognitive Psychology, 3*(3), 430-454.

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica, 47*(2), 263-291.

Kanojia, S., Singh, D., & Goswami, A. (2018). An empirical analysis of the factors influencing individual investors in the Indian Stock market. Journal of Business and Management, 20(3), 30-37.

Karmacharya, B., Chapagain, R., Dhungana, B. R., & Singh, K. (2022). Effect of perceived behavioral factors on investors' investment decisions in stocks: Evidence from Nepal stock market. *Journal of Business and Management Research*, *4*(01), 17-33.

Kengatharan, L., & Kengatharan, N. (2014). The influence of behavioral factors in making investment decisions and performance: Study on investors of Colombo Stock Exchange, Sri Lanka. *Asian Journal of Finance & Accounting*, *6*(1), 1.

Khan, F., Afrin, F., & Rahman, M. A. (2015). Factors influencing investors' decisions in stock market investment in Bangladesh: a study on Khulna City. *Journal of Finance and Accounting*, *3*(6), 198-204.

Khatri, N. N. (2017). Factors Influencing Investment decision in Initial Public Offering. Proceedings of 35th IRF International Conference, 07th May, 2017, Bengaluru, India.

Kumar, A. (2009). Who gambles in the stock market?. *The Journal of Finance*, *64*(4), 1889-1933.

Lin, H. W. (2011). Elucidating rational investment decisions and behavioral biases: Evidence from the Taiwanese stock market. *African Journal of Business Management*, *5*(5), 1630-1646.

Loomes, G., & Sugden, R. (1982). Regret theory: An alternative theory of rational choice under uncertainty. *The Economic Journal*, *92*(368), 805-824.

Lovric, T., Kaymak, R. L., & Spronk, S. S. (2008). Stock market reactions to adverse ESG disclosure via media channels. *The British Accounting Review*, *4*(6), 34-44.

Manandhar, K. D., Sharma, D. R., Gautam, R. R., Lamichhane, P., Dhakal, B., Adhikari, K. P., & Bhandari, R. (2010). *Fundamentals of Investment.* Kathmandu: Ayam Publication and Distributors (P) Ltd.

Manandhar, K., Shrestha, S. K., & Sharma, S. (2010). *Principles of investment management*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Markowitz, H. (1952). Portfolio selection. *The Journal of Finance, 7*(1), 77-91.

Montier, J. (2007). *Behavioural investing: A practitioner's guide to applying behavioural finance*. John Wiley & Sons.

Mousavi, S., & Gigerenzer, G. (2011). Heuristics are tools for uncertainty. *Journal of Risk Research, 14*(5), 431-447.

Nair, P. S., Shiva, A., Yadav, N., & Tandon, P. (2023). Determinants of mobile apps adoption by retail investors for online trading in emerging financial markets. *Benchmarking: An International Journal*, *30*(5), 1623-1648.

Nawrocki, T. L., & Szwajca, D. (2022). The importance of selected aspects of a company's reputation for individual stock market investorsEvidence from Polish capital market. *Sustainability*, *14*(15), 87-109.

NEPSE (2013). Annual Report 2012/13 (7-13). Singha Durbar Plaza, Kathmandu: Nepalese Stock Market (NEPSE).

Ngoc, L. T. B. (2014). Behavior pattern of individual investors in stock market. *International Journal of Business and Management*, *9*(1), 1-16.

Niroula, S. (2015). *Performance of initial public offerings (IPOs) in Nepalese stock market*. Unpublished Master's Thesis, School of Management Tribhuvan University (SOMTU), Kirtipur, Nepal.

Parajuli, B., & Thapa, K. (2013). *Financial Institution and Markets.* Kathmandu: Januka Publication PVT.LTD.

Paudel, N. P. (2010). *Nepalese Financial System & Investment Environment.* Kathmandu: Ratna Pustak Bhandar.

Phuyal N. (2016). Can macroeconomic variables explain long term stock market movements? A study of Nepali capital market. *Journal of Business and Management Research, 1*(1), 26-38.

Rehan, M., Alvi, J., Javed, L., & Saleem, B. (2021). Impact of behavioral factors in making investment decisions and performance: Evidence from Pakistan Stock Exchange. *Market Forces*, *16*(1), 22-22.

Sapkota, M. P., & Chalise, D. R. (2023). Investors' Behavior and Equity Investment Decision: An Evidence from Nepal. *Binus Business Review*, *14*(2), 209-221.

Saunders, A., & Cornett, M. M. (2012). *Financial Markets and Institutions.* New York: The McGraw-Hill Companies.

SEBON (2016). Annual Report 2015/16 (10-17). Jawalakhel, Lalitpur: Securities Board of Nepal (SEBON).

Shefrin, H. (2000). *Beyond greed and fear: Understanding behavioural finance and the psychology of investing*. Harvard Business School Press.

Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and evidence. *The Journal of Finance*, *40*(3), 777-790.

Shrestha, M. K. (2016). Stock market: Bulls out, bears in. *The Rising Nepal*, 4.

Shrestha, M. K., Bhandari, D. B., & Joshi, P. R. (2013). *Foundation of Financial Institutions & Markets.* Kathmandu: Asmita Books Publishers and Distributors (P) Ltd.

Somathilake, H. M. D. N. (2020). Factors influencing individual investment decisions in Colombo Stock Exchange. *International Journal of Scientific and Research Publications (IJSRP)*, *10*(05), 579-585.

UNCDF (2016). Making access possible (MAP) Nepal detailed country report 2016 (124- 25). Pulchowk, Lalitpur: United Nations Capital Development Fund (UNCDF).

Vijaya, E. (2014). An empirical analysis of influential factors on investment behaviour of retail investors' in Indian stock market: a behavioural perspective. *International Journal in Management and Social Science*, *2*(12), 296-308.

Wong, J. B., & Zhang, Q. (2022). Stock market reactions to adverse ESG disclosure via media channels. *The British Accounting Review*, *54*(1), 106-117.

Zingales, L. (1995). Insider Ownership and the Decision to Go Public. *The R Economic Studies*, *62*(1), 425-448.

APPENDIX

RESEARCH QUESTIONNAIRES

Dear respondents,

I, Pradeep Shrestha, am an MBS student of Shanker Dev Campus, conducting a research on "**EFFECT OF PERCEIVED BEHAVIORAL FACTORS ON INVESTORS' INVESTMENT DECISIONS IN NEPSE**". This survey will be part of my academic research requirement. Thank you for your time and effort in filling out this questionnaire. I assure you that the information and responses you have provided in this questionnaire will be kept highly confidential, Secured and will be used only for my academic purpose only.

Group A: Respondent's Profile

A. Your gender.

☐ Male ☐ Female

B. Your age category.

☐ Below 20 ☐ 21-30 ☐ 31-40 ☐ Above 40

C. Your education status.

☐ School Level ☐ Undergraduate ☐ Graduate

D. Your occupation.

☐ Business ☐ Students ☐ Service ☐ Others

E. Investment experience

☐ Below 2 Years ☐ 2-10 Years ☐ Above 10 Years

F. Frequency of Trading

☐ Frequently ☐ Occasionally ☐ Rarely

Group B: Likert Scale Questions

Please check out at only place for each statement considering;

[Strongly Disagree = 1, Disagree = 2, Neutral = 3, Agree = 4, Strongly Agree = 5]

Theme (Items)	1	2	3	4	5
Heuristic Behavior					
I consult with others ultimately choose my own investment.					
I would invest in stock underestimating forecasting errors.					
I would make investments based on previous trends.					
I would make investments based on information that investors have access.					
I would invest in stock without considering the effect of market return.					
Prospect Attitude					
I consider levels of risk associated with particular stocks before investing in stock market.					
I consider greater performance and a higher return on investment to avoid loss.					
I would consider connections between various investment opportunities to prevent regretting a different choice.					
I stay optimistic during great loss.					
I invest in companies who has potential growth in future.					
Market Status					
I consider fundamentals of the underlying stock and stock price before trading stocks.					
I believe that price change of stocks has impact on my buying behavior of stocks.					
I would invest in stock according to financial information presented/ new information.					
I would concentrate on popular stocks and seasonal price cycles for investment.					
I prefer investing in higher market capitalized companies only					
Herding Behavior					
I would invest stock by following my friends' recommendation.					
I would invest in the stock market as my relatives are investing.					
I would follow the newspaper when buying/selling stocks.					
I would follow the market information to trade.					
I would follow active investors of stock market while trading stocks.					
Investment Decision					
I prefer IPOs than secondary market instruments.					
I prefer buying share for long term holding.					
I trade on stocks based on speculation.					
I do not make any decision while investing in IPO					
I observe past behavior of stock while investing in secondary market					

Thank You

EFFECT OF PERCEIVED BEHAVIORAL FACTORS ON INVES...

By: Pradeep Shrestha

As of: Jul 4, 2024 12:58:07 PM
17,815 words - 23 matches - 2 sources

Similarity Index
2%

Mode: Summary Report

sources:

264 words / 2% - Internet from 09-Jan-2023 12:00AM
elibrary.tucl.edu.np

81 words / 1% - Crossref
Muhammad Atif Sattar, Muhammad Toseef, Muhammad Fahad Sattar. "Behavioral Finance Biases in Investment Decision Making", International Journal of Accounting, Finance and Risk Management, 2020

paper text:

Abstract This study investigates the factors influencing investment decisions in Nepal's primary (IPO) and secondary markets, with a focus on heuristic behavior, prospect attitude, market status, and herding behavior. Utilizing descriptive and causal research designs, data were collected from a sample of 310 investors in Kathmandu District through structured questionnaires administered electronically and via personal visits. Responses were measured using a 5-point Likert scale. The data were analyzed using inferential statistical tools and Cronbach's alpha test, employing SPSS version 25.0 and MS-Excel. The findings reveal that prospect attitude and market status significantly influence investment decisions in both primary and secondary markets. Investors with a positive outlook towards risk and who carefully evaluate market conditions tend to make more informed investment choices. While heuristic and herding behaviors are present, their impact on investment decisions is less pronounced, indicating that rational assessments play a crucial role in shaping investment strategies. These results underscore the importance of rational decision-making processes based on prospect attitudes and market evaluations. The study aligns with behavioral finance theories that highlight the influence of psychological biases and rational choices on investment behaviors. By providing empirical evidence within the context of Nepal's financial markets, the study highlights the nuanced interplay between cognitive biases and market fundamentals. Practical implications suggest the need for tailored investor education programs to enhance risk management skills and deepen market dynamics understanding. Effective communication strategies that offer transparent and reliable market information can mitigate heuristic biases and promote informed investment decisions. Regulatory authorities can leverage these insights to improve market transparency and investor protection measures, fostering a more conducive investment environment. Keywords: Investment decisions, Heuristic behavior, Prospect attitude, Market status, Herding behavior i

CHAPTER I INTRODUCTION 1.1 Background of the Study It is important to comprehend the unique behaviors of individual stock market investors for a number of reasons. First off, according to Barberis et al. (1998), investor behavior has a big impact on price stability, market dynamics, and overall efficiency. Examining investor behavior in the context of the Nepalese stock market, which is comparatively less investigated than established markets, might provide important insights on sentiment among investors, market oddities, and behavioral biases unique to this developing market (Poudyal & Pandey, 2020). To improve market stability and investor protection, policymakers and financial regulators must recognize these patterns of behavior in order to put mechanisms in place that might lessen the negative impacts of irrational investor behavior (Sharma & Koirala, 2018). Furthermore, financial advisers and ordinary investors should take note of this findings. Investors might possibly achieve better financial results by making more informed judgments by having a better knowledge of common heuristic behaviors, prospect