AFFECTING FACTORS OF INDIVIDUAL INVESTOR'S BEHAVIOR AT NEPSE

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfilment of the requirements for the Degree of Masters of Business Studies

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Affecting Factors of Individual Investor's Behavior at 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 purposes.

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

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Report of Research Committee

Ms. Bhim Kala Magar has defended research proposal entitled **"Affecting Factors of Individual Investor's Behavior at NEPSE"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per and submit the thesis for evaluation.

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We have examined the dissertation entitled **"Affecting Factors of Individual Investor's Behavior at NEPSE"** presented by **Bhim Kala Magar** a candidate for the degree of Master of Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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Abbreviations

ANOVA	Analysis of Variance
HEF	Heuristic Factors
HF	Herding Factors
MA	Mental Accounting
MF	Market Factors
PF	Prospect Factors
ID	Investment Decision
MBS	Master in Business Studies
NEPSE	Nepal Stock Exchange
SPSS	Statistical Packages for Social Sciences
TU	Tribhuvan University

Abstract

The purpose of this research is to analyze the factors that influence investment choices made by individual investors in Nepal who are participating in the primary market. The data collection process consisted of employing a random sample method to acquire information from 384 respondents. The study strategy used was descriptive and analytical. In the context of investment choices, a number of elements, including mental accounting, herding factors, heuristic factors, prospect factors, and market considerations, were investigated. The results of the descriptive analysis showed that respondents had favorable views toward investing choices, taking into account both possible profits and losses as well as the circumstances of the market. The multifaceted character of investors' decision-making behavior was brought to light by the findings of correlation and regression studies, which indicated strong positive connections between the aforementioned components and investment choices. For policymakers and practitioners who are interested in assisting Nepalese individual investors in making educated investment choices, it is essential to have a solid understanding of these determinative factors.

Keywords: Investment decisions, prospect factors, market factors, mental accounting, herding factors, heuristic factors.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment, in its broadest sense, involves sacrificing current income for future financial gains. This sacrifice occurs in the present, and its magnitude is typically certain. Time and risk are two key attributes associated with investment. Financial institutions play a pivotal role in managing investment and addressing investment-related challenges. They strive to effectively manage surplus financial assets to maximize wealth and generate additional income for the suppliers of funds through third-party investments. However, investment should not be approached haphazardly, but rather as a procedural task that follows a well-defined investment process, including the formulation of a proper investment policy.

It is widely recognized that investment decisions are influenced by a multitude of factors, including market characteristics, individual risk profiles, and accounting information. The disposition effect highlights that investors are influenced not only by accounting information but also by considerations such as sunk costs and asymmetrical risk preferences in gain/loss situations. Although classical wealth-maximization criteria are important to investors, they often employ diverse criteria when selecting stocks. Interestingly, contemporary factors such as a company's local or international operations, environmental track record, and ethical stance appear to receive only superficial consideration (Nagy & Obenberger, 1994). Recommendations from brokerage houses, individual stock brokers, family members, and coworkers often go unnoticed by many individual investors. Furthermore, the benefits of valuation models in evaluating stocks are often discounted.

Reference groups consist of groups that have a direct and indirect impact on the individual investors' attitudes and other people market assess the investor’s belief and attitudes. The reference group’s impact investors in various ways: they can impact to new behavior and lifestyles by providing information values and attitudes, and they provide norms for investor’s behaviors and pressure for conformity to norms of investment. Membership group hold membership of the group and has regular face to face contact i.e., coworkers, family religious and professional trade unions. Likewise,

aspiration groups aspire to join their own investment. The dissociative groups keep distance and reject the values, attitudes or behavior of the groups. Reference group impact their choices of investment. Marketers and advisors are mix and well-known athletes, musicians, actors and professionally successful people to impact investors to invest in the established and new firms they admire too. The social class of investment can be upper, middle and lower. It indicates a rank in a society. It is determined by members of the firm or markets preferences and lifestyle; member share similar values interest and behavior. The social class reflects income occupation, education and area of residence, a group of people. Status is based on role position and rank given by others. Invest meters invest their income and expenditure on the bases of income status (Pride & Ramaswamy, 2000).

Behavioral finance is a field of study that sheds light on the role of behavioral aspects in investment decisions. It utilizes models to analyze financial markets, with a particular focus on how investors interpret and process information to make investment decisions. Behavioral finance also explores investor behavior and its impact on market anomalies. This rapidly growing field delves into the psychology of financial practitioners and seeks to understand the behavioral factors influencing their decision-making processes (Al-Tamimi, 2006).

This study is one of several conducted in the context of the Nepal Stock Exchange (NEPSE) to explore the behavior of Nepalese investors. It provides valuable insights into the investment behavior of individual local investors, investment professionals/planners, and companies listed on the NEPSE. Understanding the behavioral processes of investors is crucial for financial planners and professionals as it enables them to develop effective strategies when working with their clients. By incorporating important factors identified through these studies, investment professionals catering to retail clients can address individual investor concerns more effectively. Additionally, companies listed on the NEPSE can benefit from these insights by formulating future policies and strategies that appeal to investors and influence their investment decisions.

1.2 Problem Statement

The performance of the stock market in any country serves as a reliable indication of the overall state of the economy and is an essential component of the economy of any

nation. The establishment of tax-exempt financial investment opportunities contributes to the growth of the nation's total capital stock. Investment is critical to a nation's long-term prosperity since it helps boost overall productivity and strengthens an economy's position in the global marketplace (Shafi, 2014).

Decisions regarding investments have significant activities in day-to-day life. That is learning about different social factors impacting the individual investors' decisions are needed for timely and accurate decisions of investors. The present study will determine the desire of investors while making investment decisions. The decision about the sources of fund, interest to suppliers of debt, dividend to Prof. Shareholders and equity dividend to equity shareholders are to be given out of profits and affected by inflation i.e., the problem can be seen as in inflation factor. Profits to earn high dividend.

Investment decisions need to undergo a thorough analysis of the situations prevailing based on a number of factors, however regardless of the varied information available that justifies rationality and irrationality, investors are keen to avoid uncertainties associated with the ultimate decisions they engage in. It is against this background that this study sought to fill the gap by determining the factors that appear to influence the individual investment decisions, and included not only the factors investigated by previous studies and derived from prevailing behavioral finance theories, but also introduced additional factors that have been found to influence the stockholders' investment decisions in emerging local market, NEPSE.

Various empirical research spans a wide range of questions into the behavior and decision-making of investors in various financial markets and circumstances. Sevilay and Bağci (2018) examined the role of emotions, personal intuitions, and other psychological and social elements in investing choices. They highlighted the considerable importance of non-rational behaviors in this context. Abul (2019) examined the Kuwait Stock Exchange and focuses on the impact of herd behavior, optimism, and psychological risk on the decision-making process of individual investors. Rana (2019) investigated the variables that influence stock investments in Nepal. The study identifies six crucial drivers, including Earnings and Image variables and Fundamental Market Factors.

Likewise, Adhikari (2020) examined the variables that impact investment choices on the Nepal Stock Exchange. The study identifies remarks made by government officials and the standing of the corporation as key influences. Sattar et al. (2020) investigated the influence of behavioral biases on investment choices made in uncertain situations, finding substantial impacts on such judgments. Shukla et al. (2020) conducted a comprehensive analysis of biases that influence investing decision-making. They classified research publications according to the detected biases and explored new ideas in the field of behavioral finance. Kunwar (2021) examined the behavior of investors in Nepal and identifies heuristics and market conditions as important elements that significantly impact their decisions. Silwal and Bajracharya (2021) examined the impact of behavioral variables on investment choices and assess how these factors affect investment decision performance. In their study, Hossain and Siddiqua (2022) investigated the role of behavioral biases on investing decision-making within the setting of the Dhaka Stock Exchange. They discover that emotional elements have a major impact on decision-making. Karmacharya et al. (2022) investigated the influence of perceived behavioral characteristics on investment success in Nepal, emphasizing the importance of market, heuristic, and herding aspects.

Similarly, Farida et al. (2023) analyzed the effects of financial literacy and technology innovation on the behavior of young investors in Indonesia, specifically focusing on how these factors affect investing choices. In their study, Quang et al. (2023) examined the correlation between investor demographics and investing choices in the Vietnamese stock market, uncovering noteworthy influences of age, gender, and educational attainment. In their study, Sachdeva and Lehal (2023) analyzed the elements that affect the decision-making processes of stock market investors in North India. They find that company image and personal financial demands have a substantial impact on these processes. Hassan et al. (2024) examined the factors that determine individuals' intents to invest in Islamic unit trusts in Malaysia, with a particular focus on the impact of subjective norms and financial self-efficacy. In their study, Hemrajini et al. (2024) examined the impact of emotional intelligence and impulsiveness on the financial risk tolerance and risk-taking behavior of individual investors.

The financial markets and their products are changing rapidly these days so to make better financial decisions professional advice is needed to ensure accuracy of desired information. Rational investors, especially institutional investors must consider all operational and financial aspects and growth prospects of stocks while making investment decisions. Some information is gathered by investors personally. This can be acquired through digital or advice seeking searches in general. The problem statement raised the following questions:

- How do various factors contribute to the investment decisions of individual investors?
- Is there any relationship exist between of prospects factors, market factors, mental accounting, herding factors and heuristic factors and investment decision of individual investors?
- In what ways do prospects factors, market factors, mental accounting, herding factors and heuristic factors impact on investment decision of individual investors?

1.3 Objectives of the Study

The main aim of this study is to examine the factors that affect individual investors decision on Nepalese stock market. However, the study has the following specific objectives:

- To evaluate the major factors that affect the individual investors investment decision in Nepalese stock market.
- To examine the relation between prospects factors, market factors, mental accounting, herding factors and heuristic factors on investment decision of individual investors.
- To analyze impact of prospects factors, market factors, mental accounting, herding factors and heuristic factors on investment decision of individual investors.

1.4 Rationale of the Study

In order to determine the influence of various elements on individual investors' choices, the justification for this research must be established. The significance of financial knowledge and information as the foundation for investment decisions is described in most investment theories, but in addition to these, behavioral aspects play

a part in the investment choice. Traditionally, theories of human behavior have assumed that individuals are rational agents that make objective judgments in order to take advantage of the chances that come their way. Investors consider themselves to be logical and sensible beings. They make judgments based on their emotional inclinations, old thinking patterns, and psychological biases when it comes to investing, though. As a result, the study's primary contribution is to better understand the impact of behavioural elements in the decision-making process for investment decisions. In order to better understand how qualitative aspects influence the decision-making process of investors, this study would be beneficial. The findings of this research contribute to the understanding of investment choice behavior and pattern in the Nepalese stock market. In a similar vein, this research may be useful in determining the level of rationality shown by Nepalese investors while making investment decisions. In the same way, the results may be applicable to similar research projects in the future.

1.5 Limitations of the Study

Every research has some limitations. Having outlined the objectives, statement of problem and rationale of the study, following are some of the limitations of the study:

- The study is done within the data collected among investors in limited time period, data may be partially accurate.
- Study is conducted only within the investors of inside Kathmandu valley, so generalization may be difficult.
- Study is based on primary data so; sometimes investors are not willing to disclose their personal information which may not give final result.
- The study is conduct among selected investors, so result cannot be generalized.

CHAPTER II

LITERATURE REVIEW

A literature review is an essential component of developing a new research framework, as it draws upon past knowledge and experiences in the field. Its purpose is to learn, analyze, and identify gaps in existing research studies on the same subject. By reviewing the literature, researchers can gain insights into what has been previously explored and understand the areas that require further investigation.

2.1 Conceptual Review

Individual investors are defined as those who utilize their personal funds for investment purposes in the capital market, aiming to secure future benefits. This category can also encompass individuals who inherit capital market instruments (Rani, 2014). It is worth noting that the decisions made by the average investor are often driven by emotion rather than logic. Many investors tend to buy stocks at high prices based on speculations, only to sell them at lower prices during periods of panic (Batra & Kumar, 2018).

Psychological studies have revealed an interesting aspect of investor behavior: the pain experienced from financial losses is three times more intense than the joy derived from earning money (Kahneman & Tversky, 1979). Emotions like fear and greed often play a significant role in the decision-making process of investors (Lo & Repin, 2002). Moreover, there are several other factors contributing to irrational behavior in investment decisions.

One perplexing aspect of the stock market is the daily fluctuations in stock prices, even in the absence of major changes in the underlying economic fundamentals (Shiller, 2015). This phenomenon can be confusing for investors who expect stock prices to strictly reflect the performance of the underlying companies. Additionally, the tendency of investors to follow the crowd and make decisions based on herd behavior can influence stock prices (Bikhchandani et al. 1992).

Thus, various behavioral factors, such as self-image/firm image, accounting information, neutral information, advocate recommendations, and personal financial needs, can significantly impact the decision-making process of individual investors (Barber & Odean, 2000). It is important to recognize that different schools of financial thought may offer diverse perspectives on these questions, as theories and models provide varying explanations for the behavior of individual investors.

2.1.1 Concept of Investment

Investment is the act of utilizing our savings in a manner that ensures the safety of our money and provides a sustained return to supplement our regular income. It encompasses a wide range of activities and is closely intertwined with the concept of saving. Without adequate savings, investment becomes impossible as all income and savings are consumed to meet immediate needs. Therefore, saving and investment are interconnected (Bhattarai, 2005).

Investments are made in different types of assets, namely real assets such as land, buildings, and factories, and financial assets such as stocks, bonds, and treasury bills. These two types of investments are not competitive but rather complementary. The presence of well-developed financial institutions greatly facilitates real investment (Bhattarai, 2005). Various definitions exist regarding investment, but in simple terms, investments involve the use of disposable funds with the aim of generating additional income or growth in value.

Investment inherently involves risk, as it requires present sacrifices for the sake of future benefits. When making investment decisions, it is crucial to consider the future risks associated with the chosen alternatives. Over time, the number of investment alternatives has expanded, leading to increased complexity. Therefore, wise analysis and decision-making are essential in selecting the best investment alternatives and constructing an efficient portfolio. Factors such as saving, capital formation, capital market, risk, return, and inflation all play a role in investment decision-making.

Cash flows hold more significance in investment analysis than accounting profit. Expenditure and benefits should be measured in terms of cash, as investment decisions ultimately affect the firm's value. If investments are profitable and contribute to shareholder wealth, the firm's value will increase. Therefore,

investments should be evaluated based on criteria that align with the objective of maximizing shareholder wealth, considering the opportunity cost of capital (Pandey, 1999). In the context of banking, investment policies are influenced by the national policy framework. Bankers must exercise their judgment when making credit decisions, while also adhering to their own credit policies. The field of investment poses challenges as it allows for greater discretion in selecting loan portfolios. However, this increased freedom in credit management also entails greater risk, especially in the current complex credit environment (Singh & Singh, 1983).

An individual investor refers to a person who uses their own funds for personal investment in the capital market, with the objective of receiving future benefits. This category can also include individuals who inherit capital market instruments (Rani, 2014). In summary, investment encompasses a range of complexities and considerations, with various factors influencing investment decisions and outcomes.

2.1.2 Objectives of Investment

The primary objective of investing is to systematically increase an individual's wealth, which is determined by the difference between assets and liabilities. Investments are made with the intention of generating the desired wealth for future financial goals, such as retirement or children's education. As a result, most investments are undertaken to provide an increase in wealth. The higher the desired level of wealth, the higher the return that needs to be achieved. Investors seeking higher returns must be willing to accept a higher level of risk. However, while wealth maximization may remain an investor's objective throughout their lifetime, factors such as age or family circumstances may necessitate a change in their investment approach (Christy & Clendenin, 1974).

Investors often have multiple investment objectives simultaneously. In the case of the Stantons, they have at least two concurrent investment objectives: funding their children's college education and planning for retirement. These objectives will influence the composition of their investment portfolio. To meet the college education objective, the Stantons may consider investing in bonds with maturities that align with their children's educational needs. Additionally, they should also consider establishing an emergency fund to cover a portion of their annual living expenses.

This objective would require a portion of their investment portfolio to be allocated to very safe investments (Christy & Clendenin, 1974).

In a broad sense, investment refers to any asset or property acquired or held with the purpose of preserving capital or generating income. This comprehensive definition does not differentiate between safe and risky investments, tangible and intangible investments, or directly owned assets versus institutionally managed ones, such as savings accounts and life insurance. It simply recognizes that various assets, such as savings accounts, bonds, mortgages, life insurance, stocks, real estate, and business equities, all serve the common function of employing the owner's funds. Furthermore, this definition does not limit investment to properties intended to yield cash income or profit. For many individuals, their homes represent a significant investment that provides returns in the form of family satisfaction and the avoidance of rental payments (Christy & Clendenin, 1974).

The merit of this broad definition of investment becomes evident when considering investment programming or portfolio planning. Balancing an investor's resources across different types of assets is a unified problem. Different types of investments serve different purposes. For example, a savings account or savings bond provides readily available funds for emergencies, while common stocks or real estate act as a hedge against inflation. Therefore, a sound investment policy will likely involve a balanced approach to meet the investor's diverse needs (Christy & Clendenin, 1974).

2.1.3 Risk on Investment

Financial planning cannot be effectively carried out without a thorough understanding of investment risk. When people hear the term "risk" in relation to investments, they often immediately think of the possibility of being defrauded or not receiving their full investment back. While this type of risk, known as capital risk, is indeed significant, it is not the only form of risk to consider. There are other types of risks that involve uncertainty and unpredictability.

When making an investment, it is challenging to accurately predict the exact returns that will be obtained upon liquidation. Share prices fluctuate, interest rates vary, and inflation poses a risk as well. Focusing solely on capital risk while neglecting these other risks may lead to an overly cautious investment approach. To truly understand

risk, it is important to identify one's personal attitude towards risk and recognize the different types of risks involved. This knowledge allows investors to adopt strategies for minimizing the likelihood of unfavorable outcomes (Shinde & Janvar, 2015). Investment risk goes beyond the fear of losing capital. It encompasses the uncertainty surrounding factors such as market fluctuations, interest rate changes, and inflation. Recognizing these risks and understanding one's own risk tolerance are essential in developing a well-rounded investment strategy. By considering the various types of risk and implementing risk management techniques, investors can navigate the complexities of the investment landscape more effectively (Shinde & Janvar, 2015).

2.1.4 Principle of Investment Decision

Bias refers to a tendency to show favoritism or prejudice towards someone or something. In the realm of finance, bias refers to the inclination of an investor to make financial decisions based on pre-existing beliefs and trust. These biases play a significant role in shaping investor decisions when it comes to making judgments about investments in stock exchanges and firms. Researchers have explored various biases that can influence investor behavior.

One such bias is overconfidence, which stems from a person's self-assurance in their own skills, judgments, and abilities. It is an internal feeling that an individual has about themselves. When a person is overconfident, they tend to overestimate their skills, knowledge, beliefs, and judgments, and exhibit more confidence than necessary in a given situation. This overconfidence can lead investors to believe that the investment decisions made by others are driven by emotions, perceptions, feelings, and moods. They may not pay sufficient attention to the level of risk associated with their financial plans. Overconfident investors not only trade more frequently but also expose themselves to higher levels of risk.

However, it is important to note that overconfidence is not always negative. Critics of this bias argue that practicing overconfidence can lead to increased trading by investors, thereby reducing market efficiency. Overconfident investors may not properly consider the risks involved in their investments and instead focus more on the expected returns, neglecting the realities of the market.

This study aims to examine the impact of overconfidence on investment decision-making behavior and its relationship with information search (Shinde & Janvar, 2015). The goal is to understand how overconfidence influences investor behavior and the extent to which it affects their information-seeking habits when making investment decisions. Understanding the role of biases, such as overconfidence, in investment decision-making is crucial for investors and financial professionals. It highlights the importance of being aware of one's own biases and taking steps to mitigate their impact on investment choices. By recognizing the influence of overconfidence and its potential consequences, investors can make more informed and rational investment decisions (Shinde & Janvar, 2015).

2.1.5 The Evolution of the Investment Environment

When individuals borrow money from a pawnbroker, they must provide an item of value as security. If they fail to repay the loan with interest, the pawnbroker can sell the pawned item to recover the loan amount and potentially make a profit. This transaction is recorded through pawn tickets. In a broader sense, a security refers to a piece of paper that represents an investor's rights to certain prospects or property and the conditions under which they can exercise those rights. Securities can be transferred to other investors, along with all associated rights and conditions (Francis, 1998).

Security markets exist to facilitate the exchange of financial assets by bringing together buyers and sellers of securities. These markets can be differentiated in various ways. One way is by distinguishing between primary and secondary markets. Primary markets involve the issuance of new securities, while secondary markets involve the trading of existing securities. Another way to differentiate security markets is based on the life span of financial assets. Money markets typically deal with assets that have life spans of more than one year, such as treasury bills. On the other hand, capital markets involve trading longer-term assets, such as treasury bonds (Francis, 1998).

Financial intermediaries, also known as financial institutions or intermediaries, issue financial claims against themselves. They sell financial assets representing claims on themselves in exchange for cash and use the proceeds to primarily purchase the financial assets of others. Financial claims represent the right-hand side of the balance

sheet for these organizations. The key distinction between financial intermediaries and other types of organizations lies in what is on the left-hand side of the balance sheet (Francis, 1998).

Understanding securities, security markets, and financial intermediaries is essential in comprehending the investment environment. These concepts shed light on the mechanisms and instruments involved in investment transactions, making it easier for buyers and sellers to engage in the trade of financial assets.

2.1.6 The Investment Process

The investment process outlines the steps an investor should take when making decisions regarding marketable securities, including the extent of the investment and the timing of the investment. This process is based on a positive-step procedure for decision-making. The initial step involves setting the investment policy, which includes determining the investor's objectives and the amount of investable wealth. It is crucial to establish a clear investment policy, as there is a positive relationship between risk and return for sensible investment strategies. Therefore, vague objectives such as simply aiming to "make a lot of money" are not appropriate (Francis, 1998).

The second step in the investment process is performing security analysis, which entails examining individual securities within the broad categories of financial assets. The purpose of this analysis is to identify securities that may be currently mispriced. There are various approaches to security analysis, with the most common classifications being technical analysis and fundamental analysis. Portfolio construction is the third step in the investment process, involving the identification of specific assets for investment and determining the allocation of the investor's wealth to each asset. Investors use various figures to construct the portfolio and select the optimal portfolio of risky securities. This selection is based on minimizing risk and maximizing return, leading to a higher level of satisfaction for the investor (Ghimire, 2007).

The fourth step, portfolio revision, involves the periodic repetition of the previous steps. Over time, an investor's investment objectives may change, necessitating a review of the currently held portfolio. This may lead to the sale and purchase of

certain securities to align with the revised investment objectives. The investor may choose to add new securities to the portfolio while removing others. Understanding the investment process is essential for investors to make informed decisions and manage their portfolios effectively. By following a systematic approach and periodically revising their investment strategies, investors can adapt to changing circumstances and optimize their investment outcomes (Ghimire, 2007).

2.1.7 Features of an Individual Investment Programme

Successfully navigating the complex landscape of investing choices requires a careful combination of insight, strategy, and flexibility. According to Black (2001), investors, whether they are people or organizations, have important obligations to fulfill. First and foremost, it is essential for individuals to explicitly express their investing goals, ensuring a harmonious combination of safety, income, and capital growth. Furthermore, it is crucial for them to meticulously choose the investment categories and ascertain the optimal distribution across different asset classes. Furthermore, it is important for them to thoroughly examine possible investments with great attention to detail, ensuring that they fulfill stringent quality criteria and are in line with their overall objectives. Finally, investors need to carefully evaluate the long-term worth of potential investments and precisely choose when to make their transactions in the face of the inherent instability of financial markets. This complex undertaking requires not just technical expertise and hard work, but also a sophisticated comprehension of market dynamics and a steadfast dedication to responsible investment management.

When creating a strong investment portfolio, investors need to carefully analyze a wide range of elements to get the best results. Bodie (2005) highlights the utmost significance of the concept of safety, promoting a cautious approach to managing risks. Diversification is a fundamental approach that involves spreading assets across many sectors, locations, management styles, financial instruments, and maturities in order to reduce the risk of future losses. Moreover, it is essential to have a liquidity reserve in order to deal with unexpected situations and take advantage of new chances. While income stability is very useful for some investors, it is important to consider the possible opportunity cost. This is because steady income assets may come at a higher price (Bodie, 2005). Tax implications need careful attention as they have a significant impact on investment choices and portfolio development.

Furthermore, the careful handling of risks associated with price levels, together with a well-balanced distribution of investments across assets denominated in dollars and stocks, improves the ability of a portfolio to withstand market volatility (Black, 2001).

Jabongo and Mutswenje (2014) emphasized the complex relationship between investment income and tax consequences, advising investors to negotiate this situation carefully. The intricate equilibrium between pursuing sufficient income and safeguarding capital highlights the intricacy of investing decision-making. Furthermore, the need to maximize tax efficiency highlights the importance of comprehending the intricate tax consequences linked to various investment instruments. In the face of changing markets and economic landscapes, it is crucial to be watchful and attentive to market dynamics. Although the pursuit of market gains is a valid undertaking, it is crucial to exercise careful oversight and ongoing evaluation in order to minimize risks and take advantage of possibilities (Black, 2001). Utilizing the knowledge and skills of professional investment advisors or trust management services may provide significant assistance in navigating the complexities of investment management, guaranteeing adherence to legal obligations, and optimizing portfolio performance.

2.1.8 Investment Theories

2.1.8.1 Economic Expectations

Economic expectations play a crucial role in investment decision-making. They refer to the anticipated performance of a firm in the future, such as the next month, year, or any other time frame. These expectations encompass various aspects, including forecasts about employment levels, output and expansion of the organization, balance of trade, and inflation rate in the economy. Investors consider these expectations when making investment decisions, as they provide insights into the potential profitability and growth prospects of a company. Moreover, economic expectations also take into account the overall economic conditions of the country, which can influence investment decisions on a broader scale. Factors such as the firm's past performance, anticipated capital and bonus increments, dividend distribution plans, and expected profits also contribute to shaping economic expectations. Additionally, the decisions of individual investors are influenced by their own economic and social

characteristics, including their gender, age, marital status, investment experience, and education level (Obamuyi, 2013).

2.1.8.2 Rational Expectations Theory

The rational expectations theory, originally presented by Muth (1961) and further developed by economist Robert Lucas, suggests that investors make investment decisions based on their rational viewpoints, past experiences, and the information available to them. According to this theory, recent economic expectations reflect the condition of the economy in the upcoming period. This concept challenges the prevailing notion that investor decisions are primarily influenced by government policies. Instead, investors form expectations about future government actions by comparing the authorities' past performance. These expectations then shape their current economic choices, including investment decisions (Muth, 1961).

2.1.8.3 Prospect Theory

The prospect theory, a behavioral economic theory proposed by Kahneman and Tversky (1979), provides valuable insights into how individuals make investment decisions in the presence of a risky environment. According to this theory, the decision-making process involves two distinct stages. In the first stage, investors simplify complex decisions by focusing on potential gains and losses. They evaluate the potential outcomes and their associated probabilities. Subsequently, in the second stage, investors choose among these simplified decisions. The decision-making process in this stage involves evaluating the perceived value of each option and assigning weights to these values. After combining these attributes, investors select the option that offers the highest value. This theory sheds light on the cognitive processes underlying investment decision-making and highlights the importance of factors such as risk perception, loss aversion, and the evaluation of potential gains (Kahneman & Tversky, 1979).

The study conducted by Rana et al. (2014) focused on the mediating role of information search in the relationship between earnings and investment decision-making behavior. The researchers collected data through questionnaires administered to investors in the busiest Pakistani stock exchanges in Islamabad, Karachi, and Lahore. The study found that information searches, heuristics (mental shortcuts or rules of thumb), and education positively and significantly influenced investment

decisions. These findings suggest that investors who actively seek information, rely on heuristics, and possess higher levels of education are more likely to make informed investment decisions.

Similarly, Lin (2002) conducted a study in the United States involving 3,759 individuals who completed a distributed questionnaire. The study aimed to explore the effects of personal differences, individual characteristics, and demographic features on investors' information search behavior. The statistical analysis revealed that personal differences, including risk tolerance, the amount of money invested, and relevant knowledge, influenced investors' search for information. Additionally, demographic characteristics such as age and education level were found to affect information search behavior. These findings highlight the diverse factors that can shape investors' information search strategies and ultimately impact their investment decisions.

2.1.8.4 Theory of Mental Accounting

The theory of mental accounting suggests that individuals have a tendency to compartmentalize events in their minds, and the differences between these mental compartments can significantly impact behavior. In the context of investing, mental accounting can manifest in various ways. For example, investors may hesitate to sell an investment that once had substantial gains but now has only modest gains. This reluctance can be attributed to the mental compartment created for the gains that were previously experienced. Investors tend to wait for a return to that earlier period of profitability, even if it means potentially missing out on current opportunities. This behavior showcases how mental accounting can influence investment decisions by assigning different values and significance to specific events or gains (Thaler, 2001).

2.1.8.5 Heuristics Theory

The theory was forwarded by Kahnmen & Tversky (1979) who defined heuristics as the rules of thumb used by individuals to make decisions whenever faced by a complex or uncertain situation. They argued that it’s hard for the decision-making to be purely rational where all significant information is taken into consideration in decision making, rather individuals sometimes take mental shortcuts. Heuristics include; representativeness, anchoring and overconfidence. Representativeness is a heuristic which makes investors to sell bullish stocks and avoid non- performing.

Investor's judgments' sometimes follows patterns that are simply random data and not representative of the facts instead in the ideal situation, events are considered as typical or representative of a well-known class.

Anchoring bias occurs when people set price scale (anchor) by relying on past observations. This is when investors use things like initial prices as reference point whereby any reaction to market changes is always related to such initial purchase price.

Individual determine today's prices by considering the past prices trend. Anchoring bias makes an investor to presume that a particular stock will continue trading in a defined range or expecting company's returns will follow some historical trends which makes them to either overreact or under- reaction. Due to anchoring effect, individual's form opinion about a situation and remain adamant even if new information's that may be significant to make them change their earlier made opinion exist. Overconfidence bias is a heuristic which makes an individual overestimate his/her mental ability making someone believe that their informational capacity is superior and they can outperform everyone in the market. Overconfidence makes one to become over optimistic on his/her ability. Studies have linked overconfidence bias to excessive trading (Evans, 2006). Individual investors especially those with financial knowledge and also finance professionals mostly exhibit overconfident in areas they believe to have knowledge.

2.1.8.6 Herding Effect

In the financial market, the herding effect is defined as the propensity of investor behavior to imitate that of other investors. Since investors tend to depend more on communal knowledge than on private information, the occurrence of herding is often carefully considered by professionals. As a consequence, many promising investment opportunities at the moment may be negatively affected. Academic scholars are also concerned with herding because it affects stock price movements, which affect the characteristics of risk and return models, which affect the perspectives of asset pricing theories (Mason, et al., 2008). Herding may lead to several emotional biases in terms of behavior, such as conformity, congruity, and cognitive conflict, the home bias, and gossip. Investors may favor herding if they think it will enable them to get accurate and helpful information. As opposed to this, the performance of financial

professionals, such as fund managers or financial analysts, is often assessed subjectively on a quarterly basis in comparison to their peers. Because low-ability individuals may imitate the conduct of their high-ability colleagues in order to establish their professional reputation, herding may help with the appraisal of professional performance in this situation (Munir et al., 2010).

2.2 Empirical Review

Sevilay and Bağci (2018) investigated the stimuli influencing individual investors' financial decisions within the framework of behavioral finance. Employing a validated questionnaire, they surveyed 200 bank employees in Aksaray, garnering feedback from 177 respondents. This research revealed that investment decisions were notably influenced by emotions, personal intuitions, and various psychological and sociological factors. The conclusion drawn was those non-rational behaviors, driven by these factors, significantly impact investment decision-making. Consequently, the study suggests the crucial need for financial advisors to account for the intricate interplay of psychological and social elements when guiding clients in investment decisions.

Abul (2019) explored the influence of psychological factors on investor behavior within the Kuwait Stock Exchange (KSE) context, specifically examining excessive optimism versus pessimism, herd behavior, and risk appetite. Drawing data from both the KSE and a survey of 398 individual investors, the study employs qualitative analysis grounded in behavioral finance theory. The findings indicate that herd behavior, optimism, and psychological risk significantly impact individual investors' decisions in the KSE environment, while no evidence suggests the influence of overconfidence behavior. This research fills a gap in existing literature by highlighting the importance of psychological factors in shaping investor decisions within the KSE, potentially contributing to the advancement of this field of research.

Rana (2019) examined the determinants of individual investors' stock investment decisions within the Nepalese stock market, with an additional aim to assess the perceived importance of these factors based on investors' demographic characteristics. Utilizing data obtained from 106 individual investors through a structured questionnaire survey conducted from January to April 2019, the study employs exploratory factor analysis to identify common factors influencing stock investment

decisions. The findings reveal six key factors, including Earnings and Image Factors, Corporate Governance and Positioning Factors, Goodwill and Market Share Factors, Industry Competition and Size Factors, Fundamental Market Factors, and Decision-Making Factors, as significant determinants of stock investment decisions among Nepalese investors. Moreover, the study highlights that Fundamental Market Factors hold high relative importance in investors' perceptions. This research contributes to understanding the dynamics of stock investment decision-making in Nepal and emphasizes the prominence of fundamental market factors in influencing investor behavior within the Nepalese stock market.

Adhikari (2020) explored the factors influencing individual investors' investment decisions on the Nepal Stock Exchange, recognizing the importance of behavioral finance theory and prior empirical evidence in shaping investor behavior. Utilizing responses from 214 individual investors obtained through random sampling and a structured questionnaire containing 35 items, the study employs various statistical techniques such as frequencies, mean scores, standard deviations, percentages, and factor analysis. The research identifies several significant factors affecting investment decisions, including statements from government officials, expected capital increase, firm status in the industry, diversification purpose, attractiveness of non-stock investments, and others. The findings contribute to understanding investors' decision-making processes and their implications for companies' policies and strategies, emphasizing the need for companies to consider these factors when formulating their plans and strategies in response to investor behavior on the Nepal Stock Exchange.

Sattar et al. (2020) examined the impact of behavioral biases on investment decision-making under uncertainty, challenging traditional finance theories by incorporating psychological factors. Through a quantitative approach utilizing a survey questionnaire, the study explores various behavioral finance phenomena such as heuristic, prospects, personality characteristics, feelings, moods, and ecological factors. Behavioral biases including overconfidence, representativeness, anchoring, regret aversion, hindsight, herding effect, and home bias are analyzed in relation to investment decisions. Regression analysis conducted using SPSS software indicates a significant effect of behavioral biases on investment decisions, with heuristic behaviors exerting a stronger influence than prospects and personality characteristics.

The study underscores the importance of considering psychological factors in decision-making for both investors and financial institutions, offering valuable insights for making informed decisions in the investment realm.

Shukla et al. (2020) examined and delineate various biases affecting investment decision-making by synthesizing research papers within the field of behavioral finance. The study encompasses a review of research spanning from the seminal works in 1974 to recent publications in 2019, categorizing these papers based on identified biases. Focusing predominantly on individual investors, the study identifies seven types of biases and incorporates recent research to provide insights into emerging concepts within behavioral finance. The paper not only elucidates fundamental principles but also addresses newer developments in the field, thereby encouraging readers to explore solutions to mitigate the impact of biases on decision-making. The practical implications of this research extend to individual investors, investment advisors, students, and institutions involved in this domain, offering valuable insights for informed decision-making in investment practices.

Kunwar (2021) analyzed the impact of investor behavior on the stock market in Nepal, particularly focusing on behavioral biases prevalent among individual investors. Conducted through a questionnaire survey involving 203 investors from Kathmandu and Pokhara, the study employs Exploratory Factor Analysis (EFA) to identify underlying dimensions of investor behavior. Utilizing Principal Component Analysis and Varimax rotation, the study identifies four factors of investor behavioral dimensions: heuristics, prospects, market factors, and herding effect. The analysis reveals that behavioral biases such as heuristics, prospects, market factors, and herding effect are indeed present among Nepalese individual investors. Notably, heuristics and market factors significantly influence investment performance, with heuristic behaviors demonstrating the highest positive impact. However, the study finds that following herd behavior and prospects does not enhance investor performance. These findings underscore the importance of understanding investor behavior in the stock market and suggest the formulation of policies to mitigate the adverse effects of behavioral biases.

Silwal and Bajracharya (2021) identified behavioral factors influencing individual investors' decisions and analyze their relationship with investment decision

performance. Through exploratory and confirmatory factor analysis, the study examines various behavioral biases including anchoring bias, gambler's fallacy, overconfidence bias, availability and representativeness bias, mental accounting, loss and regret aversion, as well as market variables and herding factors. Structural equation modeling is employed to test hypotheses. The findings reveal a negative correlation between prospect behavioral factors and investment performance, while herding, market variables, and heuristic approaches (including overconfidence and anchoring bias) exhibit a positive correlation with investment performance. This study offers compelling evidence supporting the effectiveness of herding and heuristic strategies in enhancing investment performance, highlighting their implications for individual investors' decision-making processes within financial markets.

Hossain and Siddiqua (2022) analyzed the impact of behavioral biases on investment decision-making among Bangladeshi investors within the context of the Dhaka Stock Exchange (DSE). Employing methods such as the chi-square test, one-way ANOVA, paired-samples t-test, and descriptive analysis, the study examines data collected from 281 respondents. The findings suggest that emotional factors significantly influence investment decisions, with risk aversion and risk perception being the most influential dimensions. This aligns with previous research and underscores the divergence between investors' actual behaviors and the rational norms prescribed by financial theories. However, the study acknowledges limitations due to its focus on a specific subset of investors on particular days, potentially hindering a comprehensive understanding of investors' decision-making behavior. These limitations suggest the need for further research to explore the complexity of investors' behavioral responses and their implications for investment analysis and portfolio management in Bangladesh's frontier market.

Karmacharya et al. (2022) examined the impact of perceived behavioral factors on investors' decision-making and their contribution to the performance of the Nepal Stock Exchange (NEPSE). Through structural model analysis, the study finds that market, heuristic, and herding factors significantly influence investment performance among Nepalese investors. Notably, there is a greater reliance on market information and sentiments, indicating investors' consideration of stock fundamentals and behavior to yield returns. The research, conducted in five metropolitan cities with a

sample size of 350 obtained from various broking firms in 2018, highlights the importance of understanding behavioral factors in shaping investment decisions and their implications for NEPSE performance.

Kumari et al. (2022) assessed concepts and theories within behavioral finance concerning the irrational behavior exhibited by individual investors. Recognizing the pivotal role of investment in economic growth, the study highlights the increasing influence of irrational factors on investment patterns in recent decades. Drawing attention to behavioral finance theories such as prospect theory, heuristic, herding, and the theory of planned behavior, the study aims to provide insight into the various behavioral biases and psychological variables driving investors' decision-making processes. The research offers valuable guidance for emerging studies seeking to enhance the efficiency of capital markets for economic growth, while also providing clarity for financial advisors and fund houses in improving investor efficiency and market performance, thereby contributing to overall economic prosperity.

Ritika et al. (2022) investigated the impact of Covid-19 on investment behavior in a South Asian economy, treating investment behavior as a Multi-Criteria Decision Making (MCDM) problem. Employing a blended approach of Decision-Making Trial and Evaluation Laboratory (DEMATEL) and Grey theory, the study addresses the subjectivity inherent in investors' judgments. The findings suggest that Covid-19 significantly influences financial stress, psychophysiological health outcomes, market perception, and investment strategies, with portfolio allocation emerging as the most affected sub-factor. The study underscores the importance of understanding the interconnectedness of factors affecting investment behavior during crises, filling a gap in literature that predominantly focuses on normal situations. The research's implications extend to various stakeholders including government, policymakers, financial advisors, and investors, aiding them in making informed decisions amidst pandemic-induced uncertainty.

Almansour et al. (2023) examined the influence of behavioral finance factors on investment decisions within the Saudi equity markets, with a focus on the mediating role of risk perception. Employing an online questionnaire distributed to 150 individual investors, of which 134 responses were analyzed, the study utilizes structural equation modeling (SEM) to assess the data. The findings reveal that

herding, disposition effect, and blue-chip bias significantly positively impact risk perception, while overconfidence only affects investment decision making directly. However, risk perception positively correlates with investment decision making, suggesting its importance in shaping investor behavior. Furthermore, the study underscores the indirect positive effects of behavioral finance factors on investment decisions through risk perception. The research highlights the necessity for investors to acknowledge their behavioral biases and for advisors and policymakers to devise strategies to mitigate their influence, emphasizing the critical role of risk perception in investment decision making within the Saudi context.

Dar and Kumar (2023) analyzed the behavioral determinants driving investment decisions among individual investors in Jammu and Kashmir (J&K), acknowledging the limitations of traditional financial theories based on rational decision-making assumptions. Employing non-probability convenience sampling, the study gathers 392 responses through a self-administered questionnaire. The t-test and ANOVA are utilized to assess the effect of demographics on investment behavior (IB), while logistic regression is employed to determine the impact of IB determinants on investment decision-making. The findings reveal that age and occupation significantly influence investment decisions in J&K, with cognitive bias, investment goals, and saving orientation exerting substantial effects on IB. However, factors such as overconfidence, risk perception, and decision influencers do not significantly impact investment decisions.

Farida et al. (2023) examined the impact of financial literacy, locus of control, and technological advancement on the investment behavior of young investors in Purwokerto City, Indonesia. Employing a quantitative methodology and questionnaire-based data collection, the study utilizes purposive sampling to gather responses from 105 members of the Purwokerto City of Indonesia Stock Investors group out of a population of 272. The statistical analysis, conducted through multiple linear regressions, reveals that financial literacy positively influences investment decisions, while locus of control does not have a significant effect. However, technological advancement is found to positively impact investment decisions. Despite limitations such as the restricted population from one city in Indonesia, the study contributes to enhancing understanding of factors influencing the investment

behavior of young investors, particularly within the realm of financial accounting research. It provides valuable insights for future research in similar areas, potentially aiding in the development of strategies to improve investment decision-making among young investors.

Quang et al. (2023) investigated the relationship between investor demographics and investment decisions in the Vietnamese stock market, utilizing behavioral factors as proxy variables. Drawing data from a structured questionnaire survey of 400 local, international, institutional, and individual investors in Vietnam, the study employs partial multiple regression to analyze the impact of demographic variables on investment choices with behavioral traits as mediator variables. The findings reveal that investor demographics such as age, gender, and educational level significantly influence investment decisions, with investor emotion, overconfidence, over/underreaction, and herd behavior playing substantial roles. While experience does not directly affect financial decisions, the study suggests that investors tend to disregard emotional aspects as they gain more experience. These results underscore the importance of considering both demographic factors and behavioral traits in understanding investor decision-making processes within the Vietnamese stock market.

Sachdeva and Lehal (2023) examined the factors influencing investment decision-making processes among stock market investors, with a particular focus on gender differences. Gathering data from 402 individual investors in North India through structured questionnaires, the study utilizes SPSS 23 for descriptive analysis and AMOS 22 to establish construct validity and test hypotheses. Multi-group analysis is conducted to examine gender differences, with various invariance tests ensuring the robustness of the model. The findings indicate that factors such as firm image, accounting information, neutral information, advocate recommendation, and personal financial needs significantly impact investment decision-making, with firm image identified as the most influential factor and advocate recommendation as the least influential. Interestingly, no significant differences between males and females were observed. While the study's geographical limitation to North India and the potential for incorporating additional demographic factors are noted.

Hassan et al. (2024) investigated the predictors of Islamic unit trust (IUT) investment intentions among investors in Malaysia, focusing on the moderating effect of fintech self-efficacy (FSE) on the attitude-investment intention relationship. Collecting data from 392 IUT investors, the study employs partial least squares structural equation modeling for analysis. The findings highlight subjective norms as the most influential factor on investment intention, followed by attitude and FSE, while religiosity does not significantly affect investment intention in IUT funds. Attitude mediates the relationships between religiosity-intention and Islamic financial literacy-intention. Additionally, FSE moderates the attitude-intention relationship. These results offer valuable insights for IUT service providers, emphasizing the importance of targeted marketing strategies and the enhancement of customers' FSE to attract investors. The study contributes empirical evidence to understanding investors' behavior within the framework of the Theory of Planned Behavior, shedding light on the interrelationships between Islamic financial literacy, religiosity, and FSE in the context of investment intentions.

Hemrajini et al. (2024) analyzed the influence of two psychological factors, emotional intelligence and impulsiveness, on financial risk tolerance (FRT) and financial risk-taking behavior (FRB) among individual investors, while also examining the mediating role of FRT in this relationship. Utilizing a standardized questionnaire, the study collected data from 303 respondents and validated the proposed research model using partial least squares structural equation modeling. The findings indicate significant relationships between emotional intelligence and impulsiveness with both FRT and FRB, highlighting the mediating role of FRT. These results underscore the significance of psychological factors in shaping an individual's FRT and FRB, suggesting the need for further research to explore additional factors that may influence FRT. The study emphasizes the importance of considering psychological factors in financial decision-making processes.

Nguyen et al. (2024) identified the factors influencing investment decision-making among potential individual investors in the Vietnam stock market, aiming to propose solutions to enhance investment efficiency. Utilizing data from 261 questionnaires, the study employed qualitative and quantitative research methods, including Cronbach's alpha, exploratory factor analysis (EFA), and regression analysis using

SPSS software, to test four hypotheses. The findings indicate that personality traits, behavioral factors, company-related factors, and exogenous factors positively impact the stock investment decisions of individual investors. Consequently, the article suggests solutions from various stakeholders, including the government, the stock market, businesses, and individuals, to improve investment efficiency.

Table 2. 1 *Summary of Literature Review*

Writer (Year)	Topic	Objectives	Methodologies	Major Findings
Sevilay and Bağci (2018)	Determining the Factors Affecting Individual Investors' Behaviours	To identify stimuli affecting individual investors' drivers of financial investment decisions and consider them in terms of behavioral finance.	Validation of individual investor questionnaire, survey of 200 employees, descriptive analysis.	Determined factors influencing investment decisions: predictions, estimates, emotions, personal intuitions, psychological and sociological behaviors.
Abul (2019)	Factors influencing Individual Investor Behaviour: Evidence from the Kuwait Stock	To investigate the impact of psychological factors on individual investors' decisions regarding KSE.	Qualitative analysis, survey of 398 individual investors.	Found significant impact of herd behavior, optimism, and psychology risk on individual investors' decisions regarding KSE.

	Exchange			
Rana (2019)	Factors Affecting Individual Investors' Stock Investment Decision in Nepal	To explore factors associated with individual investors' stock investment decision in Nepal.	Structured questionnaire survey of 106 individual investors, exploratory factor analysis.	Identified six factors affecting stock investment decisions: Earnings and Image Factors, Corporate Governance and Positioning Factors, etc.
Adhikari (2020)	Factors influencing investment decisions of individual investors at Nepal stock exchange	To identify factors affecting individual investors' investment decisions on the Nepal Stock Exchange.	Survey questionnaire with 35 items, frequencies, mean scores, factor analysis.	Found correlation between behavioral finance factors and investment decisions, including government statements, expected capital increase, firm's status, etc.
Sattar et al. (2020)	Behavioral Finance Biases in Investment Decision Making	To explore how behavioral biases affect investment decision making under uncertainty.	Survey questionnaire, regression analysis.	Found significant effect of behavioral biases on investment decisions, with heuristic behaviors having the highest

				impact.
Shukla et al. (2020)	Impact of Behavioral Biases on Investment Decisions 'A Systematic Review'	To study various biases in investment decision-making through literature review.	Review of research papers, categorization of biases.	Identified seven types of biases in investment decision-making, including overconfidence, representativeness, and herding effect.
Kunwar (2021)	The Relationship of Behavioral Factors with Investment Performance of Individual Investors in the Nepali Stock Market	To explore underlying dimensions of investor behavior and their correlation with investment performance.	Questionnaire survey of 203 investors, exploratory factor analysis.	Identified four factors of investor behavioral dimensions: heuristics, prospects, market factors, and herding effect.
Silwal and Bajracharya (2021)	Behavioral Factors Influencing Stock Investment Decision of Individuals	To identify behavioral factors influencing individual investors' decisions and analyze their relationship with	Exploratory and confirmatory factor analysis, structural equation modeling.	Found negative correlation of prospect behavioral factor with investment performance, and positive correlation of herding, market variables, and

		investment decision performance.		heuristic factors with investment performance.
Hossain and Siddiqua (2022)	Exploring the influence of behavioral aspects on stock investment decision-making: a study on Bangladeshi individual investors	To determine the impact of behavioral influences on the stock market in Bangladesh.	Chi-square test, one-way ANOVA, paired-samples t-test, descriptive analysis.	Found that individual investors in Bangladesh often make emotional investment decisions rather than rational ones.
Karmachary a et al. (2022)	Effect of Perceived Behavioral Factors on Investors' Investment Decisions in Stocks: Evidence from Nepal Stock Market	To examine the relationship between perceived behavioral factors and investment decision-making in the Nepal Stock Exchange.	Structural model analysis, survey of 350 investors.	Found significant effects of market, heuristic, and herding factors on investment performance.
Kumari et al. (2022)	Review on Behavioral Factors and Individual	To review various concepts and theories of	Literature review.	Provided insights into various behavioral biases and psychological

	Investors Psychology Towards Investment Decision Making	behavioral finance regarding individual investors' irrational behavior.		variables affecting investment decision making.
Ritika et al. (2022)	Modeling of factors affecting investment behavior during the pandemic: a grey-DEMATEL approach	To examine the cause-and-effect relationship between Covid-19 and factors affecting investment behavior in a South Asian economy.	MCDM approach (DEMATEL and Grey theory), survey.	Found Covid-19 to be the leading cause behind financial stress and investment behavior changes.
Almansour et al. (2023)	Behavioral finance factors and investment decisions: A mediating role of risk perception	To examine the impact of behavioral finance factors on investment decisions in the Saudi equity markets.	Online questionnaire, structural equation modeling.	Found significant positive impact of herding, disposition effect, and blue chip bias on risk perception and investment decision making.
Dar and Kumar	The Behavioural	To analyze the behavioral	Self-administered	Found significant influence of age,

(2023)	Pattern of Investment in the Financial Market: A Study of the Individual Investors	determinants driving the investment decision of individual investors in Jammu and Kashmir.	questionnaire, t-test, ANOVA, logistic regression.	occupation, cognitive bias, investment goals, and saving orientation on investment behavior in Jammu and Kashmir.
Farida et al. (2023)	Factors influencing the behavior of young investors' investment decisions: The emerging market analysis	To examine the impact of financial literacy, locus of control, and technological advancement on the investment behavior of young investors in Indonesia.	Questionnaire survey, multiple linear regressions.	Found positive effect of financial literacy and technological advancement on investment decisions, while locus of control had no significant effect.
Quang et al. (2023)	Behavioral factors influencing individual investors' decision making in Vietnam market	To explore the link between investor demographics and investment decisions in the Vietnamese stock market	Questionnaire survey, partial multiple regression.	Found significant impact of investor demographics on investment decisions, with emotional factors having a large influence.

		using behavioral factors.		
Sachdeva and Lehal (2023)	Contextual factors influencing investment decision making: a multi group analysis	To provide a comprehensive view of factors influencing investment decision making process of stock market investors in North India.	Structured questionnaires, SPSS for descriptive analysis and AMOS for hypothesis testing.	Found significant influence of firm image, accounting information, and personal financial needs on investment decisions.
Hassan et al. (2024)	What factors affecting investment decision? The moderating role of fintech self-efficacy	To determine factors predicting Islamic unit trust investment intentions and examine moderating effect of fintech self-efficacy.	Structured questionnaire, partial least squares structural equation modeling.	Found subjective norms to have the highest impact on investment intention, with attitude significantly mediating religiosity-intention relationship.
Hemrajini et al. (2024)	Retail Investors' Financial Risk	To look at how two psychological factors affect	Standardized questionnaire, partial least squares	Found emotional intelligence and impulsiveness to have significant

	Tolerance and Risk-taking Behaviour: The Role of Psychological Factors	financial risk tolerance and risk-taking behavior of individual investors.	structural equation modeling.	relationship with financial risk tolerance and risk-taking behavior.
Nguyen et al. (2024)	Determinants influencing investment decisions of individual investors: The case of the developing economy.	To point out factors influencing investment decision-making among potential individual investors in the Vietnam stock market.	Questionnaire survey, Cronbach's alpha, exploratory factor analysis, regression analysis.	Found four elements influencing stock investment decisions: personality traits, behavioral factors, company-related factors, and exogenous factors.

2.3 Research Gap

In Nepal, there is a lack of significant studies on the manner in which Nepalese investors express their interest in the primary market and the decisions they make about their investments. Up to now, researchers have restricted the breadth of their research by using small sample numbers and concentrating on demographic data. Therefore, there is a need to undertake more complete research that investigates different elements of investors' decisions. These factors include the investors' propensity to invest in stocks, their preferences for investment sectors, and their dependence on business performance or market information. Studies on the impact of emotions and gossip on investment choices in Nepal's stock market are scarce. By addressing these research gaps and taking into consideration a diverse range of participants from different backgrounds, such as banking, universities, and businesses, the purpose of this study is to provide a comprehensive understanding of the choices

that Nepalese investors make and to contribute valuable insights to the existing body of knowledge.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The primary objective of this study is to examine the investment choices made by Nepalese individual investors in the primary market. To achieve this, a descriptive and analytical research design is implemented. The data collection process involves obtaining information from a diverse range of respondents. In order to ensure a representative sample, random sampling is employed as the sampling technique. The collected data is then analyzed using a descriptive research design, which involves summarizing and presenting the information in a clear and accessible manner for both researchers and readers. By utilizing primary sources of information, the study aims to provide accurate and reliable insights into the investment preferences of individual investors in Nepal's primary market.

3.2 Population and Sample

The population refers to the entire group of individuals that the study aims to draw conclusions about which were the investors from Kathmandu valley and invested in Nepalese stock market. However, due to the large size of the population, it is often challenging to collect detailed information from every individual. To overcome this challenge, researchers select a sub-group, known as the sample, which is believed to be representative of the population. The sample allows researchers to conduct a more intensive study of the research problem while saving time and resources. In the context of this study, the population consists of all investors who invest in different sectors at NEPSE (Nepal Stock Exchange). The researchers have chosen a sample

size of 384 individuals using a simple random sampling method. This sampling technique ensures that each member of the population has an equal chance of being included in the sample, enhancing the representativeness of the findings. By selecting a representative sample, the researchers can gather data from a manageable subset of the population and draw conclusions that can be generalized to the larger population. This approach helps overcome the constraints of studying the entire population and allows for a more focused and efficient analysis of the research problem.

3.3 Nature and Sources of Data

The required data for analysis are collected from primary sources. For primary sources of data, the researcher obtains responses by questionnaires which will be distributed to sample population which is tabulated in two categories for analyzing data. The required data and information are mainly collected from questionnaire data collection technique directly visiting individual investors or by electronic mail.

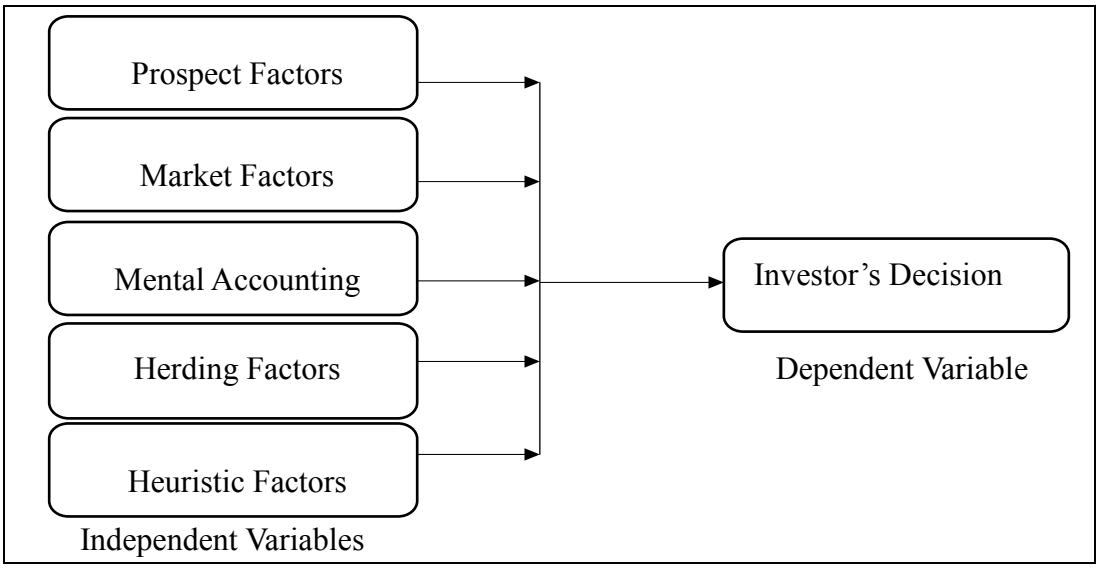
3.4 Data Collection Procedure

For this research, researcher collect appropriate data through questionnaire method. First of all, researcher develop various questions based on research topic variables. Then, question tries to find out the relation between the dependent and independent variable in research questions. Similarly, visit the concerned area through indirect or informal interviews. Researcher will generate primary data as required in this research**.** The study will employ simple random sampling techniques to obtain 384 people's perception about various variables which affect the investor's investment decision. The study will use open ended questionnaires and Likert scale questionnaires. Similarly, questionnaires also have the ability to solicit information from several respondents within a short time.

3.5 Research Framework and Definition of Variables

The researcher predicts dependent variables, which emerge or vanish when independent factors are added, removed, or changed. Influencing variables on individual investors' investment decisions may be represented as x, y, z, etc. depending on the amount of data points. Based on empirical investigation and theories, the researcher manipulates, measures, and selects independent variables to modify the dependent variable. The independent variable is used to predict the dependent variable. Influencing Factors on Individual Investors Investment Decision

looked at quantitative factors as dependent and independent. The research framework is given in Figure 1:



(Source: Jagongo & Mutswenje, 2014 & Abul, 2019)

Figure 3. 1 *Framework for the Study*

3.5.1 Investor's Decision

The term investors' decision pertains to the selections that individual investors make with respect to the distribution of their capital among different financial assets or securities. The decision-making process takes into account various factors, including individual preferences, market conditions, risk tolerance, and return expectations. Sevilay and Bağci (2018) underscore the significance of psychological factors, emotions, and personal intuitions in shaping investment decisions. They propose that irrational behaviors have a substantial effect on the process of decision-making.

3.5.2 Prospects Factors

Prospects factors refer to the perception of future prospects and possible profits linked to investment possibilities. This variable represents the evaluation made by investors on the potential for growth, profitability, and future performance of assets or securities being considered. Kunwar (2021) highlighted that prospective variables play a crucial role in shaping investor behavior. Specifically, investors' assessments of potential future profits or losses have a substantial impact on their choices when it comes to investing in the stock market.

3.5.3 Market Factors

Market factors include external market circumstances, economic data, and trends that have an impact on investors' decision-making processes. These factors include variables such as interest rates, inflation rates, market volatility, and the general economic outlook. Karmacharya et al. (2022) emphasized the significance of market dynamics in influencing investment choices, suggesting that investors depend on market knowledge and feelings to steer their investment plans and expectations.

3.5.4 Mental Accounting

Mental accounting is the cognitive process by which humans classify and assess financial results. It entails attributing distinct worth or importance to different financial transactions or investments using subjective criteria. Silwal and Bajracharya (2021) defined mental accounting as a cognitive bias that impacts investing decision-making. They suggest that investors may classify profits and losses differently depending on their mental accounting frameworks.

3.5.5 Herding Factors

Herding factors represent the tendency of investors to follow the actions of others, leading to collective decision-making patterns in financial markets. This behavior is driven by social influence, informational cascades, and the desire to conform to perceived market norms or trends. Silwal and Bajracharya (2021) emphasized the significance of herding behavior in shaping investment decisions, suggesting that investors may mimic the actions of others due to a fear of missing out or a desire for safety in numbers.

3.5.6 Heuristic Factors

Heuristic factors refer to simplified decision-making processes or rules of thumb that investors use to make investing choices with minimal knowledge or cognitive shortcuts. These heuristics often depend on previous experiences, widely held ideas, or easily accessible information to direct decision-making in intricate and unpredictable situations. Silwal and Bajracharya (2021) emphasize the impact of heuristic biases, such as overconfidence and anchoring, on investment decisions. They propose that investors may use heuristic tactics to simplify intricate investment choices.

3.5 Method of Analysis

The study utilized both descriptive and analytical statistics to analyze the collected data. This involved a combination of manual working and computer programs such as MS-Excel and SPSS. Descriptive statistics were used to analyze the data through frequency distributions, presenting the data in the form of frequencies and percentages. This allowed for a comprehensive description of the types of individual investors in the securities market and the demographic characteristics of the sample. The use of descriptive statistics enabled the study to compare frequency distributions and determine the level of significance for each variable. This approach provided a summarized and organized presentation of the data in an effective and meaningful manner. The analysis of the data was conducted based on the available data and employed various statistical tools and techniques.

Mean

In this research, the mean is used as a statistical technique to calculate the average value of several variables that influence investment choices among the respondents. The calculation involves aggregating the scores assigned to each element and then dividing the amount by the number of respondents. The mean represents the central tendency of a dataset, indicating the average or usual response within the sample.

Standard Deviation

This study uses standard deviation to measure the variability or dispersion in the dataset of variables impacting investment choices. A low standard deviation suggests a homogenous data distribution since answers cluster around the mean. High standard deviations indicate higher dispersion, indicating that answers are more evenly distributed over the range of potential values. This statistical measure shows respondents' investment decision-making factor perceptions and actions' variability and consistency.

Correlation

This study uses correlation analysis to determine the degree and direction of the association between investors' decisions and prospect, market, mental accounting, herding, and heuristic elements. The correlation coefficient ('r') measures linearity between variables. A positive correlation coefficient shows a direct association, where one variable increases the other, whereas a negative correlation indicates an opposite

relationship. Correlation analysis shows how changes in one variable affect changes in another, revealing how diverse variables affect investment choices.

Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (or prediction) of one variable on the basis of the other variable(s). In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable. The multiple regressions were as follows:

$$Y=a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + e$$

Where,

Y= Investors Decision

x_1= Prospects Factors

x_2= Market Factors

x_3= Mental Accounting

x_4= Herding Factors

x_5= Heuristic Factors

e = Error Terms

3.6 Reliability and Validity

Social science research technique requires reliability and validity. Reliability is the consistency and stability of measures or data collecting procedures, whereas validity is their correctness and meaningfulness in connection to study aims. For consistent forecasts, the variables indicating prospects and market factors, the other variables, and the error term in the equation must be reliable. Validity measures how well the variables represent investors' decision-making process and its determinants. To ensure reliability and validity, researchers utilize surveys or experiments and statistical analysis to measure consistency and correctness. To test the reliability Cronbach alpha is calculated.

Table 3. 1 *Reliability Analysis*

Variables	No. of Items	Cronbach Alpha
Prospect Factors	5	0.649

Market Factors	5	0.859
Mental Accounting	5	0.829
Herding Factors	5	0.906
Heuristic Factors	5	0.952
Investment Decision	5	0.745
Overall	30	0.924

The reliability study of the questionnaire questions, which include six constructs prospect factors, market factors, mental accounting, herding factors, heuristic factors, and investment decision shows varied degrees of internal consistency. While prospect factors have moderate reliability (Cronbach's alpha = 0.649), market factors have good internal consistency (alpha = 0.859). Similarly, the mental accounting and investment decision constructs have high and moderate dependability, with alphas of 0.829 and 0.745. However, herding and heuristic factors have very high internal consistency, with alphas of 0.906 and 0.952, respectively. Overall, the scale has good internal consistency, as shown by an exceptional Cronbach's alpha of 0.924, indicating that the questionnaire accurately assesses the targeted components.

CHAPTER IV

RESULTS AND DISCUSSION

A research study's background usually gives the presentation and interpretation of the study's results context in the results and discussion chapter. This part orients the reader by summarizing the goals of the study, describing the data collection and analysis process, and pointing out any pertinent theoretical frameworks or earlier studies that influenced the work. The background lays this basis, which helps the reader to grasp the importance of the results that are provided and eases the transition into the discussion of the findings that follows.

4.1 Results

The results section of a research study is dedicated to presenting the findings derived from data analysis. This section is structured to systematically present the results in a clear and organized manner, often starting with demographic profile of respondents, descriptive statistics of the data collected. The results section includes tables and narrative descriptions to convey the key findings. Statistical analyses correlation analysis and regression models are used to uncover patterns, relationships or differences within the data. The results section includes demographic analysis of sample respondents who are the individual investors at NEPSE, descriptive analysis of study variables on the basis of respondent’s response, correlation analysis to see the relationship between dependent and independent variables included in the study and regression analysis to see the effect of each individual independent variable on dependent variable i.e., investor decision at NEPSE.

4.1.1 Demographic Profile of Respondents

In this study several key demographic variables were considered which are gender, age, education, occupation, monthly income, and investment experience. These demographic factors provide essential insights into the characteristics of the individuals participating in the research and offer valuable context for understanding their investment behavior within the context of the Nepal Stock Exchange (NEPSE). By analyzing the demographic profile of respondents in relation to their behavior and decision-making processes in the stock market, the study knows how these individual characteristics interact with broader market dynamics. This demographic analysis

enriches the study's findings by contextualizing the factors influencing individual investors' behavior and their investment preferences within the NEPSE.

The gender of the sample makes it possible to analyze the gender differences in investment behavior by men and women and attributes the possible gender pattern among investors. Age demographics show, what age categories a sample consist, thus the generational differences can be researched and studied about the dissimilarities of risk tolerance and investment preferences. The educational background is a sign of the knowledge and general financial literacy level of respondents about investment mechanisms, and it typically affects the way they make their investment choices. Occupation data gives an opportunity to determine whether the expertise of the respondents and/or their occupation increase the familiarity with the notions of finance and their ability to invest. It’s monthly income which yields to the knowledge of the financial capacity of the interviewees, which may influence on their investment decisions and potential risks. In the last part of the analysis, the experience of investment sheds light both on level of sophistication and familiarity that people have with the stock market from their point of view as well as the way they think about their decisions and risk management strategies. The demographic profile of respondents is presented from Table 4.1 to Table 4.6.

Table 4. 1 *Gender of Respondents*

Gender	Frequency	Percent
Male	245	63.8
Female	139	36.2
Total	384	100.00

Source: Field Survey, 2024

Table 4.1 presents the gender distribution of the respondents in the study. Out of the total sample size of 384 respondents, 245 (63.8%) were male, while 139 (36.2%) were female. The gender breakdown is important for understanding any potential gender-related differences or patterns in the factors influencing individual investors' behavior in the stock market.

Table 4. 2 *Age Group of Respondents*

Age	Frequency	Percent
18-24	17	4.43
25-34	79	20.57
35-44	143	37.24
45-54	79	20.57
55 and above	66	17.19
Total	384	100.00

Source: Field Survey, 2024

Table 4.2 provides an overview of the age groups of the respondents in the study. The data is categorized into five age groups: 18-24, 25-34, 35-44, 45-54, and 55 and above. Out of the total sample size of 384 respondents, the highest frequency is observed in the 35-44 age group with 143 respondents (37.24%), followed by the 25-34 and 45-54 age groups with 79 respondents each (20.57%). The 55 and above age group has 66 respondents (17.19%), while the 18-24 age group has the lowest frequency with 17 respondents (4.43%).

Table 4. 3 *Educational Background*

Education Level	Frequency	Percent
Under SLC	40	10.4
SLC	26	6.8
Plus Two	70	18.2
Bachelor's degree	156	40.6
Master's degree and above	92	24.0
Total	384	100.00

Source: Field Survey, 2024

Table 4.3 presents the educational background of the respondents in the study. Out of the total sample size of 384 respondents, the highest frequency is observed in the Bachelor's degree category, with 156 respondents (40.6%). This is followed by the Master's degree and above category, with 92 respondents (24.0%). The Plus Two category has 70 respondents (18.2%), while the Less than SLC and SLC categories have 40 (10.4%) and 26 (6.8%) respondents, respectively.

Table 4. 4 *Occupation of Respondents*

Occupation	Frequency	Percent
Student	60	15.6
Employed full-time	150	39.1
Self-employed	30	7.8
Unemployed	34	8.9
Retired	110	28.6
Total	384	100.00

Source: Field Survey, 2024

Table 4.4 shows the occupation distribution of the respondents in the study. Out of the total sample size of 384 respondents, the highest frequency is observed in the Employed full-time category, with 150 respondents (39.1%). This indicates that a significant portion of the respondents are engaged in full-time employment. The Retired category has the second-highest frequency, with 110 respondents (28.6%), suggesting a notable representation of retired individuals in the sample. The student category comprises 60 respondents (15.6%), indicating the presence of students participating in the study. The Self-employed and Unemployed categories have 30 (7.8%) and 34 (8.9%) respondents, respectively, highlighting the smaller proportions of self-employed individuals and those currently unemployed.

Table 4. 5 *Monthly Income of Respondents*

Monthly Income	Frequency	Percent
Less than Rs. 25,000	36	9.4
Rs. 25,000 – Rs. 49,999	189	49.2
Rs. 50,000 – Rs. 74,999	114	29.7
Rs. 75,000 – Rs. 99,999	36	9.38
Rs. 100,000 - or above	9	2.34
Total	384	100.00

Source: Field Survey, 2024

Table 4.5 depicts the monthly income distribution of the respondents in the study. Out of the total sample size of 384 respondents, the highest frequency is observed in the Rs. 25,000 – Rs. 49,999 income group, with 189 respondents (49.2%). This indicates

that a significant proportion of the respondents fall within this income range. The Rs. 50,000 to Rs. 74,999 income group has 114 respondents (29.7%), while the Rs. 75,000 – Rs. 99,999 income group and the Less than Rs. 25,000 income group have 36 respondents (9.38%) each. The Rs. 100,000 or above income group has the lowest frequency, with 9 respondents (2.34%).

Table 4. 6 *Investment Experience of Respondents*

Investment Experience	Frequency	Percent
Less than 6 months	27	7.0
6 months - 1 year	34	8.9
1-3 years	192	50.0
3-5 years	87	22.7
More than 5 years	44	11.5
Total	384	100.00

Source: Field Survey, 2024

Table 4.6 shows the respondents response on the investment experience. Out of the total sample size of 384 respondents, the highest frequency is observed in the 1-3 years category, with 192 respondents (50.0%). This indicates that a significant proportion of the respondents have an investment experience ranging from 1 to 3 years. The 3-5 years category has 87 respondents (22.7%), while the More than 5 years category has 44 respondents (11.5%). The Less than 6 months and 6 months - 1-year categories have 27 (7.0%) and 34 (8.9%) respondents, respectively.

4.1.2 Descriptive Analysis

Descriptive statistics is a branch of statistics that focuses on summarizing and interpreting data. In this study, all independent and dependent variables were measured using a Likert scale, which is a commonly used measurement scale to assess opinions. The Likert scale typically consists of multiple statements or items to which respondents indicate their level of agreement or disagreement on a scale, often ranging from 1 to 5. In this study, the Likert scale responses for each variable were analyzed using SPSS 25.0, a statistical software widely used for data analysis. Descriptive statistics were employed to provide a summary of the data, including measures such as the mean, standard deviation, minimum and maximum values.

4.1.2.1 Descriptive Analysis of Prospect Factors

Prospect factors pertain to the expectations and perceptions of investors concerning forthcoming market hazards and opportunities. These factors comprise an assortment of predictive indicators, such as projected earnings, industry expansion, and macroeconomic developments. The evaluation of future prospects by investors has a significant impact on their risk tolerance and capital allocation across various assets. It is critical to comprehend the manner in which prospect factors influence the decision-making processes of investors in order to forecast market trends and develop investment strategies that are in accordance with the expectations and preferences of investors. The statements on variables are measured on five-point Likert scale i.e., from 1 strongly disagree to 5 strongly agree. Higher values indicate the agreement of respondents in the statements. The respondent's response on prospect factors is presented in Table 4.7.

Table 4. 7 Descriptive Analysis of Prospect Factors

Statements	N	Min	Max	Mean	S.D.
I believe that investing in certain industries or sectors will lead to higher returns.	384	1.00	5.00	3.19	1.09
I consider the future growth potential of companies before investing in their stocks.	384	1.00	5.00	3.17	1.10
I pay attention to earnings reports and financial forecasts when making investment decisions.	384	2.00	5.00	4.21	.62
I am more likely to invest in stocks that have recently shown positive performance.	384	1.00	5.00	4.18	.60
I tend to avoid investing in stocks with a history of volatility or poor financial health.	384	1.00	5.00	4.56	.62
Prospect Factors	384	1.40	5.00	3.86	.54

Source: Field Survey, 2024

Table 4.7 presents the results of the descriptive analysis of prospect factors that affect investment decisions. The data, obtained from a field survey and includes five statements related to different prospect factors measured on a Likert scale. The analysis reveals that the mean score for the prospect factors is 3.86, with a standard deviation of 0.54. This indicates that, on average, the respondents have a highly positive attitude towards the prospect factors considered in the study. The individual statements' mean scores range from 3.17 to 4.56, with corresponding standard deviations ranging from 0.60 to 1.10. The statement with the lowest mean score is

related to considering the future growth potential of companies before investing in their stocks (mean = 3.17, SD = 1.10). On the other hand, the statement with the highest mean score is related to avoiding investing in stocks with a history of volatility or poor financial health (mean = 4.56, SD = 0.62).

4.1.2.2 Descriptive Analysis of Market Factors

Market factors comprise an extensive range of financial and economic variables that have an influence on investment choices. These variables may consist of, among others, macroeconomic indicators, market sentiment, industry developments, and regulatory changes. The influence of market conditions on investors' expectations of future market movements and their perceptions of risk and return is substantial. The examination of market factors enables scholars to evaluate the macro-level determinants of investment behavior and comprehend the manner in which fluctuations in the economic climate impact the choices of investors and the dynamics of the market. The statements on variables are measured on five-point Likert scale i.e., from 1 strongly disagree to 5 strongly agree. Higher values indicate the agreement of respondents in the statements. The respondent's response on market factors is presented in Table 4.8.

Table 4. 8 *Descriptive Analysis of Market Factors*

Statements	N	Min	Max	Mean	S.D.
I monitor market trends and movements before making investment decisions at NEPSE.	384	1.00	5.00	3.78	0.80
I consider the prevailing market conditions before investing in stocks at NEPSE.	384	1.00	5.00	3.91	0.68
I analyze the overall performance of the stock market indices.	384	2.00	5.00	3.80	0.81
I review the historical market data to predict future market movements.	384	1.00	5.00	3.71	0.85
I track the volatility of the stock market before making investment choices.	384	1.00	5.00	4.04	0.64
Market Factors	384	1.20	5.00	3.85	0.61

Source: Field Survey, 2024

Table 4.8 provides the results of the descriptive analysis of market factors that influence investment decisions in NEPSE (Nepal Stock Exchange). The analysis reveals that the overall market factors have a mean score of 3.85, with a standard

deviation of 0.61. This suggests that, on average, the respondents consider market factors to be highly important in their investment decisions. The individual statements' mean scores range from 3.71 to 4.04, with corresponding standard deviations ranging from 0.64 to 0.85. The statement with the lowest mean score is related to reviewing historical market data to predict future market movements (mean = 3.71, SD = 0.85). Conversely, the statement with the highest mean score is associated with tracking the volatility of the stock market before making investment choices (mean = 4.04, SD = 0.64).

4.1.2.3 Descriptive Analysis of Mental Accounting

Mental accounting is the process by which individuals mentally classify and compartmentalize financial activities and outcomes. Investors frequently divide their investments into distinct accounts or categories in their minds, doing so in accordance with criteria including risk, return, or investment objectives. Investment decisions can be impacted by the way in which individuals conceptualize gains, losses, and the overall performance of a portfolio through mental accounting. Through a comprehension of the mechanisms underlying mental accounting, scholars and professionals alike can formulate approaches that augment the decision-making processes of investors and elevate financial outcomes. The statements on variables are measured on five-point Likert scale i.e., from 1 strongly disagree to 5 strongly agree. Higher values indicate the agreement of respondents in the statements. The respondent's response on mental accounting factors is presented in Table 4.9.

Table 4. 9 *Descriptive Analysis of Mental Accounting*

Statements	N	Min	Max	Mean	S.D.
I segregate my investment funds based on different financial goals.	384	1.00	5.00	3.92	0.82
I mentally assign different risk levels to various investment portfolios.	384	1.00	5.00	4.00	0.72
I categorize my investments based on short-term and long-term objectives.	384	2.00	5.00	4.17	0.67
I allocate funds separately for speculative and conservative investments.	384	1.00	5.00	4.25	0.71
I mentally track the performance of individual stocks in my investment portfolio.	384	1.00	5.00	4.07	0.70
Mental Accounting	384	1.40	5.00	4.08	0.56

Source: Field Survey, 2024

Table 4.9 shows the results of the descriptive analysis of mental accounting in investment decisions. The findings reveals that the overall mental accounting factor has a mean score of 4.08, with a standard deviation of 0.56. This suggests that, on average, the respondents engage in mental accounting practices when making investment decisions. The individual statements' mean scores range from 3.92 to 4.25, with corresponding standard deviations ranging from 0.67 to 0.82. The statement with the lowest mean score is related to segregating investment funds based on different financial goals (mean = 3.92, SD = 0.82). Conversely, the statement with the highest mean score is associated with allocating funds separately for speculative and conservative investments (mean = 4.25, SD = 0.71).

4.1.2.4 Descriptive Analysis of Herding Factors

Herding factors pertain to the inclination of investors to emulate the behaviors of their peers, specifically when confronted with circumstances characterized by uncertainty or ambiguity. Herding behavior frequently emerges from a propensity to adhere to societal conventions or to pursue security in large groups, causing investors to follow the herd instead of undertaking autonomous evaluations. Price fluctuations due to herd behavior may cause market inefficiencies, as prices might deviate significantly from their underlying fundamental values. To fully comprehend investor behavior and market outcomes, it is critical to grasp the fundamental forces that drive herding and the repercussions that this has on market dynamics. The statements on variables are measured on five-point Likert scale i.e., from 1 strongly disagree to 5 strongly agree. Higher values indicate the agreement of respondents in the statements. The respondent’s response on herding factors is presented in Table 4.10.

Table 4. 10 *Descriptive Analysis of Herding Factors*

Statements	N	Min	Max	Mean	S.D.
I tend to follow the investment decisions of others in the stock market.	384	1.00	5.00	4.07	0.72
I consider the actions of other investors before making my investment choices.	384	1.00	5.00	4.26	0.68
I am influenced by market sentiment and the behavior of other investors.	384	2.00	5.00	4.05	0.79
I feel more confident in my investment decisions when they align with the market consensus.	384	1.00	5.00	4.03	0.75

I adjust my investment strategy based on the actions of other market participants.	384	1.00	5.00	4.08	0.72
Herding Factors	384	1.60	5.00	4.10	0.62

Source: Field Survey, 2024

Table 4.10 depicts the results of the descriptive analysis of herding factors in investment decisions. The analysis reveals that the overall herding factors have a mean score of 4.10, with a standard deviation of 0.62. This suggests that, on average, the respondents exhibit a tendency to engage in herding behavior when making investment decisions. The individual statements' mean scores range from 4.03 to 4.26, with corresponding standard deviations ranging from 0.68 to 0.79. The statement with the lowest mean score is related to feeling more confident in investment decisions when they align with the market consensus (mean = 4.03, SD = 0.75). Conversely, the statement with the highest mean score is associated with considering the actions of other investors before making investment choices (mean = 4.26, SD = 0.68).

4.1.2.5 Descriptive Analysis of Heuristic Factors

Heuristic factors are cognitive heuristics or hedonistic rules of thumb utilized by individuals in an effort to streamline the decision-making process. Although these cognitive shortcuts are effective at decreasing cognitive burden, they may also result in prejudices and less-than-ideal judgments. Anchoring, availability, and representativeness are prevalent heuristics utilized in investment decision-making that affect investors' perceptions and evaluations of information, and thus their investment decisions. The statements on variables are measured on five-point Likert scale i.e., from 1 strongly disagree to 5 strongly agree. Higher values indicate the agreement of respondents in the statements. The respondent’s response on heuristic factors is presented in Table 4.11.

Table 4. 11 *Descriptive Analysis of Heuristic Factors*

Statements	N	Min	Max	Mean	S.D.
I rely on rules of thumb or simplified decision-making strategies when investing.	384	1.00	5.00	3.65	1.12
I use past investment experiences to guide my current investment decisions.	384	1.00	5.00	3.63	1.22
I make investment choices based on readily available information rather than in-depth analysis.	384	2.00	5.00	3.61	1.23

I prefer stocks of companies with familiar brand names or products.	384	1.00	5.00	3.91	0.94
I tend to avoid investments in sectors or industries I perceive as risky or unfamiliar.	384	1.00	5.00	3.53	1.26
Heuristic Factors	384	1.00	5.00	3.67	1.06

Source: Field Survey, 2024

Table 4.11 shows the results of the descriptive analysis of heuristic factors in investment decisions. The findings shows that the overall heuristic factors have a mean score of 3.67, with a standard deviation of 1.06. This suggests that, on average, the respondents tend to rely on rules of thumb, past experiences, readily available information, and familiarity when making investment decisions. The individual statements' mean scores range from 3.53 to 3.91, with corresponding standard deviations ranging from 0.94 to 1.26. The statement with the lowest mean score is related to avoiding investments in perceived risky or unfamiliar sectors or industries (mean = 3.53, SD = 1.26). Conversely, the statement with the highest mean score is associated with preferring stocks of companies with familiar brand names or products (mean = 3.91, SD = 0.94).

4.1.2.6 Descriptive Analysis of Investment Decision

The term investors decision pertains to the outcome variable within the scope of this research, which represents the way in which individual investors make decisions concerning their stock investments. This variable is crucial for comprehending the determinants that impact investors' decisions in the stock market; it comprises a variety of psychological, economic, and market-related elements. Gaining insight into the determinants that influence investors' decisions is of paramount importance for finance scholars and professionals alike. Such knowledge illuminates the process by which individuals maneuver through the intricate landscape of financial markets and select investments that correspond to their risk aversions and objectives. The response in investment decision is presented n Table 4.12.

Table 4. 12 *Descriptive Analysis of Investment Decision*

Statements	N	Min	Max	Mean	S.D.
I feel confident in my investment decisions.	384	1.00	5.00	4.66	0.67
I carefully consider the potential risks and rewards before making an investment.	384	1.00	5.00	4.41	0.71

I frequently monitor my investments to ensure they align with my financial goals.	384	2.00	5.00	4.63	0.66
I often seek advice from financial experts or conduct thorough research before investing.	384	1.00	5.00	4.42	0.69
I am willing to adjust my investment strategy based on market conditions and new information.	384	1.00	5.00	3.28	1.13
Investment Decision	384	1.60	5.00	4.28	0.56

Source: Field Survey, 2024

Table 4.12 presents the results of the descriptive analysis of investment decision factors. The findings reveals that the overall investment decision factor has a mean score of 4.28, with a standard deviation of 0.56. This suggests that, on average, the respondents exhibit confidence in their investment decisions and carefully consider risks and rewards before making investment choices. The individual statements' mean scores range from 3.28 to 4.66, with corresponding standard deviations ranging from 0.67 to 1.13. The statement with the lowest mean score is associated with the willingness to adjust investment strategies based on market conditions and new information (mean = 3.28, SD = 1.13). Conversely, the statement with the highest mean score is related to feeling confident in investment decisions (mean = 4.66, SD = 0.67).

4.1.2.7 Summary of Descriptive Statistics

Summary of descriptive statistics summarizes research data properties. Understanding the central trends, variability, and distribution of variables requires descriptive statistics. The mean, standard deviation, minimum, maximum, for each variable are usually included in this summary. These statistics may assist researchers detect patterns and trends by revealing the dataset's usual values and variability. Descriptive statistics allow variable comparisons and identify outliers that may need additional research. The summary of descriptive statistics is a crucial stage in data analysis, providing researchers with useful information to guide their studies and conclusions. For this study the summary of independent variables i.e., prospect factors, market factors, mental accounting, herding factors and heuristic factors and dependent variable investors decision is presented in Table 4.13.

Table 4. 13 *Summary of Descriptive Statistics*

Variables	N	Minimum	Maximum	Mean	Std. Deviation

Prospect Factors	384	1.40	5.00	3.86	0.54
Market Factors	384	1.20	5.00	3.85	0.61
Mental Accounting	384	1.40	5.00	4.08	0.56
Herding Factors	384	1.60	5.00	4.10	0.62
Heuristic Factors	384	1.00	5.00	3.67	1.06
Investment Decision	384	1.60	5.00	4.28	0.56

Source: Field Survey, 2024

Table 4.13 presents the results of the descriptive analysis of various factors influencing investment decisions which includes prospect factors, market factors, mental accounting, herding factors, heuristic factors, and investment decision. Prospect factors has the mean score is 3.86, with a standard deviation of 0.54. This suggests that the respondents consider potential gains and losses when making investment decisions. Market factors has the mean score is 3.85, with a standard deviation of 0.61. This indicates that the respondents take into account market conditions when making investment choices.

Mental accounting has the mean score is 4.08, with a standard deviation of 0.56. This implies that the respondents may engage in mental accounting, where they categorize and evaluate their investments based on different mental compartments. Herding factors with mean score is 4.10 and a standard deviation of 0.62 suggests that the respondents may be influenced by the behavior and decisions of other investors when making their own investment choices. Heuristic factors with the mean score is 3.67 and standard deviation of 1.06 indicates that the respondents may rely on rules of thumb or simplified decision-making strategies when investing. Investment decision has thee mean score is 4.28, with a standard deviation of 0.56. This implies that, on average, the respondents exhibit a positive attitude towards making investment decisions.

4.1.3 Correlation Analysis

Correlation analysis is important to this research since it examines correlations between variables. It helps researchers estimate the degree and direction of relationships between variables, revealing their possible linkages. Correlation analysis helps find significant correlations between the independent variables i.e., heuristic, herding, mental accounting, market, and prospect factors and the dependent variable

investors decision. Correlation analysis quantifies the linear link between various variables, allowing researchers to determine how much one variable affects another. Correlation analysis is essential for investigating variable interdependencies and preparing the research for more sophisticated statistical analyses. The correlation result is presented in Table 4.14.

Table 4. 14 *Correlation Analysis (N=384)*

		ID	PF	MF	MA	HF	HEF
ID	Pearson Correlation	1	.442**	.403**	.527**	.590**	.504**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
PF	Pearson Correlation		1	.243**	.463**	.441**	.325**
	Sig. (2-tailed)			.000	.000	.000	.000
MF	Pearson Correlation			1	.327**	.400**	.274**
	Sig. (2-tailed)				.000	.000	.000
MA	Pearson Correlation				1	.561**	.381**
	Sig. (2-tailed)					.000	.000
HF	Pearson Correlation					1	.428**
	Sig. (2-tailed)						.000
HEF	Pearson Correlation						1
	Sig. (2-tailed)						

**. Correlation is significant at the 0.05 level (2-tailed).

Where,

ID= Investors Decision

PF = Prospect Factors

MF = Market Factors

MA = Mental Accounting

HF = Herding Factors

HEF = Heuristic Factors

Table 4.14 shows the correlation matrix, indicating the strength and direction of the relationship between the dependent variable, investors decision, and each independent variable heuristic factors, herding factors, mental accounting, market factors, and prospect factors. Prospect factors have a moderately positive correlation with investors decision $r = 0.442$ and $p < 0.001$, suggesting that investors' decision-making

tendencies are positively influenced by factors related to prospects, such as expectations of future returns or growth potential. Market factors have a substantially positive connection with investors decision $r = 0.403$, $p < 0.001$, indicating that market-related factors, such as economic data or market mood, significantly influence investors' choices.

Mental accounting has a significant positive association with Investors decision $r = 0.527$, $p < 0.001$, indicating that investors' mental categorization and appraisal of financial results influences their decision-making behavior. Herding factors had the greatest positive association with investors decision $r = 0.590$, $p < 0.001$, demonstrating that investors' inclination to follow the activities of others in the market strongly influences their decision-making process.

Finally, heuristic factors have a relatively positive connection with investors decision $r = 0.504$, $p < 0.001$, indicating that investors' use of mental shortcuts or simplified decision-making processes effects their investment choices favorably. These correlations demonstrate the multidimensional character of investors' decision-making behavior, which is impacted by a variety of cognitive, psychological, and market-related aspects, as reflected by the study's independent variables. These statistically significant correlations suggest that as the values of the independent variables increase, there is a corresponding increase in investors decision.

4.1.4 Regression Analysis

This research uses regression analysis to investigate the link between the dependent variable, investor decision, and the independent variables i.e., prospect factors, market factors, mental accounting, herding factors, and heuristic factors. The regression model seeks to determine the degree to which these independent factors predict differences in investor decisions. By estimating the coefficients of the independent variables, regression analysis may quantify their influence on the dependent variable while adjusting for other factors in the model. Furthermore, regression analysis allows for the statistical evaluation of the correlations between the independent and dependent variables, revealing the relative relevance of each element in explaining investor decision-making behavior. Table 4.15, Table 4.16 and Table 4.17 presents the regression results of the study.

Table 4. 15 *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.699[a]	.489	.482	.40238

a. Predictors: (Constant), Heuristic Factors, Herding Factors, Mental Accounting, Market Factors, Prospect Factors

Table 4.15 shows the regression analysis results demonstrate the overall fit of the model. The coefficient of determination (R-squared) value of 0.489 indicates that approximately 48.9% of the variance in investors decision can be explained by the included independent variables heuristic factors, herding factors, mental accounting, market factors, and prospect factors. Additionally, the standard error of the estimate, at 0.40238, suggests that the model's predictions are relatively precise, contributing to its reliability.

Table 4. 16 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58.551	5	11.710	72.325	.000[b]
	Residual	61.202	378	.162		
	Total	119.753	383			

a. Dependent Variable: Investors Decision

b. Predictors: (Constant), Heuristic Factors, Herding Factors, Mental Accounting, Market Factors, Prospect Factors

Table 4.16 depicts the ANOVA results underscore the significance of the regression model ($F = 72.325$, $p < 0.001$). This indicates that the independent variables jointly exert a notable influence on investors decision. The sum of squares for regression (58.551) compared to the sum of squares for the residuals (61.202) implies that the model elucidates a substantial portion of the variance in the dependent variable, further confirming its explanatory power. The significant F value indicate that the overall model used in this study is significant which means at least one of the independent variables used in this study have a significant effect on dependent variable investors decision.

Table 4. 17 *Regression Coefficients*

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	1.089	.192		5.657	.000		
Prospect Factors	.131	.044	.127	2.944	.003	.726	1.378
Market Factors	.127	.038	.138	3.386	.001	.815	1.227
Mental Accounting	.175	.047	.175	3.720	.000	.608	1.646
Herding Factors	.250	.044	.279	5.740	.000	.572	1.747
Heuristic Factors	.125	.022	.238	5.680	.000	.769	1.300

Table 4.17 provides detailed coefficients for each independent variable in the regression model. The unstandardized coefficient (B) for prospect factors is 0.131, with a standard error of 0.044. This suggests that for every one-unit increase in prospect factors, there is a corresponding increase of 0.131 units in investors decision. This effect is statistically significant ($t = 2.944$, $p < 0.01$), suggesting that investors' perceptions of future market prospects play a role in their investment decisions.

The unstandardized coefficient for market factors is 0.127, with a standard error of 0.038. This implies that a one-unit increase in market factors corresponds to a 0.127-unit increase in Investors Decision. This effect is statistically significant ($t = 3.386$, $p < 0.001$), indicating that factors related to market conditions influence investors' decision-making processes.

The unstandardized coefficient for mental accounting is 0.175, with a standard error of 0.047. This suggests that a one-unit increase in Mental Accounting leads to a 0.175-unit increase in Investors Decision. This effect is statistically significant ($t = 3.720$, $p < 0.001$), indicating that investors' mental categorization of financial activities influences their investment decisions.

The unstandardized coefficient for herding factors is 0.250, with a standard error of 0.044. This implies that a one-unit increase in herding factors corresponds to a 0.250-unit increase in investors decision. This effect is statistically significant ($t = 5.740$, $p < 0.001$), indicating that investors' tendency to follow the crowd influences their investment decisions.

The unstandardized coefficient for heuristic factors is 0.125, with a standard error of 0.022. This suggests that a one-unit increase in Heuristic Factors leads to a 0.125-unit

increase in investors decision. This effect is statistically significant ($t = 5.680$, $p < 0.001$), indicating that investors' use of mental shortcuts and rules of thumb influences their investment decisions.

The collinearity statistics assure us that multicollinearity is not a concern, as indicated by the tolerance values above 0.5 and the VIF values below 2, enhancing the robustness of the regression model for all variables in this study. Also, from the regression results it can be concluded that, all factors are the important factors to determine investors decision as indicated by their significance values.

4.2 Discussions

With a particular emphasis on prospect factors, market factors, mental accounting, herding factors, and heuristic factors, the purpose of the research was to identify fundamental elements that play a significant role in the decision-making process of individual investors operating within the Nepalese stock market. The purpose of the study was to provide insightful information on the behaviors and decision-making processes of investors by conducting a thorough assessment of these key characteristics.

Prospective factors were shown to be a substantial influence of the decisions that investors made, exhibiting a modestly favorable association with investment choices. According to this, it seems that the considerations of prospective profits and losses that investors take into account play a significant part in the formation of their investment choices. A significant positive connection was found between market factors and the choices made by investors, indicating that market considerations are also important. It is clear from this that market circumstances, economic data, and market mood are all very important factors that influence the decisions that investors make.

In addition, research findings have shown that mental accounting, herding effects, and heuristic variables are major elements that influence investing choices. It was discovered that mental accounting methods, such as classifying and rating assets based on various mental compartments, had a favorable impact on the decision-making behavior of investors. Herding variables, which are a reflection of investors' desire to follow the activities of others in the market, demonstrated the greatest

positive correlation with investment choices, highlighted the significance of social influence on investor behavior, and exhibited the strongest positive connection with investment decisions. Furthermore, it was shown that heuristic elements, which are a representation of the mental shortcuts and simplified decision-making processes used by investors, had a significant positive link with investing choices.

An additional level of insight into the impact that these characteristics have on investment choices was provided by the regression analysis. Several elements, including prospect factors, market factors, mental accounting, herding factors, and heuristic factors, were shown to be important predictors of investment decisions. This highlights the cumulative influence that these factors have on financial decision-makers. To be more specific, the coefficients for each variable highlighted the various contributions that each variable makes to the decision-making processes of investors. Furthermore, all of the factors had statistically significant impacts on investment choices.

The findings of this study suggest that prospect factors have a significant effect on investors' decisions, which is consistent with the findings of Sevilay and Bağci (2018), who demonstrated the significant impact of emotions and psychological factors on investment decisions. Similarly, the observed influence of market factors on investment decisions aligns with the findings of Abul (2019), who highlighted the significance of market-related factors such as economic data and market mood in shaping investment choices within the Kuwait Stock Exchange. Furthermore, the study's identification of mental accounting and herding factors as major determinants of investment decisions resonates with the research by Adhikari (2020) and Karmacharya et al. (2022), who emphasized the importance of understanding behavioral finance factors in influencing investment decisions.

The results, taken as a whole, provide light on the many ways in which economic, psychological, and behavioral variables interact with one another to influence the choices that individual investors make in the Nepalese stock market. The research provides investors, financial practitioners, and policymakers with significant insights, highlighting the need of taking into consideration a wide variety of aspects in a thorough manner when making choices on investments. Furthermore, the study sheds light on the possible consequences for investor education and market regulation,

hence indicating potential opportunities for additional investigation and action within the framework of the Nepalese market.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

Many elements, including those pertaining to cognition, psychology, and the market itself, impact the choices made by individual investors in the Nepalese stock market (NEPSE). Important market determinants include economic statistics and market mood, as well as prospective considerations, which include predictions of future profits or losses. Herding effects, in which people behave similarly to others, and mental accounting, in which investors classify and assess their assets, both influence decision-making. Investment decisions are already complicated enough without adding heuristic elements, which include streamlined decision-making processes

The complexity of investing selections in the Nepalese stock market (NEPSE) and the many variables that affect individual investors need detailed study. Understanding cognitive, psychological, and market factors that influence investor behavior is crucial for educated market decision-making. These findings help investors maximize their investment strategies and help financial practitioners, legislators, and market regulators increase market efficiency and stability. Thus, this research examines prospect, market, mental accounting, herding, and heuristic aspects that affect investment choices in the NEPSE setting. This study seeks to illuminate investing behavior and its effects on Nepal's stock market by examining these elements and investors' decision-making.

The research approach used in this study is both descriptive and analytical, with the goal of exploring different aspects of Nepalese investors' choices in the market. To guarantee representativeness, data was obtained from a wide variety of respondents using random sampling. The descriptive study method made it easier to analyze obtained data and provide conclusions in an understandable fashion. Data was mostly collected via questionnaires mailed to individual investors, allowing for a complete

investigation of the factors impacting investment choices. The research framework that directed the study's emphasis on investor choices, as well as prospect, market, mental accounting, herding, and heuristic aspects. The data was analyzed using descriptive and analytical statistics such as mean, standard deviation, correlation, and regression analysis, which provided insights into the interactions between variables and allowed for predictions of investors' choices based on influencing factors.

The findings of the study show modest positive correlations between prospect ($r = 0.442$) and market ($r = 0.403$) components and investment choices, whereas mental accounting, herding, and heuristic factors have strong positive connections. Regression study shows that key variables such as prospect, market, mental accounting, herding, and heuristic factors strongly impact investment choices ($B = 0.131$, $p < 0.01$, $p < 0.001$, $B = 0.127$, $p < 0.001$, $B = 0.175$, $p < 0.001$, $B = 0.250$, $p < 0.001$, $B = 0.125$, The model's R-squared of 0.489 implies that the independent variables explain 48.9% of investment decision variation, suggesting significant explanatory power. The ANOVA findings corroborate the model's significance ($F = 72.325$, $p < 0.001$), highlighting the impact of independent factors on investment choices.

The research illuminates the complex relationship between cognitive, psychological, and market aspects in Nepalese stock market (NEPSE) investing decision-making. The study gives a detailed knowledge of how prospect variables, market circumstances, mental accounting, herding effects, and heuristic tactics affect investing choices. This knowledge helps individual investors make smart investment decisions and helps financial practitioners, legislators, and market regulators create more effective market interventions and rules. The research improves behavioral finance knowledge in the NEPSE environment by examining investor behavior and its effects on Nepal's stock market efficiency and stability.

5.2 Conclusion

In conclusion, the purpose of this research was to analyze the primary elements that influence the decisions that individual investors make within the framework of the Nepalese stock market. The purpose of the study was to give useful insights into the behaviors and decision-making processes of investors by conducting an exhaustive investigation of prospect factors, market factors, mental accounting, herding factors,

and heuristic elements. Prospect factors, market factors, mental accounting, herding factors, and heuristic elements emerged as main drivers, according to the results, which showed that all of these aspects had a considerable influence on investment choices. In particular, the research underlined the significance of taking into account possible profits and losses, market circumstances, psychological biases, social factors, and decision-making heuristics when it comes to influencing the decisions that investors make. A further confirmation of the considerable predictive power of these determinants on investment choices was provided by the regression analysis, which also highlighted the collective effect of these components. The findings of this research, taken as a whole, provide to a more in-depth knowledge of the behaviors and decision-making processes of individual investors in the Nepalese stock market.

These findings give insights that may be used to influence investor education, financial practice, and market regulation. Moving ahead, more study in this field might investigate other elements and the connections between them, as well as the consequences for the welfare of investors and the efficiency of the market in Nepal's ever-changing financial environment.

For the purpose of providing important insights into the elements that influence the decision-making processes of individual investors in the Nepalese stock market, this research gives a brief description. Through the process of identifying, investigating, and analyzing these elements, the study makes a contribution to a more in-depth knowledge of the dynamics of investor behavior and decision-making in Nepal's ever-changing financial environment. The results have significant repercussions for investor education, financial practice, and market regulation. Furthermore, they establish the framework for future research that will be conducted with the objective of further explaining the intricacies of investment decision-making in Nepal and abroad.

5.3 Implications

Based on the findings of the study, discussions of the study and major conclusion of the study, the following implications are made:

- Given the significant influence of prospect factors, market factors, mental accounting, herding factors, and heuristic factors on investment decisions, educational interventions aimed at improving investors' awareness and

understanding of these factors could lead to more informed investment choices.

- Financial advisors and institutions can leverage insights from behavioral finance to develop tailored strategies that align with investors' cognitive biases and decision-making processes, thereby enhancing the effectiveness of financial advice and services.
- Understanding the impact of herding behavior and heuristic decision-making on investment decisions underscores the importance of implementing robust risk management practices to mitigate the potential negative consequences of irrational investment behavior.
- Regulators may consider implementing policies aimed at curbing excessive herding behavior and promoting market stability, such as enhancing market transparency or introducing circuit breakers to prevent panic selling during market downturns.
- Financial product designers can utilize insights from the study to develop investment products that cater to investors' behavioral tendencies, offering features that address common biases and promote rational decision-making.
- Financial institutions can benefit from implementing systems for continuous monitoring of investor behavior, enabling proactive intervention and personalized support to address any deviations from rational decision-making.
- The study provides a foundation for future research exploring additional factors influencing investor behavior and decision-making, as well as the effectiveness of different interventions in promoting rational investment behavior and improving financial outcomes.

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Appendices

Questionnaire on **"Factors Affecting Individual Investor's Behavior to Invest in Stock At NEPSE"**

Dear Sir/Madam

I am the student of Shanker Dev Campus, Tribhuvan University conducting a survey to access the information on the Factors Affecting Individual Investor's Behavior to Invest in Stock At NEPSE. Your true and accurate information on this questionnaire will be highly appreciated in completion of the research project. The information's will be kept confidential and will be used only for research purpose.

Regards

Bhimkala Magar
Shanker Dev Campus

General Background

Gender:

- Male
- Female

Age

- 18-24
- 25-34
- 35-44
- 45-55
- 55 and above

Educational Background

- Under SLC
- SLC
- +2
- Bachelor's Degree
- Master's Degree and Above

Occupation

- Student
- Employed full-time
- Self-employed
- Unemployed
- Retired

Monthly Income

- Less than NPR 25,000
- NPR 25,000 – 49,999
- NPR 50,000 – 74,999
- NPR 75,000 – 99,999
- More than NPR 100,000

Investment Experience:

- Less than 6 months
- 6 months - 1 year
- 1-3 years
- 3-5 years
- More than 5 years

Statement of Factors Affecting Individual Investor's Behavior to Invest in Stock At NEPSE

Below are some of the possible factors on investors behaviour that might influence the investment decision. To what extend do you get agree with the below factors.

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

Statements		**SD**	**D**	**N**	**A**	**SA**
(A) Prospect Factors						
PF1	I believe that investing in certain industries or sectors will lead to higher returns.					
PF2	I consider the future growth potential of companies before investing in their stocks.					

PF3	I pay attention to earnings reports and financial forecasts when making investment decisions.					
PF4	I am more likely to invest in stocks that have recently shown positive performance.					
PF5	I tend to avoid investing in stocks with a history of volatility or poor financial health.					
(B) Market Factors						
MF1	I monitor market trends and movements before making investment decisions at NEPSE.					
MF2	I consider the prevailing market conditions before investing in stocks at NEPSE.					
MF3	I analyze the overall performance of the stock market indices.					
MF4	I review the historical market data to predict future market movements.					
MF4	I track the volatility of the stock market before making investment choices.					
(C) Mental Accounting						
MA1	I segregate my investment funds based on different financial goals.					
MA2	I mentally assign different risk levels to various investment portfolios.					
MA3	I categorize my investments based on short-term and long-term objectives.					
MA4	I allocate funds separately for speculative and conservative investments.					

MA5	I mentally track the performance of individual stocks in my investment portfolio.					
(D) Herding Factors						
HF1	I tend to follow the investment decisions of others in the stock market.					
HF2	I consider the actions of other investors before making my investment choices.					
HF3	I am influenced by market sentiment and the behavior of other investors.					
HF4	I feel more confident in my investment decisions when they align with the market consensus.					
HF5	I adjust my investment strategy based on the actions of other market participants.					
(E) Heuristic Factors						
HEF1	I rely on rules of thumb or simplified decision-making strategies when investing.					
HEF2	I use past investment experiences to guide my current investment decisions.					
HEF3	I make investment choices based on readily available information rather than in-depth analysis.					
HEF4	I prefer stocks of companies with familiar brand names or products.					
HEF5	I tend to avoid investments in sectors or industries I perceive as risky or unfamiliar.					
(F) Investment Decision						
ID1	I feel confident in my investment decisions.					

ID2	I carefully consider the potential risks and rewards before making an investment.					
ID3	I frequently monitor my investments to ensure they align with my financial goals.					
ID4	I often seek advice from financial experts or conduct thorough research before investing.					
ID5	I am willing to adjust my investment strategy based on market conditions and new information.					

Thank You!!

AFFECTING FACTORS OF INDIVIDUAL INVESTOR'S BEHA...

By: Bhim Kala Magar

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Abstract The purpose of this research is to analyze the factors that influence investment choices made by individual investors in Nepal who are participating in the primary market. The data collection process consisted of employing a random sample method to acquire information from 384 respondents. The study strategy used was descriptive and analytical. In the context of investment choices, a number of elements, including mental accounting, herding factors, heuristic factors, prospect factors, and market considerations, were investigated. The results of the descriptive analysis showed that respondents had favorable views toward investing choices, taking into account both possible profits and losses as well as the circumstances of the market. The multifaceted character of investors' decision-making behavior was brought to light by the findings of correlation and regression studies, which indicated strong positive connections between the aforementioned components and investment choices. For policymakers and practitioners who are interested in assisting Nepalese individual investors in making educated investment choices, it is essential to have a solid understanding of these determinative factors. Keywords: Investment decisions, prospect factors, market factors, mental accounting, herding factors, heuristic factors. ii CHAPTER I INTRODUCTION 1.1 Background of the Study Investment, in its broadest sense, involves sacrificing current income for future financial gains. This sacrifice occurs in the present, and its magnitude is typically certain. Time and risk are two key attributes associated with investment. Financial institutions play a pivotal role in managing investment and addressing investment- related challenges. They strive to effectively manage surplus financial assets to maximize wealth and generate additional income for the suppliers of funds through third-party investments. However, investment should not be approached haphazardly, but rather as a procedural task that follows a well-defined investment process, including the formulation of a proper investment policy. It is widely recognized

that investment decisions are influenced by **a** multitude **of factors** , including **market characteristics, individual risk profiles** , and **accounting information. The disposition** effect highlights **that** 7

investors are influenced not only by accounting information but also by considerations such as sunk costs and asymmetrical risk preferences in gain/loss situations. Although classical wealth-maximization criteria are important to investors, they often employ diverse criteria when selecting stocks. Interestingly, contemporary factors such as a company's local or international operations, environmental track record, and ethical stance appear to receive only superficial consideration (Nagy & Obenberger, 1994). Recommendations from brokerage houses, individual stock brokers, family members, and coworkers often go unnoticed by many individual investors. Furthermore, the benefits of valuation models in evaluating stocks are often discounted. Reference groups consist of groups that have a direct and indirect impact on the individual investors' attitudes and other people market assess the investor's belief and attitudes. The reference group's impact investors in various ways: they can impact to new behavior and lifestyles by providing information values and attitudes, and they provide norms for investor's behaviors and pressure for conformity to norms of investment. Membership group hold membership of the group and has regular face to face contact i.e., coworkers, family religious and professional trade unions. Likewise, aspiration groups aspire to join their own investment. The dissociative groups keep distance and reject the values, attitudes or behavior of the groups. Reference group impact their choices of investment. Marketers and advisors are mix and well-known athletes, musicians, actors and