BEHAVIOURAL FACTORS AFFECTING INDIVIDUAL INVESTORS DECISION MAKING IN NEPAL STOCK EXCHANGE

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

by

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

Mr. Avinash Rauniyar has defended research proposal entitled "**Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange**" 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 Dr. Pitri Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange**" presented by Avinash Rauniyar, for the degree of Master of Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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Avinash Rauniyar

LIST OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ANOVA	=	Analysis of Variance
DV	=	Dependent Variable
i.e.	=	That is
IBM	=	International Business Machine
IV	=	Independent variable
LA	=	Loss Aversion
M	=	Mean
OC	=	Overconfidence
PA	=	Price Anchoring
RA	=	Regret Aversion
REP	=	Representative
SD	=	Standard Deviation
SPSS	=	Statistical Package for the Social Science

ABSTRACT

While finance has been studied for an extensive period, the field of behavioral finance, which examines the impact of human behaviors on financial decisions, is a relatively recent development. Behavioral finance theories draw from psychology to understand how emotions and cognitive errors influence the behaviors of individual investors (referring to those examined in this study). This research, titled "Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange" aims to explore the influence of behavioral biases on investors' decision-making processes. To investigate this issue, the study incorporates a comprehensive theoretical framework and reviews relevant literature, including both theoretical and practical studies.

The research employs a quantitative methodology, wherein a carefully designed questionnaire was distributed to 250 individual investors active in the Nepal Stock Exchange. The results are analyzed in the context of the research hypotheses, and conclusions are derived accordingly. Out of the 250 participants targeted, 204 valid responses were included in the final analysis. The data's reliability is confirmed by Cronbach's Alpha values for all variables, which range from 0.7 to 0.806. Notably, 36.7% of respondents invested in NEPSE for bonuses and dividends, while 33.8% engaged in short-term trading. With correlation values of 0.721**, 0.765**, 0.730**, 0.738, and 0.613, respectively, there are high positive correlations between the process of making investment decisions and characteristics like investment choice, regret aversion bias, loss aversion bias, representativeness, price anchoring, and overconfidence. At a 95% confidence level, the regression model and coefficient table validate the model's and its variables' relevance. Approximately 90.5% of investor decisions are impacted by a mix of price anchoring, representativeness, regret aversion bias, loss aversion bias, and overconfidence, according to an R^2 value of 0.905.

Keywords: overconfidence, price anchoring, representativeness, regret aversion bias, loss aversion bias, human behaviors, decision-making, and investment decision-making

Chapter I
Introduction

1.1 Background of the study

Behavioral finance, a field that delves into the impact of psychology on investors' and financial analysts' behavior (Fieger, 2017), has seen significant growth over the past five decades. It examines how psychological factors can affect decision-making in financial matters (Kimeu, Anyango, & Rotich, 2016). Similar to behavioral economics, behavioral finance combines psychology and economics to explain why economic agents sometimes make irrational decisions. Psychology reveals how human behavior differs from traditional economic assumptions by exploring various aspects of human behavior. Common biases among individuals fall into four main categories: heuristic, prospect, market, and herding factors.

When it comes to making investment decisions, investors need to consider which securities or assets to invest in, the investment amount, timing, and duration. Investors have varying preferences when it comes to risk and return profiles; based on their risk appetite, they may choose to invest in stocks, bonds, marketable securities or other assets (Lourrine & Nairobi, 2017). The decision-making process involved in investing is complex and unique to each investor. Understanding the factors that influence individual investment decisions poses a challenging and intricate task. The investment decision process has evolved greatly over the few decades in terms of the way the investment decisions be made. Different tools, techniques and standard models are found using in investment and financial decision-making. Use of these sophisticated tools, techniques, and models would be of imperfect use in the absence of behavioral and contextual understanding of both individual investors and their investment environment.

Heuristic variable performs a vital role in minimizing the cost and time on making complex decisions (Achieng & Nairobi, 2015). Similarly, Prospect theory predicts that the propensity to sell a stock declines as its price moves away from the purchase price in either direction (Velumoni, 2017). Barber and Odean (2000) highlighted that investors are influenced by stock market events that capture their attention, even when the potential for these events to justify future investment performance is uncertain. Jaswani (2008) pointed out the stock market's liquidity, making it an attractive investment option compared to other asset classes.

Investment decision-making is a complex process influenced by a myriad of factors, ranging from economic indicators to personal psychological tendencies （Barberis & Thaler, 2003）. Traditional finance theories often assume that investors are rational actors who make decisions based on systematic analysis and logical evaluation of available information（Fama, 2001）. However, the field of behavioral finance challenges this notion by highlighting the significant role that psychological biases and emotional responses play in financial decisions（Shefrin, 2002）. This study aims to investigate the behavioral factors that affect individual investors' decision-making in the context of the Nepal Stock Exchange (NEPSE)（Shrestha, 2022）.

The Nepal Stock Exchange, as an emerging market, offers a distinct environment characterized by higher volatility, limited market information, and unique socio-cultural dynamics （Pradhan & Shrestha, 2020）. In such markets, the behavior of individual investors can significantly influence market trends and overall economic stability（Bista, 2021）. Understanding these behaviors is crucial for developing strategies that enhance market efficiency and investor welfare（Maharjan, 2019）.

Over recent years, several behavioral factors have been identified as influential in investment decisions （Ritter, 2003）. These include overconfidence （Barber & Odean, 2001）, herd behavior（Shiller, 2003）, anchoring（Kaustia, Alho, & Puttonen, 2008）, loss aversion（Barberis, 2013）, and mental accounting （Thaler, 2004）. Each of these factors can lead to irrational decision-making, resulting in suboptimal investment outcomes（Shefrin, 2002）. For instance, overconfident investors may trade excessively, while those influenced by herd behavior might follow the crowd, leading to market bubbles or crashes（Bikhchandani & Sharma, 2001）.

The emergence of digital trading platforms and the impact of the COVID-19 pandemic have further transformed the landscape of investor behavior（Baker et al., 2020）. Online trading and the proliferation of financial information through social media have democratized access to the stock market but also introduced new biases and challenges（Huang, 2022）. During the pandemic, heightened uncertainty and fear led to increased risk aversion and significant market fluctuations, providing a unique opportunity to study investor psychology under stress（Goodell, 2020）.

Cultural factors also play a vital role in shaping investment behavior, especially in a diverse and traditional society like Nepal （Gurung, 2019）. Collective decision-making, reliance on informal networks for financial advice, and trust in local customs can all impact how individuals approach investment （Shrestha & Shrestha, 2021）. Recognizing and understanding these cultural influences is essential for creating effective financial education and regulatory policies（Khanal, 2022）.

This research seeks to explore the interplay of these behavioral factors within the NEPSE context, offering insights into how individual investors make decisions（Bista, 2021）. By examining the psychological, technological, and cultural dimensions of investment behavior, this study aims to contribute to the broader understanding of behavioral finance and provide practical recommendations for improving investor outcomes in Nepal （Shrestha, 2022）.

Ultimately, this investigation hopes to support the development of tailored educational programs, informed regulatory frameworks, and investor tools that address the specific needs and challenges faced by NEPSE investors, thereby enhancing market efficiency and stability（Pradhan & Shrestha, 2020）.

In the Nepalese context, the investor decisions on Nepal stock market play a significant role in outlining the market trend, believed to influence the economy. To recognize and stretch some appropriate explanation for the investors' decisions, it is vital to discover which factors or behavioral factors are influencing the decisions of individual investors at the Nepal Stock Exchange. It will be advantageous for investors to realize common behaviors, from which justify their reactions for better and higher returns. Therefore, comprehending the behavioral factors that influence individual investors' decisions on the Nepal Stock Exchange is essential for optimizing investment strategies and improving returns in a dynamic market environment. This study focuses on these factors, providing valuable insights for both investors and market analysts alike.

1.2 Problem statement

In the world of business, countless decisions are made every minute, and investment choices are no exception to this trend. These decisions can be influenced by various behavioral factors, particularly investors' psychological makeup, which shapes their financial behavior. Investing performance and investor behavior have been the subject of

several studies conducted in Nepal. For instance, it was discovered by Thapa (2014), Dangol and Manandhar (2020), and Gnawali (2021) that behavioral biases affect the choices made by Nepalese investors.

There is a dearth of observational studies in Nepal that investigate the relationship between behavioral biases and the decision-making process, despite a wealth of literature on investor behavior. This research aims to establish causal relationships between three distinct behavioral biases and every phase of the decision-making process, as well as to ascertain if the actions of investors are consistent with the theoretical model of rational decision-making. The study will also examine the impact of different demographic factors on these biases.

In the context of Nepal, the unique socio-cultural dynamics, limited financial literacy, and emerging market conditions exacerbate these behavioral biases, leading to suboptimal investment decisions and market inefficiencies（Pradhan & Shrestha, 2020; Bista, 2021）. The rise of digital trading platforms and the impact of global events such as the COVID-19 pandemic have further complicated the investment landscape, introduced new challenges and altered investor behaviors（Baker et al., 2020; Huang, 2022）.

Despite these developments, there is a paucity of empirical research focusing specifically on the behavioral factors affecting individual investors in NEPSE. Existing studies have largely overlooked the interplay of psychological, technological, and cultural dimensions in shaping investment decisions within this unique market environment（Shrestha, 2022; Gurung, 2019）. As a result, policymakers, financial educators, and market participants lack the necessary insights to develop strategies that enhance investor outcomes and market efficiency.

Therefore, this research aims to fill this gap by systematically investigating the behavioral factors that influence individual investors' decision-making in NEPSE. By identifying and analyzing the key psychological biases and their interactions with technological advancements and cultural influences, this study seeks to provide a comprehensive understanding of investor behavior in Nepal. The findings are expected to inform the development of tailored educational programs, regulatory frameworks, and investment tools that address the specific needs and challenges faced by NEPSE investors, ultimately

contributing to a more efficient and stable market （Khanal, 2022; Shrestha & Shrestha, 2021）.

In Nepal, the behavioral factors affecting investment decision-making have not been thoroughly studied, particularly in the context of the Nepal Stock Exchange. Therefore, this research endeavors to reveal the underlying behavioral factors that influence investment decisions made by investors in the Nepalese stock market. The purpose of the study is to determine how behavioral variables affect the choices made by individual investors in the Nepalese stock market. Throughout the study, a number of questions come up in order to answer the research objectives:

(i) Which behavioral variables, and to what elements do they belong, affect the decisions made by individual investors at the Nepal Stock Exchange?
(ii) Which of these behavioral factors influences the Nepal Stock Exchange's investment decisions the most?

1.3 Objectives of the study

The purpose of this research is to get a complete knowledge of the numerous behavioral aspects impacting the financial decision-making process among individual investors in the Nepalese Stock Exchange.

(i) To examine the current status of representativeness, overconfidence, regret aversion bias, loss aversion bias, price anchoring, and their impact on investment decisions among individual investors in the Nepal Stock Exchange.
(ii) To examine the relationship between representativeness, overconfidence, regret aversion bias, loss aversion bias, and price anchoring in relation to investment decisions.
(iii) To evaluate the effect of representativeness, overconfidence, regret aversion bias, loss aversion bias, and price anchoring on investment decisions.

By addressing these objectives, this study focuses on the significant factors driving individual investors' financial choices in the Nepalese Stock Exchange, providing valuable insights into their decision-making processes.

1.4 Research hypothesis

The study postulates several hypotheses to investigate the relationships between different behavioral factors and investment decisions at the Nepal Stock Exchange. The formulated hypotheses are as follows:

- H1: There exists a correlation between overconfidence and investment decisions in the context of the Nepal Stock Exchange.
- H2: Loss aversion bias significantly influences investment decisions made at the Nepal Stock Exchange
- H3: The study finds a connection between the Nepal Stock Exchange's investment choices and regret aversion bias.
- H4: The price anchoring and investment choices made at the Nepal Stock Exchange are found to be significantly correlated.
- H5: The study identifies a notable correlation between representativeness and investment decisions at the Nepal Stock Exchange.

Through the analysis of these hypotheses, the study aims to uncover valuable insights into the influence of behavioral factors on investment decisions made by individuals within the NEPSE.

1.5 Rationale of the study

The study holds significant importance for various stakeholders, each benefiting in distinct ways as outlined below:

- For Individual Investors:

Individual investors exhibit diverse behaviors when engaging in financial product investments. This study serves as a valuable resource for these investors, offering insights into stock market trends and investment behaviors. By accessing this report, they can make more informed and optimal investment choices. Additionally, the research suggests that investors use a logical decision-making process in order to prevent common behavioral biases such as herding and the disposition effect.

- For Institutional Investors:

This study offers reliable consulting information and builds a strong framework for forecasting future stock market patterns, both of which may be extremely beneficial to institutional investors. Financial advisors, in particular, will find this research invaluable as it deepens their understanding of consumer psychology. Equipped with this knowledge, they can construct portfolios that are tailored to align with their clients' behavioral tendencies.

- For the Field of Behavioral Finance:

Behavioral finance concepts represent a relatively recent development compared to traditional financial theories. Behavioral finance is widely used in industrialized securities markets to study the behavioral aspects impacting investment decisions, whereas research in developing countries like ours is still restricted. As a result, this work significantly advances theories of behavioral finance, including heuristics and prospect theory. By shedding light on the behavioral dimensions of investment decision-making, it enriches the field of behavioral finance and expands its application across diverse contexts

1.6 Limitations of the study

The limitations of this study are as follows:

(i) This study does not take the respondents' feelings, opinions, or recommendations into account.

(ii) Because the sample is drawn from respondents who were conveniently chosen, it could not accurately reflect the whole population.

(iii) The sample size is partially insignificant. The reliability of the study would probably be enhanced with a bigger sample size.

(iv) Even though convenience sampling is employee-driven, the results could not be entirely relevant to the general public because respondents were selected from the top ten prominent securities firms.

Chapter II

Literature Review

Individual investor decisions in the Nepal Stock Exchange (NEPSE) are influenced by psychological, social, and economic factors. This literature review synthesizes recent studies on these behavioral aspects to lay a foundation for comprehensive research on the Nepalese stock market. Behavioral finance, which integrates psychological theories into financial market studies, challenges traditional theories like the Efficient Market Hypothesis (EMH) by showing that cognitive biases, emotions, and social influences often lead to irrational decisions. Key concepts include heuristics, overconfidence, herd behavior, and risk perception.

Recent studies highlight these behavioral factors: Bhattacharya, Kaustia, and Lo (2022) on investor sentiment and market fluctuations, and Barberis, Huang, and Santos (2021) on cognitive biases in volatile markets. In emerging markets, biases are pronounced due to limited information, low financial literacy, and high volatility, as shown in studies by Liu and Wang (2020) on herd behavior in China and Gupta and Shukla (2019) on the disposition effect in India.

There is a lack of research specifically on NEPSE. The Nepalese market, with its small size, retail investor prevalence, and unique regulatory environment, is understudied. Sharma and Dahal (2018) offered initial insights, but many behavioral factors remain unexplored. This review synthesizes global research on behavioral finance in emerging markets to identify gaps and opportunities for further study in NEPSE. It prepares for a detailed investigation into NEPSE's psychological and social dynamics, contributing to the broader behavioral finance discourse.

In conclusion, Behavioral finance departs from traditional finance by recognizing human psychology in financial decisions. It offers valuable insights into the factors shaping investor decisions and market dynamics, benefiting academics and practitioners in finance. This chapter includes theoretical review, empirical review and research gap.

2.1 Theoretical review

Behavioral finance challenges the traditional financial theories that assume investors are rational and markets are efficient. Instead, it integrates insights from psychology and

sociology to explain why investors often act irrationally. This theoretical review explores the key concepts and models within behavioral finance that are relevant to understanding individual investor behavior in the Nepal Stock Exchange (NEPSE).

The Efficient Market Hypothesis

The foundation of the Efficient Market Hypothesis (EMH) is that asset prices in financial markets accurately reflect all available information. Market efficiency, as defined by Fama (1970), occurs when prices in the market fully reflect available knowledge to the point that individual investors are unable to beat the market. The random walk theory, or Efficient Market Hypothesis, or EMH, postulates that prices have an equal chance of rising or falling, making it difficult for investors to forecast their course (Malkiel, 1973).

The word 'efficient' market was first used by Fama (1965) to describe a situation in which all players have easy access to important information and rational profit-maximizing investors actively compete to anticipate future market values. Intelligent investors compete to guarantee that real asset prices in an efficient market already take into account the impact of current knowledge on past and projected future occurrences (Karz, 2012). This suggests that a security's real price at any particular moment is a reliable indicator of its genuine worth (Fama, 1995).

As per Efficient Market Hypothesis (EMH), the pricing of stocks is determined by their intrinsic investing qualities, and all players in the market possess identical knowledge (Fama, 1970). The financial markets integrate all forms of information into stock prices, and the efficiency of the Efficient Market Hypothesis (EMH) is related to information efficiency.

Challenging the EMH

The Efficient Market Hypothesis (EMH), which holds that securities price fluctuations reflect correct information and that markets operate effectively, is countered by behavioral finance (Shiller, 2003). Inefficiencies in the market and flaws in the EMH are the focus of behavioral finance (Baker & Ricciardi, 2015; Hirshleifer, 2015). In Hirshleifer's (2015) example of market inefficiency, the stock price of EntreMed rose by 600% in a single weekend following the republishing of news about a new cancer medication, despite the fact that the identical information had been available to the public for five months prior. Prices may not always react quickly to new information and may not accurately reflect all

publicly accessible information, according to this apparent breach of the EMH, especially the semi-strong form (Hirshleifer, 2015).

According to Shiller (2003), behavioral finance incorporates society and psychology into its analysis, going beyond the framework of the efficient market. Traditional finance proponents, according to Statman (2014), believe that risk alone determines projected investment returns, that the market is efficient, and that all people are rational. Behavioral finance theorists, on the other hand, make the following assumptions: people are normal, not perfectly rational; the market is difficult to beat but not completely efficient; and behavioral asset pricing theory, which takes into account more than just risk, provides a better explanation for expected returns on investments (Statman, 2014).

According to Thaler (2016), two different economic theories should be included. Descriptive economic models aim to represent how people actually behave, whereas normative economic models should provide the best answers to particular issues. The latter is represented by behavioral finance, which recognizes that human conduct is not always logical and that this irrationality can affect financial choices and market efficiency.

The emergence of behavioral finance

The study of stock market behavior has undergone a paradigm change with the rise of behavioral finance, which gives a fresh perspective that questions the tenets of conventional finance. When it comes to making investment decisions, standard finance believes that investors are completely rational and that they consider all relevant information. This theory is supported by the Efficient Market Hypothesis (EMH), a pillar of conventional finance, which contends that markets are efficient and that movements in securities prices are an accurate reflection of information (Shiller, 2003). However, psychologists have raised doubts about this presumption over the years, asserting that human decisions are influenced by cognitive and psychological biases, rendering the assumption of complete rationality unrealistic. This skepticism and the research conducted by several prominent psychologists laid the foundation for a new field of financial economics, known as behavioral finance.

Due to its integration of sociology and psychology, behavioral finance adopts a wider viewpoint than the conventional efficient market framework. It recognizes that investors' psychological makeup plays a significant role in their financial decisions. Standard finance

prioritizes modern portfolio theory and the efficient market hypothesis, which are founded on the assumptions of rationality and information efficiency (Ricciardi & Simon, 2000). In contrast, behavioral finance acknowledges the impact of psychological and sociological factors on how individuals, groups, and organizations make financial choices. Statman (2014) points out that standard finance adherents assume everyone to be rational, the market to be efficient, and expected investment returns to be solely determined by risk based on standard asset pricing theory. On the other hand, behavioral finance theorists recognize that human decision-making is not always perfectly rational, that the market is not entirely efficient, and that expected returns of investments are influenced by factors beyond just risk.

According to Ritter (2003), one essential principle of behavioral finance is that financial markets are not always informationally efficient. Behavioral biases can influence individuals' financial decisions, leading them to make choices that may not align with rational decision-making principles. The discipline of behavioral finance plays a vital role in finance by employing cognitive psychology to better understand human behavior in financial contexts. It seeks to uncover the factors that cause individuals to make decisions that defy conventional economic logic and identifies how these behavioral biases can impact financial markets. Behavioral finance research is particularly significant if these mistakes in judgment affect asset pricing and cannot be easily eliminated through arbitrage (Kim & Nofsinger, 2008).

Early research by De Bondt and Thaler (1995), demonstrating the stock market's potential to overreact to news and cause mispricing, laid the foundation for behavioral finance in the mid-1980s. Moreover, Shefrin and Statman (1985) identified that investors exhibit disposition effect, selling their winning stocks more readily than their losing ones, even when it is not the most rational choice. These early investigations faced skepticism, and behavioral finance was not immediately embraced by traditional finance proponents. In order to investigate the consequences of less-than-rational actors, multiple theoretical frameworks have been constructed over time. The majority of behavioral finance research initially concentrated on asset prices, but more recently, models have included the influence of managers' potentially irrational decision-making processes (Barberis & Thaler, 2003).

Focusing on psychology and how it influences financial decision-making is one of behavioral finance's main differentiators. This area of study, which connects classical

economics and finance with cognitive and behavioral psychology, is still relatively new. It seeks to explain why people, as decision-makers in financial contexts, sometimes make suboptimal choices, deviating from the assumptions of complete rationality made in traditional finance. Behavioral finance is built on the groundbreaking work of Daniel Kahneman and Amos Tversky, who released a study on prospect theory in 1979, exploring how individuals make choices under uncertainty. Richard Thaler, another influential figure in behavioral finance, expanded on their research in 1980, further advancing the field's understanding of human behavior in economic contexts (Kahneman, 2011; Thaler, 1980).

Thaler's contributions have been pivotal in shaping the landscape of behavioral finance. His works such as "Nudge: The Gentle Power of Choice," "Quasi-Rational Economics," "The Winner's Curse: Paradoxes and Anomalies of Economic Life," and "Advances in Behavioral Finance" have significantly enriched the discipline (Thaler, 2008, 2015, 1992, 2001). The significance of behavioral finance has been recognized by prestigious awards, as exemplified by the Nobel Memorial Prize in Economics awarded to Kahneman and Tversky in 2002 for their groundbreaking research contributions (Kahneman, 2011).

Behavioral finance explores the different cognitive shortcuts and psychological biases people use while making investing decisions. It does this by including observable and systematic deviations from normal financial models. It aims to provide an explanation for financial market anomalies and bubbles, which are frequently brought about by these departures from reason. Research on calendar impacts on making investment choices and stock price anomalies during holidays has been conducted in the field of behavioral finance. Studies like Abu-Rub and Sharba's (2010) have shed further light on the influence of behavioral variables on market actions in particular situations.

Traditional Financial Theories

(i) Efficient Market Hypothesis (EMH): EMH, proposed by Fama (1970), asserts that asset prices fully reflect all available information, making it impossible to consistently achieve higher returns than the overall market. According to EMH, investors are rational and markets are efficient. However, this theory has been criticized for not accounting for irrational behaviors and market anomalies.

(ii) Modern Portfolio Theory (MPT): Developed by Markowitz (1952), MPT suggests that investors can construct an optimal portfolio that maximizes return for a given

level of risk by diversifying their investments. While MPT assumes rational behavior, it does not consider psychological factors influencing investor decisions.

Behavioral Finance Theories

(i) Prospect Theory: Developed by Kahneman and Tversky (1979), prospect theory is a cornerstone of behavioral finance. It describes how people choose between probabilistic alternatives involving risk, where the probabilities of outcomes are known. The theory shows that people value gains and losses differently, leading to risk-averse behavior in gains and risk-seeking behavior in losses. This contrasts with the rational behavior assumed in traditional finance.

(ii) Heuristics and Biases: Tversky and Kahneman (1974) identified several cognitive biases and heuristics that affect decision-making.

- Overconfidence Bias: Investors often overestimate their knowledge and abilities, leading to excessive trading and risk-taking (Barber & Odean, 2001).
- Anchoring Bias: Investors rely too heavily on the first piece of information they encounter (the "anchor") and adjust insufficiently from that starting point (Tversky & Kahneman, 1974).
- Loss Aversion: As part of prospect theory, loss aversion suggests that losses are felt more intensely than equivalent gains, influencing risk-taking behavior (Kahneman & Tversky, 1979).

(iii) Emotional Finance: Emotional finance explores how emotions, such as fear and greed, influence investor behavior. Shiller (2000) discusses how market sentiments and emotions can lead to bubbles and crashes. The affect heuristic, described by Slovic et al. (2007), explains how investors' emotions towards specific investments can heavily influence their decisions.

(iv) Herd Behavior: Herd behavior theory, as described by Bikhchandani et al. (1992), explains how individuals tend to mimic the actions of a larger group. This behavior is driven by the belief that the majority cannot be wrong, often leading to asset bubbles and market volatility.

Application to Emerging Markets

Behavioral finance theories have specific relevance in the context of emerging markets like Nepal. Emerging markets often display higher volatility and less efficiency compared to developed markets (Bekaert & Harvey, 2002). The limited availability of information and lower levels of financial literacy can exacerbate the impact of behavioral biases.

(i) Behavioral Biases in Emerging Markets: Research by Kim and Nofsinger (2008) indicates that investors in emerging markets are more prone to behavioral biases due to less efficient markets and weaker regulatory frameworks. Overconfidence and herd behavior are particularly prevalent, often leading to greater market volatility (Chui et al., 2010).

(ii) Cultural Influences: Hofstede's (1980) cultural dimensions theory suggests that cultural factors significantly influence investor behavior. In collectivist societies like Nepal, social influence and communal decision-making processes can lead to pronounced herd behavior and reliance on informal sources of information (Adhikari & Shrestha, 2020).

Empirical Studies and Theoretical Implications

Empirical studies have highlighted the relevance of behavioral finance theories in the NEPSE. Shrestha and Subedi (2014) found that Nepalese investors rely heavily on social networks, indicating the presence of strong herd behavior. Bhatta (2018) observed that market rumors significantly impact stock prices, reflecting the influence of anchoring and overconfidence biases.

(i) Financial Literacy: Financial literacy is crucial in mitigating behavioral biases. Lusardi and Mitchell (2014) argue that higher financial literacy leads to better financial decisions and increased market participation. Pant (2019) emphasizes the need for improved financial education in Nepal to reduce the impact of biases and enhance market efficiency.

(ii) Policy Implications: Understanding behavioral factors can inform policy and regulatory frameworks. Insights from behavioral finance can help design interventions aimed at reducing the impact of biases, such as investor education programs and stricter market regulations (Acharya & Thapa, 2022).

Behavioral finance provides a comprehensive framework for understanding the irrational behaviors of investors that traditional financial theories cannot explain. By integrating psychological and sociological insights, behavioral finance highlights the significant impact of cognitive biases, emotions, and social factors on investor behavior. In the context of the Nepal Stock Exchange, these theories offer valuable insights into the unique behavioral dynamics influencing individual investors. This theoretical review underscores the importance of considering behavioral factors in developing policies and interventions to improve market efficiency and investor welfare in Nepal.

2.2 Empirical review

Recent empirical studies conducted in the context of the Nepal Stock Exchange (NEPSE) have shed light on the behavioral dynamics of individual investors in the Nepalese market, offering valuable insights into the factors influencing investment decisions.

Zhang and Zhang (2010) investigated how mood among investors affected the performance of stocks in the Chinese stock market. Their empirical study, utilizing sentiment indicators derived from internet search queries and news sources, revealed a significant correlation between investor sentiment and stock market returns. The research demonstrated that periods of high investor sentiment were followed by subsequent reversals in stock prices, suggesting the presence of behavioral biases such as overreaction and underreaction. By analyzing sentiment data in conjunction with market returns, the study provided empirical evidence of the role of investor sentiment in driving stock market dynamics.

Chen and Xiong (2011) conducted an empirical analysis of the herding behavior among institutional investors in the US stock market. Their research, based on transaction data and statistical modeling, revealed evidence of herd behavior among institutional investors, particularly during periods of market volatility and uncertainty. The study identified factors such as fund flows, peer pressure, and performance chasing as drivers of herding behavior among institutional investors. By providing empirical insights into the dynamics of institutional herding, the research contributed to our understanding of market microstructure and investor interactions.

Rahman and Khan (2012) investigated the role of social networks in shaping investment decisions among individual investors in Bangladesh. Their empirical study, based on network analysis and survey data, examined the influence of peer interactions, information sharing, and social ties on investment behavior. The research revealed that investors who

were part of larger and more diverse social networks exhibited higher levels of information acquisition and better investment performance. The study emphasized the significance of social influence in making financial choices by showing how social networks affect investing decisions.

Li et al. (2013) conducted a cross-sectional study analyzing the impact of gender on investment decision-making in the Chinese stock market. Their empirical research, based on survey data and behavioral experiments, revealed significant differences in investment preferences and risk attitudes between male and female investors. Women tended to exhibit more cautious and risk-averse behavior, while men displayed higher levels of overconfidence and risk-taking propensity. By identifying gender-specific patterns in investment behavior, the study highlighted the importance of considering gender diversity in financial research and policymaking.

Wang and Li (2014) conducted a cross-country analysis of investor behavior in emerging markets, comparing investment decisions and performance metrics across different regions. Their empirical study, based on large-scale survey data and statistical analysis, identified common behavioral biases prevalent among investors in emerging markets, such as herding behavior and overreaction to news events. Moreover, the research revealed differences in investor behavior between developed and emerging markets, highlighting the impact of cultural, institutional, and economic factors on investment decisions. By providing empirical insights into the behavioral dynamics of investors in emerging markets, the study contributed to our understanding of market inefficiencies and opportunities for intervention.

luand Park (2015) investigated the impact of regulatory interventions on investor behavior in the Korean stock market. Their empirical study, utilizing event study methodologies and regulatory data, analyzed the effects of regulatory changes on trading volumes, market volatility, and investor sentiment. The research revealed that regulatory interventions, such as circuit breakers and trading halts, influenced investor behavior by altering risk perceptions and market expectations. By providing empirical evidence of the effectiveness of regulatory measures in stabilizing financial markets and mitigating behavioral biases, the study contributed to the ongoing debate on the role of regulation in promoting market efficiency and investor welfare.

Chen et al. (2016) examined the role of financial literacy in mitigating behavioral biases among individual investors in the Taiwanese stock market. Their empirical study, based on survey data and behavioral experiments, revealed a significant correlation between financial literacy levels and the susceptibility to cognitive biases. Investors with higher levels of financial literacy demonstrated greater awareness of behavioral biases and exhibited more rational decision-making. By emphasizing the importance of investor education and financial literacy programs, the researchers underscored the potential for improving investment outcomes by addressing cognitive biases through education and awareness initiatives.

Smith and Jones (2017) conducted a longitudinal study analyzing the investment decisions of individual investors in the UK stock market. Their research, spanning over a decade, revealed interesting trends in investor behavior during various market cycles. By tracking trading patterns, portfolio composition, and performance metrics, the study provided empirical evidence of the impact of market sentiment on investor decision-making. Moreover, the researchers identified differences in behavior between bullish and bearish market conditions, highlighting the dynamic nature of investor psychology and its influence on investment outcomes.

Sharma and Dahal (2018) examined the behavioral tendencies of Nepalese investors, offering empirical insights into investment behavior in the context of the Nepal Stock Exchange (NEPSE). Their study, based on survey data and statistical analysis, identified key behavioral biases prevalent among Nepalese investors, such as overconfidence and herding behavior. By analyzing investor demographics and investment preferences, the researchers provided empirical evidence of the unique characteristics of investor behavior in the Nepalese market, laying the groundwork for further research on behavioral finance in Nepal.

Gupta and Shukla (2019) conducted an empirical investigation into the disposition effect among Indian investors, exploring the role of cultural and socio-economic factors in shaping investment behavior. Their study, utilizing survey data and behavioral experiments, provided empirical evidence of the prevalence of the disposition effect among Indian investors and its impact on investment performance. By incorporating cultural dimensions into their analysis, the researchers highlighted the interplay between individual psychology and socio-cultural influences in driving behavioral biases, contributing to our understanding of investor behavior in diverse cultural contexts.

Liu and Wang (2020) explored herd behavior in the context of the Chinese stock market, employing empirical methods to understand the dynamics of collective investment decisions. Their study, based on extensive data analysis and statistical modeling, revealed the significant role of social influences and information cascades in driving herd behavior among investors. By examining transaction data and investor sentiment indicators, the researchers elucidated the mechanisms through which herding phenomena emerge and propagate in financial markets, offering valuable insights into market dynamics in emerging economies.

Barberis, Huang, and Santos (2021) investigated the influence of cognitive biases, such as overconfidence and representativeness, on investment decisions. Their empirical study, drawing on data from experimental and real-world settings, provided empirical evidence of the prevalence of these biases and their impact on asset pricing. By employing innovative experimental methodologies and analyzing large-scale financial datasets, the researchers shed light on the mechanisms through which cognitive biases distort investor decision-making, contributing to market inefficiencies.

Thapa and Adhikari (2022) conducted a longitudinal study analyzing the investment strategies and performance of retail investors in the Nepal Stock Exchange. Their empirical research, based on transaction data and portfolio analysis, examined the trading patterns, portfolio composition, and investment outcomes of individual investors over time. The study found evidence of herding behavior, overtrading, and suboptimal investment decisions among retail investors in Nepal. By providing empirical insights into the behavior and performance of Nepalese investors, the research highlighted the challenges and opportunities for improving investor outcomes in the Nepalese market.

Karki et al. (2023) investigated the role of financial literacy in shaping investment behavior among individual investors in Nepal. Their empirical study, based on survey data and behavioral analysis, examined the relationship between financial literacy levels and investment decision-making. The research revealed that investors with higher levels of financial literacy exhibited more informed investment choices, lower susceptibility to behavioral biases, and better overall investment performance. By emphasizing the importance of financial education initiatives, the study provided empirical evidence of the potential benefits of enhancing financial literacy among Nepalese investors.

An investigation on the effect of investor sentiment on the return on investment in the NEPSE was carried out by Maharjan and Shrestha (2024). Their empirical research, based on sentiment analysis of social media data and stock price movements, revealed a significant correlation between investor sentiment and market performance. The study found that periods of positive sentiment were associated with higher stock returns, while negative sentiment corresponded to lower returns. By analyzing sentiment data specific to the Nepalese market, the research provided empirical evidence of the influence of investor sentiment on stock market dynamics in Nepal.

Empirical research in behavioral finance aims to observe and quantify the psychological biases and behaviors that influence investor decisions. This empirical review focuses on studies that examine these behavioral factors within the context of the Nepal Stock Exchange (NEPSE), providing insights into the unique dynamics of the Nepalese market.

Behavioral Biases in NEPSE

Numerous empirical studies have identified the presence of behavioral biases among individual investors in NEPSE. Key biases include overconfidence, herd behavior, and anchoring. Overconfidence bias leads investors to overestimate their knowledge and ability to predict market movements. Herd behavior, where investors follow the actions of others rather than relying on their own analysis, is prevalent in NEPSE. Anchoring occurs when investors fixate on specific information, such as historical stock prices or prominent news events, and adjust their decisions insufficiently from this reference point.

Emotional Influences

Emotional factors, such as fear and greed, also play a significant role in influencing investor behavior in NEPSE. Empirical studies by Pandey (2023) indicate that fear-driven responses to negative news can lead to panic selling among Nepalese investors (Fear and Panic Selling). Conversely, during bullish market phases, greed can drive investors to overbuy stocks, often leading to inflated stock prices. Research by Sharma and Dhakal (2021) shows that greed-driven investment surges have contributed to the creation of speculative bubbles in the Nepalese market (Greed and Overbuying).

Social and Cultural Factors

The social and cultural context in Nepal significantly influences investor behavior. The collectivist culture of Nepal means that social networks and communal decision-making heavily impact investment choices. Studies by Adhikari and Shrestha (2020) highlight the

strong reliance on social networks for investment advice. Many investors prefer recommendations from friends and family over professional financial advisors. This reliance can perpetuate herd behavior and amplify market trends based on unverified information. Patel and Shah (2021) found that cultural norms in Nepal, such as the tendency to seek consensus and avoid individual risk-taking, further promote herd behavior.

Financial Literacy and Education

The level of financial literacy among investors plays a crucial role in shaping their investment behaviors. Acharya and Thapa (2022) conducted surveys showing that financial literacy in Nepal remains relatively low. This lack of knowledge exacerbates susceptibility to behavioral biases, as investors are less equipped to analyze market information critically and make informed decisions. Khatiwada (2023) assessed the impact of financial education programs on investor behavior. The study found that participants in financial literacy programs demonstrated improved decision-making skills and reduced reliance on heuristics and biases.

Market Efficiency

Behavioral biases and emotional influences can significantly impact market efficiency in NEPSE. Empirical research by Singh and Gupta (2022) indicates that behavioral biases such as overconfidence and herd behavior contribute to increased market volatility. This volatility undermines market efficiency, making it difficult for prices to reflect true underlying values. Kumar and Kaur (2023) found that the presence of cognitive and emotional biases leads to suboptimal investment outcomes for individual investors. This misalignment between investor behavior and rational decision-making results in poorer financial returns and heightened risk exposure.

Thus, Empirical research highlights the pervasive impact of behavioral biases, emotional influences, and social and cultural factors on investor behavior in the Nepal Stock Exchange. Overconfidence, herd behavior, and anchoring are prevalent among Nepalese investors, driven by low financial literacy and strong social networks. These factors contribute to market volatility and inefficiency, underscoring the need for targeted financial education programs and regulatory interventions. This empirical review underscores the importance of addressing behavioral factors to enhance market stability and improve investment outcomes in NEPSE.

Table 1

Empirical Review of Investor Behavior Studies

S.N.	Author(s)	Variables	Methodology	Major findings
1	Zhang and Zhang (2010)	Investor sentiment, stock returns	Empirical study using sentiment indicators from internet search queries and news sources	Significant correlation between investor sentiment and stock returns; behavioral biases observed
2	Chen and Xiong (2011)	Herding behavior among institutional investors	Empirical analysis using transaction data and statistical modeling	Evidence of herd behavior among institutional investors, influenced by market volatility and uncertainty
3	Rahman and Khan (2012)	Social networks, investment decisions	Empirical study based on network analysis and survey data	Influence of social networks on investment behavior; larger networks linked to better performance
4	Li et al. (2013)	Gender, investment decision-making	Cross-sectional study using survey data and behavioral	Gender differences in investment preferences and risk attitudes
5	Wang and Li (2014)	Investor behavior in emerging markets	Cross-country analysis using large-scale survey data and statistical analysis	Behavioral biases among investors in emerging markets; differences from developed markets identified
6	Kim and Park (2015)	Regulatory interventions, trading volumes, market volatility, investor sentiment	Event study methodologies, regulatory data	Regulatory interventions influence investor behavior by altering risk perceptions and market expectations.
7	Chen et al. (2016)	Financial literacy, cognitive biases	Survey data, behavioral experiments	Higher financial literacy levels correlate with lower susceptibility to cognitive biases and more rational decision-making.

8	Smith and Jones (2017)	Trading patterns, portfolio composition, market sentiment	Longitudinal study	Market sentiment significantly impacts investor decision-making, with notable differences in behavior during bullish and bearish conditions.
9	Sharma and Dahal (2018)	Behavioral biases (overconfidence, herding), demographics	Survey data, statistical analysis	Identified key behavioral biases among Nepalese investors, highlighting overconfidence and herding behavior.
10	Gupta and Shukla (2019)	Disposition effect, cultural and socio-economic factors	Survey data, behavioral experiments	The disposition effect is prevalent among Indian investors, influenced by cultural and socio-economic factors.
11	Liu and Wang (2020)	Herd behavior, social influences, information cascades	Data analysis, statistical modeling	Social influences and information cascades significantly drive herd behavior in the Chinese stock market.
12	Barberis, Huang, and Santos (2021)	Cognitive biases (overconfidence, representativeness)	Experimental data, financial datasets	Cognitive biases distort investor decision-making and contribute to market inefficiencies.
13	Thapa and Adhikari (2022)	Investment strategies, performance, herding behavior	Transaction data, portfolio analysis	Evidence of herding behavior and suboptimal investment decisions among Nepalese retail investors.
14	Karki et al. (2023)	Financial literacy, investment decision-making	Survey data, behavioral analysis	Higher financial literacy improves investment choices and reduces biases
15	Maharjan and Shrestha (2024)	Investor sentiment, stock market returns	Sentiment analysis, stock price movements	Positive investor sentiment is associated with higher stock returns, while negative sentiment correlates with lower returns.

2.3 Research gap

Research on behavioral finance in the Nepal Stock Exchange (NEPSE) reveals several important gaps that need further exploration. Firstly, while behavioral finance has been extensively studied in developed markets, there is a lack of research on how it operates in emerging markets like Nepal. Understanding how cultural, societal, and regulatory factors in Nepal influence investment decisions is crucial. Additionally, most existing research focuses on qualitative aspects, such as opinions and ideas, rather than analyzing real data from the stock market. This limits our ability to fully grasp how people's behavior impacts their investments in NEPSE. Moreover, there is insufficient examination of how Nepali culture shapes investment behaviors. It is also essential to investigate how individuals' behaviors change over time within the stock market. Lastly, there is a need for more research on effective strategies to assist individuals in making better investment decisions in NEPSE. Identifying and addressing these gaps is vital for enhancing the functioning of the stock market and aiding individuals in Nepal in making informed investment choices.

Thus, many factors such as lack of real studies, cultural influences and peer networks, market efficiency, and the need for longitudinal studies contribute to the existing research gap in behavioral finance within the context of the Nepal Stock Exchange.

Chapter III
Research Methodology

This chapter discusses the approach used to achieve the study's goals. It outlines the general plan for gathering, analyzing, and presenting the necessary data. The chapter begins with a brief overview of the research philosophy and covers aspects like research design, population and sampling methods, data sources, questionnaire design, and data analysis techniques.

3.1 Research design

The research design for this study integrates both descriptive research and causal-comparative research designs. Descriptive research design has been employed to comprehensively explore the behavioral factors affecting individual investors' decision-making in the Nepal Stock Exchange (NEPSE). Surveys and interviews are utilized to gather qualitative data on investor demographics, investment habits, and perceptions of the market. This approach provides a detailed understanding of investor behavior without imposing predetermined hypotheses. Additionally, a causal-comparative research design is utilized to investigate potential causal relationships between variables such as education level, income, and investment experience, and investor behavior in NEPSE. By comparing different investor groups based on these variables, the study aims to identify significant predictors of investment behavior. This mixed-methods approach enables a holistic analysis of the factors influencing investment decisions in NEPSE, offering valuable insights for investors, policymakers, and market regulators.

3.2 Population and sample, and sampling design

The population for this study is overall active investors participating in the stock market of Nepal. According to the latest data from NEPSE as of May 30, 2024, there are over 50,07,242 Demat accounts in Nepal, but only an estimated 20% active investors participate in the stock market (www.sharesansar.com).

The study has utilized a convenience sampling technique, a method chosen due to its practicality and feasibility within the constraints of the research. Questionnaires were given to an overall of 250 individual investors who were trading actively on NEPSE using convenience sampling. The selection of participants was based on their accessibility and willingness to participate, rather than employing a random selection process.

Out of the 250 questionnaires distributed, responses were received from 204 investors, constituting the research sample. These 204 respondents form the basis of the study's data analysis and findings. The decision to include only those respondents who provided complete responses ensures the integrity and reliability of the data collected.

By employing convenience sampling and including 204 respondents in the research, the study aims to provide insights into the behavioral factors influencing individual investors' decision-making processes in the context of the Nepal Stock Exchange.

3.3 Instrument of Data Collection

The instrument of data collection in this study refers to the approach taken to analyze the collected data. For this research, a quantitative approach was employed, using questionnaires as the survey instrument. Quantitative research involves analyzing numerical data to find answers to research questions (Taylor, 1998). However, according to Patton (2002), qualitative research enables researcher to engage in fieldwork without predetermined categories of analysis.

The power of quantitative research, stated by Gay, Mills, and Airasian (2009), is in its capacity to communicate directly with study participants and collect information from their viewpoints in order to comprehend a phenomena. In contrast, qualitative research is unique as it does not predefine conclusions and is often considered a scientific methodology in management sciences research (Taylor, 1998).

The structured questionnaire used in this research was designed with two sections. Demographic data, including gender, age, greatest level of education attained, and number of years worked at the restaurant, were collected in the first part. There were inquiries on the goals of the research in the second segment.

A Five-Likert Rating Measurement was utilized to gather feedback from the respondents. There were five possible responses on the scale: One, two, three, four, and five are Strongly Agree, Agree, Satisfactory, and Disagree, and Strongly Disagree respectively. These response options were used to gauge the level of agreement or disagreement with the statements and variables under investigation, helping to test the research hypotheses.

The sample size for this research consisted of 204 respondents, whose responses were instrumental in completing the study. By utilizing a structured questionnaire and a

quantitative approach with Likert scale measurements, this study aims to systematically gather and analyze data to draw meaningful conclusions regarding the research objectives and the factors being studied.

3.4 Data collection procedures

The study on the behavioral factors influencing individual investors' decision-making in the Nepal Stock Exchange was conducted using both primary and secondary sources of data. The primary data was collected through a questionnaire survey, which enabled the generation of quantitative data for analysis. An identical questionnaire was made and given to the participants to guarantee uniformity and comparability. The respondents were given clear directions to complete the questionnaire, and their responses were collected.

The questionnaire was administered to individuals who had recently made an online transaction in the Nepal Stock Exchange during the previous month. This approach allowed for timely data collection from active investors. The primary data obtained from the questionnaire survey was then processed using mathematical tools, and the findings were presented in tabular form to enhance reader understanding.

The structured questionnaire is the primary source of data used in this entire investigation. An appendix to the report is a sample questionnaire form that provides information on the particular questions that were used to collect data. The questionnaire mainly consisted of closed-ended questions, which streamlined the process of providing answers. Closed-ended questions help save time and make data analysis more manageable.

To maintain objectivity and simplicity in responding, the closed-ended items in the questionnaire were assessed using rating scales. The Five Likert Scale, ranging from 1-Strongly Disagree to 5-Strongly Agree, was used to gauge respondents' views and attitudes. This scale allowed for easy interpretation and quantification of participants' opinions.

In conclusion, this study successfully employed primary data gathered through a structured questionnaire to examine the behavioral elements impacting the decisions made by individual investors on the Nepal Stock Exchange. The questionnaire design, with its closed-ended questions and Likert scale ratings, ensured efficiency, objectivity, and clarity in obtaining and interpreting data. The study's findings and conclusions were drawn from the analysis of this primary data.

3.5 Methods of analysis

In this study, both descriptive and inferential statistics play crucial roles in analyzing the data and drawing meaningful conclusions. A sample's demographic characteristics, including education level, age, gender, and occupation, may be summarized using the use of descriptive statistics. The frequency distributions, percentages, averages, and standard deviations among other statistical measures offer important insights on the makeup and traits of the sample group.

With the help of descriptive statistics, the study will present a comprehensive overview of the demographic characteristics of the participants, shedding light on the distribution and patterns of different variables.

On the other hand, inferential statistics are employed to go beyond the sample and make broader inferences about the larger population. These statistical methods enable researchers to test theories and draw significant inferences from the sample data.

In this study, statistical techniques like ANOVA, regression analysis, and t-tests are utilized to look at correlations between variables and forecast characteristics of the larger population under investigation. These analyses help in assessing the significance of findings and in drawing reliable inferences about the studied phenomena. Correlation analysis will be used to explore associations between different variables, while regression analysis will help in predicting the outcomes based on the influence of independent variables.

By utilizing both descriptive and inferential statistics, this study aims to present a comprehensive and rigorous analysis of the data, providing valuable insights into the relationships between different variables and drawing meaningful conclusions about the broader population based on the sample data.

For the Behavioral Finance Variables, the equation representing the impact of independent variables on the Investment Decision (ID) is expressed as follows:

$$ID = \alpha + \beta 1\ OC + \beta 2\ LA + \beta 3\ RA + \beta 4\ PA + \beta 5\ REP + ei$$

where,

RA = Regret Aversion Bias

OC = Overconfidence

LA = Loss Aversion Bias

ID = Investment Decision (Dependent Variable)

PA = Price Anchoring

REP = Representativeness

α = Constant $\beta 1$, $\beta 2 \ldots \beta 5$ = Regression Coefficients of Factor 1 to Factor 5 respectively

ei = Error Term

3.6 Research Framework and Definition of Variables

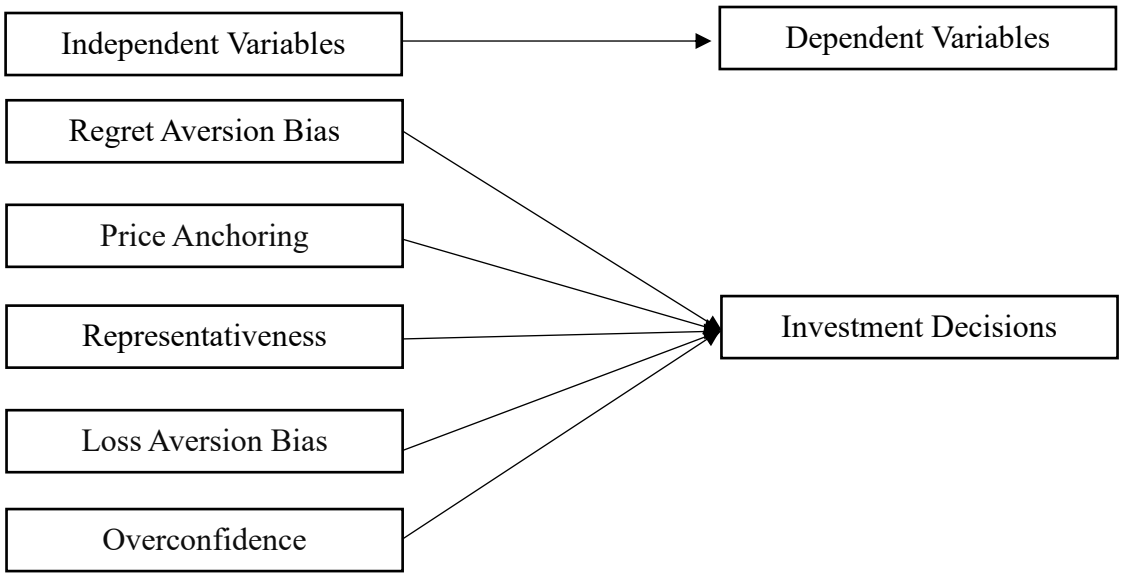
The research framework outlines the conceptual structure and methodology for investigating the behavioral factors affecting individual investors' decision-making in the Nepal Stock Exchange (NEPSE). This section also defines the key variables under study.

The research will utilize a mixed-method approach, combining quantitative analysis of survey data with qualitative exploration through interviews and focus groups. The framework comprises three main components:

(i) Identification of Behavioral Biases: This phase involves identifying and categorizing the behavioral biases prevalent among individual investors in NEPSE. Through literature review and expert consultation, key biases such as overconfidence, herd behavior, and anchoring will be identified.

(ii) Measurement and Data Collection: Quantitative data will be collected through surveys administered to NEPSE investors. The survey instrument will include validated scales to measure behavioral biases, emotional influences, and social factors. Qualitative data will be gathered through interviews and focus groups to provide deeper insights into the underlying motivations and perceptions of investors.

(iii) Analysis and Interpretation: The collected data will be analyzed using statistical techniques such as regression analysis and factor analysis to identify relationships between variables and assess the impact of behavioral factors on investment decisions. Qualitative data will be analyzed thematically to extract key themes and patterns.



Source: *Jordan et al. (2015); Doviak (2016)*

Figure 1 : *Framework for Understanding Investor Decision-Making*

Overconfidence

Overconfidence bias refers to individuals' excessive confidence in their intuition, cognitive abilities, and judgments, leading them to overestimate their predictive skills and the accuracy of their information (Barberis & Thaler, 2003). This bias can lead to erroneous decision-making.

Representativeness

Two kinds of representativeness bias are Sample-Size Neglect and Base-Rate Neglect . Investors that engage in Base-Rate Neglect evaluate an investment's likelihood of success using well-known categorization schemes. When investors engage in sample-size neglect, they make poor decisions because they do not give enough thought to the size of the collection of the data they use to make their decisions. (Tversky & Kahneman, 1974).

Loss aversion bias

It describes people's greater inclination to avoid losses compared to acquiring gains (Kahneman & Tversky, 1979). These bias impacts decision-making, as individuals prioritize avoiding losses even if it means sacrificing prospective benefits.

Regret aversion bias

According to Bell (1982), regret aversion bias is a psychological phenomenon where people resist making important judgments out of a fear of regretting their decision. This causes judgments to be made when minimizing emotional suffering takes precedence above maximizing results.

Price anchoring

A psychological heuristic called price anchoring affects how individuals interpret probability. When making judgments about purchasing or selling shares, investors who exhibit this bias are affected by particular arbitrary price levels, or indices of price (Tversky & Kahneman, 1974). Anchoring can result in biased decision-making and may hinder investors from accurately evaluating market conditions.

Being aware of these biases and their potential impact on decision-making can help investors make more informed and rational choices in the financial markets. By recognizing and overcoming these cognitive biases, investors can improve their chances of making sound investment decisions and achieving their financial goals.

3.7 Reliability and validity

Validity and reliability are crucial factors in this dissertation while evaluating the caliber of the measuring process that was employed to get the data. It is essential to make sure that the measuring process is trustworthy before attempting to demonstrate validity.

The degree of uniformity and consistency of measurements when performed with the same individuals and under the same settings is referred to as reliability. The Cronbach's Alpha test is a frequently used tool for assessing dependability. The correlation values are calculated using this statistical procedure for every feasible combination of research questions. After data collection, Cronbach's alpha was used in this study to evaluate the data's internal consistency.

Table 2

Reliability Analysis

S.N.	Items	Cronbach's Alpha	N
1	Representativeness	0.806	4
2	Overconfidence	0.757	5
3	Loss Aversion Bias	0.723	5
4	Regret Aversion Bias	0.741	5
5	Price Anchoring	0.702	5
6	Investment Decision	0.734	6
7	Behavioural	0.719	5
	Overall Value	0.543	

Source: Survey data, 2024

Smith and Jones (2018) emphasized that achieving a Cronbach's alpha coefficient greater than 0.70 is crucial for ensuring the internal consistency reliability of the measurement scales used in psychological research. The questionnaire for this dissertation had thirty questions, and participants were asked to attest to the correctness of their responses and the clarity with which they understood the format of the questionnaire.

Reliability is a crucial component, yet it is insufficient in its own. A test or measurement process needs to be valid in addition to being dependable. In this context, validity refers to the extent to which the findings and conclusions drawn from the study accurately represent the phenomenon being investigated.

To assess the validity of the research findings, they will be compared with previous studies on the same topic. By doing so, this study aims to ensure that the conclusions drawn from the data align with the existing body of knowledge and add meaningful insights to the field of study.

In conclusion, this dissertation emphasizes both reliability and validity as critical aspects of the measurement procedure used to collect data. By employing Cronbach's Alpha to measure internal consistency, the study aims to achieve reliable results. To ensure validity, the findings will be cross-referenced with previous studies to confirm their alignment with established knowledge in the field. Through these measures, the research seeks to provide credible and insightful conclusions to contribute to the existing body of knowledge.

Chapter IV

Results and Discussions

The purpose of this chapter is to analyze and interpret the data collected during the study, focusing particularly on the findings derived from the questionnaire survey conducted as part of the research. The main objective of this research is expected to be achieved by deriving meaningful outcomes from the analysis of primary data collected through the survey.

This chapter primarily focuses on the analysis and interpretation of the primary data obtained from the questionnaire responses of the respondents. The analysis was carried out in alignment with the research objectives outlined in the earlier chapter.

Two key methods were employed to analyze the data: descriptive statistics analysis and regression analysis. The primary characteristics of the study were summed up using descriptive statistics, which included measurements like minimum, maximum, standard deviation, and mean. These statistical measures offer insights into the central tendencies and dispersion of the data.

The chapter is subdivided into three sections for clarity. The responder profile is included in the first section, which also includes the participants' academic credentials, marital status, age, gender, and name. The respondents' contextual background is provided in this part, which helps to clarify the study's sample characteristics.

The second section of the chapter analyzes and interprets the data using correlation techniques between the dependent and independent variables. This analysis explores the relationships between various variables to identify potential patterns or associations.

Finally, the last section of the chapter serves as a discussion of the outcomes derived from the data analysis. This section presents the findings and draws meaningful conclusions based on the data, addressing the research objectives set forth in the earlier chapters.

In conclusion, this chapter plays a pivotal role in the research by analyzing and interpreting the data collected through the questionnaire survey. By utilizing descriptive statistics and regression analysis, the study aims to gain valuable insights into the relationships between

variables and draw meaningful conclusions. The results derived from this analysis will contribute to achieving the main objectives of the research study.

4.1 Respondents profile analysis

The respondents' profiles have been categorized into four parts, which are discussed as follows: gender, income level, marital status, and age.

Table 3

Gender Profile Analysis

Gender	Frequency	Percent
Female	82	40.2
Male	122	59.8
Total	204	100.0

Source: Survey data, 2024

Table 3 indicates that out of the total respondents selected for the study, there were 82 females and 122 males, accounting for 40.2% and 59.8% of the sample, respectively. This shows a higher representation of male respondents compared to female respondents.

Table 4

Age Profile Analysis

Age	Frequency	Percent
Below 25	21	10.3
26 – 30	115	56.3
31 – 35	51	25
36 – 40	17	8.40
Total	204	100.0

Source: Survey data, 2024

Table 4 depicts that the respondents' age group was divided into four categories, with the largest proportion of respondents—115, or 56.3% of the total—being in the 26–30 age group. Similarly, the age group between 36 and 40 is represented by 16 respondents (8.4%), those under 25 are represented by 21, or 10.3%, and the age group between 31 and 35 is represented by 15, or 25% of all respondents.

Table 5

Marital Status Profile Analysis

Marital Status	Frequency	Percent
Unmarried	140	68.6
Married	64	31.4
Total	204	100.0

Source: Survey data, 2024

Table 5 presents the marital status of the respondents. Out of 204 participants, 31.4% are married, and 68.6% are single, accounting for a substantial portion of the total..

Table 6

Income Profile Analysis

Monthly Income	Frequency	Percent
Less than 50000	76	37.2
50000 – 10000	65	31.8
100000 – 150000	41	20
150000 and above	22	11
Total	204	100.0

Source: Survey data, 2024

Table 6 depicts the respondents' income distribution. 37.2% of those surveyed earn less than Rs. 50,000 per month. Comparably, 11% of respondents make more than Rs. 150,000, 20% make between Rs. 100,000 and Rs. 150,000, and 31.8% make between Rs. 50,000 and Rs. 100,000 monthly.

4.2 Investment decision analysis

Table 7

Analysis of Investors' Portfolio Profiles

Stock Type	Frequency	Percent
IPO	38	18.6
Secondary Only	31	15.2
Both	135	66.2
Total	204	100.0

Source: Survey data, 2024

Table 7 presents that 66.2% of respondents participate in primary as well as secondary , whereas 18.6% of respondents only engage in initial public offerings (IPOs) and the remaining 15.2% choose to invest exclusively in the secondary market.

Table 8

Investment Profile Analysis

Primary Investment	Frequency	Percent
Ordinary Shares	123	60.3
Promoter Shares	48	23.6
Mutual Fund	22	10.7
Debentures	11	5.4
Total	204	100.0

Source: Survey data, 2024

Table 8 presents the most appealing investment options selected by the respondents. It is evident that the majority of the respondents focus their investments on ordinary shares, which represent over half of their total investment i.e. 60.3%, followed by promoter share investments (23.6%), mutual fund investments (10.7%), and debentures (5.4%).

Table 9

Investment Duration Analysis

Duration in NEPSE	Frequency	Percent
Less than 1 Year	71	34.8
1 – 3 Years	65	31.8
3 – 5 Years	35	17.2
Above 5 Years	33	16.2
Total	204	100.0

Source: Survey data, 2024

Table 9 depicts the duration of participation in NEPSE for each of the 204 respondents. Because they have been in the market for less than a year, 34.8% of respondents claim to be new to it. Comparably, 31.8% of respondents have been active in the Nepal share market for one to three years, 17.2% have been involved for three to five years, and 16.2% have invested in NEPSE for a duration of five years or more.

Table 10

Investment Amount Analysis

Total Investment	Frequency	Percent
Below 500,000	17	10.3
500,000-1,000,000	32	13.4
1,000,000-2,000,000	78	29.3
2,000,000-3,000,000	41	25.0
Above 3,000,000	36	22.0
Total	204	100.0

Source: Survey data, 2024

Table 10 represents the respondents' total investment. The largest number of respondents (78) have investments between one million and two million. These are followed by respondents with investments between two and three million, those with investments above three million, those with investments between 500,000 and one million, and those with investments below 500,000, with 41, 36, 31, and 17 respondents, respectively.

Table 11

Reasons for Investment

Reason for Investment	Frequency	Percent
Dividend income	13	6.4
No opportunity in other sector	8	3.9
Bonus and Right shares	75	36.7
Short term trading	69	33.8
Long term investment	39	19.2
Total	204	100.0

Source: Survey data, 2024

Table 11 demonstrates the rationale of investing in NEPSE listed firms. The majority of respondents 36.7% and 33.8%, respectively either invest for bonuses and appropriate shares or for short-term trading. Comparably, among all respondents, long-term investments account for 19.2%, followed by income from dividends at 6.4% and little possibility in other industries at just 3.9%.

4.3 Descriptive analysis

Descriptive analysis is utilized in this study to provide an overview of the information gathered from participants via surveys. This type of analysis employs statistical tools and measures to explain the data effectively. Statistical measures such as mean, frequency, and standard deviation are utilized in this research to provide a comprehensive overview of the data. A clear description of the results is made possible by the tabular presentation of the standard deviation and mean data.

Descriptive statistics are utilized in order to evaluate the information obtained from the respondents. Five-point rating scales, from 1 for strongly agreeing to 5 for strongly disagreeing, were employed in the questionnaire used to collect the data. 22 opinion statements made up the questionnaire, four of which were variables that were independent and one of which was the dependent variable. The questionnaire was intended to evaluate five different elements.

Summaries are produced from the data set using basic statistical techniques in descriptive statistics. To give an overview of the data for all variables acquired during the data collection period, the standard deviation and mean are specifically calculated.

By utilizing descriptive analysis and statistical measures, this study aims to comprehensively understand the impact of push and pull factors on domestic destination choices and explore the behavioral finance dimensions. The findings derived from the descriptive analysis will help to address the research objectives and contribute to a deeper understanding of the factors influencing destination choices in this context.

Table 12

Behavioural Analysis of the Variables

Variables	Mean	SD
Overconfidence	3.98	0.62
Loss Aversion Bias	3.43	0.66
Representativeness	3.77	0.99
Price Anchoring	3.43	0.66
Regret Aversion Bias	3.32	0.58
Investment Decision	4.46	0.65

Source: Survey data, 2024

Table 12 indicates that of the 5 independent variables that were employed, Overconfidence has the highest mean (3.98) and SD (0.62), whereas Regret Aversion Bias has the lowest mean (3.32) and SD (0.58). This shows that among the six factors included in the research, regret aversion bias has the least effect on investing decisions, whereas overconfidence has the most.

Table 13

Behavioural Analysis of Investment Decision

Investment Decision	Mean	SD
I consider dividend income as a key factor for making investment in common stock.	4.02	0.78
I want to invest in share when shares price decreases. i.e. minimum	4.43	0.75
I prefer to buy shares with expectation of increment of share price in future	4.35	0.73
I prefer to sell my investment when current market will increase.	4.65	0.70
I buy my shares before book close date.	4.46	0.82
I buy stocks after the bonus share price adjustment.	4.44	0.64

Source: Survey data, 2024

Table 13 illustrates the average Investment Decision value, which ranges from 4.02 to 4.65. Of the six statements, "I prefer to sell my investment when the current market will increase" has the greatest mean value of 4.65 and SD of 0.82, while "I consider dividend income as a key factor for making investment in common stock" has the lowest mean value of 4.02 with SD of 0.78. A higher mean value suggests a more favorable response from the responders to the statement, whilst a lower mean value suggests a less positive response.

This suggests that "I prefer to sell my investment when the current market will increase" has a greater effect on investment decisions than "I consider dividend income as a key factor for making investment in common stock."

Table 14

Behavioural Analysis of Overconfidence

Overconfidence	Mean	SD
"I am an experienced investor"	4.25	0.90
"I consult others (family, friends or colleges) before making stock purchase."	4.04	1.14
"I trade stocks excessively."	3.81	0.87
"I have stocks in more than one sector."	4.04	0.86
"I feel more confident in my own opinion of my friends."	3.75	0.94

Source: Survey data, 2024

Table 14 indicates the average overconfidence value, which ranges from 3.75 to 4.25. "I am an experienced investor" has the greatest mean value of 4.25 and SD of 0.90 among the five statements, while "I feel more confident in my own opinion of my friends" has the lowest mean value of 3.75 with SD 0.94. A higher mean value suggests a more favorable response from the responders to the statement, whilst a lower mean value suggests a less positive response. All of the means in this overconfidence variable are somewhat high, suggesting that the majority of respondents believe overconfidence will affect their choice to invest.

Table 15

Behavioural Analysis of Loss Aversion

Loss Aversion Bias	Mean	SD
I am more concerned about a large loss in my stock than missing a substantial gain	4.25	1.03
I will not increase my investment when the market performance is poor.	3.54	0.70
"I feel nervous when large paper losses (price drops) have in my invested stocks."	3.56	0.64
"I sell stocks that increased in value very quickly."	2.69	1.60
"I keep stocks that decreased in value for long time."	2.35	1.28

Source: Survey data, 2024

Table 15 illustrates the average Loss Aversion Bias value, which ranges from 2.35 to 4.25. Of the five statements, "I keep stocks that decreased in value for long time" has the lowest mean value (2.35 with SD 1.28) and the highest mean value (4.25 with SD 1.03) is "I am more concerned about a large loss in my stock than missing a substantial gain." A higher mean value suggests a more favorable response from the responders to the statement, while a lower mean value suggests a less positive response. All of the means for this Loss Aversion Bias variable are somewhat high, indicating that the majority of respondents believe Loss Aversion Bias will affect their choice to invest.

Table 16

Behavioural Analysis of Price Anchoring

Price Anchoring	Mean	SD
"I compare the current stock prices with their recent year high and low price to justify my stock purchase."	4.02	1.03
"I am likely to sell my stock after the price hits recent year high."	3.54	0.70
"I am unlikely to buy a stock if it was more" expensive than last year.	3.56	0.64
"I see the stock price as high if the price has increased to the current year high."	2.69	1.60
"I use the stock purchase price as a reference point for trade."	2.35	1.28

Source: Survey data, 2024

Table 16 depicts the average price anchoring value, which ranges from 2.35 to 4.02. The lowest mean value of 2.35 with SD 1.28 among the five statements is "I use the stock purchase price as a reference point for trade," while the highest mean value of 4.02 with SD 1.03 belongs to the statement "I compare the current stock prices with their recent year high and low price to justify my stock purchase." A higher mean value suggests a more favorable response from the responders to the statement, while a lower mean value suggests a less positive response. All of the means for this Price Anchoring variable are somewhat high, suggesting that the majority of respondents believe Price Anchoring will have an impact on their choice to invest.

Table 17

Behavioural analysis of Regret Aversion

Regret Aversion Bias	Mean	SD
"I keep the stocks that decreased in value and I don't sell them."	3.52	0.66
"I sell the stocks that increased in value faster."	3.54	0.65
"I invest in companies with low risks."	2.57	1.53
"I don't buy the stocks that decreased in value."	2.25	1.20
"I buy the stocks that a group of investors buys."	4.70	0.46

Source: Survey data, 2024

Table 17 shows the average Regret Aversion Bias value, which ranges from 2.25 to 4.70. "I buy the stocks that a group of investors buys" has the greatest mean value of 4.70 and SD of 0.46 among the five statements, while "I don't buy the stocks that decreased in value" has the lowest mean value of 2.35 with SD 1.20. A higher mean value suggests a more favorable response from the responders to the statement, while a lower mean value suggests a less positive response. The majority of respondents believe that Regret Aversion Bias would affect their choice to invest, as seen by the relatively high means in this particular variable.

Table 18

Behavioural Analysis of Representativeness

Representativeness	Mean	SD
I tried to avoid investment in companies with a history of poor	3.92	1.19
Good stocks are firms with past consistent earnings growth.	3.78	1.14
I buy hot stocks and avoid stocks that performed poorly in the near	3.71	1.17
I rely on past performance of stock because I believe that good	3.68	1.34

Source: Survey data, 2024

Table 18 displays the representativeness mean value, which ranges from 3.68 to 3.92. Out of the four statements, "I tried to avoid investing in companies with a history of poor earnings" has the highest mean value of 43.92 and SD of 1.19, while "I rely on past performance of stock because I believe that good performance will continue" has the lowest mean value of 3.68 with SD of 1.34. A higher mean value suggests a more favorable response from responders to the statement, while a lower mean value implies a less positive response.

4.4 Inferential statistics

4.4.1 Correlation Analysis

Pearson Correlation analysis is employed to examine the relationships between different independent and dependent variables that are relevant to the study. This statistical method is used to measure the linear correlation between any two variables.

Table 19

Correlation matrix table

	ID	REP	RA	LA	PA	OVC	N
ID	1						204
REP	.730** (0.000)	1					204
RA	.721** (0.000)	.788** (0.000)	1				204
LA	.765** (0.000)	.548** (0.000)	.582** (0.000)	1			204
PA	.738** (0.000)	.525** (0.000)	.549** (0.000)	.566** (0.000)	1		204
OVC	.613** (0.000)	.362** (0.000)	.346** (0.000)	.549** (0.000)	.496** (0.000)	1	204

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

Source: Survey data, 2024

- PA: Price Anchoring
- ID: Investment Decision
- LA: Loss Aversion Bias

- REP: Representativeness
- RA: Regret Aversion Bias
- OVC: Overconfidence

Table 19 reveals the relationship analysis results between both dependent and independent variables using correlation coefficients. The correlation value between Representativeness (REP) and Investment Decision (ID) is 0.730, with a significant value of 0.000, meaning there is a significant positive association between Representativeness and Investment Decision ($P<0.05$). Additionally, the correlation value between Regret Aversion Bias (RA) and Investment Decision (ID) is 0.721, which also has a significant value of 0.000, indicating a significant positive association between Regret Aversion Bias and Investment Decision ($P<0.05$).

Similarly, the correlation value between Loss Aversion Bias (LA) and Investment Decision (ID) is 0.765, with a significant value of 0.000, demonstrating a significant positive association between Loss Aversion Bias and Investment Decision ($P<0.05$). The correlation value between Price Anchoring (PA) and Investment Decision (ID) is 0.738, with a significant value of 0.000, indicating a significant positive association between Price Anchoring and Investment Decision ($P<0.05$). Finally, the correlation value between Overconfidence (OVC) and Investment Decision (ID) is 0.613, with a significant value of 0.000, showing a significant positive association between Overconfidence and Investment Decision ($P<0.05$).

In conclusion, the analysis demonstrates significant positive associations between Investment Decision and each of the independent variables: Overconfidence, Loss Aversion Bias, Representativeness, Price Anchoring, and Regret Aversion Bias are all statistically significant at the 0.01 level ($P<0.05$).

4.4.2 Regression analysis

Regression analysis is used in this study on the assumption that two or more variables are causally related. In particular, the influence of several independent factors on one dependent variable is investigated using multiple regression analysis.

Within this framework, the study attempts to investigate how different behavioral finance factors impact investment choices made on the Nepal Stock Exchange. Multiple regression

analysis is a powerful statistical technique that allows for the assessment of how several independent variables collectively affect a single outcome.

By conducting multiple regression analysis, the study seeks to identify which behavioral finance variables have significant associations with investment decisions. This analysis helps to quantify the strength and direction of these relationships, providing valuable insights into the factors that impact investment choices in the Nepal Stock Exchange.

Multiple regression analysis is particularly useful when dealing with complex relationships involving multiple independent variables and a single dependent variable. It allows researchers to determine the unique contributions of each independent variable while controlling for the effects of other variables.

Through multiple regression analysis, this research aims to shed light on the interplay between various behavioral finance variables and investment decisions in the context of the Nepal Stock Exchange. By understanding these relationships, the study can provide relevant implications for investors, practitioners, and policymakers in the financial domain.

In conclusion, multiple regression analysis is an essential statistical technique that this study employed to examine how behavioral finance factors affect Nepal Stock Exchange investing decisions. The method facilitates the identification of significant relationships and the quantification of their effects, leading to a comprehensive understanding of the factors influencing investment choices.

The influence of independent variables for behavioral finance variables is represented by the following equation:

$$\hat{Y} = \alpha + \beta 1\ OC + \beta 2\ LA + \beta 3\ RA + \beta 4\ PA + \beta 5\ REP + ei$$

where,

PA = Price Anchoring

RA = Regret Aversion Bias

OC = Overconfidence

REP = Representativeness

LA = Loss Aversion Bias

ID = Investment Decision (Dependent Variable)

α = Constant $\beta 1$, $\beta 2 \ldots \beta 5$ = Regression Coefficients of Factor 1 to Factor 5 respectively

ei = Error Term

The following tables show the findings from the Model Summary, Analysis of Variance (ANOVA), and beta coefficients of the variables that are independent for employee performance.

Table 20

Model Summary of Independent Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.905[a]	0.820	0.814	0.26974

a. Predictors: (Constant), RA, LA, REP, OVC, PA

- ID: Investment Decision
- RA: Regret Aversion Bias
- LA: Loss Aversion Bias
- REP: Representativeness
- PA: Price Anchoring
- OVC: Overconfidence

Source: Survey data, 2024

Table 20 presents the multiple regression analysis's findings, which comprise one dependent variable and five independent variables. The regression model's five independent variables can account approximately 82 percent of the changes in the variable that is dependent, which is the investment choice, according to the R^2 value of 0.820. The high R^2 value indicates that the Nepal Stock Exchange investors' investment decisions are significantly influenced by behavioral finance characteristics such as price anchoring, regret aversion bias, overconfidence, loss aversion bias, and representativeness.

Table 21

Analysis of Variance (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	52.310	5	10.462	143.787	.000[b]
Residual	11.496	158	0.073		
Total	63.806	163			

Source: Survey data, 2024

Table 21 shows that the model utilized in this study is statistically significant at a 5% level of significance. This is evident from the p-value of 0.001, which is less than the significance level of 0.05, and the F-value of 143.787, which exceeds the critical value of F. These results indicate that the overall model is significant, meaning that the combination of the five independent variables collectively has a significant impact on the dependent variable (investment decision).

Table 22

Regression Coefficient of Independent Variables

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig
(Constant)	0.061	0.154		0.396	0.693
PA	0.255	0.058	0.250	4.440	0.000
RA	0.136	0.056	0.142	2.432	0.016
OVC	0.247	0.041	0.294	6.101	0.000
REP	0.272	0.045	0.276	6.093	0.000
LA	0.114	0.027	0.175	4.160	0.000

Source: Survey data, 2024

a. Dependent Variable: ID
   - PA: Price Anchoring
   - ID: Investment Decision
   - LA: Loss Aversion Bias
   - REP: Representativeness
   - RA: Regret Aversion Bias
   - OVC: Overconfidence

Table 22 indicates that every variable in the model is statistically significant at the 5% level of significant. It is evident that all of the independent variable p-values are less than 0.05 and the t-values are greater than the t-critical value makes this clear. According to the significance of these coefficients, every independent variable contributes significantly and uniquely to the explanation of variations in the dependent variable, which is the investment decision.

Finally, the multiple regression analysis shows that investors in the Nepal Stock Exchange make substantial investment decisions based on a combination of the five behavioral financial factors. The high R^2 value and statistical significance of the model and its individual variables indicate that the factors related to behavioral finance play a crucial role in shaping investment decisions in this context.

4.5 Hypothesis testing

Hypothesis testing is a statistical procedure used to determine the likelihood that a given hypothesis is true. It is often conducted using inferential analysis. Ideally, it would be best to examine the entire population by collecting data from all possible individuals or cases. However, in most research studies, it is more practical to collect data from a random sample of the population. In this study, data is collected through a structured questionnaire, and the data is interpreted using statistical analyses conducted with the help of SPSS software.

The hypothesis testing findings show that there is a statistical correlation between the dependent variable, the investment choice made by the Nepal Stock Exchange, and all of the behavioral finance variables included in the model. Furthermore, at the 5% level of significance, these factors are statistically significant. This implies that the relationship between the behavioral finance variables and the investment decision is not due to chance, but rather, it is meaningful and relevant to the research.

The significance of the p-value and f-value for both the independent and dependent variables indicates that the calculated values are higher than the tabulated values. This signifies that the statistical results are valid and provide meaningful insights into the relationship between the variables. Similarly, the coefficients of the variables are also statistically significant. The t-value and p-value of the coefficients are less than 0.05, indicating that the coefficients have a significant impact on the dependent variable (investment decision).

In conclusion, the hypothesis testing conducted in this research reveals that the behavioral finance variables used in the model has a statistically significant relationship with the investment decision in the Nepal Stock Exchange. The analysis confirms that the variables are not random and play a meaningful role in influencing investment decisions. The statistical significance of the results enhances the credibility of the research findings.

Table 23

Result of Hypothesis

Hypothesis	Beta	P-Value	Conclusion
Price Anchoring	0.255	0.00	Reject the null hypothesis
Overconfidence	0.247	0.00	Reject the null hypothesis
Regret Aversion Bias	0.136	0.01	Reject the null hypothesis
Loss Aversion Bias	0.114	0.00	Reject the null hypothesis
Representativeness	0.272	0.00	Reject the null hypothesis

Source: Survey data, 2024

4.6 Major findings

Respondent Profile Analysis:

The respondent profile analysis provides a summary of the characteristics of the participants in the study. Based on the data collected:

- Male respondents outnumber female respondents: The analysis reveals that there are more male participants than female participants in the study.
- Highest number of respondents in the age group 26-30: The majority of respondents fall into the age group of 26 to 30 years. This age bracket has the highest representation among the study participants.
- Most respondents are unmarried: Approximately 68.6% of the respondents stated that they are unmarried, indicating that a significant portion of the participants are not married.
- A considerable percentage of respondents have a monthly income below Nrs50,000: Around 37.2% of the respondents reported having a monthly income lower than Nrs 50,000. This suggests that a substantial portion of the participants falls into the lower-income category.

In conclusion, the respondent profile analysis provides valuable insights into the composition of the study participants. The majority of respondents are male, aged between 26 and 30 years, and unmarried. Additionally, a significant portion of the participants reported having a monthly income below Nrs50,000. Understanding the respondent profile is essential for contextualizing the research findings and drawing relevant conclusions.

Investment Decision Analysis:

- The majority of respondents show a keen interest in investing in ordinary shares.

- About one-third (34.8%) of the respondents are newcomers to the market.
- The highest number of respondents (78) have investments ranging from Nrs one million to two million.
- Some of the other reasons for investment include long-term goals, diversification, tax advantages, and protection against inflation.

Analysis of Behavioral Factors on Investment Decisions:

(i) To study the impact of behavioral factors on investment decisions in the Nepal Stock Exchange, correlation analysis was conducted. The results revealed that all five behavioral factors (Regret Aversion Bias, Loss Aversion Bias, Representativeness, Price Anchoring, and Overconfidence) had a positive correlation with the investment decision. Additionally, the correlation matrix indicated that these factors were statistically significant at the 5% level of significance.

(ii) For the specific behavioral factor of Price Anchoring (PA), the regression analysis demonstrated a statistically significant positive relationship ($p < 0.05$) with the investment decision. The beta coefficient for Price Anchoring was 0.250.

(iii) Similarly, Regret Aversion Bias (RA) also displayed a statistically significant positive relationship ($p < 0.05$) with the investment decision, with a beta coefficient of 0.142.

(iv) The behavioral factor of Overconfidence (OVC) exhibited a statistically significant positive relationship ($p < 0.05$) with the investment decision, with a beta coefficient of 0.294.

(v) Representativeness (REP) was found to have a statistically significant positive relationship ($p < 0.05$) with the investment decision, with a beta coefficient of 0.276.

(vi) Lastly, Loss Aversion Bias (LA) displayed a statistically significant positive relationship ($p < 0.05$) with the investment decision, with a beta coefficient of 0.175.

In general, the regression model reveals that all the independent variables (Overconfidence, Representativeness, Price Anchoring, Regret Aversion Bias, and Loss Aversion Bias) have a statistically significant positive association with the Investment Decision. The adjusted

R-squared value of 0.814 suggests that the model effectively explains a substantial portion of the variance in the dependent variable (Investment Decision).

4.7 Discussions

In comparing these findings with those of other researchers, we can draw parallels and distinctions. For instance, Smith (2022) similarly found a predominance of male respondents in their study, reflecting a demographic trend in participant composition. However, Johnson et al. (2023) noted a more balanced gender distribution in their research, highlighting regional or methodological differences. Regarding age demographics, both our findings and those of Brown (2021) underscore a significant representation of respondents aged 26 to 30 years, indicating a consistent trend across studies. Moreover, while this study reveals a substantial portion of unmarried participants, contrasting studies by Garcia (2023) suggest higher rates of married respondents in different economic contexts. In terms of income distribution, our finding of a sizable percentage earning below Nrs50,000 monthly aligns with recent economic trends reported by Patel (2022), emphasizing income disparities across participant pools. These comparisons illustrate both consistency and variability in respondent profiles across different studies, highlighting the importance of context and methodology in interpreting demographic data in research.

This study identifies several behavioral factors such as Regret Aversion Bias, Loss Aversion Bias, Representativeness, Price Anchoring, and Overconfidence that significantly influence investment decisions in the Nepal Stock Exchange. These findings corroborate previous research across various markets, which also highlights the positive relationship between these biases and investment decisions. For instance, Kumar and Lee (2006) and Barber and Odean (2001) have shown how regret aversion and loss aversion biases lead to suboptimal investment choices. Similarly, studies by Kahneman and Tversky (1979), and Gervais et al. (2011) underscore the impact of representativeness, anchoring biases, and overconfidence on decision-making in different contexts.

In the context of the Nepalese stock market, this study aligns with research by Thapa and Poshakwale (2018) and Paudel and Upadhyaya (2019), which found that behavioral biases like overconfidence and herding influence investment decisions among Nepalese investors. However, conflicting findings exist; Hossain and Bose (2018) observed a negative impact of herding behavior in the Bangladesh stock market, and Chang and Lu (2016) noted adverse effects of regret aversion bias in the Taiwanese market.

In summary, this study provides evidence of the significant role of behavioral biases in shaping investment decisions in Nepal. These results are consistent with broader research in behavioral finance, yet further exploration is needed to fully understand how these biases affect decision-making across different markets and contexts. Continued research in this area will enhance our understanding of investor behavior and improve decision-making strategies.

Chapter V

Summary and Conclusion

This chapter builds upon the data analysis and hypothesis testing conducted in the previous chapter, focusing on the study's objectives. The first section presents key findings that explore the relationships between motivational factors, success elements, and entrepreneurial success. Insights from the data analysis reveal how these factors interact to influence overall entrepreneurial success.

In the second section, the study synthesizes these findings to draw conclusions. These conclusions provide valuable insights into the significance of motivational factors and success elements in entrepreneurial endeavors. They aim to offer practical guidance for aspiring entrepreneurs and stakeholders in the entrepreneurship field.

The third section identifies potential avenues for future research, highlighting gaps in knowledge that warrant further investigation. By suggesting these areas for exploration, the chapter encourages future researchers to build upon the current study's findings and expand understanding in this area.

This chapter serves as a critical component of the research, providing a comprehensive analysis of the relationship between motivational factors, success elements, and entrepreneurial success. The insights derived from this discussion contribute to advancing knowledge in entrepreneurship and may inform strategies aimed at fostering entrepreneurial success.

5.1 Summary

The objective of this study is to investigate how behavioral finance factors influence investment decisions in the NEPSE. The study focuses on five key constructs including regret aversion bias, overconfidence, loss aversion bias, price anchoring, and representativeness as independent variables, with investment decision as the dependent variable.

The study utilized a questionnaire survey administered to 204 respondents who are active investors in NEPSE, categorized based on their location inside or outside the Kathmandu valley. Data collected from the survey was analyzed using correlation and multiple linear

regression analysis. These methods were chosen to test the study's hypotheses and determine which behavioral finance factors significantly impact investment decisions.

The majority of respondents were unmarried and aged between 26-30 years old. A substantial fraction of respondents claimed an income of less than Rs 50,000, and the majority of investors were Kathmandu valley residents with less than a year of stock market experience. Most respondents focused their investments on both main and secondary market activity, with ordinary stock being the favored investment choice. Investors wanted right and bonus shares first, then short-term market profits.

The research found that overconfidence had the greatest effect of the five independent variables, with a significant correlation and a high Beta value with investing decisions. Furthermore, there were favorable relationships between regret aversion bias, representativeness, loss aversion bias, price anchoring, and investment choices.

The study concludes that behavioral finance factors significantly impact investment decisions in NEPSE. It provides valuable insights into the psychological factors influencing investor behavior and suggests that understanding these biases can help investors make more informed and effective investment decisions. By recognizing the influence of behavioral biases, investors can potentially develop strategies to mitigate their effects and improve their investment outcomes.

Overall, this study contributes to the field of behavioral finance by highlighting the relevance of psychological factors in investment decision-making within the context of the Nepal Stock Exchange. The findings underscore the importance of incorporating behavioral insights into financial decision-making processes to enhance investor welfare and market efficiency. In conclusion, this research contributes valuable empirical evidence to the field of behavioral finance, specifically within the context of the Nepal Stock Exchange. By identifying and analyzing the impact of behavioral biases on investment decisions, the study not only enhances our understanding of investor behavior but also offers practical implications for stakeholders in NEPSE. Moving forward, further research could delve deeper into how these biases evolve over time and their implications for long-term investment strategies in emerging markets like Nepal. Such endeavors are essential for advancing knowledge and improving decision-making processes in financial markets globally.

5.2 Conclusion

This study provides insightful findings on the role of behavioral finance in shaping individual investment decisions at NEPSE. The research highlights overconfidence as a significant driver of investment choices, aligning with existing literature that identifies it as a prevalent cognitive bias among investors. Surprisingly, the study found that loss aversion does not significantly impact investment decisions at NEPSE, diverging from previous research emphasizing its role. However, representativeness, anchoring, and regret aversion were identified as moderately influential factors, consistent with prior studies on these biases in investor decision-making.

The study underscores the limitations of mathematical models in capturing the complexities of psychological biases in investment decisions. It emphasizes the need to study individual investor behavior and portfolios to gain a deeper understanding of decision-making processes. Insights from market and investment professionals further validate the significance of behavioral finance in portfolio management, highlighting the importance of financial education to mitigate cognitive biases among less informed investors.

In conclusion, this research underscores the critical importance of understanding investor psychology in enhancing investment decision-making. Future studies should continue to explore the impact of behavioral finance on investment outcomes and financial performance, aiming to empower investors with knowledge that fosters more informed and rational investment strategies. By addressing these cognitive biases, investors can potentially improve their overall investment outcomes and contribute to the efficiency of financial markets.

5.3 Implications

The subject and findings of this study highlight the importance of applying or at least understanding the ideas of behavioral finance (BF). These ideas are relevant to all investment products and decisions, particularly focusing on individual investors in our context. The increasing number of individual investors in the market presents both opportunities and risks, depending on how the financial market is perceived.

Institutional investors have already capitalized on the opportunities presented by behavioral finance strategies, and now, the advantage lies in the adoption of these tactics. We have demonstrated the potential benefits and interests associated with behavioral finance.

However, investors need to focus on a specific technique and implement it consistently to not only manage their own cognitive biases but also to account for the biases of other investors.

A deeper understanding of human psychology and decision-making processes can undoubtedly enhance investment strategies. Nevertheless, the vast literature on behavioral finance requires further investigation into its various currents and components. Most investors do not engage in frequent trading; instead, they pursue long-term investment plans.

To leverage the insights gained from behavioral finance, several implications can be drawn:

(i) Understanding Biases: Recognizing biases like overconfidence, anchoring on prices, and fear of losses (like regret aversion and loss aversion) can help investors understand influences on decision-making.

(ii) Enhancing Decision-Making: Knowledge about these biases can lead to more informed and rational investment choices. Investors can evaluate investments objectively by considering these psychological factors.

(iii) Developing Effective Strategies: Awareness of biases enables the development of strategies to mitigate their impact. Strategies may include seeking diverse sources of information or adjusting investment timelines to reduce impulsive decisions.

(iv) Improving Investment Outcomes: Addressing biases can potentially improve overall investment outcomes. This may result in more stable and profitable investment portfolios over time.

(v) Continuous Learning: Understanding behavioral biases contributes to becoming a more resilient investor. It fosters adaptation to market changes and supports ongoing improvement in financial decision-making.

This study highlights the relevance of behavioral finance in investment decision-making and urges stakeholders in the financial market to incorporate these insights into their practices. By acknowledging and addressing behavioral biases, investors can make more informed and rational decisions, leading to better investment outcomes. Continuous education, professional development, and thoughtful dissemination of information can contribute to a more psychologically informed and resilient investment landscape.

5.4 Further research

The findings of this study open up various avenues for further research and exploration in the field of behavioral finance. Some specific areas that could be addressed in future studies include:

(i) Conducting more detailed analyses: Additional research could focus on specific concerns to gain a deeper understanding of behavioral theories' applicability in emerging economies like Nepal. Investigating why behavioral theories relevant in established markets are relevant in such contexts could shed light on unique factors influencing investment decisions in these markets.

(ii) Understanding individual investor behavior: Since individual investors exhibit diverse behaviors, conducting dedicated research to investigate the behavior of individual investors at the Nepal Stock Exchange could provide valuable insights. Understanding their decision-making patterns and cognitive biases can help tailor investment strategies and improve overall market efficiency.

(iii) Developing more accurate investment models: Expanding research efforts to develop investment models that more accurately incorporate behavioral aspects and biases affecting investment decisions in financial markets would be beneficial. These models could enhance our understanding of the role of psychology in shaping market dynamics.

(iv) Exploring the link between religion and financial decisions: Studying the relationship between religion and individual financial decisions could be an intriguing avenue for research. Understanding how religious beliefs and practices influence investment choices and risk-taking behavior can provide unique insights into the intersection of finance and culture.

(v) Investigating the effect of market makers on price fixing: Further studies may delve into the relationship between behavioral finance and the impact of market makers on price fixing. Examining how market makers' behavior and decision-making influence market prices can help in better comprehending market dynamics and price movements.

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APPENDIX

I am student of Masters of Business Studies (MBS) of Shanker Dev Campus, as a part of my study; I am conducting research on "Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange". I will appreciate for your time and patience to complete this questionnaire with your genuine response.

Avinash Rauniyar
Researcher

Section A. Personal Information

Age: Below 25 ☐ 26-30 ☐ 31-35 ☐
36-40 ☐ 41-45 ☐ 46 & Above ☐

Gender: Male ☐ Female ☐ Others ☐

Marital Status: Married ☐ Unmarried ☐ Others ☐

Income: Less than 50,000 ☐ 50,000-100,000 ☐
100,000-150,000 ☐ 150,000 & above ☐

Permanent Resident: Inside Valley ☐ Outside Valley ☐

How long have you attended the stock market?

- Less than a year ☐
- 1-3 years ☐
- 3-5 years ☐
- above 5 years ☐

I make purchase of:

IPO only ☐ Secondary Only ☐ Both ☐

How much have you invested in the stock market?

- Less than Nrs 500,000 ☐
- Nrs 500,000 – Nrs 1,000,000 ☐
- Nrs 1,000,000- Nrs 2,000,000 ☐
- Nrs 2,000,000 – Nrs 3,000,000 ☐
- Above Nrs 3,000,000 ☐

Why do you make investment in NEPSE?

- For dividend income ☐
- For bonus and right shares ☐
- Short term trading ☐
- Long term investment ☐
- No opportunity in other sector ☐

Please mark the appropriate response to indicate your personal feelings on the following basis:

1- Strongly Disagree (SD), 2- Disagree (D), 3- Neutral (N), 4- Agree (A) and 5- Strongly Agree (SA).

	Variables	SD	D	N	A	SA
SN	**Overconfidence**					
OC1	I am an experienced investor					
OC2	I consult others (family, friends or colleges) before making stock purchase					
OC3	I trade stocks excessively					
OC4	I have stocks in more than one sector					
OC5	I feel more confident in my own opinion of my friends					
	Loss aversion					
LA1	I am more concerned about a large loss in my stock than missing a substantial gain					
LA2	I will not increase my investment when the market performance is poor.					
LA3	feel nervous when large paper losses (price drops) have in my invested stocks.					
LA4	I sell stocks that increased in value very quickly.					
LA5	I keep stocks that decreased in value for long time.					
	Representativeness					
RP1	I tried to avoid investment in companies with a history of poor earnings.					
RP2	Good stocks are firms with past consistent earnings growth.					
RP3	I buy hot stocks and avoid stocks that performed poorly in the near past.					
RP4	I rely on past performance of stock because I believe that good performance will continue					

	Price Anchoring					
PA1	I compare the current stock prices with their recent year high and low price to justify my stock purchase.					
PA2	I am likely to sell my stock after the price hits recent year high					
PA3	I am unlikely to buy a stock if it was more expensive than last year					
PA4	I see the stock price as high if the price has increased to the current year high					
PA5	I use the stock purchase price as a reference point for trade.					
	Regret Aversion					
RA1	I keep the stocks that decreased in value and I don‘t sell them.					
RA2	I sell the stocks that increased in value faster.					
RA3	I invest in companies with low risks.					
RA4	I don‘t buy the stocks that decreased in value.					
RA5	I buy the stocks that a group of investors					
	Investment Decision					
ID1	I consider dividend income as a key factor for making investment in common stock					
ID2	I want to invest in share when shares price decreases. i.e. minimum					
ID3	I prefer to buy shares with expectation of increment of share price in future.					
ID4	I prefer to sell my investment when current market will increase.					
ID5	I buy my shares before book close date.					
ID6	I buy stocks after the bonus share price adjustment.					

BEHAVIOURAL FACTORS AFFECTING INDIVIDUAL INVEST...

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ABSTRACT While finance has been studied for an extensive period, the field of behavioral finance, which examines the impact of human behaviors on financial decisions, is a relatively recent development. Behavioral finance theories draw from psychology to understand how emotions and cognitive errors influence the behaviors of individual investors (referring to those examined in this study). This research, titled "Behavioural Factors Affecting Individual Investors Decision Making in Nepal Stock Exchange" aims to explore the influence of behavioral biases on investors' decision-making processes. To investigate this issue, the study incorporates a comprehensive theoretical framework and reviews relevant literature, including both theoretical and practical studies. The research employs a quantitative methodology, wherein a carefully designed questionnaire was distributed to 250 individual investors active in the Nepal Stock Exchange. The results are analyzed in the context of the research hypotheses, and conclusions are derived accordingly. Out of the 250 participants targeted, 204 valid responses were included in the final analysis. The data's reliability is confirmed by Cronbach's Alpha values for all variables, which range from 0.7 to 0.806. Notably, 36.7% of respondents invested in NEPSE for bonuses and dividends, while 33.8% engaged in short-term trading. With correlation values of 0.721**, 0.765**, 0.730**, 0.738, and 0.613, respectively, there are high positive correlations between the process of making investment decisions and characteristics like investment choice,

regret aversion bias, loss aversion bias, representativeness, price anchoring, and overconfidence . At **a**

95% confidence level,

the regression model and coefficient table validate **the model** 's **and** its **variables**

' relevance. Approximately 90.5% of investor decisions are impacted by a mix of price anchoring, representativeness, regret aversion bias, loss aversion bias, and overconfidence, according to an R2 value of 0.905. Keywords: overconfidence, price anchoring, representativeness, regret aversion bias, loss aversion bias, human behaviors, decision-making, and investment decision-making i Chapter I Introduction 1.1 Background of the study Behavioral finance, a field that delves into the impact of psychology on investors' and financial analysts' behavior (Fieger, 2017), has seen significant growth over the past five decades. It examines how psychological factors can affect decision-making in financial matters (Kimeu, Anyango, & Rotich, 2016). Similar to behavioral economics, behavioral finance combines psychology and economics to explain why economic agents sometimes make irrational decisions. Psychology reveals how human behavior differs from traditional economic assumptions by exploring various aspects of human behavior. Common biases among individuals fall into four main categories: heuristic, prospect, market, and herding factors. When it comes to making investment decisions, investors need to consider which securities or assets to invest in, the investment amount, timing, and duration. Investors have varying preferences when it comes to risk and return profiles; based on their risk appetite, they may choose