

# **FACTORS AFFECTING INVESTMENT DECISION OF INDIVIDUAL INVESTORS IN NEPALESE STOCK MARKET**

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fulfilment of the requirements for the Master's Degree

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## **CERTIFICATE OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Factors Affecting Investment Decision of Individual Investors in Nepalese Stock Market”. 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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Jogendra Bahadur Bishwakarma

## REPORT OF RESEARCH COMMITTEE

Mr. Jogendra Bahadur Bishwakarma has defended research proposal entitled “**Factors Affecting Investment Decision of Individual Investors in Nepalese Stock Market**” 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 Dhruva Prasad Subedi and submit the thesis for evaluation and viva voce examination.

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## APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Factors Affecting Investment Decision of Individual Investors in Nepalese Stock Market**” presented by Jogendra Bahadur Bishwakarma, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voice examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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## ABBREVIATIONS

<b>Acronyms</b>	<b>Full Form</b>
ESG	Environmental, Social and Governance
NEPSE	Nepal Stock Exchange
IPO	Initial Public Offering
NRB	Nepal Rastra Bank
S. D	Standard Deviation
SEBON	Security Board of Nepal
SPSS	Statistical Package Social Sciences Software
Ho	Null Hypothesis
ANOVA	Analysis of Variance
IIID	Individual Investors Investment Decision
AR	Advocate Recommendation
MF	Market Factors
IFP	Image and Financial Performance of Company
EF	Economic Factors.

## ABSTRACT

The performance and stability of a nation's stock market largely depend on the investment behavior of individual investors. In Nepal, retail participation in the stock market has significantly increased in recent years, yet investor decisions are often influenced by a complex interplay of psychological, social, and economic factors rather than sound financial analysis. This study investigates the key factors that affect the investment decisions of individual investors in the Nepalese stock market. Drawing from both descriptive and inferential statistical techniques, the research aims to identify how elements such as advocate recommendations, market conditions, company image and financial performance, and macroeconomic indicators influence individual investment behavior.

The study adopts a quantitative research design and collects primary data through structured questionnaires administered to 124 respondents. Descriptive statistics—including frequency distributions, cross-tabulations, and mean analysis—are used to profile investors based on age, gender, income, education, occupation, and risk preference. Inferential tools such as Pearson correlation and multiple regression analysis are employed to examine the strength and nature of the relationship between the identified factors and investment decisions. The results reveal that the majority of investors are young, educated, and self-directed in their investment approach. A significant portion of them prefer moderate-risk investments, with hydro-power and banking sectors being the most favored areas.

Empirical findings confirm a statistically significant and positive correlation between individual investment decisions and the four independent variables: advocate recommendations, market factors, company image and financial performance, and economic conditions. The regression analysis demonstrates that these variables collectively explain 64% of the variance in investor decision-making. All four hypotheses tested in the study were supported, affirming the critical role each factor plays in shaping investor choices. Notably, advocate recommendations and market factors emerged as the most influential predictors.

**Keywords:** *Investment decision, market factors, financial performance, economic factors, individual investors.*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

In today's scenario, money plays an important role in one's life. In order to overcome the problems in future one has to invest his or her money. Investment may be defined as sacrifice of certain present value for some uncertain future value. In other words, investment means the purchase of a financial product with an expectation of future returns.

Investor behavior is a critical aspect of the global financial ecosystem, reflecting the decision-making processes and actions of individuals and entities involved in financial markets. It plays a key role in determining the demand and supply dynamics of financial assets, influencing market trends and shaping economic outcomes. Investors engage in various strategies to maximize returns, manage risks, and achieve financial goals, adapting to ever-changing economic conditions, personal objectives, and market dynamics (Bodie et al., 2014).

Retail investors, who execute trades via brokerage services or online platforms, typically invest smaller amounts compared to institutional investors. These investors significantly contribute to market liquidity while driving the democratization of financial markets. Advocate recommendation, a process where legal professionals offer counsel on financial and regulatory matters, aids investors in understanding complex market regulations and ensuring their actions align with legal frameworks, ultimately safeguarding their interests (Gupta, 2018).

Investor sentiment, a reflection of the collective attitudes and emotions of market participants, is shaped by factors such as macroeconomic indicators, industry trends, geopolitical developments, and personal financial objectives. Understanding these sentiments is essential for navigating the financial markets and making informed decisions (Fabozzi & Markowitz, 2011).

Financial analysis, derived from evaluating metrics such as profitability, liquidity, efficiency, and solvency, serves as a cornerstone for investment decision-making. By

interpreting financial statements and indicators, investors can assess the performance and potential of investment opportunities, guiding their strategies to achieve desired outcomes (Ross & Jordan, 2015).

Economic conditions, encompassing factors like economic growth, inflation, interest rates, and consumer confidence, significantly influence stock market behavior. These conditions impact corporate profits, investor sentiment, and market trends, highlighting their importance in investment decisions (Madura, 2017).

Effective decision making in stock market requires better insight, and understanding of human nature in global perspective, apart from sharp financial skills and ability to gain best out of investment. Positive vision, foresight, and drive are must for an investor to be successful in his investment decision. Investors differ in characteristics due to demographic factors such as socio-economic background, educational level, age, gender, and alike. So, it is difficult for investors to make an appropriate investment decision on the basis of the decisions made by someone else. It implies that an investment decision optimum for one investor may not be suitable for the other investor. Every investor has his own investment objectives, risk tolerance level, inflows and outflows of money, and other constraint (Chandra & Kumar, 2019).

### **1.1.1 Security Market of Nepal**

The stock market is a key component of the global financial system, providing a platform for buying and selling ownership shares of publicly traded companies. It serves as a vital source of capital for businesses, allowing them to raise funds for expansion, research, and development. Investors, on the other hand, use the stock market as a means to grow their wealth by purchasing shares that they believe will increase in value over time. The stock market is a complex and dynamic environment influenced by a variety of factors, including economic indicators, company performance, geopolitical events, and investor sentiment. It plays a crucial role in driving economic growth, allocating capital efficiently, and providing individuals and institutions with investment opportunities (Bodie et al., 2014).

According to the information published in website of Nepal Stock Exchange (NEPSE), it is the sole stock exchange in Nepal, facilitating the buying and selling of securities

such as stocks, bonds, and mutual funds. Established in 1993, NEPSE plays a crucial role in the country's financial market, providing a platform for companies to raise capital and for investors to trade securities. The exchange operates under the Securities Act, 2007 and is regulated by the Securities Board of Nepal (SEBON). NEPSE has made significant strides in recent years to enhance transparency and efficiency in the market, including the implementation of an online trading system. Despite challenges such as limited liquidity and market depth, NEPSE continues to grow and attract interest from domestic and international investors, contributing to the development of Nepal's capital market.

## **1.2 Problem Statement**

There are limited financial platforms for investors in Nepal. Due to limited or no access to foreign exchange market, derivative markets, and commodity market to Nepalese investors, a large pool of investors (ranging from small to huge investments) are engaged in primary and secondary stock exchange market (Tripathi, 2022).

Karki and Adhikari (2014) examined the investment motives of individual investors in the Nepalese stock market, finding that speculation was the most common motive, while gambling was the least prevalent. They also discovered positive relationships between investment motives and factors such as information and analysis, investment horizon, age, and stock market experience. Additionally, there was a moderate association between academic qualification and investment motive, and information and analysis were positively correlated with the investment score. The study highlighted the significant role of rumors and tips in influencing investor behavior in Nepalese stock markets.

Majority of the investor's participated in security trading are from major cities like Kathmandu, Pokhara, Butwal etc. Investors are losing confidence on the performance of share due to this experience of fraudulent and scandalous activities undertaken by handful of market swindlers. Due to greed for quick gain from the share market investors are becoming more credulous and they are ready to follow even the wrong advice from the brokers. Thus, having lack of adequate knowledge to investors, market disorders, price manipulation, fraudulent share market activities etc. are all taken over together standing as barrier to the development of Nepalese stock market. Nepalese

stock market is also characterized by a low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors. Beside these, political instability and interference, anti-government activities, economic imbalances, ineffective implementation of liberal economic policy, lack of suitable laws etc. are the burning issues in Nepalese stock market. The study mainly deals with following research questions:

- What is the current status of individual investors in Nepalese Stock Market?
- Is there any relationship between advocate recommendation, market factors, firm's image, financial performance and economic factors, and investment decision?
- What is the impact of advocate recommendation, market factors, firm's image, financial performance and economic factors on investment decision of investors?

### **1.3 Objectives of the Study**

The stock market plays a vital role in mobilizing savings and channeling them into productive investments. In Nepal, the stock market has grown steadily over the past two decades, attracting a diverse group of individual investors. However, investment decisions among these individuals are often influenced by various advocate recommendation, market factors, firms image, financial performance & economic factors. Understanding these factors is essential to comprehend investor investment decision in a developing and emerging market like Nepal. The general objective of this dissertation is to examine the relation of various factors with share investment decisions. And its specific objectives are as follows:

- To analyze the current status of individual investors in Nepalese Stock Market.
- To assess the relationship between advocate recommendation, market factors, firm's image, financial performance and economic factors, and investment decision.
- To analyze the impact of advocate recommendation, market factors, firm's image, financial performance and economic factors on investment decision of investors.

#### **1.4 Rationale of the Study**

There are various economic institutions ploughed in the poverty alleviation program in Nepal such as capital market, banks, financial companies and institutions in private sector; NGO, INGO and various other interested national and international institutions. Among all capital market is one of the important sources for the economic development, untimely its potential investors are the biggest asset.

Hence, this study targets to explore the investors awareness in the securities market in Nepal and how far it leads to growth of stock market. This study is conducted to provide some information about the present level of investor's awareness in the Nepalese securities market. It focuses on the impact of present existing situation faced by the general investors while making investment decision. This study will also be helpful for other researchers to the concerned fields to some extent.

This research will help not only the investors but also the different financial institutions, banks, organizations and advisors/consultants in studying and understanding the main factors that motivates/induces investors to invest in different alternatives/avenues and their decision-making practice. A better consideration of behavioral procedures and results is important for financial planners because a thoughtful consideration of investor's perception towards various investment alternatives should help financial advisors in devising suitable asset distribution strategies for their clients/investors. This study helps to draw the necessary conclusion about what factors can enhance the investment decision in stock market and serve as a reference material and guideline for future research.

#### **1.5 Limitations of the Study**

The study examines factors affecting share investment decisions. Despite of sincere effort, there exist various limitations of the study. Some limitations need consideration in order to generate accurate results. The significant limitations of the study are listed below:

- The study is predominantly based on a primary source of data. Therefore, the reliability of the conclusion of the study depends upon the accuracy of the information provided by the respondents.

- The respondents are mainly from the age group of 25 to 35 because of the convenience sampling method.
- The questionnaire for different variables has been reduced down due to reliability concerns.
- This study focuses only on individual investors.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the literature related to factors affecting investment decisions of individual investors in the Nepalese stock market. It builds upon the background and problem statement presented in Chapter I, providing both theoretical and empirical foundations for the study.

The review begins with a conceptual and theoretical discussion, explaining the key constructs—advocate recommendations, market factors, company image and financial performance, and economic factors. This is followed by an empirical review of relevant studies conducted in Nepal and abroad, highlighting research methodologies, key findings, and implications. The chapter also examines government policies and regulations relevant to Nepal's capital market, given their significant influence on investor behavior.

Finally, a research gap is identified, showing the unique contribution this study aims to make.

#### **2.2 Conceptual Review**

Investment decisions are influenced by a combination of advocate recommendation, market factors, firm's image & financial performance and economic factors. In the context of the Nepalese stock market, these decisions are often shaped by both rational and behavioral elements. This conceptual review presents a framework of key factors derived from existing literature and theories that are generally found to affect the investment decisions of individual investors.

##### **2.2.1 Advocate Recommendation**

The variables include different factors that are related with recommendation and opinion of experts. The major factors under advocate recommendation that are considered in the study are:

- Broker recommendation
- Other investor decision of choosing stock

- Family member opinion
- Friends/ co-workers opinion

### **2.2.2 Market Factor**

The variable includes factors that are related with the market condition and the economy. The following factors are considered:

- Political Factor
- Current Economic Indicator
- Market Rumor/ Information
- Recent Movement in Share Price

### **2.2.3 Economic Factor**

The variable includes factors that are related to economy and economic condition. The following factors are considered:

- Inflation Rate
- Market Interest Rate
- Change in Economic Policies

### **2.2.4 Financial Performance**

The variable tends to analyze the factors that show how the company is doing financially. Following factors are considered:

- High Media Coverage and Brand Popularity
- Net Profit
- Financial Indicators/Current condition of financial statements
- Past Performance of Stock

## **2.3 Theoretical Review**

### **2.3.1 Prospect Theory**

Prospect theory is a theory of behavior in finance developed by Daniel Kahneman and Amos Tversky in 1979. It attempts to explain how individuals make decisions under uncertain circumstances and how they assess potential gains and losses. The key elements of prospect theory are:

**Value function:** Prospect theory suggests that individuals evaluate outcomes relative to reference points rather than absolute standards. A value function, or utility function, describes how individuals subjectively rate gains and losses against this reference point. Value functions are usually concave for gains and convex for losses. This means that as the value increases the marginal profit decreases and as the value increases the marginal utility of the loss decreases. This means that individuals risk averse against wins and take risks against losses.

**Loss aversion:** One of the central tenets of prospect theory is the concept of loss aversion. It states that one feels more pain of loss than pleasure of equal gain. Studies have shown that the emotional impact of a loss is typically about twice as much as the impact of a win of the same magnitude. As a result, individuals are generally more sensitive to avoiding losses than pursuing profits.

**Reference Points:** Reference points are an important element in prospect theory. This serves as a benchmark for individuals to evaluate their results. Reference points can be subjective and vary from person to person and situation to situation. For example, an investor may use the original investment amount as a reference point when evaluating gains or losses.

**Reduced susceptibility:** Prospect theory suggests that individuals are less sensitive to changing outcomes. This means that the psychological impact of changes in wealth diminishes as the magnitude of the change increases. For example, if he is already rich, winning \$100 will give him less pleasure than winning \$100 by the poor. This reduced sensitivity to changes in wealth can affect decision making.

**Framing effects:** Prospect theory also addresses the effects of framing related to how decisions are presented or framed. The way people make decisions can have a huge impact on their preferences and choices. For example, individuals may show different behavior based on whether a situation is presented as a potential gain or a potential loss, even if the underlying outcome is the same.

### **2.3.2 Overconfidence Theory**

The theory of overconfidence is developed by Kahneman and Amos Tversky in the 1970s. This theory explored various types of cognitive biases, including overconfidence, through their research on judgment and decision-making. It arises from the illusion of knowledge, where individuals believe they possess more information and understanding about a topic or situation than they actually do. As a result, this leads to an inflated sense of certainty in their judgments and predictions. Key aspect of the overconfidence is the tendency to overestimate one's own abilities and people believed they are more skilled, intelligent and competent than they truly are. This type of individual perception creates errors in judgement and decision making and underestimate risks and uncertainties associated with the task or situation. As per the theory people tend to be overly optimistic about the likelihood of positive outcomes and underestimate the potential negative outcome. Confirmation bias play a role in overconfidence by influencing the way people seek and interpret information. Individuals tend to favor information that confirms their existing beliefs and ignore or downplay contradictory evidence, further reinforcing their overconfident judgments.

There are two distinct concept regarding the overconfidence i.e. over precision and over placement. These refers to the excessive confidence in the accuracy of one judgement or estimate and on the other hand over placement refers to the tendency to believe one is better or superior compared to other in various domains. So this theory conclude that the overconfidence of investor leads to the significant consequences on decision making and inadequate preparation for setback in investment.

### **2.3.3 Mental Accounting Theory**

Mental accounting theory, proposed by economist Richard Thaler in the 1980s, suggests that individuals engage in separate mental accounts to categorize and manage their financial resources. These mental accounts are akin to psychological compartments where people assign different values and rules for money based on subjective factors. As per this theory people segregate financial resources mentally and categories their income into different head such as saving, investment and expenses. There is farming effect which means that where individual make financial decision based on the way option are presented or framed. The same amount of money can be perceived and treated differently depending in the mental account to which it is assigned. This theory

states that people exhibit a stronger aversion to losses than inclination towards gains. This asymmetry in decision-making leads to suboptimal outcomes when individuals make financial choices based on the mental account in which a loss is incurred. The theory also highlights the presence of the sunk cost fallacy, whereby individuals irrationally factor in past costs when making present financial decisions. Mental accounting can cause people to continue investing in a losing proposition simply because they have mentally assigned those funds to a specific account. Mental accounting affects how individuals budget and spend their money. They may be more willing to spend from certain mental accounts (e.g., discretionary funds) and be more hesitant to spend from others (e.g., emergency funds).

### **2.3.4 Herd Behavior Theory**

Herd behavior is defined as the tendency of individuals to make decisions based on the actions of others, rather than on their own private information (Smith, 2023). This theory suggests that individuals take action due to the social pressure, fear of missing out and due to the lack of confidence. As a result of herd behavior there are numerous consequences in the market such as market bubbles. It indicates that when a large number of people buy into an asset, the price of the asset can rise to unsustainable levels. This can also lead to the financial crisis as banks and other financial institutions make risky investments based on the assumption that other institutions will do the same. As a result, this leads to the cascade of defaults which means one institution's failure leads to the failure of others. Herd behavior also helps to increase efficiency and reduce the transaction cost. People make decisions based on the actions of others even when they know that the crowd is wrong. This is because people are often influenced by emotion such as fear or greed.

### **2.3.5 Regret Theory**

This theory was developed by Bell in 1981 and further developed by Loomes and Sugden in 1982. This theory incorporates the emotional aspect of decision making by considering how individuals anticipate and experience regret. As per this theory, individuals evaluate the outcome of their decision not only based on their actual consequence but also in relation to what could have been. This theory states that people experience regret when they believe that an alternative decision could have resulted in a more favorable outcome. This feeling of regret significantly influences subsequent

decision making. Decision makers consider multiple potential outcomes and assign subjective probabilities to each. This is influenced by the personal beliefs experience and biases. This theory introduces the concept of regret aversion whereby individual tend to avoid making choices that may lead to significant regret. Every individual strive to minimize the likelihood and magnitude of potential regrets when making decisions. This tendency often leads to the risk aversion behavior.

## **2.4 Empirical Review**

Nepalese investors' decisions are influenced by the availability and interpretation of market information. Authors such as Bhandari and Neupane (2017) suggest that individual investors in Nepal often lack access to timely and reliable information, leading to suboptimal investment decisions. Improving access to market information and financial literacy programs could help investors make more informed choices.

Psychological factors, such as risk perception and cognitive biases, play a significant role in Nepalese investors' decisions. Authors like Shrestha and Bhattarai (2018) argue that investors in Nepal tend to exhibit herd behavior and are influenced by emotions, leading to irrational investment decisions. Understanding these psychological factors can help investors mitigate risks and make more rational choices.

The regulatory environment in Nepal can also impact individual investor decisions. Authors such as Shrestha and Shakya (2019) highlight the importance of regulatory reforms to enhance investor confidence and protect their interests. Improving transparency and enforcement of regulations could help attract more investors to the Nepalese stock market.

Social and cultural factors can influence Nepalese investors' decisions. Authors like Maharjan and Acharya (2020) suggest that familial and societal pressures can impact investment choices, leading to conservative or risk-averse behavior. Understanding these factors can help financial institutions design products and services that resonate with Nepalese investors' values and preferences.

Technological advancements and improved access to markets can also affect individual investor decisions in Nepal. Authors such as Khanal and Raut (2021) emphasize the role

of online trading platforms and mobile banking in expanding investor participation. Enhancing technological infrastructure could help broaden the investor base and deepen the market.

Advocate recommendations, such as those from financial advisors or experts, can influence individual investor decisions in Nepal. While specific studies may be limited, anecdotal evidence suggests that investors often seek advice from trusted sources within their networks or from professionals in the financial industry. The credibility and accuracy of these recommendations can play a crucial role in shaping investor perceptions and decisions.

Market conditions in Nepal, including factors such as volatility, liquidity, and regulatory environment, can impact individual investor decisions. Research by Nepalese scholars like Shrestha and Bhattarai (2018) indicates that investors in Nepal tend to be more risk-averse during periods of uncertainty, leading to cautious investment behavior. Market sentiment and trends can also influence investor decisions, with investors being more active during bullish markets.

The financial performance of companies listed on the Nepal Stock Exchange (NEPSE) can affect individual investor decisions. Studies by authors such as Maharjan and Acharya (2020) suggest that investors in Nepal often prioritize companies with strong financial performance indicators, such as profitability and growth prospects. Company disclosures and financial reports play a significant role in shaping investor perceptions of a company's financial health.

Economic conditions, both domestically and globally, can impact individual investor decisions in Nepal. Scholars like Khanal and Raut (2021) highlight the importance of macroeconomic indicators, such as GDP growth, inflation rates, and interest rates, in shaping investor behavior. Economic stability and growth can instill confidence in investors, leading to increased investment activity.

The integration of advocate recommendations, market conditions, financial performance, and economic conditions is essential in understanding individual investor behavior in Nepal. While specific studies may be limited, a holistic approach that

considers these factors collectively can provide insights into the factors influencing investor decisions and help policymakers and market participants develop strategies to promote informed investment decisions.

In conclusion, factors affecting individual investor share investment decisions in Nepal are influenced by a combination of market information, psychological factors, regulatory environment, social and cultural factors, and technology. Nepalese authors have an important role to play in studying these factors and proposing solutions that can enhance investor confidence and participation in the stock market. Advocate recommendations, market conditions, financial performance, and economic conditions are key factors influencing individual investor share investment decisions in Nepal. While specific studies and authors may be limited, existing literature and anecdotal evidence suggest that these factors play a significant role in shaping investor behavior in the Nepalese stock market.

**Table 2.4 Summary of Empirical Review**

<b>SN</b>	<b>Key Theme</b>	<b>Author(s)</b>	<b>Objectives</b>	<b>Methodological Approach</b>	<b>Common Findings</b>	<b>Implications</b>
<b>1</b>	Access to Market Information	Bhandari & Neupane (2017)	Assess impact of information access on investment decisions	Qualitative review, secondary data	Limited access to reliable, timely info leads to poor decisions	Enhance info flow and financial literacy
<b>2</b>	Psychological Factors (Bias, Emotion)	Shrestha & Bhattarai (2018)	Investigate behavioral influences on investors	Behavioral finance framework	Herding and emotional decisions prevalent among retail investors	Need for investor awareness programs on bias and rationality
<b>3</b>	Regulatory Environment	Shrestha & Shakya (2019)	Examine how policy and regulatory clarity affect investor confidence	Policy analysis and investor feedback	Weak enforcement, lack of transparency reduces trust	Regulatory reforms and strong enforcement are vital
<b>4</b>	Socio-Cultural Influences	Maharjan & Acharya (2020)	Understand social and familial impact on investment	Sociological approach with surveys	Family/society pressures drive conservative investment behaviors	Culturally-aligned financial products are needed
<b>5</b>	Technology and Access	Khanal & Raut (2021)	Explore role of digital platforms in investor participation	Case study and market trend analysis	Online platforms and mobile tools expanding reach	Strengthening tech infrastructure can democratize

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						investing
<b>6</b>	Informal/Advocate Influence	Anecdotal Evidence	Examine influence of financial advisors and networks	Observation and informal reports	Investors heavily influenced by trusted personal/professional networks	Regulation or quality assurance in advisory services is needed
<b>7</b>	Market Conditions	Shrestha & Bhattarai (2018)	Analyze how volatility/liquidity affect investor behavior	Market observation and behavioral assessment	Investors become risk-averse in volatile or bearish markets	Market stability and confidence-building are essential
<b>8</b>	Company Performance	Maharjan & Acharya (2020)	Link between firm performance and investor preference	Financial report review & investor surveys	Preference for financially strong and growth-oriented firms	Transparent and regular disclosures can support investor trust
<b>9</b>	Macroeconomic Indicators	Khanal & Raut (2021)	Study macro-level economic impact on individual investing	Economic indicator correlation	GDP, inflation, and interest rates directly affect investment decisions	Policies promoting macroeconomic stability support investment
<b>10</b>	Integrated Perspective	Multiple Authors	Provide holistic view of multiple influences on investor decisions	Synthesis of literature	Investor decisions shaped by a mix of behavioral, informational, regulatory, and economic factors	Multi-pronged policy approach and education initiatives recommended

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<b>11</b>	Behavioral Biases	Barber & Odean (2001)	Explore impact of overconfidence on trading	Empirical analysis of trading data	Overconfident investors trade excessively and earn lower returns.	Promote investor education to reduce excessive trading.
<b>12</b>	Loss Aversion (Prospect Theory)	Kahneman & Tversky (1979)	Understand how individuals value gains vs. losses	Experimental behavioral study	Individuals are more sensitive to losses than gains.	Investors often avoid risk even at the cost of returns.
<b>13</b>	Financial Literacy	Lusardi & Mitchell (2014)	Examine how literacy affects decision-making	Survey and statistical analysis	Financially literate individuals make better and rational investment choices.	Financial education should be integrated into national strategies.
<b>14</b>	Social Influence	Bauer et al. (2005); Barber & Odean (2008)	Study peer effects in investment decisions	Observation and survey data	Peer and herd behavior distort individual rationality.	Financial behavior training should address social bias.
<b>15</b>	ESG Consideration	Friede et al. (2015), Hong & Kacperczyk (2009)	Link ESG factors with stock performance and investor behavior	Meta-analysis and data modeling	ESG-conscious companies attract more investors and outperform others.	Encourage ESG disclosures for responsible and informed investing.

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## 2.5 Government Policy and Regulatory Framework

The investment behavior of individual investors in Nepal is also shaped by policies and regulations governing the capital market. The following are key regulatory instruments and institutions:

- **Securities Act, 2007** – Provides the legal foundation for securities issuance, trading, and regulation in Nepal, under which the Securities Board of Nepal (SEBON) operates.
- **SEBON** – The apex regulator responsible for protecting investor interests, regulating securities markets, and overseeing intermediaries such as brokers, merchant bankers, and credit rating agencies.
- **NEPSE Regulations** – Establish operational rules for listing, trading, and settlement of securities, including recent implementation of online trading systems to enhance market access and transparency.
- **Company Act, 2006** – Governs corporate governance standards, reporting requirements, and shareholder rights of listed companies.
- **Regulation of Brokers and Market Intermediaries** – Licensing, conduct, and reporting standards for brokers and market dealers are enforced to maintain fair trading practices.
- **Nepal Rastra Bank (NRB) Policies** – Influence market liquidity and investment flows through monetary policy instruments, which can affect interest rates and investor sentiment.

These policies and regulations create the operational framework within which investors make their decisions. Compliance, transparency, and enforcement play a critical role in shaping investor confidence and participation in the stock market.

## 2.6 Research Gap

While international studies have extensively explored the behavioural biases and decision-making processes of individual investors, there is a lack of specific research focusing on Nepalese investors. Understanding the unique cultural, social, and economic factors that influence Nepalese investor behaviour is crucial for developing targeted strategies to improve investment decision-making in Nepal.

While there is a growing interest among international investors in incorporating environmental, social, and governance (ESG) factors into their investment decisions, there is limited research on how these factors influence Nepalese investors. Studying the impact of ESG considerations on investment decisions in Nepal could provide valuable insights into the factors driving sustainable investment practices in the country.

The literature review highlights the transformative impact of technology on investor behaviour, particularly in accessing information and making investment decisions. However, there is limited research on how technological advancements, such as online trading platforms and mobile banking, specifically influence Nepalese investors. Exploring the role of technology in shaping investor behaviour in Nepal could help identify opportunities to enhance investor participation and market efficiency.

While advocate recommendations are known to influence individual investor decisions, there is limited research on the role of advocate recommendations in the context of Nepal. Understanding how Nepalese investors perceive and respond to advocate recommendations could provide valuable insights into the effectiveness of financial advisory services in the country.

The literature review briefly touches upon the impact of the regulatory environment on investor decisions in Nepal. However, there is a lack of comprehensive studies examining how regulatory reforms have influenced investor confidence and market participation in Nepal. Conducting research on the effectiveness of regulatory measures could help policymakers design policies that promote a more transparent and investor-friendly market environment.

In conclusion, while there is a substantial body of literature on factors affecting individual investor share investment decisions globally, there is a need for more focused research on the Nepalese context. Studying the unique factors influencing Nepalese investors could provide valuable insights into improving investment decision-making and market efficiency in Nepal.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability. So, this chapter refers to the overall approach to the research process, covering from theoretical underpinning to the collection and analysis of data. It is composed of both parts of technical aspect and logical aspect. Specially, this chapter has focused on research design, sample size, sample selection procedure, data collection procedure, data processing, period covered, data analysis tools used in this research such as financial and statistical tool are discussed.

#### **3.1 Research Design**

The purpose of this study is to examine the factors that influence individual investors' share investment decisions. The study's design is descriptive and analytical, with the goal of identifying and explaining the relationship between various elements that influence individual investors' decision-making. This type of research makes use of sample surveys to explain current patterns and collect data on individual's opinions, attitudes, and actions. This is based on a conceptual framework developed via the analysis of diverse literatures in the field of study. The purpose of this study was to determine the impact of independent variables on dependent variables.

The study has been conducted using a quantitative research method. Quantitative research focuses on quantifiable outcomes. It entails gathering and analyzing objective data that may be categorized using statistics. In survey investigations, quantitative research is quite valuable. Data was collected for the study using structured questionnaires, and the data was analyzed using statistical models to describe the primary determinants impacting individual investors' investment decisions. After selecting a sample, the survey was done by collecting responses from individual investors in the Kathmandu valley via self-administered questionnaires. To verify the idea, related secondary data was collected and examined from prior literatures and studies.

### **3.2 Population and Sampling Procedure**

The goal of the research is to identify and investigate the elements that influence individual investors investing decisions. The study's target group is individual investor who invest in stock market situated at Kathmandu valley. The study will not be able to include the entire population. A total of 124 investors were used in the study. For the study, the sample covers various categories of investors. The study's respondents comprise of: students, business person, financial institution employee, teaching, hospitality, self-employed, others.

Purposive sampling was carried out using non-probability sampling in this investigation. Purposive sampling, also known as judgmental, selective, or subjective sampling, is a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their surveys. When we need to reach a specific sample rapidly, this type of sampling makes it useful. Judgmental or selective sampling are other terms for purposive sampling. This method is the most useful option due to time and money restrictions because it is the greatest way to reach the respondents.

### **3.3 Nature and Sources of Data Collection**

The primary data has been collected for study. Data has been collected using the self-administered questionnaire. Questionnaires included a set of written questions used in order to obtain and store necessary information by researcher during the research. Questions has been designed to examine important variables for the study and analyze the opinion of respondents. The questionnaire consists of three parts. The first part involves collecting the general demographic information about the respondents which includes age, marital status, education level, occupation and income of the respondents. The second part consists of different investment behavior aspects and last part includes factors which affects the share investment decision of individual investors. After collecting data, measurement scales have been used to test qualities of data. Likert scale has been used to examine the level of agreement and disagreement regarding opinion of investor. A five-point likert scale has been used in the research. The importance scale has been used which provides deeper insight into reasons behind more general opinions. It shows how strongly the investors rank the influence of various factors for the share

investment decisions. The questionnaire of the study is presented in the appendix section.

- 5 – Strongly Agree
- 4 – Agree
- 3 – Neutral
- 2 – Disagree
- 1 – Strongly Disagree

### **3.4 Data Collection Procedure**

In this research, primary data has been used. Primary data refers to data that is collected by the investigator himself/herself for a specific purpose. Primary data is collected by using standard questionnaire techniques with close ended questions administered to capture the important information about the population. The respondents are selected by using convenience and purposive sampling from retail investors actively trading different financial securities. The selected individuals were requested to fill the questionnaire in virtual website and as well as through personal or face to face contact under the researcher's guidance. Other data for this study was gathered from a variety of sources, including text books, the internet, online journals, and related research works, which include research reports and articles from a variety of national and international academics. Various SEBON, NRB, and NEPSE reports has been referred.

### **3.5 Validity and Reliability**

Research validity refers to the extent to which a study accurately measures what it intends to measure. There are several types of validity that researchers consider, including internal validity, external validity, construct validity, and statistical conclusion validity. Internal validity concerns the ability to establish a causal relationship between variables, while external validity relates to the generalizability of findings to other contexts. Construct validity involves the accurate measurement of theoretical concepts, and statistical conclusion validity ensures that study conclusions are supported by the data (Trochim, 2006).

In the case of secondary data, the great majority of the information acquired comes from well-known academic journals, giving grounds to think that the information gathered is trustworthy. Secondary data that is directly used in a graduate research project is

thought to be reliable. Measures were taken to collect a sample that was as representative as possible in order to ensure external validity. The content validity of the questionnaire was ensured by creating a final questionnaire based on many dimensions derived from previous research. Validity can also be improved by using questions that have already been proven to be valid in earlier studies. However, the total sample size of 150 respondents has been considered based on a confidence level of 95%, and hence the study's conclusions can be trusted and used for further study in Nepalese context.

Research reliability refers to the consistency and stability of research results over time and across different conditions. There are several types of reliability that researchers consider, including test-retest reliability, inter-rater reliability, and internal consistency reliability. Test-retest reliability assesses the consistency of results when the same test is administered to the same group of participants at different times. Inter-rater reliability evaluates the agreement between different raters or observers when assessing the same phenomenon. Internal consistency reliability measures the extent to which different items in a test or scale measure the same underlying construct. To ensure research reliability, researchers use standardized protocols, well-defined measurement instruments, and statistical analyses such as Cronbach's alpha for internal consistency (Tavakol & Dennick, 2011).

To test the internal consistency of the instruments in this study, reliability analysis was done using the Cronbach's Alpha test. For establishing reliability of the study, the questionnaire has been developed carefully along with use of correct word and meaning. Reliability of the overall scales was calculated together for the factors. The overall Cronbach's Alpha value is 0.60 which represent the acceptable internal consistency of measuring scale when all variables were taken together. A value greater than or equal to 0.6 is considered as acceptable.

**Table 3.5***Reliability Statistics (Cronbach's Alpha)*

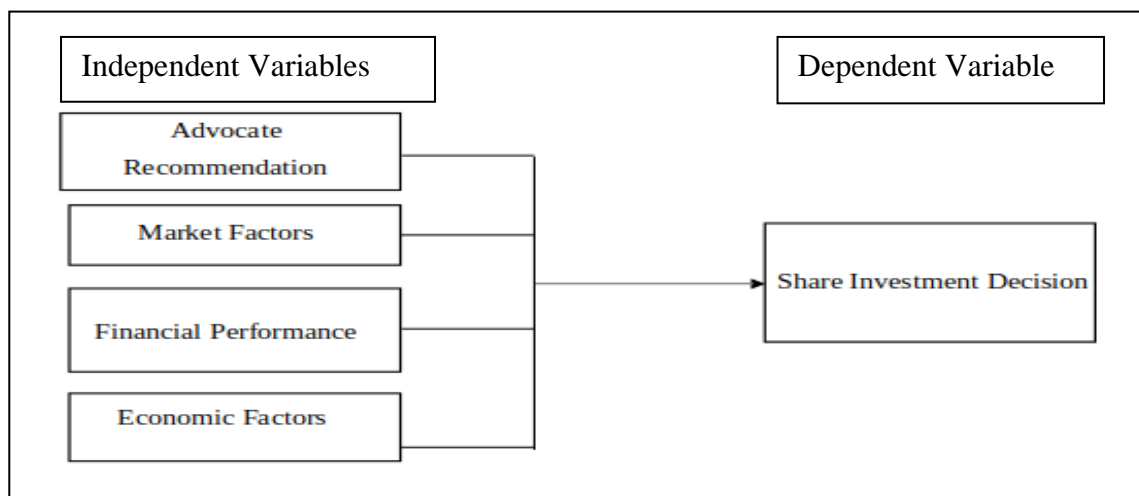
Construct/Variable	Number of Items	Cronbach's Alpha ( $\alpha$ )	Interpretation
Advocate Recommendation	4	0.812	Reliable
Market Condition	5	0.784	Acceptable
Company Financial Performance & Image	5	0.837	Good
Economic Factors	4	0.769	Acceptable
Investment Decision of Individual Investor	6	0.845	Good

According to Nunnally (1978), a Cronbach's Alpha value above 0.7 indicates acceptable reliability, while values above 0.8 suggest good internal consistency. As shown in the table, all constructs used in this study meet or exceed the reliability threshold, confirming the internal consistency of the questionnaire items.

### **3.6 Conceptual Framework and Definition of Variables**

#### **3.6.1 Conceptual Framework**

The conceptual framework must demonstrate an understanding of concepts that are relevant to the topic of research paper. Within the conceptual framework certain relationship has been identified between dependent and independent variables. A comprehensive framework is developed to understand the factors affecting the share investment decision of individual investors. This framework is developed based on extensive literature review. However, the study will consider the following limited number of factors/variables i.e. advocate recommendation, market condition, company image and financial performance of firm and economic factors.

**Figure 3.1***Conceptual Framework***3.6.2 Definition of Variables**

**Share investment decision of individual investors:** Share investment decisions refer to the process of selecting and managing investments in shares or stocks with the goal of generating returns. Investors make these decisions based on various factors, including financial analysis, market trends, risk tolerance, and investment goals. The goal of share investment decisions is to maximize returns while managing risk effectively (Bodie, 2018).

**Advocate recommendation:** In the share market, advocate recommendation refers to the practice where legal professionals provide guidance, advice, and representation to clients involved in legal matters related to stock trading, securities laws, and market regulations. Advocates play a crucial role in helping clients navigate the complex legal landscape of the stock market, ensuring compliance with regulations, and protecting their rights and interests (Gupta, 2018).

**Market factors:** Fabozzi & Markowitz (2011) define that market conditions in the share market to the prevailing economic and financial environment that influences the behavior of stock prices and overall market activity. These conditions are influenced by various factors, including macroeconomic indicators, industry trends, investor sentiment, and geopolitical events. Understanding market conditions is essential for investors and traders to make informed decisions about buying, selling, or holding stocks. Market conditions are typically classified into three categories: bull, bear and sideways market.

**Financial performance:** It refers to how well a company is doing financially, as reflected in its financial statements and other financial indicators. It is a key factor that investors consider when making investment decisions in the stock market. Financial performance is evaluated using various metrics and ratios that help assess a company's profitability, liquidity, efficiency, and solvency (Ross & Jordan, 2015).

**Economic factors:** Economic conditions are the overall state of the economy, including factors such as economic growth, inflation, interest rates, unemployment, and consumer confidence. These conditions play a significant role in influencing the behavior of the stock market, as they affect corporate profits, investor sentiment, and market trends (Madura, 2017).

### **3.7 Methods of Analysis**

Quantitative data analysis is used in the study to meet the specified research objectives. Both descriptive and inferential statistical methods of data analysis have been used. The data collected from the questionnaire has been gathered, tabulated, categorized and analyzed by using appropriate statistical tools. The purpose of analyzing the data is to change unprocessed data into human understandable form. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences.

The collected data has been analyzed and processed by the help of descriptive statistical tools depending on the nature and requirement of the collected data. Required tables, charts, graphs have been presented to make the analysis simple and easy to understand. The collected data has been tabulated and analyzed using software such as the Statistical Package Social Sciences Software (SPSS) and Microsoft Excel. Descriptive statistics has been used to compute mean, standard deviation, frequency distributions and the data is presented in graphs, charts, cross-tabulations etc. that is be simple and easy to understand. Also, different inferential test has been used for the analysis: correlation, multiple regression and hypothesis testing. The data analysis includes:

- General analysis of demographic profile of respondents
- Frequency distribution and percentage analysis
- Mean and Standard Deviation Analysis
- ANNOVA test, T-tests and Correlation

- Cross tabulation analysis
- Multiple Regression Analysis
- Hypothesis Testing

## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

This chapter includes the presentation and discussion of the relevant data for the achievement of the objectives of the study. This chapter includes the primary analysis and presentation of data that was collected through the questionnaire, by distributing the questionnaire to 150 but only 124 responses were collected. In this chapter, the data collected with help of questionnaire from primary sources are presented in the tables, charts, diagrams and graphs. The presentation provides the descriptive analysis, casual analysis and discussion of results and findings of the study. The primary data has been classified into two parts.

#### **4.1 Respondents Demographic Profile**

Demographic information of the respondents are presented in the table and figure. Data obtained are analyzed by using various tools. Descriptive statistics are used to describe the basic features of the demographic data of this study in this section i.e. frequency and percentage method is applied. They provide simple summaries about the sample and the measures. Frequency distribution and cross tabulation have been used to show the results of demographic in this section.

##### **4.1.1 Age of Respondents**

Age is the important demographic variable. The different age group was considered in the study that affected individual investors investment decision in stock market. The different age respondents filled up the form according to the questionnaire. Respondents' age has been categorized on three groups being below 25 years, 25 to 35 years, 35 to 45 years; and above 45 years. Frequency of each age group has been given in the following table:

**Table 4.1***Age of Respondents*

Age	Frequency	Percent
Below 25	22	17.7
25-35	81	65.3
35-45	16	12.9
Above 45	5	4.1
Total	124	100

*Source: Field Survey, 2023*

From the table 4.1, it is revealed that most of the share investors are in the age group of 25 years and 35 years. Out of 124 respondents, 81 respondents lie in the group of 25 to 35 years representing 65.3% of total respondents. And next the higher percentage of investors belong to the age group below 25 years. 22 respondents representing 17.7% of total sample belongs to this age group. 16 respondents lie between the age group of 35-45 years. Least percentage of investors fall in the age group above 45 years which is 4.1% of total respondents. Only 5 investors fall in this age group.

**4.1.2 Gender of Respondents**

The gender factor also has been considered in the study that might affect the relation of various factors on share investment decision as a moderating variable. Frequency and percentage of both gender group has been given in the following table:

**Table 4.2***Gender of respondents*

Gender	Frequency	Percentage
Male	87	70.16
Female	37	29.83
Total	124	100

*Source: Field Survey 2023*

The data provided in the table 4.2 shows the distribution of gender among the participants in the study. There was a total of 124 participants, with 87 (70.16%) being male and 37 (29.83%) being female. This information is important because it indicates the gender composition of the sample used in the study. By including this data, the

researchers acknowledge the potential impact of gender on share investment decisions and suggest that the findings may vary between male and female participants. Analyzing the data in this way allows researchers to explore how gender differences might influence the relationship between various factors and share investment decisions, providing a more nuanced understanding of the topic.

#### **4.1.3 Marital Status of Respondents**

Marital status is a demographic variable that affect the individual investment decision in stock market. Most of the respondents who were surveyed were married and to understand the relation between marital status and investing habits this consideration is taken. Most of the investors who are married have a tendency to invest in much secure investments and assets which give benefit in the long term. The rest of the respondents who are single have mainly invested in the avenues irrespective of their long-term growth. Both married and single were the respondents for the data collection.

**Table 4.3**

*Marital Status of Respondents*

Marital Status	Frequency	Percentage
Married	76	61.3
Single	48	38.7
Total	124	100

*Source: Field Survey, 2023*

The table 4.3 shows the marital status of the respondents. It reveals that married investors are higher than single investor as respondent. Out of 124 respondents, 76 respondents are married representing 61.3% of total respondents whereas 48 investors are single representing 38.7% of total respondents.

#### **4.1.4 Occupation**

From the analysis of the table below, it can easily understand that in which sector investors are more involved for making their money.

**Table 4.4***Occupation of Respondents*

Occupation	Frequency	Percentage
Unemployed	12	9.6
Business Person	17	13.7
Financial Institution Employee	57	46
Teaching	12	9.6
Hospitality	18	14.5
Others	8	6.2
Total	124	100

*Source: Field Survey, 2023*

From the table 4.4 it is shown that most of the individuals working in financial institutions are involved in share market. The individuals involved in financial institutions are 57 out of 124 taken as respondents. The individuals employed in financial institution represents 46% of total respondents. Whereas the individuals involved in teaching profession are lowest representing 9.6% of total of the sample used in the study. Similarly, business person is 17 which represent 13.7%. Likewise, there are 18 individuals from hospitality sector representing 14.5% of total respondents and 20 individuals from others sectors like civil service who represents 16.2% of total respondents. Similarly, 8 were from other sectors representing 6.2% of respondents and 12 were unemployed representing 9.6% of total respondents.

#### **4.1.5 Annual Income of Respondents**

Annual income is very important demographic variable that affect the investment decision in stock market. Without adequate income, it is impossible to take share investment decision. Higher annual income induces to higher investment in share market and vice versa. The annual income of the respondent given in the certain range as below:

Table 4.5

*Annual Income of Respondents*

Annual Income	Frequency	Percentage
Less than 50000	17	13.7
50000-100000	15	12.1
100000-200000	22	17.7
200000-300000	28	22.6
More than 300000	42	33.9
Total	124	100

*Source: Field Survey, 2023*

The table 4.5 shows that most of the individual's annual income fall under the category of above 3, 00,000 i.e. 33.9%. 17 involved in share market have their annual income less than 50000 representing 13.7% of total respondents. 12.1% are earning in the range of 50000-100000 annually. Approximately, 17.7% are earning 100000 to 200000 annually whereas 22.6% are earning in the range of 200000 to 300000.

#### **4.1.6 Qualification of Respondents**

Qualification is an important demographic variable that affects investment decision of the individuals in stock market. The academic qualification of respondents has been categorized on four groups: SLC, Intermediate, Bachelor degree and Masters or above. The respondents selected having different educational background which are presented in the table as below:

Table 4.6

*Qualification of Respondents*

Qualification	Frequency	Percent
SLC	0	0
Intermediate	12	9.7
Bachelors	48	38.7
Masters or above	64	51.6
Total	124	100

*Source: Field Survey, 2023*

The table 4.6 shows that most of the respondents are highly qualified and post graduated representing 51.6% of total respondents. There are a smaller number of respondents whose educational background is less than intermediate. There were no respondents with the educational background of only SLC. However, 12 out of 124 respondents representing 9.7% of respondents are intermediate and 38.7% of respondents holds bachelor degree in the survey.

## 4.2 Analysis of Investment Behavior of Respondents

Investment behavior refers to the actions and decisions individuals make regarding the allocation of their funds into various financial instruments, such as stocks, bonds, real estate, or other assets, with the expectation of generating a return. Several factors influence investment behavior, including risk tolerance, time horizon, financial knowledge, and psychological biases.

### 4.2.1 Investment Decision of Respondents

This section gives the share investment decision of individual investors. It represents how many investors are able to take their own share investment decision.

**Table 4.7**

#### *Investment Decision of Respondents*

	Frequency	Percent
No	29	23.4
Yes	95	76.6
Total	124	100

*Source: Field Survey, 2023*

The table 4.7 shows that 95 out of 124 respondents representing about 77% of total respondents are taking their own investment decision. Only 29 out of 124 respondents are not taking their own investment decision and reply on others for their own investment decision. They represent 23.4% of total respondents.

### 4.2.2 Market Preference of Respondents

Market preference refers to the preference of the market by respondent to purchase the share either by IPO or secondary market or both. This section gives the preference

market of individual investors. It gives information about whether they want to invest only in primary market, secondary market or in both markets.

**Table 4.8**

*Market Preference of Respondents*

Market	Frequency	Percent
Primary	40	32.3
Secondary	19	15.3
Both	65	52.4
Total	124	100

*Source: Field Survey, 2023*

The table 4.8 above shows the information about preference of market for investment by the individual investors. Out of 124 respondents 40 respondents representing 32.3% prefer to invest in primary market only and only 19 out of 124 respondents representing 15.3% prefer to invest in secondary market only. Similarly, the number of respondents who prefer to invest in both primary as well a secondary market is highest in number which is 65 representing 52.4%

#### **4.2.3 Indulged Period**

The involvement or indulged period of the respondents is also one of the important factors that affect their investment decision in the stock market. Number of years of experience in the share market of the respondent represents knowledge of the respondents on share market. This section gives the information about the total time period the respondents been involved in the share transaction or investment.

**Table 4.9**

*Indulged Period*

Indulged Period	Frequency	Percent
Less than a year	38	30.7
1 to 5 years	61	49.2
5 to 10 years	23	18.5
Above 10 years	2	1.6
Total	124	100

*Source: Field Survey, 2023*

The table 4.9 shows that most of the respondents have been involved in share market from 1 years to 5 years. 61 out of 124 respondents representing 49.2% investors are indulged in share market from 1 to 5 years. This is followed by the investors investing for less than a year who represents 30.7% of total respondents, which means that 38 respondents have just recently started investing in share market. 23 respondents representing 18.5% of total respondents have invested in the share market from 5 to 10 years. And the least number of investors i.e. only 2 out of 124 individuals are involved in share market for more than 10 years representing only 1.6% of the total respondents.

#### 4.2.4 Frequency of Share Investment

Frequency of investment means the number of times the investor buys or sells the share. It measures how frequently they take their investment decision.

**Table 4.10**

*Frequency of Share Investment*

Frequency of Investment	Frequency	Percentage
Daily	10	8.1
Weekly	18	14.5
Monthly	31	25
Occasionally	65	52.4
Total	124	100

*Source: Field Survey, 2023*

The table 4.10 shows that most of the respondents are occasional investors. 65 out of 124 respondents are investing on occasional basis. 31 respondents out of 124 representing 25% of total respondents are investing on monthly basis. Only few numbers of people are investing on daily and weekly basis. 18 respondents out of 124 representing 14.5% of total respondents invest on monthly basis. Whereas only 10 respondents representing 8.1% are investing on daily basis.

#### 4.2.5 Amount Invested in Share Market

This section represents the total amount of money respondents has invested in the share market in total.

**Table 4.11***Amount Invested in Share Market*

Amount Invested	Frequency	Percentage
Less than 1 lakh	47	37.9
1 to 5 lakhs	38	30.7
5 to 10 lakhs	21	16.9
Above 10 lakhs	18	14.5
Total	124	100

*Source: Field Survey, 2023*

Majority of the investors invest less than 1 lakh in share market and accordingly plan their investment. They represent 37.9% of total respondents. Very closely it is followed by investors investing between 1 to 5 lakhs. The total no of respondents investing 1 to 5 lakhs are 38 out of 124 representing 30.7% of total respondents. 18 respondents invest from 5 to 10 lakhs in the share market representing 14.5% of total respondents. The least number of investors are who invest more than 10 lakhs in share market. They represent only 14.5% of total respondents.

#### **4.2.6 Source of Financing for Investment**

For this study owned capital and debt financing has been taken as the major source of financing for investing in share investment decision. This section provides information about whether individual investors use their own capital or use debt financing for their investment in share market.

**Table 4.12***Source of Financing for Investment*

Source of Financing	Frequency	Percent
Owned Capital	91	73.4
Debt	4	3.2
Both	29	23.4
Total	124	100

*Source: Field Survey, 2023*

The above table and figure show that 91 respondents out of 124 representing 73.4% are investing in the share market with their own capital. Similarly, 4 respondents

representing 3.2% of total respondents are investing in the share market with debt source of financing. Similarly, number of respondents who make investment with both source of financing that is with debt and owned capital is 29 representing 23.4% of total respondents. This shows that most of the investors prefer to invest with their own capital.

#### 4.2.7 Reason Behind Choice of Investment

Reason or source of investing in share is the most important investment related information which clarifies the individual investment behavior and also helps to demonstrate what factor are main source for them to invest in share market.

**Table 4.13**

*Reason Behind Choice of Investment*

Source of Investment	Frequency	Percentage
Self-Awareness	47	37.9
Financial Advisors	11	8.9
Brokers Advice	18	14.5
Relatives/ Friends	42	33.9
Media	6	4.8
Total	124	100

*Source: Field Survey, 2023*

The table above shows that most of the individual are taking their investment choice decision by self-awareness. They represent 37.9% of total respondents. This is closely followed by the number of respondents whose reason behind choice of investment are their relatives or friends. They cover 33.9% of total respondents with the frequency of 42 out of 124 respondents. Similarly, 11 respondents representing 8.9% takes the suggestion of financial advisors for choice of investment. 18 out of 124 respondents representing 14.5% takes brokers advice for choice of investment. Whereas the least number of respondents go to the media advisor or prefer media for investment choice decision.

#### 4.2.8 Duration of Investment

This section gives information about whether individual investor wants to invest their funds in share market for long term or short term. The goal of long-term investing is to build wealth over a long period of time by carefully creating a portfolio of stocks and assets such as mutual funds, bonds and other financial instruments. Short-term investing on the other hand, is an approach where the trader buys and sells shares very frequently. The transactions could occur even within a single day. The aim of short-term trading is to earn high profits from price fluctuations within a small-time horizon.

**Table 4.14**

*Duration of Investment*

Duration of Investment	Frequency	Percentage
Short term (0 to 1 year)	52	41.9
Mid-term (1 to 5 year)	54	43.6
Long term (more than 5 year)	18	14.5
Total	124	100

*Source: Field Survey, 2023*

The table 4.14 shows the duration of investment made by individual investor on share market for certain time period. The time period represented is in terms of earning return whether they want to earn return in short time or long time. We can see that most of the respondents i.e. 54 respondents representing 43.6% prefer to invest for midterm (1 to 5 year). 52 out of 124 respondents representing 41.9% want to invest for short term (0 to 1 year). Only few respondents want to invest for long term that is more than 5 years. They only represent 14.5% of total respondents. This depicts that most of the investors prefer to invest in those funds which generates income in short term.

#### 4.2.9 Investor Type

This section clarifies about the type of investor on the basis of risk taking. The types of investors described in the study are: high risk taker, moderate risk taker and low risk taker. High risk taker investors are not scared of the potential of losing everything; they are even intrigued by the possibility of market volatility. They like speculating on the market fluctuation in expectation of getting a high rate of return. Whereas moderate risk taker investors would always like to grow their portfolio by taking some risks, but

would not want the risk of losing everything. And low risk taker investors do not like taking the risk. They would like to have a lower but fixed and secured rate of return on their investment.

**Table 4.15**

*Investor Type*

Investor Type	Frequency	Percentage
High Risk Taker	12	9.7
Moderate Risk Taker	65	52.4
Low Risk Taker	47	37.9
Total	124	100

*Source: Field Survey, 2023*

From the table 4.15 we can see that most of the respondents prefer to take moderate risk that is neither too high or nor too low. They represent 52.4% of the total respondents with the frequency of 65. This is closely followed by the respondents who wants to take low risk. 47 out of 124 representing 37.9% of total respondents considers themselves as low-risk taker. Whereas the respondents who want to take high risk are very few in number. Only 12 respondents representing 9.7% considers themselves as a high-risk taker.

#### **4.2.10 Share Invested Companies of Respondents**

If investors prefer to invest in low-risk investments, they can be referred as low risk takers and vice versa. So, this helps to give information about the individual investment decision. Total of eight investment avenues has been taken in the study.

**Table 4.16***Share Invested Companies of Respondents*

Investment Avenues	Frequency	Percent
Commercial banks	66	19.6
Development banks	57	17
Finance companies	38	11.3
Hydroelectricity	104	30.9
Hotels	2	0.6
Insurance companies	42	12.5
Manufacturing companies	9	2.7
Other companies	18	5.4
Total	336	100

*Source: Field Survey, 2023*

Table 4.16 shows frequency distribution of share invested avenues by individual investors. From table we can see that most of the investors prefer to invest in hydro-power. It has frequency of 104 representing 30.9%. Respondents investing in commercial banks and development banks are 66 and 57 respectively. They represent 19.6 and 17% of total respondents respectively. The number of respondents investing in finance companies are 38 representing 11.3%. 42 respondents are investing in insurance companies whereas 9 respondents are investing in manufacturing companies. Whereas very few respondents have invested in hotels representing only 0.6%.

#### **4.2.11 Reasons for Investing in Share Market**

Reasons for investing in share is most important investment related information which clarify the individual behavior as well as helps to demonstrate what factor affect them to invest in stock market of Nepal. Respondents were given the choice to choose more than one option. The following table shows the factors which investors find attractive to invest in share market:

**Table 4.17***Reasons for Investing in Share Market*

Attracting Factors	Frequency	Percent
Capital gain	53	22.4
Dividend	53	22.4
Higher return	79	33.3
Existing knowledge of share market	44	18.6
Liquidity of invested fund	8	3.3
Total	237	100

*Source: Field Survey, 2023*

From the table 4.17, we can see that most of the investors find higher return most attractive factor for investing in share market. 33.3% of respondents are attracted to share market because of higher return factor. Whereas 22.4% of respondents find capital gain as an attractive factor to invest in share market. Similarly, equal percent of respondents are attracted to share market because of dividend. Existing knowledge of share market has attracted 18.6% of respondents to invest in the share market. Whereas very few respondents are attracted because of liquidity of invested fund representing only 3.3%.

### **4.3 Descriptive Analysis**

Descriptive analysis is a form of summary statistics that quantitatively describe or summarize the characteristics of a collection of information. In this investigation, the mean is measured as a measure of central tendency, while the standard deviation is measured as a measure of variability among the various variables of the study, including advocate recommendation, market factor, firms image & financial performance, and economic factor.

#### **4.3.1 Awareness of Investors about Investment Decision**

The mean shows the location of the center of the data and the standard deviation is the spread in the data. The application of the normal distribution comes from assessing data points in terms of the standard deviation. The independent variables were measured in the five Likert scale i.e., 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree. The mean and standard deviation of those independent and dependent variables are shown in the following table:

**Table 4.18***Descriptive Analysis of Advocate Recommendation*

Advocate Recommendation	Mean	S.D.
I take broker's suggestion while making investment decision.	3.15	1.275
I take suggestions from my friends while making investment decision.	3.73	1.143
I prefer to take opinions of firm major stockholders while buying shares.	3.45	1.023
Other investor's decision of choosing stock type have impact on my investment decision.	3.88	0.782
I take suggestion from my family or relatives while making investment decisions.	3.91	1.162

*Source: SPSS Output, 2023*

The table 4.18 shows the mean score and S.D obtained by each Likert scale statement according to the response of 124 respondents during the survey. Mean score of first statement "I take broker's suggestion while making investment decision" is 3.15 which is more than 3 which can be interpreted as brokers recommendation has some effect on share investment decision and it can be considered as an influencing factor.

Likewise, the mean score for other statement "I take suggestions from my friends while making investment decision" is 3.73 which is more than 3. So it can be concluded that the investors agree that their friends influence their share investment decision.

Again, the mean score for third statement "I prefer to take opinions of firm major stockholders while buying shares" is 3.45. Similarly, the mean score for fourth statement "Other investor's decision of choosing stock type have impact on my investment decision" is 3.88. So, these both factors that is opinions of firm major stockholder and opinion of other investor's decision has importance on share investment decision of individual investors. Lastly the statement "I take suggestion from my family or relatives while making investment decisions" has mean score of 3.91 which is highest among all other factors in advocate recommendation. This means that investors agree that suggestion from family or relatives influence their share investment decision the most.

**Table 4.19***Descriptive Analysis of Market Factors*

Market Factors	Mean	S.D.
I analyze political movements and condition of the country before investing.	3.52	1.206
I analyze political movements and condition of the country before investing.	3.48	1.158
My investment decision is affected by market rumor or market information about the stock.	3.87	0.979
I make the analysis of recent movement in share price for making investment decisions.	3.56	0.940

*Source: SPSS Output, 2023*

Table 4.19 shows the mean score obtained by each Likert scale statement under the market factors variables. The first statement “I analyze political movements and condition of the country before investing” has mean score of 3.52 which is greater than 3, so the investors agree on this point. Similarly, the second statement “I analyze political movements and condition of the country before investing” has mean score of 3.48 which is greater than 3, so the investors agree on this point. Likewise, the mean scores the third statement “My investment decision is affected by market rumor or market information about the stock” is 3.87. So the individual investors agree on this statement too. Lastly the fourth statement also has mean score more than 3 which means that most investors agree on the statement “I make the analysis of recent movement in share price for making investment decisions”

**Table 4.20***Descriptive Analysis of Company Image and Financial Performance*

Company Image and Financial Performance	Mean	S.D.
I prefer to invest in those shares which have high media coverage and popular brand name.	3.59	1.203
I prefer to invest in those companies having high net profit.	4.11	1.357
Financial indicators and current condition of financial statements of the firm influence my investment decision.	3.59	1.223
I analyze the past performance of shares before making investment decision.	3.45	1.199

*Source: SPSS Output, 2023*

The table 4.20 shows the mean score obtained by each Likert scale statement under the variables related to company image and financial condition. Except the second statement all the statement under this factor has mean score greater than 3 which means investors agree on these three statements. Whereas the second statement “I prefer to invest in those companies having high net profit” has mean score of 4.11 which is greater than 4. So, investors strongly agree that net profit of a firm influence their share investment decision.

**Table 4.21**

*Descriptive Analysis of Economic Factors*

Economic Factors	Mean	S.D.
The increase or decrease in the inflation rate affect my share investment.	3.23	1.293
My investment decision is affected by the increase or decrease in the market interest rate.	3.45	1.107
The change in economic policies also affects my stock investment decision.	3.77	1.125

*Source: SPSS Output, 2023*

The table 4.21 shows the mean score obtained by each Likert scale statement under the variables related to economic factors. The first statement “The increase or decrease in the inflation rate affect my share investment” has mean score of 3.23 which is greater than 3, so the investors agree on this point. Similarly, the second statement “My investment decision is affected by the increase or decrease in the market interest rate” has mean score of 3.45 which is greater than 3, so the investors’ agree that market interest rate affects their share investment decision. Lastly the fourth statement also has mean score more than 3 which means that most investors agree on the statement “The change in economic policies also affects my stock investment decision”. They agree that change in economic policies of a country affect their share investment decision.

**Table 4.22***Descriptive Analysis of Individual Investment Decision*

Individual Investment Decision	Mean	S.D.
I prefer to invest my saving in stock or share market.	3.58	1.105
I am confident in the share investment decision I make.	3.29	1.188
I prefer to transfer money into more secure sectors if the investment decrease in value.	3.12	1.412

*Source: SPSS Output, 2023*

The table 4.22 shows the mean score and standard deviation of dependent variables factors. Individual investors agree that they prefer to invest their saving in stock or share market. Investors also agree that they are confident in the share investment decision they make.

**4.4 Cross Tabulation Analysis**

Cross tabulation is a method to quantitatively analyse the relationship between multiple variables. Also known as contingency tables or cross tabs, cross tabulation groups variables to understand the correlation between different variables. A cross tabulation report is used to analyze the relationship between two or more variables. The report has the x-axis as one variable (or question) and the y-axis as another variable. This type of analysis is crucial in finding underlying relationships within your survey results. It also shows how correlations change from one variable grouping to another. It is usually used in statistical analysis to find patterns, trends, and probabilities within raw data.

**Table 4.23***Cross Tabulation of Qualification and Risk Attitude*

		Low risk taker	Moderate risk taker	High risk taker	Total
Qualification	Intermediate	9	3	0	12
	Bachelors	20	24	4	48
	Masters or above	18	38	8	64
	Total	47	65	12	124

*Source: SPSS Output, 2023*

From the table 4.23, it can be interpreted that out of 12 respondents who have qualification of intermediate, 9 are low risk taker, 3 are moderate risk taker and none of them are high risk taker. Similarly, among 48 respondents, who have cleared their bachelor's degree, 20 respondents are low risk taker, 24 respondents are moderate risk taker and 4 respondents are high risk taker. Lastly, among 64 respondents who have master's degree or higher qualification, 18 are low risk taker, 38 are moderate risk taker and 8 respondents are high risk taker.

## 4.5 Inferential Analysis

Inferential uses a random sample of data taken from a population to best describe and make inferences about the population. Statistical inferences are the process of using data analysis to deduce properties of an underlying probability distribution. Inferential statistical analysis infers properties of a population, for example by testing hypothesis and deriving estimates.

### 4.5.1 Correlation Analysis between Variables

Correlation is a technique for investigating the relationship between two quantitative, continuous variables. Pearson coefficient,  $r$ , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between variables. A value greater than 0 indicates that there is a positive association which means as the value of one variable increases, so does the value of another variable. A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases. Using SPSS software, we found the following correlation statistics.

**Table 4.24**

*Correlation Analysis*

Variables	(1)	(2)	(3)	(4)	(5)
Advocate Recommendation (1)	1	.658**	.645**	.583**	.653**
Market Factor (2)	.658**	1	.622**	.462**	.629**
Financial Performance (3)	.645**	.622**	1	.458**	.614**
Economic Factor (4)	.583**	.462**	.458**	1	.624**
Individual Investor's Investment Decision (5)	.653**	.629**	.614**	.624**	1

*Source: SPSS Output, 2023*

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

The table 4.24 shows the relationship between individual investors investment decision, advocate recommendation, market factor, company image and financial performance, economic factor. From the table 4.24 we can see that there is positive correlation between individual investors investment decision and advocate recommendation (0.653) and p-value is 0.000 which is less than 0.05. This indicates that there is significant relationship between individual investors share investment decision and advocate recommendation.

#### 4.5.2 Regression Analysis

Regression analysis is a way of mathematically finding out which of the independent variables does indeed have an impact on the dependent variable. Regression analysis is a major statistical tool for casual comparative research design because it helps identify significant independent variables that affect dependent variables within a research framework. Here in this study the regression analysis is performed to test the overall significance of the model based on which the study is conducted. In this study, multiple regression of individual investor's investment decision with advocate recommendation (AR), market factors (MF), financial performance (FP) and economic factors (EF) was conducted based on linear regression. The outcome along with the interpretation is below:

**Table 4.25**

*Regression Model Summary*

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.807	0.652	0.640		0.29593
a) Predictors: (Constant) AR, MF, IFP and EF					
b) Dependent Variable: Individual Investors Investment Decision					

*Source: SPSS Output, 2023*

From the table 4.25, the value of adjusted R-squared is 0.640; indicating that about 64.0% of the fluctuations in individual investors decision making is explained by independent variables: advocate recommendation, market factors, company image & financial performance and economic factors. The adjusted R-squared in the result is reported as the multiple coefficients of the determination basically adjusted to account for the degree of freedom associated with the sum squares in the regression.

**Table 4.26***ANNOVA from Regression Model*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	19.515	4	4.879	55.712	0.000
Residual	10.421	119	0.088		
Total	29.936	123			

a) Predictors: (Constant) AR, MF, IFP and EF  
b) Dependent Variable: Individual Investors Investment Decision

*Source: SPSS Output, 2023*

The ANOVA table shows that the regression model as a whole is statistically significant ( $F(4, 119) = 55.712, p < 0.005$ ), indicating that at least one of the predictors significantly predicts the dependent variable. The regression model accounts for a significant proportion of the variance in the dependent variable, as indicated by the large F value and the significant p-value. The predictors together explain a substantial portion of the variance in the dependent variable, as shown by the relatively large sum of squares for the regression (19.515) compared to the residual sum of squares (10.421). This suggests that the model is a good fit for the data and that the predictors are meaningful in explaining individual investors' investment decisions.

**Table 4.27***Regression Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1.	(Constant)	.208	.249		.836	.405
	AR	.270	.101	.232	2.680	.008
	MF	.265	.078	.274	3.393	.001
	FP	.242	.076	.252	3.169	.002
	EF	.181	.072	.186	2.502	.014

Dependent Variable: Individual Investors Investment Decision

*Source: SPSS Output, 2023*

In this study the regression model used for reaching the point of conclusion is as follows:

$$IIID = \beta_0 + \beta_1 AR + \beta_2 MF + \beta_3 FP + \beta_4 EF$$

Where,

IIID= Individual Investors Investment Decision

AR= Advocate Recommendation

MF= Market Factors

FP= Financial Performance of Company

EF= Economic Factors.

From the table 4.18, we can determine the regression model as follows:

$$IIID = -0.208 + 0.270AR + 0.265MF + 0.242FP + 0.181EF$$

The empirical result indicates that advocate recommendation, market factors, company image & financial performance, economic factors are statistically significant at 5% level of significance with the p-value of 0.008, 0.001, 0.002 and 0.014 respectively. The t-statistic value of advocate recommendation is 2.680 with p-value 0.000 (i.e.  $p < 0.05$ ) meaning that advocate recommendation has significant and positive impact on the individual investor's investment decision in share market. In concrete terms, it implies that a unit change or increase in advocate recommendation brings about 0.270-unit change or increase on individual investors share investment decision.

Similarly, the t-statistic value of market factors is 3.393 with p-value 0.001 (i.e.  $p < 0.05$ ) meaning that market factors have significant and positive impact on the individual investor's investment decision in share market. In concrete terms, it implies that a unit change or increase in market factors brings about 0.265-unit change or increase in the value of individual investors share investment decision.

Company image and financial performance and economic factors are statistically significant at 5% level of significance with p-value 0.002 and 0.014 respectively. The t-statistics for company image & financial performance is 3.169 with p-value 0.002 (i.e.  $p < 0.05$ ) meaning that IFP has a significant and positive impact on individual investors share investment decision. Thus, when we change or increase the value of company image and financial performance by 1 unit, it leads to change or increase in the value of individual investors share investment decision by 0.242 units. Lastly, the t-statistics for

economic factors is 2.502 with p-value 0.014 (i.e.  $p > 0.05$ ) indicates that EF has a significant and positive influence on individual investors share investment decision. So, when we increase or change the value of interest rate by 1 unit, it will lead to increase or change value of individual investors share investment decision by 0.181 units.

#### **4.6 Discussion**

Internationally, researchers have identified several key factors, including risk perception, financial literacy, psychological biases, social and environmental factors, technological advancements, advocate recommendations, market conditions, financial performance, and economic conditions. These factors collectively influence individual investor decisions, highlighting the complexity of investment behavior. In Nepal, similar factors are at play, with additional emphasis on the regulatory environment, social and cultural influences, and limited access to market information. Nepalese investors exhibit risk-averse behavior, influenced by herd mentality and emotional decision-making, underscoring the importance of understanding psychological factors in investment decisions.

The findings of the research align with existing literature, indicating that individual investors in Nepal are predominantly male, aged between 25 and 35, and highly educated. They make their own investment decisions, prefer moderate risk, and invest primarily in hydro-power, commercial banks, and development banks. Factors influencing their investment decisions include self-awareness, advice from relatives or friends, and broker suggestions. They consider political movements, market rumors, and company financial performance when making investment decisions, highlighting the importance of both internal and external factors in investment choices.

The regression analysis confirms the significant impact of advocate recommendation, market factors, company image & financial performance, and economic factors on individual investors' investment decisions. These findings corroborate international research, indicating that these factors are universal in influencing investment behavior. However, the study also suggests that Nepalese investors have specific preferences and behaviors influenced by the local context, such as limited access to market information and social pressures. Understanding these factors is crucial for policymakers and market

participants in designing effective strategies to promote informed and sustainable investment decisions in Nepal.

In conclusion, the literature review and empirical findings highlight the complex nature of individual investor share investment decisions, influenced by a myriad of factors. While international studies provide a theoretical framework for understanding investment behavior, Nepalese studies offer insights into the unique context and challenges faced by investors in Nepal. By integrating these perspectives, policymakers and market participants can develop strategies to enhance investor confidence, improve access to market information, and promote a sustainable investment environment in Nepal.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

This part serves as a bridge between the main body of the thesis and the final wrap-up, highlighting the significance of the research and its implications for the field. This chapter presents the summary and conclusions from the analysis of primary data collected through structured questionnaires, regarding the factors affecting share investment decision of investors in Kathmandu Valley.

#### **5.1 Summary**

The study employed both descriptive and inferential statistical tools to analyze the data collected from individual investors in the Nepalese stock market. Descriptive tools such as frequency distribution, mean, standard deviation, and cross-tabulation provided insight into demographic and behavioral aspects of investors. Inferential techniques including Pearson correlation and multiple regression analysis were used to test the hypotheses. The findings indicate that individual investment decisions are significantly influenced by advocate recommendations, market conditions, company image and financial performance, and economic factors. The regression model explained approximately 64% of the variance in investment decisions, confirming the strong predictive power of these variables. All four null hypotheses were rejected, establishing the statistical significance of the identified factors.

The demographic profile of the respondents shows that the majority of investors (65.3%) are aged between 25 and 35 years, with smaller proportions in the age groups of 35–45 years (12.9%) and above 45 years (4.1%). Male investors dominate the sample (70.16%), while females account for 29.83%. In terms of marital status, 61.3% are married. Occupationally, the highest participation comes from those employed in financial institutions (46%), followed by civil service (16.2%), hospitality (14.5%), business (13.7%), and teaching (9.6%). The income distribution reveals that 33.9% of respondents earn more than NPR 300,000 annually. In terms of education, over half (51.6%) hold postgraduate degrees, indicating a well-qualified investor base.

Regarding investment behavior, the majority of investors (77%) make their own decisions, with preferences distributed among the primary market (32.3%), secondary

market (15.3%), and both markets (52.4%). Investment experience varies, with 49.2% investing for 1–5 years and 30.7% for less than a year. Most investors (52.4%) are occasional participants, 25% invest monthly, and very few invest daily or weekly. A large majority (73.4%) invest with their own capital, while 23.4% use a combination of own funds and debt, and only 3.2% rely entirely on debt financing. The main driver behind investment decisions is self-awareness (37.9%), followed by advice from relatives or friends (33.9%).

Risk preferences indicate that 52.4% of investors prefer moderate risk, 37.9% prefer low risk, and only 9.7% are high risk-takers. The most preferred investment sector is hydropower (30.9%), followed by commercial banks (19.6%) and development banks (17%). Investors are primarily attracted to higher returns (33.3%), capital gain (22.4%), and dividends (22.4%). Social influence plays a significant role, with family or relatives' suggestions having the highest influence (mean: 3.91), followed by friends (mean: 3.73) and brokers (mean: 3.15).

Investors consider a range of factors when making investment decisions, including political developments, market rumors, and recent price movements. They prefer companies with strong net profits (mean: 4.11), as well as those with a good public image and sound financial health. Macroeconomic indicators such as inflation, interest rates, and economic policies also influence decision-making. Most investors express confidence in their decisions and prefer to channel their savings into the stock market.

Cross-tabulation analysis reveals that education level affects risk tolerance. Intermediate-level respondents predominantly prefer low-risk investments (75%) and none opt for high-risk options. Bachelor's degree holders are distributed across all risk levels, with a higher inclination toward moderate risk (50%), while those with a master's degree or higher also show a strong preference for moderate risk (59.4%).

The correlation analysis shows a statistically significant and positive relationship between investor decisions and factors such as advocate recommendations, market factors, company image and performance, and economic variables, with all p-values less than 0.05. Multiple regression analysis further confirms that these variables collectively explain about 64% of the variation in individual investment decisions, with the model

being statistically significant ( $p < 0.001$ ). Advocate recommendations and market factors exert the strongest influence, followed by company image and economic factors, all contributing significantly ( $p < 0.05$ ). The rejection of all null hypotheses confirms the impact of these four key factors on the investment behavior of individual investors in Nepal.

## **5.2 Conclusion**

The study examined the factors affecting the investment decisions of individual investors in the Nepalese stock market, focusing on advocate recommendations, market factors, company image and financial performance, and economic factors. Based on the survey of 124 respondents and statistical analyses, several important insights were drawn.

First, regarding the current status of individual investors in the Nepalese stock market, the findings indicate that most investors are young, well-educated, and predominantly engaged in self-directed investment decisions. A significant proportion prefer mid-term or short-term investments and adopt a moderate-risk profile. Hydropower and banking sectors emerged as the most favored investment areas, with owned capital as the primary funding source.

Second, correlation analysis confirmed a statistically significant and positive relationship between all four independent variables—advocate recommendations, market factors, company image and financial performance, and economic factors—and the investment decisions of individual investors. This implies that investors' choices are influenced by both subjective advice and objective market conditions.

Third, regression analysis revealed that these variables collectively explain 64% of the variance in investment decision-making, indicating a strong explanatory power. Among them, advocate recommendations and market factors exerted the most substantial impact, followed by company image and financial performance, and economic conditions. This suggests that while financial fundamentals and macroeconomic indicators are relevant, immediate market perceptions and trusted sources of advice are more decisive for many investors.

In conclusion, the study establishes that the investment behavior of Nepalese individual investors is shaped by an interplay of personal, informational, and economic influences. Strengthening investor education, enhancing market transparency, and improving the quality of professional financial advice can help investors make more informed and rational decisions. Policymakers and market regulators should also focus on stabilizing market conditions and promoting reliable information flow to sustain investor confidence and participation.

### **5.3 Implication**

The findings of this study offer important insights into the behavior and decision-making processes of individual investors in the Nepalese stock market. The results confirmed that advocate recommendation, market conditions, company financial performance and image, and economic factors significantly influence investment decisions. These implications are valuable not only for academic research but also for regulators, market participants, and policy designers. The empirical evidence highlights the need to address psychological, informational, and structural dimensions of investor behavior in order to foster a more efficient and inclusive capital market in Nepal.

#### **5.3.1 Theoretical Implications**

The study contributes to the growing field of behavioral finance by validating key theoretical constructs such as Prospect Theory, Overconfidence Hypothesis, Behavioral Bias Theory, and Social Interaction Theory within the Nepalese context. The statistically significant impact of psychological and external market factors supports the argument that investor behavior in emerging markets often diverges from the assumptions of classical financial theories like the Efficient Market Hypothesis (EMH). Furthermore, the research enriches the local literature by empirically examining the role of socio-economic and demographic variables on investment behavior, an area previously underexplored in Nepal. By integrating multiple behavioral and economic dimensions, the study provides a comprehensive framework for understanding individual investor behavior in a developing financial market.

#### **5.3.2 Practical Implications**

The study offers several actionable implications for practitioners and policymakers. First, the strong influence of advocate recommendations and social suggestions

underscores the need for certified and regulated financial advisory services to reduce misinformation and speculation-driven behavior. Second, the impact of market and economic factors suggests that timely dissemination of reliable financial data, macroeconomic updates, and company disclosures can support more rational investment choices. Third, regulators such as SEBON and NEPSE should enhance investor protection policies, enforce transparency, and encourage market literacy programs to reduce behavioral biases and foster long-term participation. Lastly, brokerage firms and financial institutions can use these findings to design investor-specific products, risk-assessment tools, and investment platforms tailored to the demographic and risk profiles of their clients.

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## APPENDIX

### **Questionnaire on “Factors Affecting Investment Decision of Individual Investors in Nepalese Stock Market”.**

*Dear sir/ madam,*

*This is an invitation to participate in a research study entitled “**Factors Affecting Investment Decision of Individual Investors in Nepalese Stock Market**”. I am currently undertaking a research project on investment pattern and behavior of individual investors in Nepalese Stock Market, as a part of my MBS from Shankar Dev Campus, Trhibhuvan University. The study attempts to analyze the various factors affecting the investment decision of investors. This questionnaire has been designed to collect data required for the study and participation is voluntary.*

*I humbly request you to cooperate for the research by completing the attached questionnaire which will take approximately 10 minutes of your valuable time. Your valuable information will contribute significantly for the success of the study. Your kind cooperation in this regard is greatly appreciated. The information collected will be used for academic purpose only and kept confidential. Participant anonymity will be maintained.*

*Thank you for your kind cooperation.*

#### **A. Demographic Profiles**

##### **Age**

Below 25

25-35

35-45

Above 45

##### **Gender**

Male

Female

##### **Marital Status**

Married

Single

**Occupation**

Unemployed

Business person

Financial institution employee

Teaching

Hospitality

Others (Please Specify: .....)

**Annual Income**

Less than 50000

50000-100000

100000-200000

200000-300000

Above 3 lakhs

**Qualification**

SLC

Intermediate

Bachelor

Masters

**B. Investment Behavior Related Survey**

- Do you take your own investment decision?
  - Yes
  - No
  
- Which market do you prefer for buying the shares? Why?
  - Primary
  - Secondary
  - Both
  
- How long have you been investing in share market?
  - Less than a year
  - 1-5 years
  - 5-10 years
  - Above 10 years
  
- How often do you invest in shares?

- Daily
- Weekly
- Monthly
- Occasionally
  
- What amount have you invested in the share market?
  - Less than 1 lakh
  - 1 to 5 lakhs
  - 5 to 10 lakhs
  - Above 10 lakhs
  
- How have you financed your investment?
  - Owned Capital
  - Debt
  - Both
  
- State the reasons behind the choice of your investment?
  - Self-awareness
  - Financial Advisors
  - Brokers Advice
  - Relatives/Friends
  - Media
  
- What is the time period you prefer to invest?
  - Short term (0 to 1 year)
  - Mid-term (1 to 5 year)
  - Long term (more than 5 year)
  
- Which type of investors do you consider yourself?
  - High risk taker
  - Moderate risk taker
  - Low risk taker
  
- In which companies' shares have you invested? (You can choose more than one)

- Commercial bank
  - Development bank
  - Finance companies
  - Hydroelectricity
  - Hotels
  - Insurance
  - Manufacturing Industry
  - Others
- 
- Which of the following factors have attracted you to invest in share market? (You can choose more than one)
    - Capital gain
    - Dividend
    - Higher return
    - Existing knowledge of share market
    - Liquidity of invested fund

### C. Factors Affecting Share Investment Decision

21) Write your opinion regarding the statement below.

Please read the statements given below carefully and rate each statement according to the scale below on how much you agree with them.

SA = Strongly Agree, A = Agree, N =Neutral, D = Disagree, SD = Strongly Disagree

Statements	SA	A	N	D	SD
<b>Advocate Recommendation</b>					
a) I take broker's suggestion while making investment decision.					
b) I take suggestions from my friends while making investment decision.					
c) I prefer to take opinions of firm major stockholders while buying shares.					
d) Other investor's decision of choosing stock type have impact on my investment decision.					
e) I take suggestion from my family or					

relatives while making investment decisions.					
<b>Market Factors</b>					
f) I analyze political movements and condition of the country before investing.					
g) I Analyze Current economic indicators before making investment decisions.					
h) My investment decision is affected by market rumor or market information about the stock.					
i) I make the analysis of recent movement in share price for making investment decisions.					
<b>Company Image and Financial Performance</b>					
j) I prefer to invest in those shares which have high media coverage and popular brand name.					
k) I prefer to invest in those companies having high net profit.					
l) financial indicators and current condition of financial statements of the firm influence my investment decision.					
m) I analyze the past performance of shares before making investment decision.					
<b>Economic Factors</b>					
n) The increase or decrease in the inflation rate affect my share investment.					
o) My investment decision is affected by the increase or decrease in the market interest rate					
p) The change in economic policies also affects my stock investment decision.					
<b>Investment Decision</b>					
r) I prefer to invest my saving in stock or share market.					
s) I am confident in the share investment decision I make.					
t) I prefer to transfer money into more secure					

sectors if the investment decrease in value.					
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Thankyou!!

## PAPER NAME

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