BEHAVIORAL ERRORS AND STOCK MARKET INVESTMENT DECISIONS

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By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**BEHAVIORAL ERRORS AND STOCK MARKET INVESTMENT DECISIONS**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

Riya Shrestha
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REPORT OF RESEARCH COMMITTEE

Ms. Riya Shrestha has defended research proposal entitled **"BEHAVIORAL ERRORS AND STOCK MARKET INVESTMENT DECISIONS"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Rabindra Bhattarai and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**BEHAVIORAL ERRORS AND STOCK MARKET INVESTMENT DECISIONS"** presented by Ms. Riya Shrestha for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Riya Shrestha

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ABBREVIATIONS

ANOVA	:	Analysis of Variances
COVID-19	:	Corona-Virus Disease of 2019
EMH	:	Efficient Markets Hypothesis
EMO	:	Emotional Error
FOMO	:	Fear of Missing Out
FY	:	Financial Year
HRD	:	Herding Mentality Error
IND	:	Investment Decision
IPO	:	Initial Public Offerings
N	:	Number of Responses
NEPSE	:	Nepal Stock Exchange
NSE	:	National Stock Exchange
OCN	:	Over Confidence Error
PLS	:	Partial Least Square
RPR	:	Representativeness Error
RT	:	Regret Theory
S.D.	:	Standard Deviation
SEM	:	Structured Equation Modeling
VIF	:	Variance Inflation Factor

ABSTRACT

This study investigates behavioral biases influencing investment decisions in the Nepal Stock Market, highlighting how psychological factors shape financial decision-making. It addresses the prevalence and impact of herding mentality error, overconfidence error, emotional error, and representativeness error among investors.

The study employs a quantitative approach with descriptive and causal comparative methodologies. It focuses on a population of stock market participants in Kathmandu Valley, selecting a representative sample of 385 respondents through simple random sampling. Data is collected via structured survey questionnaires using a five-point Likert scale to assess investor perceptions and behaviors related to investment decisions.

Data analysis utilizes mean calculation, standard deviation estimation, correlation analysis, and regression modeling to explore relationships between independent variables (herding mentality error, overconfidence error, emotional error, representativeness error) and the dependent variable (investment decision). The study framework systematically examines behavioral biases within the unique context of the Nepal Stock Market.

The findings indicate that overconfidence error strongly influences investment decisions, followed by a moderate impact from emotional error, and a discernible but less pronounced effect from herding mentality error. Representativeness error shows a weaker and statistically insignificant influence. These insights underscore the varying degrees of behavioral biases' impact on investor decision-making in Nepal.

Practically, addressing overconfidence and emotional biases, and to some extent herding behavior, could enhance rationality in investment decision-making. Theoretical implications contribute to the field of behavioral finance by validating the significant role of psychological factors in financial decisions. Recommendations include integrating behavioral finance insights into investor education and advisory practices to foster more informed and rational investment behavior in financial markets.

Keywords: Behavioral finance, investment decisions, Nepal Stock Market, psychological biases, overconfidence error, emotional error

CHAPTER I
INTRODUCTION

1.1 Background of the Study

For an extended period, conventional wisdom adhered to the accuracy of traditional finance theory, positing that investors engage in rational decision-making guided by deliberate assessments and economic models (Langevoort, 1992). However, through various inquiries, it became evident that human decision-making is significantly influenced by inherent traits, intuitions, habits, and deeply entrenched cognitive or emotional biases. This realization led to the emergence of a new discipline known as behavioral finance, sparked by accumulating evidence supporting distinctly human behaviors that diverge from the premises of traditional finance theory. As elucidated by Shefrin (2001), behavioral finance investigates how psychology influences the financial decision-making process and the dynamics of financial markets. By exploring aspects of human judgment, behavior, and welfare, psychology furnishes crucial insights into the deviations of human actions from traditional economic assumptions, thus contributing valuable information to the understanding of financial phenomena.

Investment, a fundamental principle within the realm of finance, involves the strategic deployment of financial resources with the primary objective of garnering returns over a specified duration. As elucidated by Reilly and Brown (2003), this process serves multifaceted purposes, encompassing the compensation of investors for committing their funds, acknowledging the time value of money. Furthermore, investment strategies are crafted to counteract the erosion of purchasing power attributed to factors like inflation, while also addressing the inherent uncertainties pervasive in financial markets. Thangamani (2014) reinforces this viewpoint, defining investment as the deployment of capital with the anticipation of securing profits or augmenting the value of the invested funds. This understanding underlines the motivation behind investors' decisions to engage with various financial market instruments, a trend that has gained momentum, particularly evident in the works of Zwick and Mahon (2017). The collective investments made by individuals are acknowledged not merely as personal financial endeavors but also as pivotal economic

drivers benefiting businesses, consumers, and governments alike, as underscored by Baddeley (2017).

Investments are fundamentally categorized into two main types: traditional investments and alternative investments. Traditional investments, readily accessible and commonly utilized by investors, encompass well-established options like stocks and bonds. These traditional instruments often form the core of diversified investment portfolios, with investors, be they individual or institutional, frequently leveraging these options to build and diversify their holdings. In contrast, alternative investments, expounded by Swedroe and Kizer (2008), deviate from conventional choices such as stocks or bonds. This category introduces diversity through assets that do not conform to standard asset classes. Among alternative investments, structured products, as a notable example, derive their value from a combination of diverse underlying assets, including both traditional investments like stocks and intricate financial derivatives. This amalgamation offers investors a distinctive approach to managing risk and return, presenting an intriguing option for those seeking to broaden their investment horizons and strategies.

The roots of behavioral biases trace back to 1979 when Kahneman and Tversky (1979) introduced a psychological perspective to elucidate human decision-making processes. Over time, this theory, as defined by Barberis and Thaler (2003), evolved into behavioral finance, recognizing that participants in financial markets do not solely rely on rationality in their decision-making processes. Pompian (2012) expounds that behavioral biases in finance refer to flawed reasoning influenced by cognitive and emotional factors, resulting in irrational investment choices. Shiller (2002) assesses herding behavior by analyzing trading patterns in the US market, identifying clustering as indicative of herding behavior and a lack of clustering as its absence. Similarly, Economou et al. (2011) explore herding bias across European securities exchanges, revealing its presence during periods of rising markets.

The Efficient Market Hypothesis (EMH), a prominent theory in asset pricing introduced by Fama in the 1960s, gained global recognition with its foundation on the assumption of rationality. Despite its widespread acceptance, numerous researchers over the years have subjected the EMH to empirical testing, leading to inconsistent results and subsequent rejections of the hypothesis. This deviation from the expected outcomes laid the groundwork

for the emergence of behavioral finance. In contrast to traditional finance theories, such as Expected Utility models, which assume investors possess complete information and can identify the best option among various expected outcomes, behavioral finance recognizes the limitations of these assumptions. The observed behavior often contradicts these theories as they falter in capturing the irrationality of investors or relying on false assumptions underlying their models. This acknowledgment of human irrationality and the inadequacies of traditional assumptions forms the basis for the development and relevance of behavioral finance (Fama, 1970).

Behavioral finance challenges the conventional assumptions of finance by acknowledging that information significantly influences investors' decisions, impacting emotions and leading to cognitive biases. This field of study seeks to illuminate the behavior of individual investors and markets, deviating from the Efficient Market Hypothesis (EMH), as highlighted by researchers like Kim and Nofsinger (2017). In contrast to traditional finance, behavioral finance assumes bounded rationality in humans, indicating a limited capacity to process information fully. This leads to irrational decisions influenced by human emotions and feelings, as proposed by Tversky and Kahneman (1992). Prospect theory, a cornerstone of behavioral finance, introduces a framework for decision-making based on gains and losses, revealing that investors assign more weight to losses than gains of a similar amount. This diverges from the expected utility theory of traditional finance, positing symmetric utility for gains and losses. Consequently, prospect theory offers enhanced explanatory power in understanding investment decisions.

Tversky and Kahneman (1992) argue that investment decisions are psychologically motivated rather than a straightforward computation of gains or losses. In essence, behavioral finance relies on the concepts of bounded rationality, prospect theory, cognitive limitations regarding information, and satisficing instead of optimizing. This acknowledges the role of biases in shaping financial choices, providing a more comprehensive and realistic understanding of investor behavior. This paradigm shift enriches our comprehension of financial markets and decision-making processes.

The relatively new concept of behavioral finance in Nepal, as exemplified by the study conducted by Dangol and Manandhar (2020), aims to explore behavioral errors and their

impact on investment decisions. This study seeks to bridge existing gaps by analyzing the behavioral finance decisions of investors in Nepal. By delving into the psychological aspects influencing investor behavior, this research endeavors to shed light on the factors driving investment choices and uncover potential biases that may lead to suboptimal decision-making.

This study focuses on the interplay between behavioral errors and stock market investment decisions, specifically examining the impact of herding mentality error, overconfidence error, emotional error, and representativeness error among investors in the Nepal Stock Market. It aims to identify the prevalence of these biases, analyze their relationships with investment decisions, and determine their respective impacts. By uncovering how these psychological tendencies influence investor behavior, the research seeks to contribute to a deeper understanding of the factors driving investment decisions and to provide insights for enhancing rationality and informed decision-making in financial markets.

1.2 Problem Statement

Behavioral finance has highlighted the influence of psychological biases and errors on investment decisions, as observed by Kartini and Nadha (2021). This study seeks to evaluate the substantial impact of behavioral errors on the investment preferences of Nepalese investors, particularly in the context of constructing a well-diversified investment portfolio. It aims to investigate the correlation between these behavioral biases and decision-making processes, exploring the systematic cognitive errors individuals often make, including overconfidence and a disproportionate emphasis on recent experiences, leading to distortions in their investment choices.

In recent years, Nepal's financial market has witnessed a notable surge in companies aspiring to be listed on the Nepal Stock Exchange. This influx has generated considerable enthusiasm among investors, resulting in oversubscriptions for shares. However, this exuberance has, at times, resulted in significant losses for investors who succumbed to herding behavior and displayed overconfidence, as highlighted in the study by Dangol and Manandhar (2020). These experiences underscore the importance of understanding the specific psychological biases significantly influencing Nepalese investors and the subsequent choices they make in

their investments. This research aims to illuminate these behavioral patterns, offering valuable insights for both investors and market participants.

Through a deeper comprehension of the impact of behavioral biases on investment decisions in Nepal, this research aspires to provide guidance for policymakers, financial institutions, and individual investors. This knowledge has the potential to empower stakeholders to make informed decisions that enhance the investment decision-making processes, contributing to the development of a well-structured, diverse, and resilient investment landscape in Nepal. By addressing the core issues related to behavioral errors and stock market investment decisions in Nepal, this study aims to explore the following research questions.

1. What behavioral errors do investors commonly make during the investment decision-making process in the Nepal Stock Market?
2. What is the relationship between herding mentality error, overconfidence error, emotional error, representativeness error, and investment decisions in the Nepal Stock Market?
3. How does herding mentality error, overconfidence error, emotional error, and representativeness error impact investment decisions in the Nepal Stock Market?

1.3 Objectives of the Study

The main objective of this study has been to examine and understand the impact of behavioral errors committed by investors on the investment decisions made by individual investors in Nepal. The research has aimed to analyze the various psychological factors and biases that have influenced how investors in Nepal have made their investment choices and how these biases may have led to errors in decision-making. The objectives set for this study have been to analyze what behavioral errors and biases have been exhibited by investors during the investment decision-making process, to analyze the relationship between herding bias, overconfidence bias, emotional, representativeness, and investment decision, and to analyze the effect of herding bias, overconfidence bias, emotional, and representativeness on the investment decisions of investors. This approach has been geared towards providing a robust and nuanced understanding of the intricate interplay between behavioral errors and

investment decisions in the context of the Nepalese market. This study has been designed with the following objectives.

1. To assess the behavioral errors commonly made by investors during the investment decision-making process in the Nepal Stock Market.
2. To analyze the relationship between herding mentality error, overconfidence error, emotional error, representativeness error, and investment decisions in the Nepal Stock Market.
3. To analyze how herding mentality error, overconfidence error, emotional error, and representativeness error impact investment decisions in the Nepal Stock Market.

1.4 Rationale of the Study

The research holds significant relevance within the context of Nepal for several compelling reasons. This study aims to raise awareness among the following beneficiaries about the existence and impact of behavioral errors on their investment decisions.

- **For Individual Investors:** The study's focus on raising awareness about behavioral errors in investment decisions directly benefits individual investors in Nepal. As human beings prone to cognitive biases, investors gain valuable insights into their decision-making processes. This awareness empowers them to make more informed and rational choices, fostering enhanced financial well-being and reducing the likelihood of falling prey to common behavioral pitfalls.
- **For Foreign and Nepalese Investors:** Foreign investors and those within Nepal stand to benefit from the study's findings, as it contributes to a more transparent and informed investment landscape. Understanding behavioral errors helps investors, both local and foreign, navigate the Nepalese market with greater awareness, minimizing risks associated with psychological biases and promoting a more attractive investment environment.
- **For Government and Policymakers:** For the government and policymakers, the study offers insights into the behavioral aspects influencing financial decisions in Nepal. Recognizing the prevalence of these biases can inform the development of policies aimed at enhancing investor protection and market stability. By

understanding the behavioral dynamics, policymakers can create a regulatory framework that encourages responsible investing and mitigates potential risks associated with irrational decision-making.

- **For Researchers:** Researchers in Nepal benefit from the study's contribution to the growing body of knowledge in behavioral finance within the Nepalese context. It provides a reference point for future research endeavors, offering a foundation for exploring nuanced aspects of investor behavior and decision-making. This, in turn, facilitates a deeper understanding of the local financial landscape.
- **For Students:** Students studying finance and related disciplines can leverage the study as an educational resource. It provides real-world examples of how behavioral biases impact investment decisions, offering practical insights into the complexities of financial markets. The study serves as a valuable learning tool, bridging the gap between theoretical concepts and their application in the context of Nepal.
- **For Academicians:** Academicians benefit from the study's contribution to academic literature in behavioral finance. It enriches the understanding of how psychological biases operate in the Nepalese financial landscape. The study's emphasis on empirical evidence and practical implications provides academicians with valuable material for teaching and further research.

Overall, the study's rationale extends across various stakeholders, fostering a more informed, resilient, and prosperous investment environment in Nepal. It caters to the diverse needs of individual investors, both local and foreign, government entities, researchers, students, and academicians by shedding light on the intricate interplay of behavioral biases in investment decisions.

1.5 Limitations of the Study

Following has been the research limitation of this study.

- The research is constrained by its reliance on primary data collection, introducing potential inherent limitations associated with this approach.
- In the context of Nepal, there is an inadequate body of literature addressing this specific subject matter, limiting the available knowledge base.

- Discrepancies exist in the information pertaining to the questionnaire, originating from various sources, which may impact the overall reliability of the study.
- The study's scope is limited as it does not encompass the entirety of behavioral errors and biases, focusing on a select subset of them, which may not provide a comprehensive understanding.
- The geographic scope of the data collection is restricted to Kathmandu Valley, potentially limiting the generalizability of the findings to the broader Nepalese context.
- Other potential limitations include the absence of a diverse participant pool and the exclusive reliance on self-reported data, which may introduce biases.
- The study acknowledges the limitation of not exploring behavioral errors and biases beyond the specified subset, which may overlook other important factors influencing investment decisions.
- The exclusivity of data collection to Kathmandu Valley introduces a potential geographical bias, as investor behavior in other regions of Nepal may differ.

CHAPTER II
LITERATURE REVIEW

In this pivotal chapter, a comprehensive examination of existing knowledge is undertaken through literature review, conceptual review, theoretical review, and empirical review. The literature review provides insights into previously conducted research, while the conceptual review delves into foundational definitions and concepts. Theoretical frameworks are explored to understand the theoretical underpinnings, and empirical evidence is scrutinized for practical insights. The culmination of these reviews leads to the identification of research gaps, paving the way for the current study to contribute novel insights to the field.

2.2 Conceptual Review

In this conceptual review section, the study delves into the comparison between traditional finance theory and behavioral finance. It explores the influence of psychological biases on investment decisions, acknowledging key aspects such as fathers of behavioral finance and specific behavioral errors. The literature is scrutinized to provide a comprehensive understanding of the theoretical foundations and empirical insights that underpin the study's investigation into the interplay between traditional financial models and the behavioral factors influencing investment decision-making.

2.2.1 Traditional Finance Theory versus Behavioral Finance

In the realm of finance, the conventional perspective, as encapsulated by the Efficient Markets Hypothesis (EMH), posits that securities' prices inherently align with their fundamental values. EMH contends that market participants, guided by rationality and informed by accurate processing of available information, set prices right. In an ideal scenario without frictions, the discounted sum of expected future cash flows constitutes the fundamental value of a security. It assumes investors possess the ability to accurately process information and the discount rate aligns with accepted preferences. This notion further extends to the idea that even though individual investors may not always act rationally, the aggregate market is rational, thus reflecting the rationality assumption (Barberis & Thaler, 2003).

Contrary to this perspective, behavioral finance challenges the assumption of informational efficiency in financial markets. The crux of behavioral finance lies in acknowledging that human decisions are not always rational. Behavioral biases can influence financial decisions, and the market may not consistently exhibit informational efficiency. The mid-1980s marked the initiation of behavioral finance as a research area, with studies demonstrating instances of market overreaction and investors' inclination to sell winning stocks rather than losing ones, even when the latter might be the optimal choice (Kim & Nofsinger, 2008).

Behavioral finance introduces cognitive psychology into finance, recognizing that understanding human behavior requires considering irrational decisions and the effects of behavioral biases. Over the decades, it has evolved from skepticism and initial challenges to being widely explored and recognized. Scholars like Barberis and Thaler (2003) have significantly contributed by examining various behavioral biases influencing decision-making and financial markets. The focus has expanded beyond asset pricing to incorporate the impacts of less-than-rational agents in decision-making processes, acknowledging the influence of managers on outcomes (De Bondt & Thaler, 1995).

Despite initial skepticism, behavioral finance has gained traction, particularly as empirical evidence has been gathered through studies based on individual brokerage data. This shift has addressed criticisms related to the slow start of behavioral finance, providing insights into how individual investors are affected by different biases. While experiments designed to test behavioral finance theories are limited, and the skepticism of some audiences persists, the field continues to grow, revealing the intricate interplay of psychology and financial decision-making (Hirshleifer, 2001).

The tension between traditional finance theories, emphasizing rationality and market efficiency, and behavioral finance, acknowledging human irrationality and biases, has contributed to a richer understanding of financial markets and decision processes (Barberis & Thaler, 2003). The evolution of behavioral finance from skepticism to acceptance underscores its relevance in explaining deviations from traditional economic assumptions and the importance of considering human behavior in financial contexts.

2.2.2 Psychological Biases and Investment Decision

A behavioral bias is defined as a consistent pattern of judgment variation in specific situations, potentially leading to perceptual inconsistencies, imprecise judgment, irrational explanations, or commonly termed irrationality. Decision-making is the cognitive process that culminates in choosing a course of action from various alternatives, resulting in a final choice or outcome, categorized as an action or a chosen perspective (Bashir et al., 2013). This study explores explanations for the variability in investor behavior under diverse market conditions. The study's findings reveal a weak negative correlation between overconfidence bias and other discussed behavioral biases. Notably, the study concludes that there is no significant difference in the responses of male and female decision-makers regarding overconfidence bias.

In another study conducted by Shah et al. (2018), the focus was on elucidating how heuristic bias affects the investment decisions of individual investors actively trading on the Pakistan Stock Exchange (PSX) and their perceptions of market efficiency. The rationale behind this study lies in the limited understanding of investor behavior in less developed or emerging financial markets. The results demonstrate that heuristic biases, including overconfidence, representativeness, availability, and anchoring, have a negative impact on investment decisions and the perceived efficiency of the market for individual investors operating on the PSX. These findings align with heuristic theory and prospect theory, suggesting that decision-makers use heuristics to navigate uncertain situations, leading to judgment errors and irrational decisions, potentially causing market inefficiencies through overreactions or underreactions (Ahmed & Noreen, 2021).

2.2.3 Fathers of Behavioral Finance

This section delves into the influential contributions of Daniel Kahneman and Amos Tversky, regarded as the Fathers of Behavioral Finance. Collaborating in the 1970s, they merged their distinct research pursuits initiated in the 1960s to establish foundational principles in the field. Their approach involved adapting psychological experiments from decision theory into real-world contexts. Notably, they began differentiating normative problem-solving approaches from subjective responses gathered through experiments, combining Tversky's mathematical contributions on normative theory with Kahneman's

emphasis on the distinction between objective stimulus and subjective sensation (Heukelom, 2007).

Their collaborative efforts resulted in the publication of their first joint paper, "Belief in the Law of Small Numbers," in 1971, highlighting people's erroneous intuitions about the laws of chance, particularly the perception of randomly drawn samples from a population as highly representative (Kahneman & Tversky, 1972). Subsequent publications in 1972 and 1973 explored the Representativeness bias, revealing its significance in intuitive predictions (Kahneman & Tversky, 1972).

In their seminal work, "Judgment under Uncertainty: Heuristics and Biases," published in 1974, they introduced three heuristics, Representativeness, Availability, and Anchoring, arguing that understanding these heuristics and the biases they induce could enhance decision-making in uncertain situations. Their pivotal work, "Prospect Theory: An analysis of decision under risk," published in 1979, critiqued expected utility theory and proposed an alternative model known as Prospect Theory. Kahneman and Tversky (1981) groundbreaking contributions earned him the Nobel Prize in Economics in 2002.

Another noteworthy paper by Tversky and Kahneman (1981) introduced the Framing effect, demonstrating that framing the same problem differently led to psychological shifts in the perception of decision problems and the evaluation of probabilities and outcomes, influencing preferences.

2.2.4 Behavioral Errors

This study focuses on examining several behavioral errors, including herding mentality errors, overconfidence errors, emotional errors, and representativeness errors. These errors play a crucial role in influencing investment decisions, leading to potential deviations from rational decision-making processes. By investigating these behavioral errors, the study aims to gain insights into the dynamics of investor behavior and decision-making within the context of the stock market.

2.2.4.1 Herding Mentality Errors

Herding bias in financial markets refers to the phenomenon of mutual imitation leading to a convergence of actions among investors (Hirshleifer & Teoh, 2009). This common cognitive

error occurs when investors tend to follow the investment decisions made by the majority, influenced by a psychological pressure to conform to the actions of their peers. In financial markets, the pressure to buy or sell during critical times can be overwhelming, even for individuals who may have an independent view. The Reliance Power IPO in 2008 serves as an example where many investors subscribed without complete information, driven by the tendency to engage in herd behavior due to concerns about others' opinions on their investment decisions (Ottaviani & Sørensen, 2000).

Private investors often succumb to the influence of popular analysts' recommendations, showcasing the presence of herding behavior. Welch (2000) discovered in his study that analysts could also exhibit herding behavior, although micro-level data was lacking for confirmation. Analysts' revisions were positively correlated with the subsequent revisions of the next two analysts, indicating a strong influence of market consensus and recent information updates on their decisions (Welch, 2000).

Herd behavior stems from individuals' tendencies to mimic the actions of a large group, driven by social dynamics and a desire for acceptance within the group. Investors may follow the herd under the belief that a large group is unlikely to be wrong, leading to a collective decision-making approach.

A study by Economou et al. (2011) explored herd behavior in extreme market conditions across Greek, Italian, Portuguese, and Spanish stock markets from 1998 to 2008, including the global financial crisis of 2008. The findings indicated that herding is more pronounced during rising markets in these stock markets, with evidence of herding in the Portuguese stock market during periods of declining returns. Interestingly, there was no evidence of herding in the Spanish stock market. During the global financial crisis of 2008, evidence of herding was observed only in the Portuguese stock market, while the Spanish and Italian stock markets exhibited anti-herding behavior. The study suggests that investor behavior appears to have been rational in the Greek stock market during the global financial crisis.

2.2.4.2 Overconfidence Errors

In its most basic form, overconfidence can be defined as an unwarranted faith in one's intuitive reasoning, judgments, and cognitive abilities (Pompian & Wood, 2006). Psychologists have identified that overconfidence leads individuals to overestimate their

knowledge, underestimate risks, and exaggerate their ability to control events. The concept stems from cognitive psychological experiments and surveys, revealing that individuals frequently overestimate their predictive abilities and the precision of the information they possess. People often exhibit poor calibration in estimating probabilities, mistakenly treating events they consider certain as less than 100 percent certain. In essence, individuals tend to believe they are more intelligent and possess better information than they truly do (Pompian & Wood, 2006).

According to Shefrin (2001), overconfidence pertains to how well individuals understand their own abilities and the limits of their knowledge. Overconfident individuals tend to think they are better than they actually are, whether it relates to skills or knowledge. This tendency is prevalent among investors, particularly in stock selection and decision-making about market entry or exit points. Research by Odean (1998) demonstrated that traders engaging in the most trades tended to achieve significantly lower yields than the market average, highlighting the impact of overconfidence on trading behavior. Psychologists emphasize that overconfidence causes people to overestimate their knowledge, underestimate risks, and magnify their ability to control events, particularly in the context of specific security selection (Nofsinger, 2001).

Barber and Odean (1998) explored gender-based differences in overconfidence and trading behavior. Drawing on previous research indicating that men tend to be more overconfident than women, they found that men traded 45% more than women. Importantly, the net returns for men were negatively affected, experiencing a 2.5% annual reduction, while it was 1.72% for women, based on data from 1991 to 1997.

Fagerström (2008) conducted a study investigating overconfidence and over-optimism in the market, examining factors influencing decision-making in investing and analysis. Utilizing a quantitative back-testing exercise based on historical data from the Institutional Brokers' Estimate System (IBES), the research revealed that analysts of the S&P 500 exhibited problems of overconfidence and over-optimistic biases. The study provided confirmation of the theories of anchoring and herding.

2.2.4.3 Emotional Errors

Emotional errors in investment decision-making refer to distortions in thinking caused by emotional factors, often originating spontaneously and being influenced by personal feelings and experiences. Investors prone to emotional biases seek positive emotional experiences and avoid unpleasant feelings, leading them to make decisions that prioritize emotional comfort. The impact of emotions on investors is substantial, as their beliefs and mood play a crucial role in financial market decisions, making it challenging for them to maintain rationality over extended periods (Shah et al., 2018).

One prevalent emotional bias is the disposition effect, where investors exhibit a tendency to sell assets that have increased in value while holding onto those with unrealized losses. This behavior is attributed to the discomfort associated with realizing losses and the enjoyment derived from generating gains. According to Kahneman and Tversky (1979), investors attach more emotional significance to money when experiencing a loss compared to making a profit under equal conditions. Consequently, the disposition effect results in a reduced reaction to new information, as investors focus more on the values of their assets than actively seeking relevant data. Studies by Odean (1998), Bailey et al. (2011), and Henderson et al. (2015) affirm that investors exhibit a greater inclination to sell assets with gains than those with losses.

Emotional reactions to risks can significantly differ from cognitive evaluations of the same risks, as outlined by Loewenstein (2005). Investors tend to respond excessively to risky situations under the influence of emotions, contributing to the disproportionate impact of emotional biases on their decision-making. Recognizing and understanding these emotional errors is crucial for investors seeking to make more informed and rational choices in the complex landscape of financial markets.

2.2.4.4 Representativeness Errors

Representativeness error, as defined by Gilovich et al. (1998), revolves around the assessment of the degree of correspondence between various elements such as a sample and a population, an instance and a category, or an act and an actor. It essentially involves gauging how well an outcome aligns with a given model or category. The error is particularly relevant when determining conditional probabilities, relying on heuristics to assess the likelihood that

an object or event A belongs to a class or process B (Tversky & Kahneman, 1983). When A and B are described using the same terms, Representativeness can be simplified to the concept of 'similarity' (Tversky & Kahneman, 1981).

Representativeness error often manifests through judgments based on an overreliance on stereotypes. Investors, influenced by recent successes, may erroneously assume that these successes will persist into the future. This tendency to base decisions on past experiences is referred to as a stereotype in the context of behavioral finance (Shefrin, 2001). Ritter (1991) highlights an intriguing consequence of the Representativeness error, linking it to the long-run underperformance of Initial Public Offerings (IPOs) due to investors' short-term orientation. This has profound implications for investment decision-making, as individuals, when making investment choices, may attribute favorable characteristics of a company directly to the perceived positive attributes of its stock. However, such assumptions can lead to poor investment outcomes, as these companies often fail to deliver sustained success (Lakonishok et al., 1994).

Representativeness error, with its roots in judgments influenced by stereotypes and recent successes, poses challenges for investors who may inadvertently misjudge the future trajectory of stocks and companies. Recognizing and mitigating this error is crucial for making more informed and rational investment decisions.

2.2 Theoretical Review

In this segment of the theoretical review, a comprehensive examination of Human Behavioral Theories has been conducted to elucidate the myriad irrational behaviors exhibited by investors in financial markets. Behavioral economists leverage insights from human cognitive behavioral theories derived from disciplines such as psychology, sociology, and anthropology. By delving into these interdisciplinary theories, researchers seek to unravel the complex web of human decision-making processes, shedding light on the cognitive and emotional factors that contribute to behavioral biases in financial contexts. This interdisciplinary approach provides a nuanced understanding of investor behavior, transcending traditional economic models and enriching the theoretical foundation of behavioral economics.

2.2.1 Regret Theory

Regret Theory (RT), conceptualized by Loomes and Sugden (1982), serves as a comprehensive decision-making model under conditions of uncertainty. It extends the minimax regret approach from decision theory, where individuals aim to minimize potential losses while maximizing prospective gains. The crux of RT revolves around regret, an emotion triggered when comparing a chosen outcome with the potential outcome of a forgone alternative. For instance, in the context of consumer choice, a customer deciding between an unfamiliar and a familiar brand considers the potential regret of choosing the unfamiliar brand if it underperforms compared to the familiar one, influencing their likelihood of selection (Diecidue & Somasundaram, 2017).

Bell (1982) underscores the pivotal role of regret in this theory, as decision-makers evaluate choices based on the disparity between the actual and optimal outcomes, guiding decisions to minimize feelings of regret (Filiz-Ozbay & Ozbay, 2007). In line with regret theory, Shefrin and Statman (1985) highlight that many investors factor in the possibility of regret in their investment decisions. Human predisposition to feel the pain of regret, even for minor errors, is emphasized, as noted by Kahneman (1979) regarding a kink in the value function at the reference point, signifying stronger emotions tied to losses than equivalent gains.

Regret theory elucidates behavioral patterns in financial markets, explaining investors' tendency to retain declining stocks to avoid the regret of selling at a loss. Conversely, when stocks appreciate, investors may be inclined to sell to secure gains and forestall the potential regret of missing out on further profits (Michenaud & Solnik, 2008). In summary, regret theory provides valuable insights into how emotions, particularly the fear of regret, shape decision-making under uncertainty. By considering the potential for regret, individuals may adjust choices to minimize emotional distress, leading to decisions not always aligned with rational expectations but driven by the desire to avoid regrets (Irons & Hepburn, 2007). This theory holds crucial implications for understanding human behavior in financial contexts, shedding light on the pivotal role emotions play in shaping investment decisions.

2.2.2 Prospect Theory

The inception of Prospect Theory by Kahneman and Tversky (1979), culminating in Daniel Kahneman being awarded the Nobel Prize for Economics, introduced a framework that

delineates two distinct phases in the decision-making process: framing (or editing) and subsequent evaluation. By elucidating the Prospect Theory, Tversky and Kahneman expounded on how individuals navigate risk and uncertainty, offering insights into the seemingly inconsistent nature of human behavior when assessing risk under uncertain conditions. Contrary to a consistent risk aversion, the theory posits that individuals are risk-averse in gains but exhibit risk-taking behavior in losses. The "certainty effect" is a significant feature, emphasizing that outcomes perceived as more certain carry more weight than those considered merely probable (Kahneman & Tversky, 1979).

The "Framing effect" plays a crucial role in influencing decisions, referring to the different ways the same problem is worded and presented to decision-makers, resulting in systematic reversals of preference (Tversky & Kahneman, 1981). The value maximization function in Prospect Theory differs from that in Modern Portfolio Theory, where wealth maximization is based on the final wealth position. Prospect Theory, on the other hand, incorporates gains and losses into its framework, recognizing that individuals may make different choices even in situations with identical final wealth levels. The framing process highlights that people perceive outcomes as gains and losses relative to a neutral reference point, measured against it in relative terms rather than absolute terms (Kahneman & Tversky, 1979).

In the realm of stock investments, the natural reference point is often the purchase price of the stock, with empirical studies motivated by Prospect Theory revealing that an investor's decisions are influenced by this reference point. Additional reference points, such as the maximum stock prices in recent return history, may also impact investor decisions. Framing can be broad or narrow, where broad framing analyzes gains and losses in the total wealth level, while intermediate and narrow framing focuses on isolated components of wealth, such as a stock portfolio or individual securities. Most empirical studies implicitly assume narrow framing in their analyses.

2.2.3 Theory of Mental Accounting

Mental accounting extends beyond personal finances, influencing the intricate realm of investments. When investors acquire a new stock, a distinct mental account is created in their minds, making each investment unique in their mental framework (Thaler, 1985). Once an outcome is associated with a specific mental account, it becomes challenging for investors to

perceive that outcome differently, potentially impacting their investment wealth when interactions among assets in different accounts are overlooked (Grinblatt & Han, 2005).

Thaler (1985) emphasizes the profound impact of loss aversion on mental accounting, noting that the distress from losing $100 typically outweighs the pleasure from gaining the same amount. The desire to avoid regret and seek pride often leads investors to realize gains promptly but delay acknowledging losses. Loss aversion, where losses loom larger in the human psyche than gains, creates an asymmetry favoring inaction over action. Investors susceptible to this bias may be hesitant to both realize gains and acknowledge losses (Thaler, 1985).

In periods of economic growth and bullish stock markets, investors may grow accustomed to substantial unrealized gains on paper. However, during market corrections that deflate net worth, there is a tendency to be cautious about selling, even when profits are relatively small. This cautious behavior arises from investors mentally compartmentalizing past gains, fostering a wait-and-see approach with the hope of returning to a more profitable period (Gupta & Kim, 2010).

2.3 Empirical Review

Suresh (2024) conducted a study titled “Impact of Financial Literacy and Behavioural Biases on Investment Decision-making”. Investors' financial literacy has involved making informed investment decisions, considering the collective influence of behavioral biases or irrational behaviors in decision-making, which has been shaped by heuristic bias, framing effect, cognitive illusions, and herd mentality factors. This study has investigated the combined influence of financial literacy and behavioral biases on investment decisions. A questionnaire, utilizing the Likert scaling technique, has been employed to gather data on study variables, and SEM analysis has been used for data analysis. The findings have revealed that heuristic bias exhibits a significant positive correlation with the formation of behavioral bias in decision-making. However, the framing effect, cognitive illusions, and herd mentality have shown negative associations in the development of behavioral biases. Additionally, investors have commonly employed and adhered to heuristic biases over other irrational techniques when making investment decisions. Consequently, the financial literacy of individual investors has played a substantial role in shaping decisions in the stock market.

Parveen et al. (2023) analyzed a study titled “Examining investors' sentiments, behavioral biases and investment decisions during COVID-19 in the emerging stock market: a case of Pakistan stock market”. The aim of this research has been to examine the impact of the COVID-19 pandemic on investor sentiments, behavioral biases, and investment decisions within the Pakistan Stock Exchange (PSX). Using a questionnaire, the study assessed investors' behaviors, sentiments, and the potential overreaction of the stock market during the pandemic, collecting data from 401 investors actively participating in the PSX. The findings, derived from structural equation modeling, indicate that the COVID-19 pandemic has had a substantial effect on investors' behaviors, influencing their decision-making processes and trade volume. The prevailing conditions during the pandemic generated feelings of fear and uncertainty among market participants. Furthermore, the study identifies the presence of behavioral heuristics and biases, such as representative heuristic, anchoring heuristic, overconfidence bias, and disposition effect, which have negatively impacted investors' decisions within the PSX.

Vuković and Pivac (2023) analyzed a study titled “The impact of behavioral factors on investment decisions and investment performance in Croatian stock market”. The primary aim of this research has been to delve into the intricate interplay of psychological, cognitive, and personality factors that shape investors' behavior within financial markets, with a keen focus on their subsequent impact on investment decisions and overall investment performance. By conducting a comprehensive survey analysis involving a sample size of 310 investors in Croatia, this study has employed advanced statistical techniques, specifically Partial Least Squares Structural Equation Modeling, to derive insightful findings. The results of the analysis have revealed that certain behavioral factors and personality traits significantly influence investment decisions. The overconfidence heuristic, elements of prospect theory, emotional considerations, and the stability and plasticity dimensions of personality (characterized as big two personality dimensions) have exhibited a positive impact on the investment decisions made by participants in the study. On the contrary, herding, or the tendency to follow the investment decisions of the majority, has emerged as a negative factor influencing decision-making. Moreover, the research has illuminated that investment decisions, particularly those reflecting a preference for long-term investments, play a pivotal role in determining the level of satisfaction with investment performance. The

interrelationships among these variables provide valuable insights into the complex dynamics that shape investor behavior and, consequently, the outcomes of their investment endeavors.

Abideen et al. (2023) examined a study titled “Do Behavioral Biases Affect Investors’ Investment Decision Making? Evidence from the Pakistani Equity Market. Risks”. Utilizing a unique sample of 600 investors who have responded to a structured questionnaire, this study has investigated the impact of behavioral biases on investment decision-making within the Pakistani equity market. Furthermore, it has explored the roles of market anomalies and financial literacy in shaping the decision-making processes of investors. The initial findings presented in this study have provided empirical support for the close association between behavioral biases and market anomalies, both of which have significantly influenced how investors have made their investment decisions. Through further analyses, this study has established that certain market anomalies have mediated the relationship between investors' behavioral biases and their decision-making processes. A nuanced exploration of the empirical evidence has revealed the moderating influence of financial literacy on the association between behavioral biases and market anomalies, ultimately influencing how investors have made their investment decisions. While some relationships between specific variables have remained inconclusive, the overall results underscore the pivotal role of financial literacy in fostering optimal investment decision-making at the individual level and contributing to the stability of the broader stock market.

Aprilianti et al. (2023) examined a study titled “Herding Behavior, Loss Aversion Bias, Financial Literacy, and Investment Decisions”. In recent years in Indonesia, numerous investment applications have emerged, providing ease for investors. However, the proliferation of investment applications has given rise to several issues, including fraudulent schemes disguised as investment opportunities. Particularly, young individuals in Indonesia have been susceptible to enticing investment offers promising high returns, often engaging in irrational investment practices without thoroughly assessing their financial conditions. This study aims to examine the internal and external factors influencing investment decisions, focusing on the millennial generation. The factors considered include Herding Behavior, Loss Aversion Bias, and Financial Literacy. The research has employed descriptive and verification methods with a sample size of 400 respondents, analyzing the data using Multiple Logistic Regression Analysis. The findings indicate that Herding Behavior has had

a positive impact on the investment decisions of the millennial generation in the Digital Age in Indonesia. On the other hand, Loss Aversion Bias has negatively affected investment decisions, while Financial Literacy has not significantly influenced the investment decisions of the millennial generation in Indonesia in the Digital Age.

Prayudi and Purwanto (2023) analyzed a study titled “The Impact of Financial Literacy, Overconfidence Bias, Herding Bias and Loss Aversion Bias on Investment Decision”. Investment decisions, aimed at securing long-term gains, have been shaped by rational and irrational attitudes in capital allocation. Financial literacy has gauged the rational stance, while behavioral finance has dissected irrational inclinations, encompassing overconfidence bias, herding bias, and loss aversion bias. This study has scrutinized how financial literacy, overconfidence bias, herding bias, and loss aversion bias have swayed investment choices for young Java Island investors. Simple random sampling has been used, and the data has been analyzed via Partial Least Square. Results have indicated that financial literacy lacks a significant impact. Overconfidence has boosted decisions, while high herding bias has hampered them. Interestingly, loss aversion bias has not held sway on Java Island investors' decisions.

Badola et al. (2023) examined a study titled “A systematic review on behavioral biases affecting individual investment decisions”. The primary objective of this research has been to systematically review diverse behavioral biases influencing investors' decision-making processes, aiming to thematically explore the relevant literature and propose a comprehensive framework. Utilizing the Systematic Literature Review (SLR) methodology, 71 peer-reviewed articles from various electronic databases between 2007 and 2021 were examined. Content analysis of this literature uncovered 24 distinct biases impacting individual investors' decision-making. Through thematic analysis, the study introduced an attribute–consequence–impact framework, providing a rational explanation for the irrational behavior of individual investors influenced by different biases. The findings also identify publication trends and suggest directions for future research using the theory–characteristics–context–methodology framework.

Natasya et al. (2022) analyzed a study titled “The effect between behavioral biases and investment decisions moderated by financial literacy on the millennial generation in Jakarta”.

The purpose of this research has been to analyze the effect of financial literacy and behavioral bias on investment decisions in the millennial generation in DKI Jakarta. This research has used quantitative data by distributing questionnaires. The population of this research has been people who live in DKI Jakarta and its surroundings. There have been as many as 125 respondents in the research conducted. The data collection method used a questionnaire, and for the data analysis method in this research, SEM analysis has been used. The findings of this research have indicated that overconfidence bias and risk-aversion bias have had a significant effect on investment decisions. Meanwhile, herding bias, disposition effect, and financial literacy have not had a significant effect on investment decisions.

Mittal (2022) analyzed a stud titled" Behavior biases and investment decision: theoretical and research framework". This paper has conducted an extensive review of the literature on behavioral finance and biases spanning the last five decades, accessible to the public. The primary aim is to provide insights into the substantial role these factors play in the investment decision-making process, with the overarching goal of enhancing comprehension of investor behavior and associated biases. The methodology utilized in this study employs a meticulous literature review, considering various parameters such as the publication year, journal, country of origin, research type, data sources, statistical methods, and specific biases identified. This thorough approach resembles a funnel, refining the behavioral biases under examination and ultimately focusing on six key biases for further exploration. The findings from this literature review highlight several notable observations. Notably, many existing works portray behavioral finance as an emerging field within the broader finance discipline, suggesting a relatively limited volume of valuable research, especially within developing economies.

Gupta and Shrivastava (2022) examined research titled "Herding and loss aversion in stock markets: mediating role of fear of missing out (FOMO) in retail investors". This research has focused on comprehending the impact of loss aversion and herding on the investment decisions of retail investors, with an additional exploration of the mediating role of the fear of missing out (FOMO) in these relationships. The study utilized a questionnaire survey to collect data from 323 retail investors actively participating in the Indian stock market. Rigorous analysis, including factor analysis and partial least squares structural equation modeling through SmartPLS, was applied to the collected data. The findings reveal valuable

insights into the dynamics of investment decision-making among retail investors. Notably, loss aversion, herd behavior, and the fear of missing out (FOMO) were identified as significant influencers on the investment choices of retail investors. The study further investigated the mediation effect of FOMO, establishing its partial mediating role in the relationships between loss aversion, herd behavior, and investment decisions. Interestingly, this mediation was found to be complementary, enhancing the influence of both loss aversion and herd behavior on the investment decisions made by retail investors.

Kartini and Nahda (2021) evaluated a study titled “Behavioral biases on investment decision: A case study in Indonesia”. This research has aimed to analyze the intricate impact of psychological factors on investors' decision-making processes, categorizing these factors into cognitive and emotional aspects. The cognitive perspective scrutinized the influence of anchoring, representativeness, loss aversion, overconfidence, and optimism biases on decision-making, while the emotional aspect explored the impact of herding behavior. Utilizing a quantitative approach, the study conducted a survey employing a snowball sampling method, resulting in 165 completed questionnaires from individual investors in Yogyakarta. The One-Sample t-test was utilized to test research hypotheses. The findings have provided compelling insights into the role of psychological factors in shaping investment decisions. Significantly, the study revealed that all examined variables, including anchoring bias, representativeness bias, loss aversion bias, overconfidence bias, optimism bias, and herding behavior, exert a substantial and discernible influence on investment decisions. This emphasizes the paramount importance of behavioral factors in elucidating and driving investors' decisions.

Silwal and Bajracharya (2021) examined a study titled “Behavioral factors influencing stock investment decision of individuals”. The purpose of this study has been to identify the behavioral factors influencing individual investors' decisions and to analyze the relationship between these factors and investment decision performance. The tested variables have included Anchoring bias, Gambler’s Fallacy, Overconfidence bias, Availability, and Representativeness bias from heuristics factors, Mental Accounting, Loss, and Regret Aversion from prospect factors, and Market variables and Herding factors. The study has employed exploratory and confirmatory factor analysis. In addition, structural equation modeling has been applied for testing the hypotheses. The findings have shown that the

prospect behavioral factor has a negative correlation with investment performance, while Herding, Market variables, and Heuristic factors (including overconfidence and anchoring bias) have been found to have a positive correlation with investment performance.

Rehan et al. (2021) assessed a study titled “Impact of behavioral factors in making investment decisions and performance”. Market irregularities and irrational behavior have prompted an examination of the impact of various behavioral biases and factors on individual investors' decision-making in the stock market. Understanding the quality of individual investor behavior in making stock investment decisions is crucial as it serves as a reference for the movement of the capital market. This research has delved into the role of behavioral finance and investor psychology in investment decision-making specifically at the Pakistan Stock Exchange (PSE). With a sample of 147 individual investors, the study reveals that behavioral factors such as Herding, Heuristic, Market, and Prospect have significantly influenced the decisions of investors operating in the Pakistan Stock Exchange. Given the limited studies in Pakistan on behavioral finance, this research has made a noteworthy contribution to the field in the country. It has built on existing theories of behavioral finance to develop hypotheses. The analysis results indicate that these four variables have had a substantial impact on investment decisions and returns on investment. All behavioral variables have significantly influenced the decision-making process of investors, affirming the assumptions about the level of influence of behavioral factors in the decision-making of individual investors.

Quaicoe and Eleke, (2021) examined a study titled “Behavioral factors affecting investment decision-making in bank stocks on the Ghana stock exchange”. he aim of this study has been to explore the psychological factors influencing investors' decisions, challenging the traditional assumption that investors consistently make rational decisions in the financial market. Contrary to the classical view that assumes rational decision-making, this research acknowledges the complexity of investors as psychological beings with emotions. The focus has been on unraveling the various behavioral biases that influence investor decisions. For the methodology, a questionnaire was employed to survey 350 investors holding stocks of listed banks on the Ghana Stock Exchange (GSE). The findings reveal the presence of diverse behavioral biases among the surveyed investors. The most predominant influence on investment decisions has been identified as herding, carrying nearly 62% weight.

Additionally, biases such as regret aversion and gambler's fallacy have exhibited substantial impacts on investors' decisions. The study has also identified the influence of mental accounting, overconfidence, and anchoring on investors' decision-making processes.

Elhussein and Abdelgadir (2020) analyzed a study titled “Behavioral bias in individual investment decisions: Is it a common phenomenon in stock markets”. The purpose of this study has been to explore the behavioral factors influencing individual investment decision-making in the stock market of a developing country, specifically the Sudanese Stock Exchange Market. Using a cross-sectional survey design and analytical methods, data has been collected through a structured questionnaire from a sample of 203 individual investors. The analysis, conducted through Correlation and Regression methods, reveals that behavioral biases have significantly contributed to the individual investment decision-making process, irrespective of the stock market's developmental stage. The study underscores the predominant role of heuristic and market factors in shaping the decision-making process at the Khartoum Stock Exchange. Noteworthy factors affecting individual investment decisions include Representativeness, Overconfidence, Anchoring, Historical cost of stock, Customer preferences, Loss aversion, Mental accounting, Other investors' trading volume, and Quick reaction to changes in other investors' decisions. On the other hand, factors like Availability bias, Change in stock prices, Regret aversion, and Other investors' decisions and choices have shown to have an insignificant impact.

Madaan and Singh (2019) analyzed a study titled “An analysis of behavioral biases in investment decision-making”. The behavior of individual investors has been significantly shaped by various biases, a focal point in the expanding field of behavioral finance. This study contributes to the ongoing efforts to evaluate the influence of behavioral biases on investment decision-making within the National Stock Exchange. Utilizing a designed questionnaire, survey responses have been collected from 243 investors, and both inferential and descriptive statistics have been applied for analysis. The study specifically examines four behavioral biases: overconfidence, anchoring, disposition effect, and herding behavior. Results indicate that overconfidence and herding bias have exerted a notable positive impact on investment decisions. In summary, the findings suggest that individual investors have possessed limited knowledge and have been prone to psychological errors. The study emphasizes the presence of these four behavioral biases in shaping individual investment

decisions, providing insights for financial intermediaries to guide their clients. Future research endeavors can expand the scope to explore additional behavioral biases affecting investment decisions.

Keswani et al. (2019) concluded a study titled “Impact of behavioral factors in making investment decisions and performance: study on investors of National Stock Exchange”. The purpose of this study has been to assess the impact of four factors, namely, heuristic, prospect, market, and herding, on investors' decisions at the NSE. Data were gathered through a Likert scale-based questionnaire. The reliability of the questionnaire has been evaluated using the Cronbach alpha factor, resulting in a value of 0.728. EFA and multiple regression tests have been conducted. Cronbach alpha has been employed to assess the internal consistency of each factor, indicating acceptable levels of consistency for Heuristic, Prospect, Market, Herding, Investment performance, and Investors decisions. The analysis has revealed that these four variables have significantly influenced investment decisions and returns on investment. All behavioral variables have been found to have a notable impact on the decision-making process of investors, supporting the acceptance of assumptions regarding the influential role of behavioral factors in decision-making for individual investors.

Aigbovo and Ilaboya (2019) examined a study titled “Does behavioral biases influences individual investment decisions”. This paper has empirically investigated whether behavioral biases, rather than the rationalism proposed by traditional finance theories, have played a crucial role in shaping the investment decisions of individual investors in Nigeria. The research has adopted a survey research design, targeting individual investors in Nigeria, particularly students and staff of the University of Benin. The study has employed a convenient sample of 70 respondents, using the snow-ball sampling technique to reach participants through recommendations. Data has been collected through a structured questionnaire. The key findings indicate that individual investor decisions have not exhibited a significant relationship with representativeness bias, overconfidence/self-attribution bias, loss aversion, and regret aversion bias. However, hindsight bias has been found to significantly influence individual investor decisions. Consequently, the results suggest that the decisions of investors have been influenced by behavioral factors rather than being

entirely rational. In conclusion, the study posits that behavioral biases have played a significant role in shaping individual investment decisions.

Mahanthe and Sugathadasa (2018) examined a study titled “The impact of behavioural factors on investment decision making in Colombo stock exchange.”. The current study has explored the impact of behavioral factors on investment decision-making in the Colombo Stock Exchange (CSE) of Sri Lanka, focusing on overconfidence, availability bias, conservatism, and the herding effect. The primary goal has been to identify the most significant behavioral factor influencing investors' decision-making in the CSE. Secondary objectives have included examining the relationships between overconfidence, availability bias, conservatism, and the herding effect in the context of investment decision-making on the CSE. A structured questionnaire, based on a five-point Likert scale, has been utilized to collect data from 75 investors in the Western Province through a convenient sampling method. Multiple regression analysis has served as the primary statistical tool for testing hypotheses, and the internal consistency of the questionnaire, measured by Cronbach's alpha on all variables, has indicated values at the satisfactory level of reliability. The study's findings have suggested that overconfidence, availability bias, and the herding effect have exhibited positive and significant relationships with investment decision-making in the CSE. However, conservatism has shown a negative relationship with investment decision-making, albeit statistically significant at the 0.01 level. Based on these findings, it can be inferred that overconfidence, availability bias, and the herding effect have been the most prominent factors influencing investors' decision-making in the CSE.

Verma (2016) analyzed a study entitled “Impact of Behavioral Biases in Investment Decision and Strategies”. This study aimed to assess and identify the behavioral biases involved in investors' decision-making processes when making investment decisions. Additionally, it sought to understand the impact of these behavioral biases on decision-making outcomes. Behavioral biases refer to variations in judgments that occur in specific situations, leading to irrational and inaccurate decisions. The focus of these studies has been on specific behavioral biases that can affect investment decisions for investors. The study's conclusion highlights that investors often exhibit various behavioral biases that impact their decision-making in the investment process. Common biases have been identified, and strategies to overcome these biases are suggested. It emphasizes the importance of individuals recognizing these biases,

developing strategies to mitigate them, and adopting proper allocation strategies to assess and manage risks and returns in investment decision-making.

Table 1

Summary of Empirical Review

S.N.	Researcher	Article/Thesis	Objective	Methodology	Finding
1	Suresh (2024)	Impact of financial literacy and behavioral biases on investment decision-making	To examine the combined influence of financial literacy and behavioral biases on investment decisions	Structured Equational Modeling Technique	Heuristic bias exhibits a significant positive correlation with the formation of behavioral bias in decision-making.
2	Parveen et al. (2023)	Examining investors' sentiments, behavioral biases and investment decisions during COVID-19 in the emerging stock market: a case of Pakistan stock market	To examine the repercussions of the COVID-19 pandemic on investor sentiments, behavioral tendencies, and investment choices within the Pakistan Stock Exchange (PSX)	Structured Equational Modeling Method	The COVID-19 outbreak has stirred profound emotions of fear and uncertainty among the market's participants
3	Vuković and Pivac (2023)	The impact of behavioral factors on investment decisions and investment performance in Croatian stock market	To explore which behavioral factors and personality traits affect investment decisions and, consequently, investment performance.	Survey Analysis using Partial least squares structural equation modeling	Overconfidence heuristic, prospect theory elements, emotions and stability and plasticity (as big two personality dimensions) positively affect investment decisions, while herding has a negative effect

4	Abideen et al. (2023)	Do Behavioral Biases Affect Investors' Investment Decision Making? Evidence from the Pakistani Equity Market. Risks	To explore the impact of behavioral biases on investment decision-making within the Pakistani equity market	Descriptive Statistics, Correlation analysis and Factor Analysis	There is empirical support for the close association between behavioral biases and market anomalies. Importantly, both these factors are demonstrated to exert a significant influence on how investors make their investment decisions.
5	Aprilianti et al. (2023)	Herding Behavior, Loss Aversion Bias, Financial Literacy, and Investment Decisions	To examine the internal and external factors influencing investment decisions, focusing on the millennial generation.	Multiple Logistic Regression Analysis	Herding Behavior has a positive impact on the investment decisions of the millennial generation in the Digital Age in Indonesia. On the other hand, Loss Aversion Bias negatively affects investment decisions, while Financial Literacy does not significantly influence the investment decisions
6	Prayudi and Purwanto (2023)	The Impact of Financial Literacy, Overconfidence Bias, Herding Bias and Loss Aversion Bias on Investment Decision	To examine the impact of financial literacy, overconfidence bias, herding bias, and loss aversion bias on the investment choices of young investors from Java Island.	Partial Least Square Method	Financial literacy does not exert a significant impact. Overconfidence enhances decision-making, whereas high herding bias impedes it

7	Badola et al. (2023)	A systematic review on behavioral biases affecting individual investment decisions	To explore the behavioral bias literature and propose a comprehensive framework	Systematic literature review (SLR)	24 different biases that impact individual investors' decision-making. Through thematic analysis, an attribute–consequence–impact framework is proposed that explains different biases leading to individual investors' irrationality.
8	Natasya et al. (2022)	The effect between behavioral biases and investment decisions moderated by financial literacy on the millennial generation in Jakarta	To analyze the effect of financial literacy and behavioral bias on investment decisions in the millennial generation in DKI Jakarta.	Structured Equational Modeling Method	Overconfidence bias and risk-aversion bias have a significant effect on investment decisions. Meanwhile, herding bias, disposition effect, and financial literacy have no significant effect on investment decisions
9	Mittal (2022)	Behavior biases and investment decision: theoretical and research framework	To shed light on the significant role these factors play in the investment decision-making process, ultimately aiming to contribute to a deeper understanding of investor behavior and associated biases.	Comprehensive literature review approach	Majority of existing works have characterized behavioral finance as an emerging field within finance, hinting at the relatively limited volume of valuable research conducted in this domain, particularly within developing economies.

10	Gupta and Shrivastava (2022)	Herding and loss aversion in stock markets: mediating role of fear of missing out (FOMO) in retail investors	To understand the impact of loss aversion and herding on investment decision of retail investors.	Partial least square structural equation modeling	Loss aversion, herd behavior, and the fear of missing out (FOMO) exert notable influences on the investment choices of retail investors.
11	Kartini and Nahda (2021)	Behavioral biases on investment decision: A case study in Indonesia	To investigate the multifaceted influence of psychological factors on the decision-making processes of investors.	Quantitative Research Design	Anchoring bias, representativeness bias, loss aversion bias, overconfidence bias, optimism bias, and herding behavior exert a significant and discernible influence on investment decisions.
12	Silwal and Bajracharya (2021)	Behavioral factors influencing stock investment decision of individuals	To identify the behavioral factors influencing individual investors' decisions and to analyze the relationship between these factors and investment decision performance.	Exploratory and confirmatory factor analysis and Structured Equational Modeling Method	Prospect behavioral factor is seen to have negative correlation to investment performance. Herding, Market variables and Heuristic (including overconfidence and anchoring bias) are found to have positive correlation to investment performance
13	Rehan et al. (2021)	Impact of behavioral factors in making investment decisions and performance	To analyze the role of behavioral finance and investor psychology in investment decision-making specifically at the Pakistan Stock Exchange (PSE).	Correlation and Regression Analysis	All four variables have had a substantial impact on investment decisions and returns on investment.

14	Quaicoe and Eleke (2021)	Behavioral factors affecting investment decision-making in bank stocks on the Ghana stock exchange	To investigate the psychological factors that tend to influence the decisions of investors.	Descriptive Statistics using Questionnaire Survey	There is xistence of various behavioural biases among the investors surveyed. The most dominant factor or bias found to be influencing investment decisions of respondents
15	Elhussein and Abdelgadir (2020)	Behavioral bias in individual investment decisions: Is it a common phenomenon in stock markets	To investigate the behavioral factors that influence individual investment decision making at a developing country stock market	Correlation and Regression Analysis	Behavioral biases play a noticeable role in individual investment decision making process regardless of the degree of development of the stock market
16	Madaan and Singh (2019)	An analysis of behavioral biases in investment decision-making	To assess the impact of behavioral biases in investment decision-making in National Stock Exchange	Inferential and Descriptive Statistics	Overconfidence and herding bias have significant positive impact on investment decision.
17	Keswani et al. (2019)	Impact of behavioral factors in making investment decisions and performance: study on investors of National Stock Exchange	To find out the effect of the four factors, heuristic, prospect, market, herding on decisions of investors at NSE	EFA and Multiple Regression Analysis	The four variables have greatly influenced the investment decision and return on investment. All behavioral variables have a significant impact on the decision-making process of investors, which led to the acceptance of all assumptions regarding the level of influence of behavioral factors in decision making for individual investors

18	Aigbovo and Ilaboya (2019)	Does behavioral biases influences individual investment decisions	To investigate whether behavioural biases rather than the rationalism provided by the traditional finance theories	Survey Research Design	Individual investor decisions were not significantly related to representativeness bias, overconfidence/self-attribution bias, loss aversion and regret aversion bias.
19	Mahanthe and Sugathadasa (2018)	The impact of behavioural factors on investment decision making in Colombo stock exchange.	To explore the impact of behavioral factors on investment decision-making in the Colombo Stock Exchange (CSE) of Sri Lanka	Multiple Regression Analysis	Overconfidence, availability bias, and the herding effect have exhibited positive and significant relationships with investment decision-making in the CSE.
20	Verma (2016)	Impact of Behavioral Biases in Investment Decision and Strategies	To identify the behavioral biases involve in the investors decision making while taking investment decision and also identify the impact of the behavioral biases involve in the decision making	Case Study Research Design	Behavioral biases generally variation in the judgments that occur in the particular situation which lead to irrational decision inaccurate decision

2.4 Research Gap

Upon scrutinizing the existing literature, it is evident that there is a pronounced research gap in the context of Nepal and the Kathmandu Valley, where behavioral errors have been inadequately explored as research topics. Notably, studies such as Mittal (2022) and Natasya et al. (2022) have predominantly focused on various countries and stock markets, neglecting the unique nuances of behavioral biases specific to the Nepalese investment landscape. Moreover, this gap is underscored by the fact that the latest available data used in these studies is from the fiscal year 2024, indicating a substantial time lag. Therefore, there is a pressing need for more recent and context-specific investigations to comprehend the evolving dynamics of investor behavior in Nepal and the Kathmandu Valley.

In terms of variables, the reviewed studies, including those by Silwal and Bajracharya (2021) and Aprilianti et al. (2023), cover herding mentality errors, overconfidence errors, emotional errors, and representative errors. However, there is a conspicuous absence of exploration into additional behavioral errors that may exert a unique influence on investment decisions in the Nepalese context. This variable gap highlights the necessity for a more comprehensive examination of the diverse array of behavioral errors that Nepalese investors may exhibit, creating a robust foundation for future research.

Moreover, there is a methodological gap in the reviewed studies, exemplified by the works of Keswani et al. (2019) and Badola et al. (2023), as they predominantly adopt a quantitative approach, utilizing both descriptive and causal comparative research. However, a qualitative approach remains underutilized, and it could potentially offer deeper insights into the underlying reasons and motivations behind behavioral errors. Bridging this methodological gap is imperative to achieve a more nuanced exploration of behavioral biases among Nepalese investors. Therefore, future studies should consider incorporating diverse research methodologies, particularly qualitative approaches, to provide a holistic understanding of investor decision-making processes in the unique setting of Nepal and the Kathmandu Valley.

CHAPTER III
RESEARCH METHODOLOGY

In this chapter, the research design outlines the systematic plan employed to analyze the behavioral errors made by investors. Additionally, it delves into the population and sample, and sampling design, elucidating the specifics of the target audience and the methodology used in selecting the sample. The nature and sources of data, as well as the instrument of data collection, are explored to provide insights into the information gathering process and the tools utilized in capturing relevant data. The method of analysis is discussed, shedding light on the statistical or analytical techniques employed to dissect and interpret the collected data. Furthermore, the research framework and definition of variables are presented, offering a conceptual map that guides the exploration of behavioral errors within the investor context. Collectively, these sections lay the groundwork for a comprehensive investigation into the behavioral errors made by investors, providing clarity on the research approach, data collection methods, analytical techniques, and the overall structure of the study.

3.1 Research Design

This study has adopted a robust quantitative approach, amalgamating both descriptive and causal comparative research methodologies to conduct an exhaustive exploration into the behavioral errors and biases demonstrated by investors throughout their investment decision-making processes. The descriptive facet of the research will hinge on meticulous data collection through surveys, intending to furnish a meticulous understanding and catalog of the diverse behavioral biases prevailing among investors. This will involve scrutinizing the frequency, patterns, and plausible implications associated with these behavioral biases. Simultaneously, the causal comparative research design will leverage correlation analysis and regression models, among other statistical tools, to delve into the intricate relationships between these behavioral errors and investment decisions.

3.2 Population and Sample, and Sampling Design

This study has aimed to comprehensively scrutinize the investment behavior of individuals participating in the stock market within the confines of Kathmandu Valley. The total population under consideration encompasses all individuals engaged in stock market

transactions in Kathmandu Valley, amounting to a substantial figure of 1,621,642. To achieve the research objectives effectively, a strategically determined sample size of 385 respondents has been meticulously selected using the simple random sampling method. This chosen sample is deemed crucial for its ability to represent individuals actively involved in regular stock market transactions, ensuring that the findings derived from this study can be generalized to the larger population. By concentrating on regular investors within the stock market, the study aspires to extract invaluable insights into the intricacies of their investment decisions and behaviors. This approach will significantly contribute to a more profound and nuanced understanding of investor behavior within the unique financial market landscape of Kathmandu Valley.

3.3 Nature and Sources of Data and the Instrument of Data Collection

This study has employed a quantitative research approach, with a focus on collecting and analyzing numerical data. The primary sources of data have been the investors themselves, ensuring the gathering of first-hand information directly from the target population. To facilitate data collection, a structured survey questionnaire has been used as the main instrument. The questionnaire has comprised a five-point Likert scale, ranging from strongly agree (5) to strongly disagree (1), allowing respondents to express their level of agreement or disagreement with specific statements related to their investment behavior. This method of data collection has enabled the researchers to systematically measure and quantify investors' perceptions, attitudes, and behaviors, providing a robust dataset that can be analyzed and interpreted to gain insights into the factors influencing investment decisions.

3.4 Method of Analysis

Upon completion of data collection, the gathered information has undergone meticulous editing, coding, categorization, and meticulous recording in Microsoft Excel and SPSS. The data has been processed with precision and coherence, aligning it with the original intent of obtaining information. The primary objective of data analysis in this study has been to unveil the public's response and its interconnectedness with the independent variables. Consequently, this section has encompassed the utilization of sophisticated statistical models for the purpose of analyzing the primary data, including statistical tests such as mean

calculation, standard deviation estimation, correlation analysis, and regression modeling, among others.

3.4.1 Descriptive Statistics

In the realm of descriptive statistics, the study has delved into the analysis of investors' perceptions and errors related to the stock market. This particular segment has employed key statistical measures, namely the mean and standard deviation, to provide a comprehensive understanding of how investors perceive and exhibit behavioral errors in the context of the stock market. The mean serves as a central indicator, offering insights into the average perception or tendency, while the standard deviation provides a measure of the dispersion or variability in these perceptions. This analytical approach allows for a nuanced examination of investor sentiments and behavioral tendencies, contributing to a more refined comprehension of the factors influencing decision-making in the stock market.

3.4.1.1 Mean

The mean represents the average of a set of values and is calculated by summing all values and dividing by the total number of observations. In the current study, the mean has been employed as a crucial statistical measure to analyze the overall response of investors concerning herding mentality error, representative error, emotional error, and overconfidence error in the context of investment decision-making. By utilizing the mean, the study aims to provide a central indicator that encapsulates the collective perception or tendency of investors towards these specific behavioral errors. This approach enables a succinct representation of the average sentiment or inclination, contributing to a clearer understanding of how investors perceive and manifest these behavioral errors in their investment decisions. Mean has been calculated by using following formula.

$$\text{Mean} = \frac{\sum \text{X}}{n}$$

Where,

X = Value of responses of each independent or dependent variable

n = Number of responses

3.4.1.2 Standard Deviation

Standard deviation is a statistical measure that quantifies the extent of variability or dispersion in a set of values. It indicates how spread out the values are from the mean. In the context of this study, standard deviation has been employed as a crucial metric to analyze the overall variability or fluctuation in the responses of investors regarding herding mentality error, representative error, emotional error, and overconfidence error in the domain of investment decision-making. By utilizing standard deviation, the study aims to capture the degree of dispersion or divergence of individual responses from the mean, providing insights into the level of consensus or disagreement among investors regarding these specific behavioral errors. This approach contributes to a nuanced understanding of the range and distribution of perceptions, enriching the interpretation of how investors exhibit variability in their responses to different behavioral errors in the investment process. Standard deviation has been calculated by using following formula.

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum(X - \overline{X})^2}{n}}$$

Where,

X = Value of responses of each dependent or independent variable

$\overline{X}$ = Mean value of responses of each dependent or independent variable

n= Number of responses

3.4.2 Correlation Analysis

Correlation analysis is a statistical method used to examine the relationship between two or more variables, providing insights into the strength and direction of their association. In the context of this study, correlation analysis has been employed to explore the relationships between herding mentality error, overconfidence error, emotional error, representativeness error, and investment decisions within the Nepal Stock Market. Specifically, Karl Pearson correlation, a widely used method for measuring linear relationships, has been applied. The utilization of correlation analysis in this study aims to unveil the degree and nature of the connections between these behavioral errors and investment decisions. By employing this

statistical approach, the study seeks to identify potential patterns, dependencies, or contrasts in the way these behavioral errors may influence investors' decision-making processes in the unique context of the Nepal Stock Market. The correlation coefficient between two variables is also calculated by using the following formula:

$$\text{Correlation Coefficient(r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\ \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

n = Number of responses

X = Value of independent variable

Y= Value of dependent variable

3.4.3 Regression Analysis

In this study, multivariate regression analysis has been employed to thoroughly investigate the impact of herding mentality error, overconfidence error, emotional error, and representativeness error on investment decisions within the Nepal Stock Market. Multivariate regression analysis allows for the simultaneous examination of multiple independent variables and their collective influence on the dependent variable, offering a comprehensive understanding of the intricate relationships at play. By applying this advanced analytical technique, the study aims to discern the individual and combined effects of these behavioral errors on investment decision-making. This method provides a nuanced exploration of how each identified error may contribute to shaping investors' choices and, critically, allows for the identification of potential interactions or interdependencies among these variables. The utilization of multivariate regression analysis strengthens the study's analytical rigor, enabling a more in-depth assessment of the intricate dynamics between behavioral errors and investment decisions in the specific context of the Nepal Stock Market.

$$Y_{IND} = \alpha + \beta_1 HRD + \beta_2 OCN + \beta_3 EMO + \beta_4 RPR + E \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{Eq (1)}$$

Where,

IND = Investment Decision

HRD = Herding Mentality Error

OCN = Over Confidence Error

EMO = Emotional Error

RPR = Representativeness Error

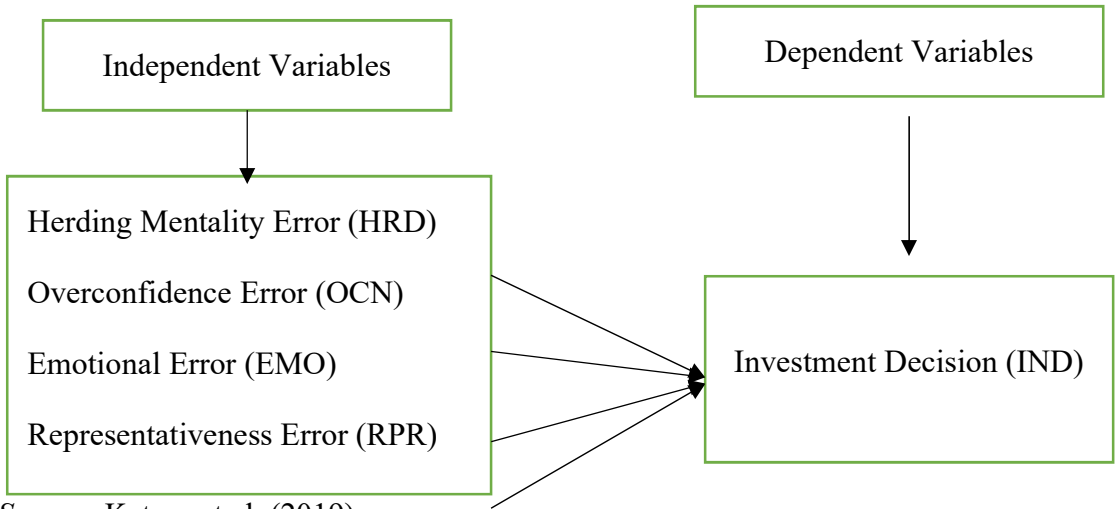
α = Intercept Term

E = Error

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients

3.5 Research Framework and Definition of Variables

A research framework serves as a structured blueprint that outlines the key components and relationships within a study, providing a systematic guide for research design and analysis. In this study, the research framework has been meticulously designed to elucidate the complex dynamics between various behavioral biases and investment decisions within the Nepal Stock Market. The framework incorporates essential variables, with Herding Mentality Error (HRD), Over Confidence Error (OCN), Emotional Error (EMO), and Representativeness Error (RPR) being identified as independent variables representing distinct behavioral biases. These behavioral biases are considered influential factors that may impact the decision-making process of investors. Simultaneously, Investment Decision (IND) has been designated as the dependent variable, representing the outcome or result of investors' choices.



Source: Katper et al. (2019)

Figure 1. Research Framework of this Study

Herding Mentality Error (HRD)

Herd mentality error is characterized by individuals following the actions of a larger group, often without relying on their own judgment. This behavioral error can contribute to exaggerated market movements, increased volatility, and the formation of asset price bubbles. Investors are advised to be mindful of herding tendencies and strive to make independent decisions based on their individual analyses and objectives to avoid potential negative impacts (Bikhchandani et al., 1992). Research has indicated that herding behavior can be mitigated through market forces that encourage the retention of private information, especially when false information is widespread. In certain instances, well-defined markets may experience herding, particularly when investors possess private information. Experiments suggest that access to private information and historical trends may reduce herding, as investors adopt a contrarian approach against prevailing market sentiments. However, the extent of herding behavior can be influenced by participants' experience and background, with distinctions observed between professionals and inexperienced participants (Katper et al., 2019).

Overconfidence Error (OCN)

Overconfidence error, a well-documented phenomenon in behavioral finance literature, highlights investors' tendency to exhibit excessive confidence in their judgments. Numerous studies have explored the correlation between individual characteristics, self-attribution, and overconfidence (Gervais & Odean, 2001). Investors displaying overconfidence error often make stock transactions with unwarranted certainty, relying on intuition rather than thorough analysis. This overestimation of investment abilities can lead to impulsive decisions, inadequate risk assessment, and a disregard for critical information (Dittrich et al., 2005).

Emotional Error (EMO)

Emotional error in the context of behavioral finance refers to the influence of emotions on individual decision-making in financial markets. Investors may make choices driven by emotions like fear, greed, or excitement rather than rational analysis. Behavioral finance integrates these insights into mainstream finance, explaining how emotional errors influence financial choices globally (Singh, 2012). Emotional errors significantly impact investment decisions, often driven by a complex interplay of human emotions. Recognition of the

influence of emotions on investment decisions is crucial, and strategies incorporating emotional intelligence and management can contribute to more thoughtful and informed investment choices (Novianggie & Asandimitra, 2019).

Representativeness Error (RPR)

Representative error in behavioral finance describes the tendency of investors to rely on mental shortcuts and heuristics when making decisions, often generalizing findings from limited information or recent experiences. This error occurs when investors assign excessive weight to recent events or outcomes, assuming that a particular event or pattern represents the overall population or future trends. As a result, investment decisions may be based on gut feelings or past performance without a comprehensive analysis of available information (Ritter, 2003). Representative error significantly influences decision-making by giving disproportionate weight to recent information, potentially impacting stock selection and overall decision-making processes, particularly in equity investments (Irshad et al., 2016).

Investment Decision (IND)

Investment decisions concerning behavioral errors and biases encompass the process of making financial choices influenced by psychological factors such as overconfidence, herd mentality, loss aversion, and other cognitive errors. These errors can lead investors away from rational decision-making, potentially resulting in suboptimal outcomes and increased market volatility (Aziz & Khan, 2016).

CHAPTER IV
RESULTS AND DISCUSSION

This chapter includes the results and discussion of the study, providing a comprehensive analysis of the data collected. It delves into the findings, interpreting the significance of the results, and discusses their implications in the context of the research objectives. The discussion also compares the current results with previous studies, highlighting similarities, differences, and potential reasons for any variations. This section aims to provide a clear understanding of the behavioral errors identified among investors and their impact on investment decisions.

4.1 Results

This section presents the results of the study, encompassing demographic profiles, descriptive statistics, correlation analysis, and regression analysis. The demographic profile outlines the characteristics of the study participants, providing insights into their backgrounds and investment behaviors. Descriptive statistics offer a summary of the data collected, including measures such as mean scores and standard deviations for variables related to behavioral errors and investment decisions. Correlation analysis examines the relationships between variables, revealing patterns of association among herding mentality error, overconfidence error, emotional error, representativeness error, and investment decisions. Regression analysis further explores how these behavioral errors predict investment decisions, offering deeper insights into the factors influencing investor behavior in the context of the study.

4.1.1 Demographic Profile of Respondents

This section details the demographic profile of respondents, covering key characteristics such as gender, age group (in years), education level, marital status, occupation, and size of investment. These demographic factors provide a comprehensive overview of the study participants, offering insights into their backgrounds and potential influences on their investment behaviors. Understanding these demographic variables is crucial for interpreting how different segments of the population approach investment decisions and interact with behavioral biases examined in the study.

Table 2

Demographic Profile of Respondents

Variables		Frequency	Percent
Gender	Male	268	69.61
	Female	117	30.39
Age Group (in years)	25 to 50	308	80.00
	50 and above	77	20.00
Education	Undergraduate	108	28.05
	Graduate	277	71.95
Marital Status	Unmarried	112	29.09
	Married	273	70.91
Occupation	Private Employment	117	30.39
	Public Employment	71	18.44
	Self-Employment	80	20.78
	Others	117	30.39
Size of Investment	Below 50,000	93	24.16
	50,000 to 100,000	91	23.64
	100,000 to 500,000	105	27.27
	500,000 to 10,00,000	61	15.84
	10,00,000 or above	35	9.09

Source: Field Survey, 2024

Table 2 presents the demographic profile of respondents, providing a detailed breakdown of their gender, age group, education, marital status, occupation, and size of investment.

In terms of gender, 268 respondents (69.61%) are male, while 117 respondents (30.39%) are female. Regarding age groups, 308 respondents (80.00%) fall within the 25 to 50 years age range, and 77 respondents (20.00%) are aged 50 and above.

Educationally, 108 respondents (28.05%) have an undergraduate degree, whereas 277 respondents (71.95%) hold a graduate degree. Concerning marital status, 112 respondents (29.09%) are unmarried, and 273 respondents (70.91%) are married. In terms of occupation, 117 respondents (30.39%) are in private employment, 71 respondents (18.44%) are in public employment, 80 respondents (20.78%) are self-employed, and 117 respondents (30.39%) fall into the "others" category.

When it comes to the size of investment, 93 respondents (24.16%) have investments below 50,000, 91 respondents (23.64%) have investments between 50,000 to 100,000, 105

respondents (27.27%) have investments between 100,000 to 500,000, 61 respondents (15.84%) have investments between 500,000 to 1,000,000, and 35 respondents (9.09%) have investments of 1,000,000 or above.

4.1.2 Reliability Statistics

To ensure the reliability of both the data and the findings, this study utilized SPSS software. The consistency of the data was evaluated using the Cronbach's Alpha Test of Reliability, which measures the repeatability of results and yields a value between 0 and 1. Values below 0.60 indicate low reliability, while those between 0.90 and 0.99 represent excellent reliability. Generally, a value above 0.7 is considered good (Nunnally, 1978).

Table 3
Reliability Test

Variables	Cronbach's Alpha	No. of Items
Herding Mentality Error	0.807	8
Overconfidence Error	0.835	8
Emotional Error	0.851	8
Representativeness Error	0.856	8
Investment Decision	0.814	8
Overall	0.952	56

Source: Field Survey, 2024

Table 3 presents the results of the reliability test conducted on the variables included in this study. The Cronbach's Alpha values for Herding Mentality Error, Overconfidence Error, Emotional Error, Representativeness Error, and Investment Decision are 0.807, 0.835, 0.851, 0.856, and 0.814, respectively. Comparing these values to the threshold of 0.70 as specified by Nunnally (1978), it is evident that all variables exceed this criterion. Therefore, the data can be considered reliable as all Cronbach's Alpha values are above the acceptable threshold. Additionally, the overall Cronbach's Alpha for all variables combined is reported as 0.952, indicating very high internal consistency within the dataset. This value further confirms the reliability of the data collected for this study.

4.1.3 Descriptive Statistics

In this section, the study analyzes various behavioral errors and their impact on stock market investment decisions. Descriptive statistics provide a summary of the data collected,

including measures such as mean scores and standard deviations, to characterize the prevalence and variability of herding mentality error, overconfidence error, emotional error, representativeness error, and their relationship with investment decisions. These statistical insights offer a clear picture of how these behavioral biases manifest among investors, shedding light on their frequency and potential implications for decision-making in the stock market context.

4.1.3.1 Summary of Descriptive Statistics

In this study, provides a comprehensive overview of several key variables related to investor behavior and decision-making in the stock market. It includes summaries of herding mentality error, overconfidence error, emotional error, representativeness error, and investment decision. Each variable is analyzed using measures such as mean scores, standard deviations, and potentially other descriptive metrics to outline the central tendencies and variability within these behavioral and decision-making constructs. This summary offers valuable insights into the prevalence and distribution of behavioral biases among investors, contributing to a deeper understanding of how these factors influence financial decision-making processes.

Table 4

Summary of Descriptive Statistics

Code	Variables	Mean	S.D.
HRD	Herding Mentality Error	3.953	0.972
OCN	Overconfidence Error	3.984	0.979
EMO	Emotional Error	3.906	0.977
RPR	Representativeness Error	4.081	0.947
IND	Investment Decision	3.792	1.181

Source: Field Survey, 2024

Table 4 provides a summary of descriptive statistics for key variables related to investor behavior and decision-making in the study. Descriptive statistics are numerical measures that summarize and describe the main features of a dataset. They include metrics such as mean (average) and standard deviation (a measure of variability or dispersion).

The herding mentality error has a mean of 3.953 and a standard deviation of 0.972. A mean close to 4 indicates that on average, respondents tend to agree with statements related to

herding mentality, suggesting that they often follow the investment decisions of others in the market. The standard deviation of 0.972 shows moderate variability in responses, indicating that while many investors exhibit this behavior, there is some diversity in how strongly they feel about it.

The overconfidence error has a mean of 3.984 and a standard deviation of 0.979. The mean suggests that respondents generally agree with statements indicating overconfidence in their investment decisions. The standard deviation, being close to 1, indicates that there is some variation in the level of overconfidence among investors, though the majority exhibit a tendency to be overly confident in their investment abilities.

The emotional error has a mean of 3.906 and a standard deviation of 0.977. This mean suggests that, on average, investors tend to agree that their investment decisions are influenced by emotions. The standard deviation indicates a moderate level of variability, showing that while emotional factors are significant for many investors, there is variation in how much they influence different individuals' decisions.

The representativeness error has a mean of 4.081 and a standard deviation of 0.947. A mean above 4 indicates that respondents strongly agree with statements suggesting they rely on recent performance or stereotypes in making investment decisions. The lower standard deviation relative to the mean suggests that this behavior is consistently observed among many investors, with less variability in the responses compared to other errors.

The investment decision variable has a mean of 3.792 and a standard deviation of 1.181. The mean suggests that, on average, respondents moderately agree with the rational and structured approach to investment decisions. The higher standard deviation indicates a greater variability in responses, reflecting a wide range of investment decision-making behaviors among investors.

4.1.3.2 Descriptive Study of Herding Mentality Error on Investment Decision

This section describes the descriptive study of investor perception on herding mentality error on investment decision. The study aims to understand how investors' tendencies to follow the actions of others without independent analysis affect their investment choices. By examining mean scores and standard deviations, the analysis provides insights into the prevalence and

impact of herding mentality error among investors, highlighting patterns and implications for investment behavior.

Table 5
Descriptive Study of Herding Mentality Error on Investment Decision

Statements	Mean	S.D.
I tend to follow the investment decisions of others in the market	3.605	1.157
I feel more comfortable investing in a stock if it is recommended by many experts or analysts.	3.629	1.118
I am influenced by the behavior of other investors when making my investment decisions.	3.644	1.132
I am more likely to buy or sell a stock if I see other investors doing the same.	3.777	0.998
I often rely on social media or investment forums to guide my investment decisions.	3.756	1.014
I feel safer investing in stocks that are popular among other investors.	3.914	1.026
The actions of large institutional investors impact my investment decisions.	3.751	1.056
I tend to panic and follow the crowd during market downturns.	3.852	0.980

Source: Field Survey, 2024

Table 5 presents the descriptive study of herding mentality error on investment decision among respondents. The statement with the highest mean score is "I feel safer investing in stocks that are popular among other investors," with a mean of 3.914 and a standard deviation of 1.026. This indicates that respondents generally agree with this statement, showing moderate variability in their inclination to invest in popular stocks based on others' preferences.

On the other hand, the statement with the lowest mean score is "I tend to follow the investment decisions of others in the market," scoring a mean of 3.605 and a standard deviation of 1.157. This suggests that while respondents exhibit some tendency to follow others' decisions, there is slightly less agreement and more variability compared to other statements.

Overall, the descriptive study reveals that respondents generally demonstrate a moderate inclination towards herding mentality errors in their investment decisions. The variability in responses across different statements underscores the diverse attitudes investors hold towards following market trends and external recommendations.

4.1.3.3 Descriptive Study of Overconfidence Error on Investment Decision

This section describes the descriptive study of investor perception on overconfidence error on investment decision. The study explores how investors' overestimation of their own judgment and abilities impacts their investment choices. By analyzing mean scores and standard deviations, the research provides insights into the prevalence and effects of overconfidence error among investors, revealing patterns and implications for their decision-making processes.

Table 6
Descriptive Study of Overconfidence Error on Investment Decision

Statements	Mean	S.D.
I believe that I can outperform the market with my investment decisions.	3.943	0.934
I tend to underestimate the risks associated with my investment choices.	4.008	0.923
I am confident that my investment decisions will lead to positive outcomes.	3.982	0.959
I rarely seek advice from financial experts or professionals, as I believe I can make better decisions on my own.	3.818	1.045
I am overly optimistic about the future performance of my investments.	3.860	0.944
I tend to ignore negative news or information that may affect my investment decisions.	3.764	1.012
I feel invincible and believe that I can always recover from losses in the stock market.	3.868	0.990
I often take excessive risks in my investment portfolio.	3.730	1.056

Source: Field Survey, 2024

Table 6 presents the descriptive study of investors' perceptions on overconfidence error in relation to investment decisions. The table includes mean scores and standard deviations (S.D.) for each statement.

The statement with the highest mean score, indicating stronger agreement among investors, is "I tend to underestimate the risks associated with my investment choices" (Mean = 4.008,

S.D. = 0.923). This suggests a prevalent tendency among investors to overlook or downplay the potential risks involved in their investment decisions, potentially leading to underestimation of the actual risk exposure.

Conversely, the statement with the lowest mean score is "I often take excessive risks in my investment portfolio" (Mean = 3.730, S.D. = 1.056). This indicates a relatively lower inclination among respondents to actively seek out excessive risks in their investment strategies, although the standard deviation suggests variability in this behavior among different individuals. Overall, this descriptive study provides insights into how overconfidence biases influence investors' decision-making processes in the context of financial markets.

4.1.3.4 Descriptive Study of Emotional Error on Investment Decision

This section describes the descriptive study of investor perception on emotional error on investment decision. The study examines how investors' emotions, such as fear, greed, and excitement, influence their investment choices. By analyzing mean scores and standard deviations, the research highlights the impact of emotional error on decision-making.

Table 7
Descriptive Study of Emotional Error on Investment Decision

Statements	Mean	S.D.
I tend to let my emotions guide my investment decisions, even when it may not be rational.	3.803	1.171
My investment choices are often influenced by strong emotional reactions to market developments.	3.852	0.998
I find it challenging to stay calm and rational during market fluctuations, which affects my decisions.	3.701	1.105
I make investment decisions based on my gut feelings and emotions rather than a well-thought-out strategy.	3.938	0.925
Emotional reactions to losses or gains strongly impact my buy or sell decisions in the stock market.	3.74	1.005
I often hesitate to make investment decisions when I'm feeling emotionally unsettled.	3.696	1.02
My investment decisions are heavily influenced by my emotional attachment to certain stocks or assets.	3.951	0.887
I tend to follow the crowd and make investment decisions based on the fear or excitement prevailing in the market.	3.766	1.012

Source: Field Survey, 2024

Table 7 presents the descriptive study of investors' perceptions on emotional error in relation to investment decisions. The table provides mean scores and standard deviations (S.D.) for each statement, illustrating the level and variability of emotional biases among respondents.

The statement with the highest mean score, indicating stronger agreement among investors, is "My investment decisions are heavily influenced by my emotional attachment to certain stocks or assets" (Mean = 3.951, S.D. = 0.887). This highlights a significant tendency among respondents to make investment choices based on emotional attachments rather than purely rational considerations, potentially impacting decision-making outcomes.

On the other hand, the statement with the lowest mean score is "I often hesitate to make investment decisions when I'm feeling emotionally unsettled." (Mean = 3.696, S.D. = 1.020). This suggests a somewhat lower prevalence among respondents in struggling with emotional control during market fluctuations, though the standard deviation indicates variability in emotional responses among different individuals.

Overall, this descriptive study offers insights into how emotional biases influence investors' decision-making processes in the stock market, highlighting both predominant inclinations and variations among respondents.

4.1.3.5 Descriptive Study of Representativeness Error on Investment Decision

This section describes the descriptive study of investor perception on representativeness error on investment decision. The study explores how investors rely on past performance and stereotypes when making investment choices. By analyzing mean scores and standard deviations, the research illustrates the extent to which representativeness error affects decision-making, providing insights into how these cognitive shortcuts influence investment behaviors and outcomes.

Table 8
Descriptive Study of Representativeness Error on Investment Decision

Statements	Mean	S.D.
I often make investment decisions based on a company's past performance or reputation.	3.818	0.973
I rely on stereotypes or generalizations about certain industries or sectors when investing.	3.761	1.031
I tend to invest in stocks that resemble successful companies I am familiar with.	3.808	1.033
I avoid investing in companies with negative public perceptions, regardless of their financial prospects.	3.675	0.982
I consider the industry a company operates in when making my investment decision.	3.816	0.973
I am more likely to invest in technology companies as they are considered high-growth sectors.	3.764	0.984
I believe that investing in well-known brands is a safer investment strategy.	3.766	0.988
I tend to prefer investing in companies that have a history of strong stock performance.	3.912	0.900

Source: Field Survey, 2024

Table 8 presents the descriptive study of investors' perceptions on representativeness error in relation to investment decisions. The table provides mean scores and standard deviations (S.D.) for each statement, illustrating the level and variability of representativeness biases among respondents.

The statement with the highest mean score, indicating stronger agreement among investors, is "I tend to prefer investing in companies that have a history of strong stock performance" (Mean = 3.912, S.D. = 0.900). This suggests a prevalent tendency among respondents to favor companies with established track records of financial success, potentially overlooking other crucial factors in investment decision-making.

Conversely, the statement with the lowest mean score is "I avoid investing in companies with negative public perceptions, regardless of their financial prospects" (Mean = 3.675, S.D. = 0.982). This indicates a relatively lower inclination among respondents to base investment decisions solely on public perceptions of companies, though the standard deviation suggests

varying levels of adherence to this bias among individuals. Overall, this descriptive study offers insights into how representativeness biases influence investors' decisions in the stock market, highlighting both predominant tendencies and variability among respondents in applying heuristic judgments based on past performance, industry stereotypes, and brand recognition.

4.1.3.6 Descriptive Study of Behavioral Errors on Investment Decision

This section describes the descriptive study of investor perception on investment decision regarding behavioral errors in investment decision-making. The study examines how various behavioral errors, such as herding mentality, overconfidence, emotional, and representativeness errors, influence the investment decisions of individuals.

Table 9
Descriptive Study of Behavioral Errors on Investment Decision

Statements	Mean	S.D.
I carefully research and analyze potential investment options before making a decision.	3.966	0.914
I consider both the risks and potential rewards associated with an investment before investing.	3.997	0.834
I am comfortable with short-term fluctuations in the value of my investments.	3.865	0.953
I have a long-term investment strategy that guides my decision-making process.	3.901	0.905
I consult with financial advisors or experts before making significant investment decisions.	3.787	1.130
I diversify my investment portfolio to manage risk.	3.964	0.973
I consider my financial goals and risk tolerance before investing in any asset.	3.891	1.079
I regularly review and update my investment portfolio based on changing market conditions and my financial objectives.	4.010	0.907

Source: Field Survey, 2024

Table 9 presents the descriptive study of investors' perceptions on behavioral errors in relation to investment decisions. The table includes mean scores and standard deviations

(S.D.) for each statement, reflecting the level and variability of behavioral tendencies among respondents.

The statement with the highest mean score, indicating stronger agreement among investors, is "I regularly review and update my investment portfolio based on changing market conditions and my financial objectives" (Mean = 4.010, S.D. = 0.907). This suggests a proactive approach among respondents in managing their investments, emphasizing continuous monitoring and adjustment aligned with market dynamics and personal financial goals.

Conversely, the statement with the lowest mean score is "I consult with financial advisors or experts before making significant investment decisions" (Mean = 3.787, S.D. = 1.130). This indicates a relatively lower inclination among respondents to seek professional advice before making substantial investment choices, though the standard deviation suggests varying levels of reliance on advisory services among individuals.

Overall, this descriptive study provides insights into how behavioral factors such as research diligence, risk assessment, strategic planning, and advisory consultation influence investors' decision-making processes in the stock market. It underscores both prevalent behaviors and individual variations in adopting prudent investment practices.

4.1.4 Correlation Analysis

This section includes correlation analysis, examining the relationships between herding mentality error, overconfidence error, emotional error, representativeness error, and investment decision. The correlation analysis aims to identify the strength and direction of the associations between these behavioral errors and how they impact investment decisions. By assessing these correlations, the study seeks to understand the interconnectedness of these variables and their influence on the financial decision-making processes of investors.

Table 10

Correlation Matrix

Variables		HRD	OCN	EMO	RPR	IND
HRD	Pearson Correlation	1				
	Sig. (2-tailed)					
OCN	Pearson Correlation	.519**	1			
	Sig. (2-tailed)	0.000				
EMO	Pearson Correlation	.464**	.421**	1		
	Sig. (2-tailed)	0.000	0.000			
RPR	Pearson Correlation	.527**	.400**	.506**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
IND	Pearson Correlation	.436**	.542**	.480**	.306**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

Source: Field Survey, 2024

Table 10 presents the correlation matrix showing the relationships between several behavioral variables and the dependent variable, investment decision (IND). The correlation coefficient between Herding Mentality Error (HRD) and IND is 0.436, indicating a moderate positive correlation. This suggests that as the tendency to follow others' investment decisions increases (HRD), there is a corresponding moderate increase in the likelihood of specific investment decisions (IND). This correlation is statistically significant at the 5% level, implying that HRD influences investment decisions to a moderate extent in the studied context.

The correlation between Overconfidence Error (OCN) and IND is stronger, with a coefficient of 0.542. This indicates a moderately strong positive relationship, suggesting that individuals who exhibit overconfidence in their investment decisions (OCN) tend to make decisions that align more closely with their investment goals and strategies (IND). This correlation is statistically significant at the 5% level, indicating that OCN plays a significant role in influencing investment decisions.

Emotional Error (EMO) shows a correlation coefficient of 0.480 with IND, indicating a moderate positive relationship. This suggests that emotional reactions and decisions in response to market fluctuations (EMO) moderately influence specific investment decisions

(IND). The correlation is statistically significant at the 5% level, underscoring the impact of emotional factors on investment decision-making processes.

Representativeness Error (RPR) exhibits a positive correlation of 0.306 with IND, indicating a weaker but still significant relationship. This suggests that the tendency to make investment decisions based on past performance or industry stereotypes (RPR) has a modest influence on specific investment decisions (IND). The correlation is statistically significant at the 5% level, highlighting the role of representativeness biases in shaping investment choices.

Overall, Table 9 provides insights into how these behavioral variables, HRD, OCN, EMO, and RPR, correlate with investment decisions (IND), emphasizing their varying degrees of influence and significance in the decision-making process within the studied context.

4.1.5 Regression Analysis

This section includes multivariate regression analysis, which examines the impact of herding mentality error, overconfidence error, emotional error, and representativeness error on investment decisions. By using this statistical method, the study aims to determine how each of these behavioral errors independently and collectively influences investment decisions. The analysis provides insights into the extent to which these variables affect investors' choices in the stock market, offering a comprehensive understanding of the factors that drive financial decision-making.

Table 11

Model Summary of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.619	0.383	0.377	0.932

Table 11 presents the model summary of a regression analysis predicting the investment decision (IND) based on several predictors: Representativeness Error (RPR), Overconfidence Error (OCN), Emotional Error (EMO), and Herding Mentality Error (HRD). The regression model shows an overall moderate relationship, as indicated by an R-squared of 0.383, meaning that approximately 38.3% of the variance in investment decisions can be explained by the predictors included in the model. The adjusted R-squared, which accounts for the number of predictors, is 0.377. The standard error of the estimate is 0.932, reflecting the

average distance that the observed values fall from the regression line. This model summary provides an overview of how well the predictors collectively explain variations in investment decisions among the respondents.

Table 12

ANOVA Table of Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	205.248	4	51.312	59.063	0.00
	Residual	330.129	380	0.869		
	Total	535.377	384			

Table 12 presents the ANOVA table for the regression model predicting the investment decision (IND). The table shows that the regression model is statistically significant, with an F-statistic of 59.063 and a corresponding p-value of 0.00, indicating that the model as a whole explains a significant amount of the variance in the dependent variable. This suggests that at least one of the predictors (RPR, OCN, EMO, HRD) significantly contributes to predicting investment decisions among the respondents. Therefore, based on the significance level of less than 0.05, the model is considered fit for analysis.

Table 13

Beta Coefficient of Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.280	0.257		1.089	0.277		
	HRD	0.173	0.064	0.142	2.711	0.007	0.589	1.697
	OCN	0.450	0.059	0.373	7.643	0.000	0.682	1.465
	EMO	0.350	0.060	0.290	5.863	0.000	0.665	1.505
	RPR	0.081	0.063	0.065	1.274	0.203	0.628	1.591

Table 13 presents the unstandardized beta coefficients, standardized beta coefficients, significance levels, and VIF (Variance Inflation Factor) for the independent variables in the regression model predicting the Investment Decision (IND).

The unstandardized beta coefficient (B = 0.173) indicates that for a one-unit increase in Herding Mentality Error, the predicted change in the Investment Decision is 0.173 units. The

standardized beta coefficient (Beta = 0.142) shows the relative importance of HRD compared to other variables. With a significance level (Sig.) of 0.007, HRD is statistically significant at the 5% level, suggesting its impact on the Investment Decision. The VIF of 1.697 suggests minimal multicollinearity concerns.

The unstandardized beta coefficient (B = 0.450) suggests that a one-unit increase in Overconfidence Error corresponds to a predicted increase of 0.450 units in the Investment Decision. The standardized beta coefficient (Beta = 0.373) indicates its relative importance. OCN is highly significant (Sig. = 0.00), reinforcing its strong impact on the Investment Decision. The VIF of 1.465 suggests no significant multicollinearity issues.

With an unstandardized beta coefficient (B = 0.350), EMO contributes to a predicted increase of 0.350 units in the Investment Decision for every one-unit increase in Emotional Error. The standardized beta coefficient (Beta = 0.290) reflects its standardized effect size. EMO is statistically significant (Sig. = 0.00), highlighting its influence. The VIF of 1.505 indicates low multicollinearity.

The unstandardized beta coefficient (B = 0.081) suggests a smaller impact, predicting an increase of 0.081 units in the Investment Decision per one-unit increase in Representativeness Error. The standardized beta coefficient (Beta = 0.065) shows its relative impact compared to other variables. RPR is not statistically significant at the 5% level (Sig. = 0.203), indicating a weaker association with the Investment Decision. The VIF of 1.591 suggests no multicollinearity concerns.

These findings imply that Herding Mentality Error, Overconfidence Error, and Emotional Error significantly influence investor decisions, whereas Representativeness Error shows a weaker and statistically insignificant impact. Addressing these behavioral biases could lead to more informed and effective investment strategies.

4.1.6 Major Findings

- Respondents in the study exhibit a moderate tendency towards herding mentality error, with a mean score of 3.953, indicating a general agreement with following the investment decisions of others in the market.

- Overconfidence error is prevalent among respondents, as indicated by a mean score of 3.984, suggesting a strong belief in outperforming the market with their investment decisions.
- Emotional error is evident with a mean score of 3.906, highlighting that investors' decisions are significantly influenced by emotions such as fear or excitement.
- Representativeness error is notably pronounced among respondents, with a mean score of 4.081, indicating a strong reliance on past performance or stereotypes when making investment decisions.
- Investment decision-making shows moderate agreement towards a rational approach, with a mean score of 3.792, though there is considerable variability in decision-making strategies among investors, as indicated by a standard deviation of 1.181.
- Herding Mentality Error (HRD) shows a moderate positive correlation (0.436) with investment decisions (IND), indicating that following others' decisions moderately influences specific investment choices.
- Overconfidence Error (OCN) exhibits a stronger positive correlation (0.542) with IND, suggesting that overconfident investors tend to align their decisions closely with their investment goals and strategies.
- Emotional Error (EMO) demonstrates a moderate positive correlation (0.480) with IND, indicating that emotional reactions to market fluctuations moderately influence specific investment decisions.
- Representativeness Error (RPR) shows a weaker positive correlation (0.306) with IND, suggesting that biases towards past performance or industry stereotypes modestly influence investment choices.
- Overall, these findings underscore the varying degrees of influence that behavioral errors (HRD, OCN, EMO, RPR) have on investment decision-making processes, highlighting their significant but differing roles in shaping investor behavior.
- The regression model predicting investment decisions (IND) based on RPR, OCN, EMO, and HRD shows a moderate relationship, with an R-squared of 0.383.

- Approximately 38.3% of the variance in investment decisions can be explained by the predictors included in the model.
- The adjusted R-squared, which considers the number of predictors, is 0.377, indicating a robust fit of the model.
- Herding Mentality Error (HRD) has a significant positive impact on Investment Decision (IND), with an unstandardized beta coefficient (B = 0.173) indicating a predicted increase of 0.173 units in IND for each one-unit increase in HRD.
- HRD's standardized beta coefficient (Beta = 0.142) shows its relative importance compared to other variables in the model.
- Overconfidence Error (OCN) strongly influences IND, with a substantial unstandardized beta coefficient (B = 0.450) suggesting a predicted increase of 0.450 units in IND for every one-unit increase in OCN.
- OCN's standardized beta coefficient (Beta = 0.373) underscores its significant impact relative to other variables.
- Emotional Error (EMO) positively affects IND, with an unstandardized beta coefficient (B = 0.350) indicating an increase of 0.350 units in IND per one-unit increase in EMO.
- EMO's standardized beta coefficient (Beta = 0.290) reflects its standardized effect size in influencing IND.
- Representativeness Error (RPR) shows a weaker association with IND, as indicated by its smaller unstandardized beta coefficient (B = 0.081) and non-significant p-value (Sig. = 0.203).
- Overall, addressing HRD, OCN, and EMO behavioral biases could lead to more informed and effective investment strategies, while the influence of RPR appears less significant in this regression model.

4.2 Discussion

The study concluded that there is moderate tendencies towards herding mentality error and overconfidence error, indicating prevalent but varying levels of these biases. Emotional error

also plays a significant role, highlighting the influence of emotions on investment decisions. There is a notable reliance on representativeness error, suggesting a tendency to base decisions on past performance or stereotypes. Despite these biases, investment decision-making overall demonstrates moderate agreement towards a rational approach, albeit with considerable variability in strategies. Suresh (2024) emphasizes the significant positive correlation of heuristic bias with behavioral bias formation, aligning with our study's identification of prevalent biases such as overconfidence, emotional influences, and representativeness biases among Nepalese investors. Similarly, Vuković and Pivac (2023) find that overconfidence, emotional factors, and herding behavior positively influence investment decisions in the Croatian stock market, echoing our observations of strong correlations between overconfidence and emotional errors with investment decisions in Nepal. In contrast, Abideen et al. (2023) in the Pakistani market and Aprilianti et al. (2023) in Indonesia highlight a mix of significant and insignificant impacts of behavioral biases on investment decisions, reflecting varied market contexts and investor behaviors. Furthermore, studies by Natasya et al. (2022) in Jakarta and Prayudi and Purwanto (2023) in Java Island indicate divergent effects of overconfidence and herding bias on investment choices, contrasting with our findings that show significant impacts of these biases on investor behavior in Nepal.

The findings from this study on the Nepal Stock Market reveal significant correlations between behavioral errors and investment decisions. Overconfidence error (OCN) shows a strong positive relationship with investment decisions (IND), indicating that investor overconfidence aligns closely with their investment strategies. Emotional error (EMO) also exhibits a moderate positive correlation with IND, suggesting emotions play a moderate role in shaping investment decisions. Herding mentality error (HRD) demonstrates a discernible but less pronounced impact on IND, while representativeness error (RPR) shows a weaker positive correlation. Comparatively, Suresh (2024) and Natasya et al. (2022) both find significant impacts of overconfidence bias on investment decisions, aligning with our study's findings. Vuković and Pivac (2023) identify positive effects of overconfidence and emotional factors on investments, but note a negative impact of herding, contrasting with our moderate positive findings for HRD. Similarly, Abideen et al. (2023) and Aprilianti et al. (2023) observe varied impacts of biases, echoing the nuanced influences seen in Nepal.

The study on the Nepal Stock Market reveals significant impacts of herding mentality error (HRD), overconfidence error (OCN), emotional error (EMO), and representativeness error (RPR) on investment decisions (IND). HRD and OCN exhibit strong positive associations with IND, aligning with findings from Vuković and Pivac (2023), Aprilianti et al. (2023), and Madaan and Singh (2019) who also highlight the positive effects of these biases on investment decisions. However, the study contrasts with findings from Prayudi and Purwanto (2023) and Natasya et al. (2022) who find varying impacts of these biases across different contexts, with some suggesting insignificant effects of certain biases like financial literacy (Natasya et al., 2022; Prayudi & Purwanto, 2023). Additionally, the study's identification of EMO's moderate positive impact on IND contrasts with Mittal (2022) and Gupta and Shrivastava (2022) who emphasize the influence of other emotional and fear-related biases on investment decisions. RPR's weaker association with IND in the Nepal study aligns with findings from Badola et al. (2023) and Aigbovo and Ilaboya (2019), who also report varying and sometimes negligible impacts of representativeness bias in investment decision-making contexts.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter presents a comprehensive overview of the study's findings on investor behavior and decision-making in financial markets. The summary encapsulates the key results, highlighting significant correlations between behavioral errors such as Herding Mentality Error, Overconfidence Error, Emotional Error, and Representativeness Error and their influence on investment decisions. It underscores the outcomes of the regression analysis, emphasizing the predictors that most strongly affect investment outcomes. The conclusion synthesizes these findings, providing insights into how behavioral biases impact investment decisions among respondents. It discusses practical implications for investors, financial advisors, and policymakers, aiming to enhance decision-making processes and outcomes in financial markets. The section on theoretical implications explores the study's contributions to behavioral finance literature, extending understanding of how psychological factors shape investment behaviors and market dynamics. Overall, this chapter serves to consolidate the study's empirical findings, draw conclusions, and propose avenues for future research in behavioral finance.

5.1 Summary

This study explores the evolution from traditional finance theory to behavioral finance, highlighting how human decision-making in financial markets is influenced by inherent traits, cognitive biases, and emotional factors. Contrary to the rationality assumed by traditional finance, behavioral finance acknowledges the impact of psychological tendencies on investment decisions. The research focuses specifically on Nepal's market context, aiming to identify and analyze common behavioral errors, such as herding mentality, overconfidence, emotional influences, and representativeness biases, among investors. The primary objectives include assessing these biases, exploring their relationships with investment decisions, and determining their respective impacts within Nepal's stock market environment. By uncovering these insights, the study seeks to enhance understanding of investor behavior and contribute to the broader field of behavioral finance research.

The second chapter of this study comprises a comprehensive literature review structured into conceptual, theoretical, empirical reviews, and identification of research gaps. The

conceptual review contrasts Traditional Finance Theory with Behavioral Finance, highlighting how human psychological biases significantly influence investment decisions. Key concepts such as Herding Mentality Errors, Overconfidence Errors, Emotional Errors, and Representativeness Errors are explored in depth to elucidate their impact on decision-making processes. The theoretical review delves into frameworks like Regret Theory, Prospect Theory, and the Theory of Mental Accounting, providing theoretical foundations for understanding behavioral finance phenomena. Empirical studies are synthesized to demonstrate real-world applications and validations of behavioral finance theories. Finally, the research identifies gaps in current literature, underscoring the need for further exploration into specific aspects of behavioral biases and their implications in financial decision-making contexts. This structured review sets the stage for the subsequent chapters, aiming to contribute new insights and deepen understanding in the field of behavioral finance.

This study employs a robust quantitative approach combining descriptive and causal comparative methodologies to thoroughly explore behavioral errors and biases in investors' decision-making processes. Through meticulous survey-based data collection, the research aims to comprehensively catalog and understand prevalent behavioral biases among investors, examining their frequency, patterns, and implications. Concurrently, correlation analysis and regression models are employed to investigate the complex relationships between these biases and investment decisions. The study focuses on the stock market participants in Kathmandu Valley, encompassing a population of 1,621,642 individuals engaged in stock transactions. A sample of 385 respondents has been strategically selected using simple random sampling to ensure representative insights into regular investors' behaviors. Data collection relies on structured survey questionnaires with a five-point Likert scale, enabling direct measurement of respondents' perceptions and behaviors related to investment decisions. This methodological framework facilitates a systematic analysis of factors influencing investor behavior, contributing to a nuanced understanding within Kathmandu Valley's unique financial market context.

Upon completing data collection, meticulous editing, coding, categorization, and recording in Microsoft Excel and SPSS have been undertaken to ensure precision and coherence aligned with the study's objectives. The analysis focused on revealing public responses and their relationships with independent variables, employing sophisticated statistical models

including mean calculation, standard deviation estimation, correlation analysis, and regression modeling. The research framework systematically outlines the study's components, emphasizing Herding Mentality Error (HRD), Overconfidence Error (OCN), Emotional Error (EMO), and Representativeness Error (RPR) as independent variables representing behavioral biases. These variables are examined for their influence on Investment Decision (IND), designated as the dependent variable, thereby elucidating the complex dynamics of investor decision-making within the Nepal Stock Market.

Based on the findings of this study, the overall conclusion suggests that behavioral errors, namely herding mentality error (HRD), overconfidence error (OCN), and emotional error (EMO), significantly influence investment decisions in the Nepal Stock Market. These variables exhibit varying degrees of impact on investment choices, with OCN showing a strong positive influence, EMO demonstrating a moderate positive influence, and HRD indicating a discernible but less pronounced impact. In contrast, representativeness error (RPR) shows a weaker and statistically insignificant influence on investment decisions. Therefore, while behavioral biases play significant roles in shaping investor behavior and decision-making processes, the study indicates that not all behavioral errors are equally impactful. Nonetheless, addressing overconfidence, emotional biases, and to some extent herding behavior could enhance the rationality and effectiveness of investment decision-making in the Nepal Stock Market.

Overall, this study offers both practical and theoretical implications. Practically, it highlights the importance of understanding and mitigating behavioral biases in investment decisions to enhance investor outcomes. Theoretically, it contributes to the evolving field of behavioral finance by validating the significant influence of psychological factors on financial decision-making. Recommendations include integrating behavioral finance insights into investment education and advising practices to foster more informed and rational investor behavior in financial markets.

5.2 Conclusion

The first objective of this study is to assess the behavioral errors commonly made by investors during the investment decision-making process in the Nepal Stock Market. The findings reveal a mixed landscape of investor behaviors: respondents exhibit moderate

tendencies towards herding mentality error and overconfidence error, indicating prevalent but varying levels of these biases. Emotional error is also evident, underscoring the significant influence of emotions on investment decisions. Notably, representativeness error shows a pronounced reliance on past performance or stereotypes. However, investment decision-making demonstrates moderate agreement towards a rational approach, despite notable variability in strategies. These insights suggest a complex interplay of behavioral biases in investor decision-making, emphasizing the need for targeted interventions to enhance rationality and informed decision-making in the market.

The second objective of this study is to analyze the relationship between herding mentality error, overconfidence error, emotional error, representativeness error, and investment decisions in the Nepal Stock Market. The findings indicate that overconfidence error (OCN) shows a strong positive correlation with investment decisions (IND), suggesting a robust alignment between investors' overconfidence and their investment strategies. Emotional error (EMO) also demonstrates a moderate positive correlation with IND, implying that emotional reactions play a moderately influential role in shaping specific investment decisions. Herding mentality error (HRD) exhibits a moderate positive correlation with IND, indicating a discernible but less pronounced impact of following others' decisions on investment choices. In contrast, representativeness error (RPR) shows a weaker positive correlation with IND, suggesting a modest influence of biases towards past performance or stereotypes on investment decisions. Overall, these relationships underscore the significant albeit varying roles that behavioral errors play in influencing investor behavior and decision-making processes in the Nepal Stock Market.

The third objective of this study is to analyze how herding mentality error (HRD), overconfidence error (OCN), emotional error (EMO), and representativeness error (RPR) impact investment decisions in the Nepal Stock Market. The findings reveal that HRD has a significant positive impact on Investment Decision (IND), indicating that as investors exhibit more herding behavior, there is a notable increase in their specific investment choices. OCN also shows a strong positive impact on IND, suggesting that overconfident investors tend to align their decisions closely with their investment goals. EMO positively affects IND, indicating that emotional reactions play a moderate role in shaping investment decisions. In contrast, RPR demonstrates a weaker association with IND, suggesting a less pronounced

influence of biases towards past performance or stereotypes on investment choices. Overall, HRD, OCN, and EMO exhibit significant impacts on investment decisions, highlighting their roles in shaping investor behavior in the Nepal Stock Market, whereas RPR shows a relatively weaker and statistically insignificant influence in this regression model.

5.3 Implications

In conclusion, the theoretical and practical implications derived from this study contribute to a nuanced understanding of how behavioral biases influence investment decisions in the Nepal Stock Market. By bridging the gap between theoretical insights and practical applications, this research informs strategies for improving market efficiency, investor welfare, and regulatory frameworks in emerging markets. Emphasizing the importance of investor education, regulatory transparency, and adaptive investment strategies, stakeholders can foster a more resilient and informed investment environment that aligns with behavioral realities observed in empirical settings.

Theoretical Implications

- The prevalence of behavioral errors such as herding mentality, overconfidence, emotional reactions, and representativeness challenges the assumption of rational decision-making in traditional finance theories.
- The study reveals that investors in Nepal exhibit significant behavioral biases, particularly overconfidence, which influences their investment decisions.
- The findings align with behavioral finance theories, such as prospect theory, indicating that investors often overweight their own assessments.
- The study's insights on behavioral biases challenge the EMH, suggesting that psychological factors impact financial behavior and market dynamics.
- The study underscores the need for theoretical models that incorporate psychological insights to explain market behavior in emerging markets like Nepal.

Practical Implications

- This study highlights the importance of investor education and awareness campaigns to mitigate the effects of behavioral biases, particularly overconfidence and emotional reactions.
- Financial institutions and advisors should provide tools and resources that promote rational decision-making and disciplined investment strategies.
- Suggesting the development of regulatory frameworks that promote transparency, reduce information asymmetry, and discourage herd behavior.
- Policies should consider psychological factors by promoting diverse investment options and enhancing disclosure requirements to address representativeness bias.
- Encouraging financial institutions and market participants to incorporate behavioral insights into investment strategies and risk management for improved outcomes.

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APPENDICES

Appendix I: Questionnaire

Dear Sir/ Mam,

As a crucial participant in my Master's degree dissertation titled BEHAVIORAL ERRORS AND STOCK MARKET INVESTMENT DECISIONS" at Shanker Dev Campus, Tribhuvan University, your input holds immense value. Your voluntary participation is highly appreciated, and you have the freedom to skip any questions you prefer not to answer. Your sincere and confidential responses are vital in ensuring the accuracy of this study. The survey is designed to be brief, taking about 10 minutes, and includes clear instructions. Your honest feedback will greatly contribute to the success of this research. Thank you for your valuable cooperation and participation.

Yours sincerely,

Riya Shrestha

Shanker Dev Campus

Tribhuvan University

Part I: Profile of Respondents

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

1 Gender
   - ☐ Male
   - ☐ Female

2 Age Group (in years)
   - ☐ 25 to 50
   - ☐ 50 and above

3 Education
   - ☐ Undergraduate

- ☐ Graduate

4 Marital Status
- ☐ Unmarried
- ☐ Married

5 Occupation
- ☐ Private Employment
- ☐ Public Employment
- ☐ Self-employment
- ☐ Others

6 Size of Investment
- ☐ Below Rs.50,000
- ☐ Rs. 50000 - 100,000
- ☐ Rs. 100,000 - 500,000
- ☐ Rs. 500,000 - 10,00,000
- ☐ Rs. 10,00,000 or above

Part II: Core Questions of Behavioral Error and Investment Decision

Source: Abideen et al. (2023); Soni & Desai (2019); Yasmin & Ferdaous (2023)

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I tend to follow the investment decisions of others in the market					
I feel more comfortable investing in a stock if it is recommended by many experts or analysts.					
I am influenced by the behavior of other investors when making my investment decisions.					
I am more likely to buy or sell a stock if I see other investors doing the same.					
I often rely on social media or investment forums to guide my investment decisions.					

I feel safer investing in stocks that are popular among other investors.					
The actions of large institutional investors impact my investment decisions.					
I tend to panic and follow the crowd during market downturns.					
I believe that I can outperform the market with my investment decisions.					
I tend to underestimate the risks associated with my investment choices.					
I am confident that my investment decisions will lead to positive outcomes.					
I rarely seek advice from financial experts or professionals, as I believe I can make better decisions on my own.					
I am overly optimistic about the future performance of my investments.					
I tend to ignore negative news or information that may affect my investment decisions.					
I feel invincible and believe that I can always recover from losses in the stock market.					
I often take excessive risks in my investment portfolio.					
I tend to let my emotions guide my investment decisions, even when it may not be rational.					
My investment choices are often influenced by strong emotional reactions to market developments.					
I find it challenging to stay calm and rational during market fluctuations, which affects my decisions.					
I make investment decisions based on my gut feelings and emotions rather than a well-thought-out strategy.					
Emotional reactions to losses or gains strongly impact my buy or sell decisions in the stock market.					
I often hesitate to make investment decisions when I'm feeling emotionally unsettled.					

My investment decisions are heavily influenced by my emotional attachment to certain stocks or assets.					
I tend to follow the crowd and make investment decisions based on the fear or excitement prevailing in the market.					
I often make investment decisions based on a company's past performance or reputation.					
I rely on stereotypes or generalizations about certain industries or sectors when investing.					
I tend to invest in stocks that resemble successful companies I am familiar with.					
I avoid investing in companies with negative public perceptions, regardless of their financial prospects.					
I consider the industry a company operates in when making my investment decision.					
I am more likely to invest in technology companies as they are considered high-growth sectors.					
I believe that investing in well-known brands is a safer investment strategy.					
I tend to prefer investing in companies that have a history of strong stock performance.					
I carefully research and analyze potential investment options before making a decision.					
I consider both the risks and potential rewards associated with an investment before investing.					
I am comfortable with short-term fluctuations in the value of my investments.					
I have a long-term investment strategy that guides my decision-making process.					
I consult with financial advisors or experts before making significant investment decisions.					
I diversify my investment portfolio to manage risk.					

I consider my financial goals and risk tolerance before investing in any asset.					
I regularly review and update my investment portfolio based on changing market conditions and my financial objectives.					

Appendix II: Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	268	69.6	69.6	69.6
	Female	117	30.4	30.4	100.0
	Total	385	100.0	100.0	

Age Group (in years)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 to 50	308	80.0	80.0	80.0
	50 and above	77	20.0	20.0	100.0
	Total	385	100.0	100.0	

Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Undergraduate	108	28.1	28.1	28.1
	Graduate	277	71.9	71.9	100.0
	Total	385	100.0	100.0	

Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unmarried	112	29.1	29.1	29.1
	Married	273	70.9	70.9	100.0
	Total	385	100.0	100.0	

Occupation

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Private Employment	117	30.4	30.4	30.4
	Public Employment	71	18.4	18.4	48.8
	Self-Employment	80	20.8	20.8	69.6
	Others	117	30.4	30.4	100.0
	Total	385	100.0	100.0	

Size of Investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 50,000	93	24.2	24.2	24.2
	50,000 to 100,000	91	23.6	23.6	47.8
	100,000 to 500,000	105	27.3	27.3	75.1
	500,000 to 10,00,000	61	15.8	15.8	90.9
	10,00,000 or above	35	9.1	9.1	100.0
	Total	385	100.0	100.0	

Appendix III: Reliability Statistics

Reliability Statistics of Herding Mentality Error (HRD)

Cronbach's Alpha	N of Items
0.807	8

Reliability Statistics of Overconfidence Error (OCN)

Cronbach's Alpha	N of Items
0.835	8

Reliability Statistics Emotional Error (EMO)

Cronbach's Alpha	N of Items
0.851	8

Reliability Statistics of Representativeness Error (RPR)

Cronbach's Alpha	N of Items
0.856	8

Reliability Statistics of Investment Decision

Cronbach's Alpha	N of Items
0.814	8

Overall Reliability Statistics

Cronbach's Alpha	N of Items
0.952	56

Appendix IV: Descriptive Statistics

Descriptive Statistics

	N	Mean	Std. Deviation
I tend to follow the investment decisions of others in the market	385	3.61	1.157
I feel more comfortable investing in a stock if it is recommended by many experts or analysts.	385	3.6286	1.11790
I am influenced by the behavior of other investors when making my investment decisions.	385	3.6442	1.13221
I am more likely to buy or sell a stock if I see other investors doing the same.	385	3.7766	0.99842
I often rely on social media or investment forums to guide my investment decisions.	385	3.7558	1.01429
I feel safer investing in stocks that are popular among other investors.	385	3.9143	1.02593
The actions of large institutional investors impact my investment decisions.	385	3.7506	1.05582
I tend to panic and follow the crowd during market downturns.	385	3.8519	0.97969
I believe that I can outperform the market with my investment decisions.	385	3.9429	0.93366
I tend to underestimate the risks associated with my investment choices.	385	4.0078	0.92277
I am confident that my investment decisions will lead to positive outcomes.	385	3.9818	0.95861
I rarely seek advice from financial experts or professionals, as I believe I can make better decisions on my own.	385	3.8182	1.04492
I am overly optimistic about the future performance of my investments.	385	3.8597	0.94432
I tend to ignore negative news or information that may affect my investment decisions.	385	3.7636	1.01228
I feel invincible and believe that I can always recover from losses in the stock market.	385	3.8675	0.98985
I often take excessive risks in my investment portfolio.	385	3.7299	1.05562

I tend to let my emotions guide my investment decisions, even when it may not be rational.	385	3.8026	1.17149
My investment choices are often influenced by strong emotional reactions to market developments.	385	3.8519	0.99812
I find it challenging to stay calm and rational during market fluctuations, which affects my decisions.	385	3.7013	1.10474
I make investment decisions based on my gut feelings and emotions rather than a well-thought-out strategy.	385	3.9377	0.92492
Emotional reactions to losses or gains strongly impact my buy or sell decisions in the stock market.	385	3.7403	1.00523
I often hesitate to make investment decisions when I'm feeling emotionally unsettled.	385	3.6961	1.01991
My investment decisions are heavily influenced by my emotional attachment to certain stocks or assets.	385	3.9506	0.88692
I tend to follow the crowd and make investment decisions based on the fear or excitement prevailing in the market.	385	3.7662	1.01160
I often make investment decisions based on a company's past performance or reputation.	385	3.8182	0.97264
I rely on stereotypes or generalizations about certain industries or sectors when investing.	385	3.7610	1.03080
I tend to invest in stocks that resemble successful companies I am familiar with.	385	3.8078	1.03302
I avoid investing in companies with negative public perceptions, regardless of their financial prospects.	385	3.6753	0.98215
I consider the industry a company operates in when making my investment decision.	385	3.8156	0.97349
I am more likely to invest in technology companies as they are considered high-growth sectors.	385	3.7636	0.98358
I believe that investing in well-known brands is a safer investment strategy.	385	3.7662	0.98816
I tend to prefer investing in companies that have a history of strong stock performance.	385	3.9117	0.89994

I carefully research and analyze potential investment options before making a decision.	385	3.9662	0.91367
I consider both the risks and potential rewards associated with an investment before investing.	385	3.9974	0.83385
I am comfortable with short-term fluctuations in the value of my investments.	385	3.8649	0.95331
I have a long-term investment strategy that guides my decision-making process.	385	3.9013	0.90463
I consult with financial advisors or experts before making significant investment decisions.	385	3.7870	1.13024
I diversify my investment portfolio to manage risk.	385	3.9636	0.97293
I consider my financial goals and risk tolerance before investing in any asset.	385	3.8909	1.07942
I regularly review and update my investment portfolio based on changing market conditions and my financial objectives.	385	4.0104	0.90709
HRD	385	3.9532	0.97248
OCN	385	3.9844	0.97882
EMO	385	3.9065	0.97713
RPR	385	4.0805	0.94718
IND	385	3.7922	1.18077
Valid N (listwise)	385		

Appendix V: Correlation Analysis

Correlations[b]

		HRD	OCN	EMO	RPR	IND
HRD	Pearson Correlation	1	.519**	.464**	.527**	.436**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
OCN	Pearson Correlation	.519**	1	.421**	.400**	.542**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
EMO	Pearson Correlation	.464**	.421**	1	.506**	.480**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
RPR	Pearson Correlation	.527**	.400**	.506**	1	.306**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
IND	Pearson Correlation	.436**	.542**	.480**	.306**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

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

b. Listwise N=385

Appendix VI: Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619[a]	0.383	0.377	0.93207

a. Predictors: (Constant), RPR, OCN, EMO, HRD

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	205.248	4	51.312	59.063	.000[b]
	Residual	330.129	380	0.869		
	Total	535.377	384			

a. Dependent Variable: IND

b. Predictors: (Constant), RPR, OCN, EMO, HRD

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	0.280	0.257		1.089	0.277		
	HRD	0.173	0.064	0.142	2.711	0.007	0.589	1.697
	OCN	0.450	0.059	0.373	7.643	0.000	0.682	1.465
	EMO	0.350	0.060	0.290	5.863	0.000	0.665	1.505
	RPR	0.081	0.063	0.065	1.274	0.203	0.628	1.591

a. Dependent Variable: IND

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ABSTRACT This study investigates behavioral biases influencing investment decisions in the Nepal Stock Market, highlighting how psychological factors shape financial decision-making. It addresses the prevalence and impact of herding mentality error, overconfidence error, emotional error, and representativeness error among investors. The study employs a quantitative approach with descriptive and causal comparative methodologies. It focuses on a population of stock market participants in Kathmandu Valley, selecting a representative sample of 385 respondents through simple random sampling.