Psychological Factors on Investment Decision Making in Nepalese Stock Market

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Certificate of Authorship

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled “Psychological Factors on Investment Decision Making in Nepalese Stock Market” The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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December, 2024

Report of Research Committee

Mr. Subas Dahal has a defended research dissertation entitled "Psychological Factors on Investment Decision Making 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 the supervisor and submit the thesis for evaluation and viva vocal examination.

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Abbreviation

EMH: Efficient Market Hypothesis

ID: Investment Decision

LA: Loss Aversion

NEPSE: Nepal Stock Exchange

RR: Regret and Remorse

SC: Self-Confidence

SPSS: Statistical Package for the Social Sciences

Abstract

This study explores the psychological factors influencing investment decisions in the Nepalese stock market, focusing on beliefs, self-confidence, regret and remorse, and loss aversion. The research adopts a descriptive design, utilizing structured questionnaires distributed among 150 retail investors to examine the interplay between cognitive biases and financial behaviors. Findings reveal that psychological factors significantly impact investment decisions, with loss aversion and regret being prominent drivers of conservative strategies, while self-confidence often leads to overconfident behaviors. Correlation and regression analyses demonstrate weak to moderate relationships between these psychological factors and investment outcomes, underscoring their nuanced effects. The study highlights the need for enhanced financial literacy programs and policy interventions to mitigate cognitive biases and promote rational decision-making in the Nepalese stock market. These insights contribute to the growing field of behavioral finance, offering region-specific evidence and practical implications for emerging markets.

Keywords: Behavioral Finance, Investment Decisions, Psychological Factors, Beliefs, Self-Confidence, Loss Aversion, Cognitive Biases, Financial Literacy, Nepalese Stock Market.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment decisions in stock markets are influenced by numerous factors, ranging from economic indicators to individual psychological traits (Daniel et al., 2002). According to Tseng, K. C. (2006), Behavioral finance is an emerging field that challenges the rational assumptions of traditionalfinance, provides insights into how investors' psychological and emotional statesaffect decision-making processes. This study focuses on understanding how psychological factors impact investment decisions in the Nepalese stock market,a context characterized by retail investor dominance and unique market dynamics.

Traditional theories, such as the Efficient Market Hypothesis (EMH), assume rational behavior among investors, suggesting that markets reflect all available information efficiently (Fama, 1970). However, behavioral finance has challenged these views by showing that psychological and cognitive biases significantly impact investor behavior. For instance, loss aversion, overconfidence, and herding behavior have been identified as critical factors influencing investment patterns globally and regionally (Lamichhane, 2024; Mehmood et al., 2019).

Prospect theory, introduced by Kahneman and Tversky (1979), explains howinvestors perceive gains and losses asymmetrically, leading to risk-averse or risk-seeking behaviors. These biases are amplified in emerging markets, such asNepal, where investors rely heavily on personal perceptions, third-party recommendations, and limited financial literacy (Khan et al., 2023).

The Nepalese stock market, represented mainly by the Nepal Stock Exchange (NEPSE), is one of the most vibrant sectors of the country's financial system. Despite its growth, the market remains dominated by retail investors who often lack sophisticated investment knowledge. Factors such as limited availability of reliable market data and a preference for short-term gains exacerbate the role of psychological biases in investment decisions (Lamichhane, 2024).

Research has identified key psychological factors influencing investment decisions in Nepal, including herding behavior, advocate recommendations, and reliance on neutral information. For instance, investors often follow the crowd, replicating decisions of peers or financial advisors, which contributes to market volatility (Lamichhane, 2024; Business Perspectives, 2023). Additionally, the market's nascent stage, coupled with limited institutional participation, amplifies the influence of psychological factors like overconfidence and personal financialneeds.

This study focused on understanding how five critical psychological dimensions—Self-Image and Firm Image Confidence (SIFIC), Accounting Information (AI), Advocate Recommendations(AR), Neutral Information (NI), and Personal Financial Needs (PFN)—shape investor behaviorin the Nepalese stock market. These factors reflect the cognitive and emotional processes investors rely on when making financial decisions, often deviating from rational market logic.

Investors often align their self-image with firms they perceive as reputable or congruent with their personal values (Sanchez-Ruiz et al., 2021). This alignment results in biased investment decisions driven by subjective preferences rather than objective financial analysis. For instance, an investor may choose to invest in a firm due to its perceived ethical or social standing, even if the financial indicators suggest otherwise. Such tendencies can lead to overconfidence and unwarranted trust in the firm's performance, as psychological comfort takes precedence over rational evaluation (Lamichhane, 2024). This phenomenon is particularly relevant in emerging markets like Nepal, where brand reputation often holds substantial sway over investment choices.

Financial statements and accounting data are fundamental tools for evaluating investment opportunities. However, the interpretation of this information is often influenced by psychological biases. Investors may overemphasize specific metrics they are familiar with or feelconfident interpreting, neglecting other critical data. Additionally, a lack of expertise or financialliteracy can lead to misinterpretation of complex financial statements, further skewing

decision-making (Khan et al., 2023). In the Nepalese context, where access to comprehensive financial education is limited, the reliance on partial or misunderstood

accounting informationcan exacerbate errors in judgment.

Advice from peers, brokers, or financial analysts plays a significant role in shaping investment decisions in Nepal. This reliance often fosters herd behavior, where investors mimic the actionsof others without conducting independent analyses. Such behavior is especially prevalent in emerging markets, where trust in third-party recommendations can overshadow personal judgment (Business Perspectives, 2023). While advocate recommendations can provide valuable insights, overdependence on them reduces the diversity of thought and increases the likelihood ofspeculative bubbles or unwarranted market corrections.

External sources like news reports, social media, and online platforms also influence investmentdecisions (Ahern, K. R., & Peress, J., 2023). While these sources are critical in providing timely information, their reliability and objectivity can vary significantly. Investors may fall prey to confirmation bias, seeking out news that aligns with their pre-existing beliefs or overlooking contradictory information. This dependence on potentially misleading or incomplete neutral information increases the risk of errors in judgment, particularly in fast-moving markets where decisions must be made under time constraints (Mehmood et al., 2019).

Individual financial conditions, such as income stability, liquidity requirements, and risk tolerance, are integral to shaping investment decisions. For example, an investor with pressing financial obligations may prioritize short-term gains over long-term returns, even if the latter aligns better with market trends. Personal financial needs often override rational market logic, leading to decisions driven more by immediate requirements than by strategic planning (Lamichhane, 2024). In Nepal, where many investors face economic uncertainties, these needs heavily influence risk-taking behaviors and portfolio diversification.

By examining these dimensions, this study aims to shed light on the complex interplay between psychological factors and investment decisions in the Nepalese stock market. Understanding these influences is crucial for fostering better investor education and designing market policies that mitigate the adverse effects of behavioral biases.

Financial literacy acts as a moderating factor, potentially mitigating the adverse effects of psychological biases. Studies have shown that higher levels of financial education lead to more rational investment decisions, as investors are better equipped to analyze market information and resist behavioral pitfalls (Lusardi & Mitchell, 2024). In Nepal, however, financial literacy remains low, exacerbating the influence of psychological factors on investment decisions (Business Perspectives, 2023).

While existing research has explored psychological factors in investment decisions, studies focusing on the Nepalese stock market are limited. Most literature emphasizes generic market conditions without delving deeply into region-specific dynamics or the interplay of psychological traits with market characteristics. By addressing these gaps, this study aims to provide actionable insights for policymakers, educators, and market participants, ultimately contributing to a more efficient and informed stock market environment in Nepal.

1.2 Problem Statement

Investment decisions in stock markets are a complex interplay of rational analysis and psychological factors. Traditional financial theories, such as the Efficient Market Hypothesis (EMH), suggest that investors act rationally and base their decisions on available information. However, behavioral finance challenges this assumption by demonstrating that psychological biases, emotions, and cognitive limitations heavily influence investment behavior. In emerging markets like Nepal, these psychological factors are further amplified by structural issues such as limited financial literacy, lack of reliable data, and overdependence on informal information sources (Lamichhane, 2024; Khan et al., 2023).

The Nepalese stock market is characterized by significant retail investor participation, many of whom lack advanced financial knowledge and tools for market analysis. This context makes them particularly susceptible to psychological influences such as herd behavior, overconfidence, and reliance on advocate recommendations. For instance, many investors in Nepal follow crowd behavior, basing their decisions on the actions of others rather than independent analysis. Such tendencies often lead to suboptimal investment outcomes, including misallocation of resources and exposure to unnecessary

risks (Lamichhane, 2024).

Research indicates that specific psychological factors, including self-image alignment with firms, interpretation of accounting information, reliance on third-party advice, and individual financial needs, significantly shape investor behavior. However, the extent and interplay of these factors remain underexplored in the context of the Nepalese stock market (Mehmood et al., 2019).

While studies in developed markets have identified the impact of psychological factors on investment decisions, the unique cultural, economic, and structural dynamics of Nepal necessitate localized research to understand these influences better.

Additionally, financial literacy plays a crucial role in moderating the impact of psychological biases. Studies have shown that higher levels of financial literacy enable investors to make more informed and rational decisions, reducing the adverse effects of emotional and cognitive biases (Lusardi & Mitchell, 2024). However, in Nepal, financial literacy levels remain low, leaving a significant portion of investors vulnerable to these biases. This gap underscores the need to investigate how financial literacy interacts with psychological factors to influence investment decisions in the Nepalese context (Business Perspectives, 2023).

Despite the growing recognition of behavioral finance's importance, existing literature in Nepal has largely focused on macroeconomic and market-driven factors affecting investment decisions. There is limited empirical research on how psychological factors uniquely affect investors in Nepal’s stock market. This gap poses challenges for policymakers, market regulators, and financial educators aiming to foster a more efficient and stable stock market environment.

Given this backdrop, the study aims to address the following critical questions:

- How do beliefs influence investmentdecisions in the Nepalese stock market?
- What is the impact of self-confidence on investors' decision-making processes?
- To what extent do regret and remorse and loss averse shape investment

behavior in the Nepalese stock market?

By answering these questions, this research seeks to provide actionable insights for improving investor education programs, designing regulatory frameworks, and enhancing the overall efficiency of the Nepalese stock market. The findings will also contribute to the broader field of behavioral finance by offering context-specific evidence from an emerging market perspective.

1.3 Objectives of the study

The objective of this study are as follows:

1. To analyze the role of beliefs in shaping investment decisions in the Nepalese stock market.
2. To assess the influence of self-confidence on investors' decision-making.
3. To examine the effects of regret and remorse and loss averse on investment behavior in the Nepalese stock market.

1.4 Hypothesis of the Study

- H1: There is significant impact of beliefs in Investment Decision
- H2: There is significant impact of self-confidence in Investment Decision
- H3: There is significant impact of regret and remorse in Investment Decision
- H4: There is significant impact of loss averse in Investment Decision

1.5 Rationale of the Study

The Nepalese stock market has witnessed a growing interest among retail investors, yet their investment decisions often seem influenced by psychological factors rather than purely rational economic considerations. As markets evolve, understanding the behavioral dimensions of investment becomes crucial for fostering informed decision-making, market stability, and investor protection. This study focuses on four key psychological factors—beliefs, self-confidence, regret and remorse, and loss aversion—and their impact on

investment decisions, filling a critical gap in the behavioral finance literature in Nepal.

1.6 Limitations of the study

While this study aims to offer meaningful insights into the psychological factors influencing investment decisions in the Nepalese stock market, several limitations arise due to the research design and methodology. These limitations, although inherent, present opportunities for future studies to address these challenges and refine the understanding of behavioral finance in Nepal's context.

- The research relies solely on primary data collected through surveys, which may introduce response bias or inaccuracies due to the subjective nature of self-reported information
- A convenience sampling method was used, which may result in selection bias and reduce the generalizability of the findings to the broader population of startups in Nepal.
- The study employs a cross-sectional research design, capturing data at a single point in time, thereby restricting the ability to analyze changes or trends over time.
- The study does not account for platform-specific nuances or technological advancements that could significantly impact the effectiveness of investment decisions.
- Given the focus on retail investors, the findings may not fully apply to institutional investors, whose decision-making processes are influenced by different psychological and organizational factors.
- The research does not address how external events, such as political instability or macroeconomic shocks, might interact with psychological factors to influence investment decisions. These dynamic elements are essential for understanding the broader context of investment behavior.

  Despite these limitations, the study significantly contributes to the understanding of behavioral finance in Nepal, offering a foundation for future research. Addressing these challenges in subsequent studies—such as using longitudinal

research designs, random sampling methods, and incorporating a broader set of variables—will provide a more nuanced understanding of psychological factors in investment decisions across diverse contexts.

CHAPTER II

LITERATURE REVIEW

The literature review chapter provides a comprehensive overview of existing studies and theories related to psychological factors influencing investment decisions. It explores key concepts such as behavioral finance, investor biases, and decision-making under uncertainty. By examining previous research on factors like beliefs, self-confidence, regret aversion, and loss aversion, this chapter establishes a foundation for understanding the interplay of cognitive and emotional influences on investor behavior. The review also identifies gaps in the literature, particularly in the context of developing markets like Nepal, and highlights the relevance of this study in contributing to the broader field of behavioral finance. This chapter serves as a critical framework for contextualizing the findings and aligning them with established academic work.

2.1 Theoretical Review

The theoretical review provides a foundational framework for understanding the psychological factors influencing investment decisions. It examines key behavioral finance theories, such as Prospect Theory, which explains how individuals make decisions under uncertainty by prioritizing losses over equivalent gains. Additionally, the review explores concepts like overconfidence, regret aversion, and loss aversion, which shape how investors assess risk and returns. By integrating these theories with existing literature, this section establishes the connection between psychological biases and their impact on rational decision-making in financial contexts. This review serves as the basis for analyzing investor behavior in the Nepalese stock market.

2.1.1 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), introduced by Fama (1970), posits that financial markets are "informationally efficient," meaning that asset prices reflect all available information at any given time. Under this theory, investors are presumed to act rationally, incorporating new information into their decision-making processes instantaneously. As a result, it is theoretically impossible to consistently outperform the market through strategies based on publicly available information. EMH classifies markets into three

forms: weak, semi-strong, and strong efficiency, depending on the degree of information reflected in market prices.

Despite its foundational role in finance, EMH has been widely debated and criticized. Critics argue that the hypothesis does not account for behavioral biases and irrationality that significantly influence market behavior. Behavioral finance researchers highlight anomalies such as bubbles, market crashes, and persistent deviations from expected returns as evidence against the EMH (Khan et al., 2023). In emerging markets like Nepal, the assumptions of EMH often do not hold due to limited liquidity, incomplete information dissemination, and high participation by retail investors with varying levels of financial literacy.

In the Nepalese stock market, the dominance of retail investors amplifies the influence of non-rational factors like herd behavior, overconfidence, and subjective beliefs. Lamichhane (2024) noted that the inefficiency in price adjustments and the prevalence of psychological biases undermine the applicability of EMH in this context. For instance, speculative trading and reliance on informal sources of information contribute to price distortions that EMH cannot adequately explain.

While EMH provides a useful benchmark for understanding market behavior, its limitations underscore the need to incorporate behavioral insights. Studies like those by Mehmood et al. (2019) demonstrate the value of combining traditional financial theories with psychological and emotional factors to achieve a more comprehensive understanding of investment decisions.

2.1.2 Prospect Theory

Prospect Theory, developed by Kahneman and Tversky (1979), revolutionized the understanding of decision-making under uncertainty. Unlike traditional economic models that assume rational behavior, Prospect Theory posits that individuals evaluate potential gains and losses relative to a reference point, rather than in absolute terms. One of the core principles is loss aversion—the tendency for individuals to experience losses more intensely than equivalent gains. For example, losing $100 is often perceived as more psychologically impactful than gaining $100.

The theory also introduces the concept of decision weights, suggesting that individual's overweight low probabilities and underweight high probabilities. This can lead to risk-seeking behavior when facing potential losses and risk aversion when considering gains. In financial markets, such tendencies manifest in behaviors like holding onto losing stocks too long (loss aversion) or selling winning stocks too quickly (regret aversion).

In Nepal's stock market, where retail investors dominate, the principles of Prospect Theory are highly relevant. Lamichhane (2024) noted that loss aversion leads many Nepalese investors to retain underperforming stocks, hoping for recovery despite evidence suggesting otherwise. Similarly, regret aversion often deters investors from making potentially profitable decisions out of fear of failure.

The application of Prospect Theory has practical implications for improving financial decision-making. By understanding these psychological biases, financial advisors and policymakers can design interventions, such as promoting stop-loss strategies or improving access to unbiased information, to mitigate the adverse effects of behavioral biases.

2.1.3 Behavioral Finance

Behavioral Finance bridges the gap between traditional financial theories and real-world investor behavior by incorporating psychological and emotional factors. Unlike models such as EMH, Behavioral Finance acknowledges that investors are not always rational and are subject to cognitive biases, such as overconfidence, herding, and anchoring. These biases influence decision-making processes, often leading to deviations from optimal investment strategies (Shefrin, 2015).

Overconfidence is one of the most studied biases in Behavioral Finance. It refers to investors' tendency to overestimate their knowledge or predictive abilities, leading to excessive trading and suboptimal portfolio choices (Mehmood et al., 2019). In the Nepalese stock market, this bias is evident among retail investors who rely on personal judgments or speculative information rather than rigorous analysis (Lamichhane, 2024). Herding behavior is another common phenomenon, where investors mimic the actions of others, contributing to market volatility and speculative bubbles.

Behavioral Finance also emphasizes the role of emotions in investment decisions. For

instance, regret aversion can deter investors from taking risks, while loss aversion influences them to hold onto underperforming assets. These behaviors are particularly pronounced in less mature markets like Nepal, where access to reliable data and financial literacy remains limited (Business Perspectives, 2023).

Insights from Behavioral Finance are instrumental for developing policies and educational programs aimed at improving investor outcomes. By addressing biases through tools like financial literacy campaigns and personalized advisory services, market participants can make more informed and rational decisions.

2.2 Empirical Review

The study by Subedi and Bhandari (2024) delves into the psychological factors that impact investment decisions in the Nepalese share market, particularly focusing on emotional reactions, cognitive biases, and herd behavior. This research underscores the significance of financial literacy as a mediating factor, suggesting that individuals with higher financial literacy are better equipped to make informed and rational investment choices. The authors argue that emotions such as fear and greed, along with cognitive biases like overconfidence and anchoring, play a substantial role in influencing investors' decisions. Additionally, the tendency to follow the crowd, known as herd behavior, can lead to suboptimal investment outcomes. The study's findings highlight the critical role of financial education in mitigating the adverse effects of these psychological factors, enabling investors to navigate the complexities of the stock market more effectively. Through their analysis, Subedi and Bhandari provide valuable insights into the interplay between psychology and financial decision-making, emphasizing the need for enhanced financial literacy programs to foster more rational and sound investment practices in the Nepalese context.

The study by Chand (2023) investigates the impact of various behavioral factors on stock investment decisions among individual investors in the Nepal Stock Exchange (NEPSE). Focusing on loss aversion, herd behavior, anchoring, and risk perception, the research explores how these psychological biases influence investment outcomes. Utilizing descriptive and analytical research methods, Chand assesses the extent to which these biases affect investors' decision-making processes. The findings reveal that loss aversion, the tendency to prefer avoiding losses over acquiring equivalent gains, significantly

impacts investment behavior, leading to cautious or overly conservative decisions. Herd behavior, the tendency to mimic the actions of the majority, is also prevalent, often resulting in suboptimal investment choices due to the fear of missing out. Anchoring, where investors rely heavily on initial information, and risk perception, the subjective judgment of risk, further complicate investment strategies. Chand's study highlights the crucial need for enhanced investor education and awareness to mitigate the adverse effects of these biases, ultimately fostering more rational and informed decision-making in the stock market.

Maharjan and Bhattacharya (2022) investigate the myriad factors that influence individual investment decisions in the Nepalese stock market. The researchers employ a mixed-method approach, combining an online questionnaire survey to gather quantitative data and qualitative insights from investors. Their study focuses on understanding the interplay between macroeconomic conditions, psychological factors, and the company's market position on investment choices. The findings reveal that macroeconomic factors such as interest rates, inflation, and market stability significantly impact investors' decision-making processes. Additionally, psychological factors, including risk tolerance, overconfidence, and herd behavior, play a critical role in shaping investment strategies. The study also highlights the importance of a company's market position, indicating that well-established companies with strong market reputations are more likely to attract investors. The comprehensive approach adopted by Maharjan and Bhattacharya provides a nuanced understanding of the various elements influencing investment decisions, suggesting that both economic indicators and psychological biases must be considered to grasp the complexities of investor behavior fully.

Barber and Odean (2001) analyzed trading records of U.S. investors to examine the effects of overconfidence on financial behavior. The study revealed that overconfident investors engage in excessive trading, driven by an inflated sense of their predictive abilities. This behavior resulted in increased transaction costs and poor diversification, ultimately leading to lower overall returns. Overconfident investors frequently underestimate market risks and overestimate the likelihood of favorable outcomes, leading to financial inefficiencies. The study emphasized the need for improved risk management and behavioral interventions to curb overconfidence and foster more rational trading behaviors. This research is

foundational in understanding how psychological factors influence investment decisions and highlights the detrimental effects of cognitive biases on financial performance.

Kahneman and Tversky (1979) introduced Prospect Theory, which highlights how biases such as loss aversion and regret aversion influence decision-making under uncertainty. Their experimental findings showed that investors disproportionately fear losses compared to equivalent gains, leading to risk-averse or irrational behavior. For example, investors may hold onto losing assets to avoid realizing a loss, even when selling would be financially advantageous. Regret aversion further compounds this behavior, as investors hesitate to act due to fear of making a wrong decision. This landmark study revolutionized the understanding of decision-making, providing critical insights into how emotions distort rational financial behavior. It underscores the importance of addressing these biases to enable more effective investment strategies.

Shiller (2000) examined irrational behavior in financial markets, particularly during speculative bubbles. He used historical and behavioral analyses to argue that emotional and psychological factors, such as herd behavior and anchoring, drive excessive price movements. The study provided a comprehensive look at irrational exuberance, where asset prices deviate significantly from their intrinsic value due to speculative enthusiasm. Shiller emphasized the role of market sentiment in shaping economic outcomes, challenging the Efficient Market Hypothesis (EMH). This research underscored the importance of understanding psychological influences on market trends.

Thaler (1985) introduced the concept of mental accounting, explaining how individuals categorize and treat money differently based on subjective criteria. Using a behavioral framework, he demonstrated how these biases lead to irrational investment decisions and suboptimal financial outcomes. For instance, investors might allocate funds into separate mental "accounts," which can limit diversification and increase risk exposure. This study bridged psychology and finance, highlighting how cognitive processes impact economic behavior. Thaler's insights have been widely applied to consumer finance and investment strategies.

Nofsinger & Sias (1999) explored herding behavior among institutional and individual investors by analyzing equity flows. The authors found that institutions tend to mimic each

other's trading behavior during periods of market volatility, amplifying price movements. In contrast, individual investors exhibit less pronounced herding but are significantly influenced by institutional actions. The findings emphasized the interconnectedness of market participants and the psychological underpinnings of herd mentality. This research provided valuable insights into how collective behavior can destabilize financial markets.

Sitkin & Pablo (1992) reconceptualized risk behavior by developing a comprehensive model of risk perception and decision-making. Their meta-analysis highlighted how psychological factors, such as risk attitudes and individual experiences, shape investment choices. They argued that risk perception is influenced by cognitive biases and environmental factors, leading to suboptimal decisions in uncertain situations. The findings underscored the importance of understanding subjective risk preferences in financial decision-making, offering practical implications for investor education and policy design.

Waweru et al. (2008) examined the behavioral factors influencing investment decisions in Kenya. Using survey data, the study identified overconfidence and herding as dominant biases among institutional investors. The authors also explored the role of emotions in driving market trends, highlighting how psychological factors create systematic inefficiencies. Their findings contributed to a growing body of literature on behavioral finance in emerging markets, emphasizing the need for investor education and regulatory interventions to mitigate biases.

De Bondt & Thaler (1985) investigated stock market anomalies caused by overreaction to new information. Analyzing historical data, the authors demonstrated how investors often overreact, causing prices to deviate from their fundamental values. These mispricing eventually corrected, leading to predictable reversals in stock returns. The findings challenged the Efficient Market Hypothesis, showcasing the role of cognitive biases in driving market inefficiencies. This research laid the groundwork for understanding how psychological factors influence market dynamics.

Statman (1988) investigated psychological biases to investment behavior by integrating insights from psychology and finance. He argued that cognitive and emotional biases, such as regret aversion and mental accounting, significantly affect investor decisions. These biases often lead to suboptimal portfolio management and market anomalies. Statman's

study underscores the need for a more comprehensive understanding of human behavior to develop effective investment strategies.

Ritter (2003) explored the role of behavioral finance in explaining persistent market inefficiencies. He reviewed existing literature on psychological biases, such as overconfidence and anchoring, highlighting their impact on investor behavior. Ritter also critiques traditional finance theories, arguing that behavioral insights offer a more realistic understanding of market dynamics. His study emphasizes the importance of integrating psychology into financial decision-making frameworks.

Abreu & Mendes (2012) explored the impact of behavioral biases, particularly herd behavior, on financial decision-making. Their study highlighted how individual investors tend to follow collective market trends instead of independent analysis, often leading to irrational investment patterns and market inefficiencies. Using empirical data, they showed that herd behavior is more prominent during periods of market uncertainty, where investors seek reassurance in the actions of others. The findings emphasize the importance of understanding psychological factors in developing risk management and investment strategies, particularly in volatile market conditions

Bakar & Yi (2016) examined the influence of psychological factors such as overconfidence and risk perception on stock market investment decisions. Through a quantitative survey of retail investors, they discovered that overconfident individuals tend to trade more frequently, often resulting in suboptimal returns. They also found that risk perception varies significantly based on demographic factors like age and income. Their study sheds light on the role of behavioral finance in understanding investment behavior, particularly in emerging markets. It also underscores the importance of mitigating biases to improve decision-making.

Pompian (2012) focused on identifying and categorizing behavioral biases that affect investors. In his book, *Behavioral Finance and Wealth Management*, he proposed a practical framework for tailoring investment strategies to individual behavioral profiles. Pompian identified biases such as anchoring, confirmation bias, and loss aversion, offering actionable insights for financial advisors to manage these tendencies. His research is particularly relevant for wealth management, as it provides strategies for balancing

emotional and rational decision-making in portfolios.

Odean (1999) examined the impact of overconfidence on trading frequency using brokerage account data. He found that overconfident investors trade excessively, often eroding their net returns due to higher transaction costs and poor timing. This study reinforced earlier findings by Barber and Odean (2001), highlighting overconfidence as a key psychological bias affecting investment performance. Odean's work provided robust evidence of how cognitive biases can lead to suboptimal financial outcomes.

Glaser & Weber (2007) analyzed the interplay between overconfidence and trading volume in the stock market. Using experimental methods, they demonstrated that overconfident investors systematically overestimate their forecasting abilities, resulting in higher trading volumes. Their findings reinforced earlier studies on overconfidence while adding new dimensions, such as its implications for market liquidity and volatility. This research is instrumental in understanding the behavioral dynamics that drive trading behavior and market outcomes.

Shefrin & Statman (1985) introduced the concept of the disposition effect, where investors irrationally hold losing stocks and sell winning stocks too early. They explained this behavior using prospect theory and mental accounting, providing one of the earliest behavioral finance frameworks. Their work illustrated how loss aversion influences decision-making and its adverse effects on investment returns. The findings have practical implications for portfolio management and investor education.

Olsen (1998) investigated the role of risk perception in investment decisions, challenging the traditional risk-return tradeoff models. He found that investors' perception of risk is subjective and influenced by emotions, rather than purely objective financial metrics. This study contributed to the growing literature on behavioral finance by demonstrating that psychological factors significantly influence risk assessment and investment behavior. The findings encourage the integration of emotional and cognitive aspects into risk management strategies.

Durand et al. (2013) examined the influence of personality traits on investment behavior. They found that traits such as conscientiousness, openness, and emotional stability correlate with risk preferences and portfolio choices. Using survey data, they provided

empirical evidence linking individual differences in personality to financial decision-making. Their study highlights the need for personalized investment strategies that consider psychological and personality-based factors, particularly in advisory services.

Luong and Ha (2011) investigated the influence of cultural and psychological factors on investment decisions among Vietnamese retail investors. Utilizing survey methodologies, they examined prevalent behavioral biases in the market. Their findings highlighted that biases such as overconfidence and herding behavior are deeply ingrained, largely due to Vietnam's cultural and social norms. These biases lead to irrational decision-making and increase risk-taking, often disconnected from fundamental economic indicators. The research contributes significantly to understanding how socio-cultural dynamics shape financial behavior in emerging markets, emphasizing the need for tailored investor education programs.

Kumar's (2009) focused on the psychological biases affecting retail investors in India's stock markets, using statistical analysis of market data. The study revealed that overconfidence and herding are the dominant behavioral tendencies. Overconfidence causes investors to overestimate their knowledge or predictive abilities, leading to excessive trading, while herding reflects collective movement based on the actions of others, rather than individual analysis. These biases undermine market efficiency and exacerbate volatility, suggesting the need for behavioral interventions and policies to mitigate such tendencies in retail investors.

2.3 Conceptual Review

The conceptual review explores the psychological factors influencing investment decisions by synthesizing theoretical perspectives and empirical findings. It focuses on key constructs such as beliefs, self-confidence, regret and remorse, and loss aversion, which shape investor behavior. This section analyzes how these factors interplay with financial decisions, particularly in the context of Nepalese retail investors, and their alignment with global behavioral finance theories and findings.

2.3.1 Beliefs and Investment Decisions

Beliefs significantly impact investment decisions as they shape investors' perceptions of

risks and opportunities. According to Behavioral Finance Theory (Shefrin, 2002), individuals often rely on personal beliefs and mental shortcuts rather than objective financial analysis, particularly in uncertain markets. Kahneman and Tversky (1979) argued that these beliefs are driven by heuristics, which, while efficient, can lead to biases in interpreting financial data. For instance, investors often form market expectations based on anecdotal evidence or past performance, neglecting broader market trends.

Empirical studies, such as Sharma (2018), indicate that Nepalese investors rely heavily on beliefs, often due to limited access to professional advice or financial tools. This reliance sometimes fosters herd behavior, where individuals follow market trends or peer actions rather than conducting independent analyses. While beliefs can provide confidence, excessive dependence on subjective perceptions may limit rational decision-making, especially in less mature markets like Nepal.

Table 1

Empirical review table

Author and Date	Objective	Methodology	Findings
Subedi & Bhandari (2024)	Examine how emotional reactions, cognitive biases, and herd behavior influence investment decisions and highlight the mediating role of financial literacy.	Analytical study focusing on the relationship between psychological factors and investment decisions, mediated by financial literacy.	Higher financial literacy helps investors make more informed and rational investment choices by mitigating the impact of emotions, biases, and herd behavior.
Chand (2023)	Investigate the impact of loss aversion, herd behavior, anchoring, and risk perception on investment decisions in the Nepal Stock Exchange (NEPSE).	Descriptive and analytical research methods.	Psychological biases significantly affect investment outcomes; loss aversion and herd behavior are particularly influential.

Maharjan & Bhattacharya (2022)	Explore the link between macroeconomic aspects, psychological factors, company's market position, and investor decision-making.	Mixed-method approach using an online questionnaire survey.	Psychological factors, along with macroeconomic conditions, significantly influence investment decisions; investors often rely on company's market position and herd behavior.
Bakar & Yi (2016)	To investigate emotional biases among Malaysian investors.	Survey of retail investors with Likert-scale questionnaires.	Emotional biases, especially fear and greed, strongly influence investment decisions.
Durand et al. (2013)	To link personality traits with risk tolerance in Australian investors.	Psychometric analysis and surveys of investor behavior.	Personality traits such as openness and extraversion correlate with higher risk tolerance.
Abreu & Mendes (2012)	To examine risk aversion in financial decisions among Portuguese investors.	Survey-based analysis using risk assessment models.	Risk-averse investors prefer stable portfolios over speculative investments.
Pompian (2012)	To connect behavioral biases with personality traits in investment decisions.	Case studies and psychological profiling of investors.	Behavioral biases vary with personality, affecting portfolio choices.
Luong & Ha (2011)	To study cultural and psychological factors affecting investment in Vietnam.	Surveys with Vietnamese retail investors.	Behavioral biases like overconfidence and herding are prevalent, influenced by cultural norms.
Kumar (2009)	To explore psychological biases in retail investors in emerging markets.	Statistical analysis of Indian stock market data.	Overconfidence and herding are significant biases among Indian retail investors.
Waweru et al. (2008)	To identify behavioral biases affecting	Survey of individual and	Herding and overconfidence are

	investment decisions in Kenya.	institutional investors.	dominant behavioral factors.
Glaser & Weber (2007)	To study the relationship between overconfidence and risk perception.	Experiments with individual and institutional investors.	Overconfidence increases risk-taking behavior, often leading to financial errors.
Ritter (2003)	To explore the role of behavioral economics in explaining market inefficiencies.	Literature review on behavioral finance theories.	Psychological biases such as overconfidence and anchoring create persistent inefficiencies in financial markets.
Barber & Odean (2001)	To study the impact of overconfidence on trading behavior.	Quantitative analysis of brokerage accounts data.	Overconfident investors trade excessively, leading to lower returns.
Shiller (2000)	To investigate irrational behaviors in financial markets.	Historical and behavioral analysis of financial bubbles.	Anchoring biases lead to irrational stock valuations and market anomalies.

2.3.2 Self-Confidence and Overconfidence

Self-confidence plays a dual role in influencing investment decisions. On one hand, it can drive informed decision-making when coupled with sufficient financial knowledge. On the other hand, overconfidence—a common psychological bias—can lead to excessive trading and higher risk exposure. Barber and Odean (2001) found that overconfident investors tend to overestimate their ability to predict market outcomes, often resulting in suboptimal returns due to frequent trades and poor timing.

In Nepal, self-confidence among investors is often based on anecdotal success stories or informal advice, rather than data-driven insights (Sharma, 2018). This overconfidence can manifest in risky behaviors, such as concentrating portfolios in volatile stocks without adequate diversification. However, the weak correlation between self-confidence and investment decisions in this study suggests that many Nepalese investors may hesitate to act on their confidence, likely due to limited financial literacy or lack of market access.

2.3.3 Regret and Remorse in Financial Behavior

Regret and remorse are emotional factors that significantly influence investment decisions. Regret aversion causes individuals to avoid realizing losses, as doing so would require acknowledging a failed decision. This behavior often leads to the disposition effect, where investors sell winning stocks prematurely while holding onto underperforming assets (Kahneman & Tversky, 1979).

Frydman and Camerer (2016) emphasized that regret aversion results in portfolio inefficiencies, as investors prioritize emotional comfort over financial optimization. In Nepal, this bias is exacerbated by a lack of market options and limited portfolio management resources, making it difficult for investors to reassess and adjust their strategies. These emotional responses can prevent investors from learning from past mistakes and adapting their behavior effectively.

2.3.4 Loss Aversion and Risk-Taking Behavior

Loss aversion is a central concept in Prospect Theory, which posits that individuals feel the pain of losses more intensely than the satisfaction of equivalent gains (Kahneman & Tversky, 1979). This bias often leads to risk-averse behavior, where investors prioritize avoiding losses over pursuing potential gains.

Thaler (1980) noted that loss aversion drives investors to focus on short-term market fluctuations, resulting in missed opportunities for long-term growth. In Nepal, loss aversion is particularly pronounced due to limited market information and risk assessment tools, causing investors to stick with familiar, low-risk assets. While this cautious approach minimizes immediate losses, it also restricts opportunities for higher returns.

2.3.5 Interplay of Psychological Factors

The interaction between beliefs, self-confidence, regret, and loss aversion creates a complex decision-making environment. Ricciardi and Simon (2000) noted that these factors rarely act in isolation but rather influence each other dynamically. For example, overconfidence may amplify loss aversion, as overconfident investors take risks but hesitate to sell underperforming stocks due to regret.

In Nepal, this interplay is further shaped by cultural and socioeconomic factors. Herd

behavior, driven by social conformity, often magnifies psychological biases, as investors follow peer recommendations instead of relying on independent research (Sharma, 2018). Understanding these dynamics is critical for designing effective interventions to improve decision-making.

2.3.6 Implications for Behavioral Finance

The findings of this study underscore the importance of addressing psychological biases in investment decisions. Financial literacy programs, tailored to address common biases like overconfidence and loss aversion, can empower investors to make informed decisions. Additionally, policymakers and financial institutions can develop tools and services to encourage rational behavior, such as portfolio management platforms that incorporate behavioral nudges.

Moreover, this study highlights the need for further research into psychological factors in developing markets. While much of the existing literature focuses on developed economies, the unique challenges faced by investors in Nepal, such as limited market infrastructure and lower financial literacy, require tailored solutions.

The conceptual review establishes a comprehensive framework for understanding how psychological factors influence investment behavior. By integrating theoretical insights with empirical findings, this review highlights the critical role of beliefs, self-confidence, regret, and loss aversion in shaping financial decisions. These factors not only impact individual behavior but also reflect broader market dynamics, emphasizing the need for targeted interventions to enhance financial outcomes.

2.4 Research Gap

The psychological factors influencing investment decisions in the Nepalese stock market have not been extensively explored. While global research in behavioral finance highlights biases such as overconfidence, herd behavior, and loss aversion, these studies rarely address the unique socio-economic and cultural context of Nepal. Existing research on Nepal's financial market predominantly focuses on macroeconomic indicators, market trends, and traditional investment approaches, overlooking the significant role of investor psychology.

Most studies in behavioral finance are centered on developed economies with well-structured stock markets, making their findings less applicable to Nepal. The Nepalese market operates within a distinct framework, marked by varying levels of financial literacy, evolving market maturity, and unique cultural influences. This creates a gap in understanding how psychological factors affect the decision-making processes of local retail investors.

Although some regional studies, such as those from India or Pakistan, discuss similar biases, they do not adequately capture the influence of Nepal's cultural, social, and religious norms on investment behavior. Furthermore, there is limited research investigating how these psychological biases impact critical aspects such as risk tolerance, portfolio diversification, and market efficiency in Nepal's stock market.

This study seeks to address these gaps by examining key psychological biases among Nepalese investors, shedding light on their behavioral patterns, and offering recommendations to enhance decision-making and improve market performance.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This study employs a descriptive research design to explore the psychological factors influencing investment decisions in the Nepalese stock market. Descriptive research is particularly suited for understanding and describing the characteristics and behaviors of a specific group—in this case, investors in Nepal—by collecting and analyzing relevant data. The design facilitates the systematic investigation of the impact of beliefs, self-confidence, regret and remorse, and loss aversion on investment decisions.

Using structured questionnaires, the study collects primary data from a diverse sample of retail investors in Nepal. The questionnaire includes both demographic questions and Likert-scale items to capture perceptions, attitudes, and behaviors associated with the psychological factors under investigation. This design ensures a comprehensive understanding of the variables and their interrelationships.

The descriptive approach also enables the study to identify patterns and trends in investor behavior, particularly how psychological biases manifest in portfolio decisions. By focusing on the Nepalese stock market, the research highlights region-specific insights that contribute to both theoretical understanding and practical interventions.

In summary, the descriptive research design is essential for achieving the study's objectives, providing detailed insights into psychological influences, and offering a foundation for future research and policy development in behavioral finance.

3.2 Population and Sample

The study focuses on retail investors actively engaged in the Nepalese stock market, recognizing their critical role in influencing market trends and their vulnerability to psychological biases such as beliefs, overconfidence, regret aversion, and loss aversion. Institutional investors are excluded from this research, as their decisions are primarily guided by organizational strategies and advanced analytical tools, rather than individual psychological factors.

A sample size of 150 retail investors has been determined for the study, ensuring representation across diverse demographics such as age, gender, educational qualifications, and trading experience. This sample size is deemed sufficient for deriving statistically meaningful insights into the behavioral tendencies of investors in Nepal's stock market.

3.3 Sampling Technique

The study adopts a convenience sampling method to select participants. This non-probability approach is chosen for its practicality in accessing willing respondents through brokerage firms, stock market communities, and online trading platforms. While this technique may limit the generalizability of findings, it is appropriate for exploratory research targeting specific groups of participants.

3.4 Nature and Sources of Data

Primary data is collected using structured questionnaires, which are designed to capture demographic information and key psychological variables. The questionnaire utilizes Likert-scale items to measure constructs such as beliefs, overconfidence, regret aversion, and loss aversion, enabling a nuanced understanding of the psychological factors influencing investment decisions.

3.5 Method of Data Collection

This study employs a structured questionnaire survey, administered online via Google Forms, as the primary method of data collection. The survey aims to collect quantitative data focusing on psychological factors that influence investment decisions in the Nepalese stock market. These psychological factors, serving as independent variables, include beliefs, self-confidence, regret and remorse, and loss aversion, which are hypothesized to affect the dependent variable, investment decisions.

The questionnaire is divided into sections that gather demographic information—such as age, gender, education level, trading experience, and investment frequency—and assess key psychological constructs. The core questions are formatted on a 5-point Likert scale, where responses range from "Strongly Disagree" (1) to "Strongly Agree" (5). This scaling method allows for a detailed understanding of how respondents perceive and respond to

various psychological influences on their investment behavior.

Google Forms is utilized for its efficiency, wide accessibility, and ability to reach a diverse sample of retail investors across different regions. Anonymity and confidentiality are ensured, fostering honest and accurate responses. The structured questionnaire and Likert scale enable the collection of quantifiable data, supporting the study's descriptive research design and facilitating comprehensive statistical analysis of the relationships between psychological factors and investment decisions.

This method ensures valuable insights into the behavioral finance dynamics of the Nepalese stock market.

3.6 Data Analysis Plan

The data analysis utilized in this study integrates both descriptive and inferential statistical techniques to derive meaningful insights from the collected data. Descriptive statistics, such as frequencies, percentages, means, and standard deviations, are employed to summarize and present the demographic characteristics of respondents and their responses to key variables. This approach provides a clear overview of the distribution and tendencies within the dataset, enabling an understanding of respondents' behaviors and attitudes regarding investment decisions. Visual tools such as tables and charts are used to enhance the interpretability of the data.

For inferential analysis, correlation and regression analyses are conducted to explore the relationships between psychological factors, such as beliefs, self-confidence, regret and remorse, and loss aversion, and their influence on investment decisions. Pearson's correlation is applied to assess the strength and direction of these relationships, while multiple linear regression analysis identifies the predictive power of these variables on investment behavior. The statistical significance of the results is tested at both 0.01 and 0.05 levels to ensure reliability. Statistical software, such as SPSS, is used to perform these analyses, ensuring precision and accuracy in the computations and interpretation. This combination of methods allows for a comprehensive examination of the research objectives, linking theoretical constructs with empirical evidence.

3.7 Research Framework

Framework and definition of variables

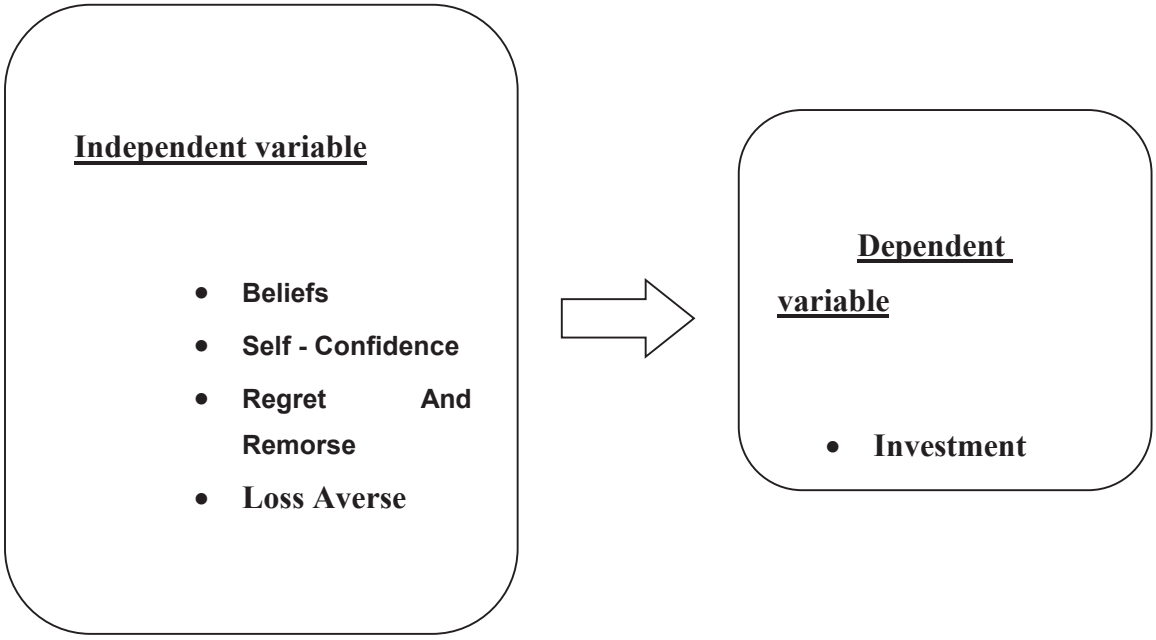

Figure 1: *Conceptual Framework*

Source : (Lim Li Chin, 2012)

Independent Variables

Beliefs

Beliefs refer to the subjective perceptions or assumptions that investors hold about the market, such as its performance, trends, or specific stock potential. These perceptions are often influenced by personal experiences, cultural norms, and external information sources. Investors' beliefs can lead to over-optimism or pessimism, affecting their risk assessment and investment decisions. Shefrin (2015) highlighted those beliefs, whether rational or irrational, significantly shape financial behaviors, often resulting in biases like confirmation bias or anchoring. In emerging markets like Nepal, beliefs are frequently shaped by informal sources, contributing to speculative trading (Lamichhane, 2024).

Self-Confidence

Self-confidence in investment refers to an individual's perceived ability to make accurate financial decisions. While confidence can encourage participation in the stock market, overconfidence—a tendency to overestimate knowledge or predictive abilities—can lead to excessive trading, poor diversification, and suboptimal outcomes. Barber and Odean (2001) found that overconfidence is a common bias among investors, leading to inflated expectations of success. In Nepal, retail investors frequently exhibit overconfidence due to limited access to reliable financial education, impacting their trading behaviors negatively (Poudel et al., 2021).

Regret and Remorse

Regret and remorse refer to the emotional responses investors experience after perceiving their decisions as mistakes. These feelings often lead to regret aversion, where individuals avoid making decisions that could result in future regret, even at the expense of potential gains. Kahneman and Tversky (1979) emphasized that the anticipation of regret heavily influences decision-making under uncertainty. In Nepal, regret aversion often manifests as reluctance to sell underperforming stocks, contributing to portfolio stagnation (Adhikari & Shrestha, 2018).

Loss Aversion

Loss aversion, a concept central to Prospect Theory, describes the tendency of individuals to feel the pain of losses more intensely than the pleasure of equivalent gains. This bias often leads to holding behaviors, where investors retain losing stocks in the hope of recovery, even against rational advice. Mehmood et al. (2019) observed that loss aversion is more prevalent in emerging markets, where emotional decision-making dominates rational analysis. Lamichhane (2024) noted similar patterns in Nepal, where loss aversion exacerbates market inefficiencies and limits portfolio optimization.

Dependent variable

Investment decisions

Investment decisions refer to the choices investors make regarding the allocation of financial resources across various assets, such as stocks, bonds, or mutual funds, to achieve

specific financial goals. These decisions are influenced by a combination of psychological, economic, and informational factors. Behavioral finance emphasizes that investment decisions often deviate from rational economic models due to biases like overconfidence, loss aversion, and regret (Kahneman & Tversky, 1979).

Empirical studies suggest that investment decisions are guided by risk tolerance, expected returns, and market conditions. In the Nepalese stock market, decisions are often shaped by limited financial literacy and reliance on informal advice, leading to speculative trading and poor diversification (Lamichhane, 2024). Investors frequently exhibit emotional responses to market fluctuations, which drive impulsive or overly cautious behaviors (Adhikari & Shrestha, 2018).

Understanding investment decisions requires analyzing how psychological factors, such as beliefs, self-confidence, and loss aversion, influence risk-taking and asset selection. By exploring these dynamics, the study aims to provide insights into improving decision-making frameworks for investors in Nepal.

Method of Data Analysis

The data in this study will be analyzed using a combination of demographic analysis, descriptive statistics, correlation analysis, and regression analysis, each serving a distinct purpose in addressing the research objectives and shedding light on the psychological factors influencing investment decisions in the Nepalese stock market.

1. **Demographic Analysis**

   Demographic data, including factors such as age, gender, education level, and investment experience, will be analyzed using frequency and percentage distributions. This method helps in understanding the composition of the sample population and ensures that a wide range of perspectives is included. Additionally, it provides context for interpreting the main variables of the study.

2. **Descriptive Statistics**

   Descriptive statistics, including the mean, standard deviation, and frequency distribution, will be utilized to summarize the data on key psychological factors, such as beliefs, self-confidence, regret, and loss aversion. This approach will offer

insights into the central tendencies and variations within the data, revealing how these factors influence investment decisions in Nepal.

3. **Correlation Analysis**

   Correlation analysis will assess the strength and direction of the relationships between the independent variables (beliefs, self-confidence, regret, and loss aversion) and the dependent variable (investment decisions). This step will provide preliminary insights into how the variables are related and help determine if these relationships align with the study's hypotheses.

4. **Regression Analysis**

   Multiple regression analysis will be conducted to evaluate how the independent variables (beliefs, self-confidence, regret, and loss aversion) predict investment decisions. This analysis will quantify the contributions of each factor to investment behavior, identifying which psychological factors are the most significant predictors. It will also test the conceptual framework and validate the proposed relationships.

Together, these methods will enable a comprehensive analysis, combining both descriptive and inferential techniques, to offer deeper insights into the factors that shape investment decisions in Nepal's stock market.

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The data analysis and interpretation chapter serves as a crucial component of this study, translating raw data into meaningful insights. This chapter begins by presenting descriptive statistics to provide an overview of the demographic characteristics of the respondents, such as age, gender, education level, and employment status. These descriptive findings set the stage for understanding the diverse backgrounds and perspectives of the participants, offering a foundational context for the subsequent analysis. Visual representations, including tables and charts, enhance the clarity and accessibility of these data, allowing for a comprehensive understanding of respondent profiles.

Beyond descriptive statistics, the chapter delves into inferential analysis to explore the relationships between psychological factors and investment decisions. Techniques such as correlation analysis assess the strength and direction of relationships between variables, while regression analysis identifies the predictive power of psychological factors like beliefs, self-confidence, regret and remorse, and loss aversion on investment behavior. The findings are carefully interpreted to uncover significant patterns, align them with the research objectives, and address the formulated hypotheses. This chapter bridges the gap between theoretical concepts and empirical evidence, providing a detailed exploration of how psychological influences shape investment decisions in the Nepalese stock market.

4.2 Demographic Profile

The demographic profile section provides an overview of the respondents' characteristics, which form the basis for analyzing their investment decisions and related behaviors. This section examines key demographic variables such as age, gender, education level, and employment status to understand the diversity within the sample. By highlighting these attributes, the study establishes the context for evaluating how various demographic factors might influence psychological aspects and decision-making in investments. The demographic analysis also helps to identify trends and patterns that could offer insights

into the relationship between individual traits and investment behaviors, setting the foundation for further statistical exploration and interpretation.

Table 2

Age of the Respondents

Age	Frequency	Percent
21–30 years	65	43.3
31–40 years	35	23.3
41–50 years	6	4.0
Above 50 years	12	8.0
Below 20 years	32	21.3
Total	150	100.0

The table presents the age distribution of 150 respondents, categorized into five groups. The largest proportion of respondents, 43.3% (65 individuals), falls within the 21–30 years age group. This suggests that the sample predominantly comprises younger adults, who are likely to be in the early stages of their professional lives or pursuing higher education. Their significant representation could indicate that this demographic actively participates in the context being studied, possibly due to higher levels of engagement with stock market activities or other relevant aspects of the research.

The second-largest group is respondents 31–40 years old, constituting 23.3% (35 individuals) of the sample. This age group may represent mid-career professionals who balance personal and financial commitments, contributing valuable perspectives to the study. Meanwhile, 21.3% (32 individuals) of respondents are below 20 years, highlighting a notable presence of young participants, likely students or early-career individuals, whose investment decisions might be influenced by limited experience or distinct psychological factors.

Older age groups, such as those aged 41–50 years and above 50 years, are less represented, accounting for only 4.0% (6 individuals) and 8.0% (12 individuals), respectively. This underrepresentation suggests that the findings may primarily reflect the behaviors and perceptions of younger populations, with limited insights into older investors' experiences. Future research could aim for a more balanced age distribution to enhance generalizability.

Table 3

Gender of the Respondents

Gender	Frequency	Percent
Female	84	56.0
Male	66	44.0
Total	150	100.0

The table illustrates the gender distribution of the 150 respondents in the study. Among the participants, 56.0% (84 individuals) are female, while 44.0% (66 individuals) are male. This indicates that women constitute the majority of the sample population, reflecting a higher level of representation compared to men.

The gender distribution highlights the significant participation of women in the context of the research, suggesting that they may have a prominent role in investment decisions or the specific topic being studied. This could be indicative of growing financial awareness or involvement among women, a notable trend in many emerging markets.

Conversely, the relatively lower representation of men may limit the study's ability to fully capture the male perspective. Nevertheless, the near balance between genders ensures a degree of diversity, which is critical for deriving inclusive and representative insights. Future studies could aim for a more balanced gender ratio to further enhance generalizability.

Table 4

Education Level of the Respondents

Education Level	Frequency	Percent
Bachelor's Degree	73	48.7
High School	33	22.0
Master's Degree	27	18.0
Other	17	11.3
Total	150	100.0

The table displays the educational background of the 150 respondents in the study. The majority of participants, **48.7% (73 individuals)**, hold a **Bachelor's degree**, indicating that nearly half of the respondents have attained undergraduate-level education. This suggests that individuals with a university education constitute the largest group in the

sample, potentially reflecting a population that is well-equipped to engage in the study's context, such as investment decisions or financial activities.

Respondents with only a **high school education** make up **22.0% (33 individuals)** of the sample. This group may represent individuals with basic educational qualifications, whose investment behaviors or decision-making processes could differ from those with advanced degrees due to varying levels of financial literacy or market exposure.

Participants holding a **Master's degree** account for **18.0% (27 individuals)**, reflecting a smaller but significant group with higher educational attainment. This group might demonstrate more advanced analytical skills and deeper engagement with financial decision-making.

Lastly, **11.3% (17 individuals)** fall under the **"Other"** category, which could include individuals with vocational training or professional certifications. This diversity in educational levels enhances the study's ability to capture varied perspectives but suggests a strong emphasis on participants with formal university education. Future research might consider a more even distribution across educational levels for broader insights.

Table 5

Employment Status of the Respondents

Employment Status	Frequency	Percent
Employed	65	43.3
Retired	11	7.3
Self-Employed	25	16.7
Student	28	18.7
Unemployed	21	14.0
Total	150	100.0

The table provides an overview of the employment status of the 150 respondents. The largest group, comprising **43.3% (65 individuals)**, is **employed**, indicating that a significant portion of the sample is actively engaged in full-time or part-time work. This suggests that their investment decisions might be influenced by regular income and workplace experiences.

The second-largest group, at **18.7% (28 individuals)**, consists of **students**. This reflects the participation of younger individuals who might be new to financial decision-making or

investment activities. Their responses could offer insights into how educational environments influence perceptions of investment.

Self-employed individuals make up **16.7% (25 respondents)**, representing business owners or freelancers whose investment behaviors might differ due to varying income patterns and financial autonomy. Meanwhile, **unemployed respondents**, constituting **14.0% (21 individuals)**, likely face financial constraints that impact their investment priorities or risk tolerance.

Lastly, **7.3% (11 individuals)** of respondents are **retired**, a group likely focused on preserving wealth and managing risk in their investments.

The diverse employment statuses in the sample contribute to a broader understanding of investment behavior across different economic roles. However, the relatively low representation of retirees might limit insights into investment strategies among older, financially conservative individuals. Future studies could aim for a more balanced employment distribution.

4.3 Descriptive Statistics

The descriptive statistics section provides a summary of the data collected, offering an overview of the key variables under investigation. This includes measures such as frequencies, percentages, means, and standard deviations, which help to describe the central tendencies and variability within the dataset. By analyzing descriptive statistics, the study highlights patterns and distributions among respondents' psychological factors and investment behaviors, laying the groundwork for deeper inferential analysis. This section aims to provide a clear understanding of the general trends and characteristics of the data, facilitating a better interpretation of how psychological factors influence investment decisions.

Table 6

Descriptive Statistics of Beliefs

Descriptive Statistics

Description	Mean	SD
I rely on my personal beliefs when making investment decisions.	3.21	0.907
I trust information that aligns with my pre-existing beliefs about the stock market.	3.58	0.971
My investment choices are influenced by my perception of market trends.	3.60	0.941

The table presents descriptive statistics for three items related to investment decisions, focusing on the influence of personal beliefs and perceptions. The mean and standard deviation (SD) values provide insights into respondents' tendencies and variability in responses.

The first statement, “I rely on my personal beliefs when making investment decisions,” has a mean of 3.21 and an SD of 0.907. This indicates that, on average, respondents are slightly inclined toward relying on their personal beliefs when making investment decisions. However, the standard deviation reflects moderate variability, suggesting differences in how strongly respondents agree with this statement.

The second statement, “I trust information that aligns with my pre-existing beliefs about the stock market,” has a mean of 3.58 and an SD of 0.971. This higher mean indicates a stronger agreement with the statement, suggesting that respondents tend to rely on confirmation bias when making investment decisions. The relatively higher standard deviation suggests a broader range of responses, indicating that while many trust such information, some respondents might approach this with skepticism.

The third statement, “My investment choices are influenced by my perception of market trends,” shows the highest mean of 3.60 with an SD of 0.941. This suggests that perceptions of market trends significantly impact respondents' decisions, with moderate variability in agreement levels.

Overall, the findings highlight that respondents’ investment decisions are moderately influenced by their beliefs and perceptions, particularly their interpretation of market trends. This underscores the role of psychological factors in shaping financial behaviors.

Table 7

Descriptive Statistics of Self-Confidence

Descriptive Statistics

Description	Mean	SD
I feel confident in my ability to make profitable investment decisions.	3.61	0.919
I believe I have sufficient knowledge to assess stock performance accurately.	3.65	0.997
I often feel I can predict market trends better than others.	3.85	0.900

The table summarizes descriptive statistics for self-confidence-related factors in investment decisions. The mean and standard deviation (SD) values provide insights into respondents' perceptions of their confidence and knowledge.

The first statement, "I feel confident in my ability to make profitable investment decisions," has a mean of 3.61 and an SD of 0.919. This indicates that respondents generally agree with this statement, reflecting moderate confidence in their decision-making skills. The SD value suggests a moderate level of variation among respondents, indicating that some feel less confident while others express stronger confidence.

The second statement, "I believe I have sufficient knowledge to assess stock performance accurately," has a slightly higher mean of 3.65 and an SD of 0.997. This demonstrates a stronger belief among respondents regarding their analytical capabilities, although the SD suggests notable variability. This variability may be influenced by differences in financial literacy or investment experience.

The third statement, "I often feel I can predict market trends better than others," has the highest mean of 3.85 with an SD of 0.900. This reflects a high level of overconfidence among respondents, as many believe in their superior ability to anticipate market trends. The SD indicates moderate variation, with some respondents being less confident in this regard.

Overall, the results suggest that respondents exhibit a considerable degree of self-confidence, with a tendency toward overconfidence in predicting market trends. This highlights the influence of psychological biases on investment behavior, which could lead to both opportunities and risks.

Table 8

Descriptive Statistics of Regret and Remorse

Descriptive Statistics

Description	Mean	SD
I often regret not investing in stocks that later perform well.	3.86	0.859
I avoid selling underperforming stocks to prevent realizing a loss.	3.99	0.882
Fear of making a wrong decision prevents me from making timely investments.	3.79	0.931

The table presents descriptive statistics for factors related to regret and fear in investment decisions. The mean and standard deviation (SD) values provide insights into the extent of these psychological influences among respondents.

The first statement, “I often regret not investing in stocks that later perform well,” has a mean of 3.86 and an SD of 0.859. This indicates a strong tendency among respondents to experience regret over missed investment opportunities. The relatively low SD suggests that this feeling of regret is consistent across respondents.

The second statement, “I avoid selling underperforming stocks to prevent realizing a loss,” has the highest mean of 3.99 and an SD of 0.882. This highlights a prevalent loss-aversion bias among respondents, where the emotional discomfort of realizing a loss outweighs the potential benefits of reallocating resources. The moderate SD suggests that this behavior is fairly common but with some variation.

The third statement, “Fear of making a wrong decision prevents me from making timely investments,” has a mean of 3.79 and an SD of 0.931. This indicates that fear significantly impacts respondents' investment behaviors, delaying decisions due to uncertainty or risk aversion. The higher SD reflects greater variability in how this fear affects individuals.

Overall, the findings emphasize the strong role of regret and loss aversion in shaping investment decisions, potentially leading to suboptimal financial outcomes. These biases underline the need for targeted strategies to help investors overcome emotional barriers and make rational decisions.

Table 9

Descriptive Statistics of Loss Aversion

Descriptive Statistics

Description	Mean	SD
I prioritize avoiding losses over pursuing potential gains.	3.65	0.976
I am more concerned about potential losses than the rewards of an investment.	3.92	0.916
I prefer safer investments, even if they offer lower returns.	3.47	0.903

The table presents descriptive statistics for factors associated with loss aversion in investment decisions. The mean and standard deviation (SD) values provide insights into the degree of loss-averse behavior among respondents.

The first statement, "I prioritize avoiding losses over pursuing potential gains," has a mean of 3.65 and an SD of 0.976. This reflects a moderate level of loss-averse behavior, where respondents tend to focus more on avoiding losses than seeking gains. The SD suggests variability in how strongly respondents prioritize avoiding losses.

The second statement, "I am more concerned about potential losses than the rewards of an investment," has the highest mean of 3.92 and an SD of 0.916. This indicates a strong emphasis on avoiding losses, with many respondents exhibiting a heightened sensitivity to potential downsides. The relatively low SD suggests a consistent pattern of concern about losses across the sample.

The third statement, "I prefer safer investments, even if they offer lower returns," has a mean of 3.47 and an SD of 0.903. This implies that respondents generally prefer safer, lower-risk investments, although the preference is slightly less pronounced compared to other loss-averse behaviors. The SD indicates moderate variability, suggesting that some respondents might still pursue higher-risk investments.

Overall, the findings emphasize a strong influence of loss aversion on respondents' investment behavior, with concerns about losses often outweighing potential rewards. This tendency could lead to conservative investment strategies, limiting opportunities for higher returns. Addressing this bias through financial literacy and risk management education

could help promote more balanced decision-making.

Table 10

Descriptive Statistics of Investment Decisions

Descriptive Statistics

Description	Mean	SD
I make investment decisions based on a thorough analysis of available data.	3.40	1.056
Psychological factors significantly influence my investment choices.	3.57	0.999
I frequently adjust my investment strategies based on my emotional state.	3.65	1.011

The table provides descriptive statistics for statements regarding factors influencing investment decision-making, focusing on data analysis, psychological factors, and emotional adjustments. The mean and standard deviation (SD) values offer insights into the respondents' behaviors and tendencies.

The first statement, "I make investment decisions based on a thorough analysis of available data," has a mean of 3.40 and an SD of 1.056. This indicates that respondents generally agree with the importance of data-driven decisions, but the relatively high SD suggests significant variability. Some respondents may heavily rely on data, while others may make less data-informed decisions.

The second statement, "Psychological factors significantly influence my investment choices," has a mean of 3.57 and an SD of 0.999. This reflects a moderate acknowledgment of the role of psychological factors, such as biases and emotions, in shaping investment decisions. The SD indicates some variation among respondents, highlighting that these factors influence individuals differently.

The third statement, "I frequently adjust my investment strategies based on my emotional state," has the highest mean of 3.65 and an SD of 1.011. This suggests that emotional states play a significant role in respondents' decision-making, with frequent adjustments made in response to emotions. The SD shows moderate variability, indicating that while some respondents are highly influenced by emotions, others are less so.

Overall, the findings suggest that while respondents value data analysis, psychological and

emotional factors also strongly impact their investment behaviors. This highlights the interplay of rational and emotional decision-making processes, emphasizing the need for strategies to mitigate emotional biases and enhance data-driven approaches.

4.4 Correlation Analysis

The correlation analysis section examines the relationships between psychological factors and investment decisions, providing insights into how these variables interact. Using Pearson's correlation coefficient, this analysis determines the strength and direction of the relationships between key factors such as beliefs, self-confidence, regret and remorse, and loss aversion. By identifying significant correlations, this section helps to understand whether and how these psychological elements influence investment behaviors. The findings from this analysis serve as a foundation for further statistical exploration, such as regression analysis, to assess the predictive power of these variables on investment decisions.

The table presents the correlation analysis among the variables beliefs, self-confidence, regret and remorse, loss aversion, and investment decisions. The Pearson Correlation coefficients indicate the strength and direction of the relationships, with significance levels noted for both 0.01 and 0.05 thresholds.

Table 11

Correlation Matrix

Correlations						
		Beliefs	SC	RR	LA	ID
Beliefs	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	150				
SC	Pearson Correlation	.465**	1			
	Sig. (2-tailed)	0.000				
	N	150	150			
RR	Pearson Correlation	0.128	.350**	1		
	Sig. (2-tailed)	0.119	0.000			
	N	150	150	150		
LA	Pearson Correlation	.276**	.395**	.438**	1	
	Sig. (2-tailed)	0.001	0.000	0.000		
	N	150	150	150	150	
ID	Pearson Correlation	.171*	0.132	0.145	.166*	1
	Sig. (2-tailed)	0.036	0.107	0.076	0.042	
	N	150	150	150	150	150

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

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

The correlation between beliefs and investment decisions is 0.171, significant at the 0.05 level. This suggests a weak positive relationship, indicating that personal beliefs have a marginal influence on investment decisions. Although the correlation is statistically significant, its low strength implies limited predictive power.

Self-confidence exhibits a moderate positive correlation with beliefs at 0.465, significant at the 0.01 level. This indicates that individuals with higher self-confidence are more likely to rely on their personal beliefs when making investment decisions. However, the correlation between self-confidence and investment decisions is weak at 0.132 and not statistically significant, reflecting a limited direct influence.

Regret and remorse is positively correlated with self-confidence at 0.350 and with loss aversion at 0.438, both significant at the 0.01 level. This suggests that individuals experiencing higher regret and remorse are also more likely to exhibit loss-averse behavior and rely on self-confidence in their decision-making process. However, the relationship

between regret and remorse and investment decisions, at 0.145, is not statistically significant, indicating an indirect rather than direct influence.

Loss aversion demonstrates moderate positive correlations with self-confidence and regret and remorse, both significant at the 0.01 level. This shows that loss-averse individuals are more likely to rely on self-confidence and experience regret in their decision-making process. However, the relationship between loss aversion and investment decisions is weak at 0.166, significant at the 0.05 level, implying that loss aversion plays only a modest role in influencing investment behavior.

The strongest correlation observed is between self-confidence and beliefs at 0.465, highlighting a robust interdependence between these variables. Other correlations, though statistically significant, are moderate or weak in strength, reflecting the complexity of psychological factors influencing investment decisions. These findings emphasize the importance of addressing cognitive biases to promote more rational decision-making among investors.

4.5 Regression Analysis

The regression analysis section is to evaluate the predictive power of psychological factors on investment decisions. By using multiple linear regression, this analysis assesses how variables such as beliefs, self-confidence, regret and remorse, and loss aversion collectively and individually contribute to explaining variations in investment behavior. The results, including coefficients, significance levels, and model fit indices, provide a detailed understanding of the strength and nature of these relationships. This section builds on the findings of correlation analysis, offering deeper insights into the direct and indirect influences of psychological factors on investment decisions.

Table 12

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.226[a]	0.051	0.025	0.73736

a. Predictors: (Constant), LA, Beliefs, RR, SC

The regression analysis conducted to explore the relationship between psychological factors and investment decisions reveals key insights across three tables: the model summary, ANOVA table, and coefficients table.

The model summary (Table 12) shows an R value of 0.226, indicating a weak positive relationship between the predictors (beliefs, self-confidence, regret and remorse, and loss aversion) and the dependent variable (investment decisions). The R-squared value is 0.051, meaning that only 5.1% of the variation in investment decisions can be explained by the predictors in the model. The adjusted R-squared is even lower at 0.025, highlighting that the model does not fit the data strongly and additional unaccounted variables may influence investment decisions. The standard error of the estimate, 0.73736, further indicates variability in the responses, suggesting a lack of precise prediction.

Table 13

ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.228	4	1.057	1.944	0.06[b]
	Residual	78.836	145	0.544		
	Total	83.064	149			

a. Dependent Variable: ID

b. Predictors: (Constant), LA, Beliefs, RR, SC

The ANOVA table (Table 13) evaluates the overall significance of the regression model. The F-statistic is 1.944, and the significance value is 0.06. Since this p-value exceeds the threshold of 0.05, the model is not statistically significant. This implies that, collectively, the psychological factors included in the model do not significantly predict investment decisions.

Table 14

Coefficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	2.271	0.474		4.796	0.000
	Beliefs	0.136	0.094	0.133	1.441	0.152
	SC	0.005	0.108	0.004	0.045	0.964
	RR	0.096	0.102	0.087	0.945	0.346
	LA	0.110	0.117	0.089	0.943	0.347

a. Dependent Variable: ID

The coefficients table (Table 14) provides details about the contribution of each predictor. The constant value is 2.271, representing the baseline level of investment decisions when all predictors are held constant. The unstandardized coefficients indicate the change in the dependent variable for a one-unit change in the predictor. Beliefs have a coefficient of 0.136 and a p-value of 0.152, suggesting a positive but statistically insignificant effect on investment decisions. Similarly, self-confidence has a coefficient of 0.005 and a p-value of 0.964, indicating an extremely weak and insignificant contribution. Regret and remorse, with a coefficient of 0.096 and a p-value of 0.346, and loss aversion, with a coefficient of 0.110 and a p-value of 0.347, also show positive but statistically insignificant impacts.

The standardized coefficients (beta values) highlight the relative importance of each variable in the model. Beliefs have the highest beta value (0.133), followed by regret and remorse (0.087) and loss aversion (0.089), while self-confidence contributes negligibly (0.004). However, none of these variables are statistically significant in influencing investment decisions, as indicated by their respective p-values.

The findings suggest that the included psychological factors have a limited and statistically insignificant impact on investment decisions in the sample studied. While beliefs and loss aversion show slight positive relationships, their lack of statistical significance diminishes their predictive value. The low R-squared value and non-significant F-statistic underscore the need to consider additional variables or factors that might better explain investment behavior. External influences, such as financial literacy, market conditions, or cultural factors, could provide a more comprehensive understanding of the determinants of

investment decisions. This analysis emphasizes the complexity of investment behavior, where psychological factors may interact with various external and contextual elements, necessitating further research to refine the predictive model.

4.6 Key Findings

i. Personal beliefs were identified as a significant psychological factor influencing investment decisions among Nepalese retail investors, with respondents moderately relying on their beliefs despite limited use of objective financial analysis.

ii. Self-confidence emerged as a critical influence, where investors demonstrated overconfidence in their ability to predict market trends, often leading to excessive risk-taking and poor portfolio diversification.

iii. The analysis revealed a substantial impact of regret aversion, as investors were reluctant to sell underperforming stocks to avoid experiencing regret, resulting in portfolio stagnation and missed opportunities.

iv. Loss aversion was highly prevalent, with many investors prioritizing the avoidance of losses over pursuing potential gains, which discouraged high-return opportunities and encouraged safer, low-risk investments.

v. Psychological factors such as emotions and biases were found to have a greater influence on investment decisions than thorough data analysis, reflecting the behavioral tendencies of retail investors.

vi. A weak but positive correlation was observed between beliefs and investment decisions, indicating that personal perceptions play a minor role in shaping investment choices.

vii. Regression analysis showed that the selected psychological factors—beliefs, self-confidence, regret and remorse, and loss aversion—collectively explained only 5.1 percent of the variation in investment decisions, suggesting other unexplored variables.

viii. Educational level was highlighted as an essential demographic variable, with respondents possessing a bachelor’s degree being more active in investment

activities, potentially due to higher financial literacy.

ix. The study emphasized the role of peer influence and advocate recommendations, which fostered herd behavior and caused many investors to mimic others rather than make independent, data-driven decisions.

x. Despite the growing importance of financial literacy, findings revealed low levels of market awareness among participants, amplifying the effects of behavioral biases on their decision-making processes.

xi. Fear of making wrong decisions significantly delayed timely investments, suggesting that emotional barriers restricted proactive investment behaviors among Nepalese retail investors.

xii. The gender distribution of the sample showed a majority of female investors, reflecting a shift in gender participation in financial markets, although male perspectives remained underrepresented.

xiii. The dominance of younger age groups, particularly individuals aged 21 to 30 years, highlighted the active engagement of early-career participants in the stock market, often driven by aspirations rather than robust financial knowledge.

xiv. Correlation analysis found a moderate relationship between self-confidence and other psychological factors such as regret and loss aversion, suggesting overlapping influences in shaping investment behavior.

xv. The research underscored the need for financial literacy programs and behavior-oriented training to mitigate the adverse effects of psychological biases, promoting rational decision-making and improved investment outcomes.

4.7 Discussion

This study explored the influence of psychological factors, such as beliefs, self-confidence, regret and remorse, and loss aversion, on the investment decisions of Nepalese retail investors. The findings highlight the significant role of these psychological biases, though their overall impact on investment decisions was found to be limited, as indicated by the low explanatory power of the regression model.

One notable finding is the moderate reliance of investors on personal beliefs when making decisions. This aligns with the Behavioral Finance Theory (Shefrin, 2002), which posits that investor behavior is often guided by heuristics and personal convictions rather than rational analysis. While beliefs positively influenced investment decisions, their weak statistical significance suggests that other external factors may also play a role. This finding resonates with prior studies, such as Kahneman and Tversky's (1979) work on heuristics, which demonstrated that investors often rely on mental shortcuts to navigate uncertainty in financial markets.

Self-confidence was another critical factor observed in the study. Respondents displayed overconfidence, believing they could predict market trends better than others. This is consistent with findings from Barber and Odean (2001), who reported that overconfident investors tend to overestimate their knowledge and skills, leading to excessive trading and suboptimal returns. The weak correlation between self-confidence and investment decisions, however, suggests that overconfidence may not translate directly into action among Nepalese investors. This could be attributed to limited financial literacy or the relatively less sophisticated structure of Nepal's stock market compared to global markets (Sharma, 2018).

Regret and remorse were also prominent psychological factors. Many respondents avoided selling underperforming stocks to prevent the emotional discomfort of realizing a loss. This behavior is strongly aligned with Prospect Theory (Kahneman & Tversky, 1979), which suggests that individuals experience losses more intensely than equivalent gains, resulting in loss aversion. Similar findings have been observed in studies by Frydman and Camerer (2016), who noted that investors are reluctant to realize losses, leading to the disposition effect. In the context of Nepal, this behavior may also stem from limited market alternatives and a lack of active portfolio management, further exacerbating regret aversion.

Loss aversion, as one of the most significant biases, was found to influence investment decisions. The tendency of respondents to prioritize avoiding losses over pursuing gains aligns with the literature, which emphasizes the universal nature of loss aversion across cultures (Thaler, 1980). However, the study found that this factor had only a modest impact on actual decision-making, as evidenced by the low beta coefficient in the regression

analysis. This might reflect the influence of external factors, such as macroeconomic conditions, that overshadow psychological biases in the Nepalese stock market. The demographic analysis revealed interesting trends, particularly the dominance of younger age groups and a higher representation of female investors. This finding contrasts with earlier studies, such as Barber and Odean (2001), which reported that men are generally more active in financial markets. The increasing participation of women in the Nepalese stock market may indicate shifting social norms and greater financial independence among women in the region. However, the limited representation of older age groups suggests that experience and market maturity are underrepresented in the study, which may have implications for the generalizability of the findings.

The low R-squared value in the regression analysis, indicating that only 5.1 percent of the variation in investment decisions could be explained by the selected psychological factors, underscores the complexity of investment behavior. This finding is consistent with prior research by Ricciardi and Simon (2000), who highlighted that investment decisions are influenced by a combination of psychological, demographic, and external factors. The results suggest that additional variables, such as financial literacy, market knowledge, and macroeconomic factors, could be incorporated into future studies to better explain investor behavior.The study also supports the need for targeted financial literacy programs to mitigate the effects of psychological biases. Previous research by Lusardi and Mitchell (2014) has shown that improved financial education can reduce the impact of behavioral biases, leading to more rational decision-making. In the context of Nepal, where market awareness remains low, such interventions could play a pivotal role in empowering investors to make informed decisions.

In conclusion, the findings contribute to the growing body of behavioral finance literature by providing insights into the psychological factors influencing investment decisions in a developing market context. The interplay between biases, demographic variables, and external factors highlights the complexity of investor behavior. Future research should aim to integrate additional variables and expand the scope of analysis to provide a more comprehensive understanding of the determinants of investment decisions in Nepalese financial markets.

CHAPTER V

CONCLUSION AND IMPLICATION

5.1 Summary

This study explored the influence of psychological factors on investment decisions among retail investors in the Nepalese stock market. The research focused on key psychological factors, including beliefs, self-confidence, regret and remorse, and loss aversion, to assess their impact on decision-making processes. The study employed a mixed-method approach, combining descriptive and inferential statistical techniques to analyze data collected from a structured survey of retail investors. The findings provide insights into how psychological biases and behavioral tendencies shape investment behavior in a developing market context.

The demographic analysis revealed that the majority of respondents were young investors aged between 21 and 30 years, indicating strong engagement from early-career individuals. This age group dominated the sample, reflecting the growing interest of younger generations in financial markets. Additionally, the study noted an increasing participation of female investors, which signifies a positive shift in gender dynamics within Nepal's financial sector. Educational attainment was also a significant demographic factor, with most respondents holding a bachelor's degree, suggesting that higher education levels may enhance financial engagement and decision-making capacity.

The study highlighted the role of psychological factors in investment decisions, with varying degrees of influence. Personal beliefs were moderately associated with investment behavior, indicating that many investors rely on their perceptions and convictions rather than objective analysis. This aligns with behavioral finance theories, which emphasize the role of heuristics in decision-making under uncertainty. However, beliefs showed limited predictive power in the regression analysis, suggesting the need to explore additional factors influencing investment behavior.

Self-confidence emerged as a notable factor, with many investors displaying overconfidence in their ability to predict market trends. This tendency, consistent with global behavioral finance literature, often leads to excessive trading and suboptimal

portfolio diversification. However, the correlation between self-confidence and investment decisions was weak, indicating that overconfidence might not always translate into concrete actions among Nepalese investors, potentially due to a lack of financial literacy or market experience.

The study also revealed the impact of regret and remorse on investment decisions. Many respondents exhibited regret aversion, avoiding the sale of underperforming stocks to prevent emotional discomfort. This behavior, rooted in loss aversion and regret theory, often resulted in portfolio stagnation and missed opportunities. Loss aversion was found to be one of the most significant psychological factors, with investors prioritizing the avoidance of losses over potential gains. This conservative approach limited their willingness to take calculated risks, aligning with findings in global studies on behavioral finance.

Despite the strong influence of psychological factors, the regression analysis indicated that these variables collectively explained only 5.1% of the variance in investment decisions. This low explanatory power suggests that other factors, such as financial literacy, market conditions, and cultural influences, may play a more significant role. The findings emphasize the complexity of investment behavior, where psychological biases interact with external and contextual factors to shape decision-making.

The study underscores the importance of addressing psychological biases to enhance rational investment behavior. The findings highlight the need for targeted financial literacy programs and behavioral interventions to empower retail investors with the knowledge and confidence to make informed decisions. By identifying the key psychological drivers and their limitations, this research contributes to the growing body of literature on behavioral finance and provides practical recommendations for improving investment outcomes in the Nepalese stock market. Future studies should aim to include additional variables and expand the scope to capture a more comprehensive understanding of investment behavior in developing markets.

5.2 Conclusion

This objective of the study was to explore the psychological factors influencing investment decisions among retail investors in the Nepalese stock market. It focused on the roles of beliefs, self-confidence, regret and remorse, and loss aversion in shaping investment behavior. Through a combination of descriptive and inferential analyses, the research provided valuable insights into how behavioral tendencies and cognitive biases impact decision-making processes in a developing market context.

The findings indicate that psychological factors play a notable yet limited role in influencing investment decisions. Personal beliefs were found to have a moderate impact, suggesting that many investors rely on subjective perceptions rather than objective financial analysis. However, their predictive power was weak, indicating the presence of additional variables influencing investment behavior. Self-confidence was another significant factor, with many investors displaying overconfidence in their decision-making abilities. This aligns with global trends in behavioral finance, where overconfidence often leads to excessive risk-taking. However, in the Nepalese context, the weak correlation between self-confidence and investment decisions suggests that overconfidence may not always translate into actionable behavior, likely due to lower financial literacy and limited market exposure.

Regret and remorse emerged as critical factors, with many investors avoiding selling underperforming stocks to prevent emotional discomfort. This behavior, tied to regret aversion, often resulted in portfolio stagnation and missed opportunities for diversification. Loss aversion was also prevalent, with investors prioritizing the avoidance of losses over pursuing potential gains. While these biases reflect universal behavioral patterns, their impact on investment decisions in Nepal was modest, as indicated by the low explanatory power of the regression model.

The study highlighted the demographic characteristics of the sample, with younger investors (aged 21–30) dominating the respondent pool. This reflects a growing interest among early-career individuals in financial markets, although their decisions were often driven by aspirations rather than robust financial knowledge. The increasing participation

of female investors was another notable trend, signaling positive shifts in gender dynamics within the Nepalese stock market.

Overall, the study underscores the complexity of investment behavior, where psychological factors interact with demographic and external influences. While biases such as loss aversion and regret significantly shape decision-making, their limited statistical significance suggests the need for a broader analytical framework. The findings emphasize the importance of financial literacy and behavior-oriented interventions to empower investors with the tools to make rational and informed decisions.

In conclusion, this research contributes to the understanding of behavioral finance in a developing market context, offering insights into the psychological drivers of investment behavior. Future studies should incorporate additional variables, such as macroeconomic conditions and cultural influences, to provide a more comprehensive analysis of investment decision-making in Nepal.

5.3 Implications

i. Need for Financial Education

This study highlights the importance of providing financial education to retail investors. Programs focused on explaining investment concepts and market mechanisms can help people make more informed decisions and reduce the influence of emotions and psychological biases like regret or overconfidence.

ii. Addressing Emotional Biases

The findings emphasize the need for tools and training to help investors manage emotional biases such as loss aversion and regret. Such interventions can encourage rational decision-making, enabling individuals to take calculated risks instead of prioritizing emotional comfort over financial benefits.

iii. Promoting Youth-Focused Programs

With younger investors forming the majority, financial literacy initiatives should target early-career individuals. These programs can teach essential skills such as risk assessment,

diversification, and market analysis, enabling young investors to build better habits for long-term financial success.

iv. Empowering Women in Investing

As more women participate in the stock market, there is a need for gender-specific financial education programs. These should focus on addressing common barriers faced by women and empowering them to make confident and independent investment decisions.

v. Developing Behavioral Awareness

Awareness campaigns about common behavioral tendencies like overconfidence and herd behavior can help investors recognize and manage their biases. This knowledge can reduce impulsive decisions and promote a more strategic approach to managing investments.

vi. Role of Financial Advisors

The study suggests financial advisors should consider psychological factors when guiding clients. By addressing biases such as fear of loss or regret, advisors can help investors make balanced decisions that align with their financial goals.

vii. Technology-Driven Solutions

Fintech platforms can integrate behavioral insights into their tools to help investors make rational decisions. For example, apps can use notifications to remind users of their goals or encourage diversification during volatile market conditions.

viii. Improving Portfolio Management

Investors often avoid selling underperforming stocks due to regret. Financial services should offer tools that encourage dynamic portfolio management, helping investors focus on long-term growth rather than clinging to poorly performing assets.

ix. Policy Recommendations

Regulators should promote financial education and behavior-focused initiatives to protect investors. Policies encouraging transparency, market awareness, and behavior-based risk assessments can ensure better outcomes for retail investors and create a healthier stock market ecosystem.

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Appendix

Proposed Questionnaire

The questionnaire is adopted from Lim Li Chin (2012).

Age

- Below 20 years
- 21–30 years
- 31–40 years
- 41–50 years
- Above 50 years

Gender

- Male
- Female
- Other/Prefer not to say

Education Level

- High School
- Bachelor's Degree
- Master's Degree
- Other (please specify)

Employment Status

- Student
- Employed
- Self-Employed
- Unemployed
- Retired

The questionnaire uses a 5-point Likert Scale. The scale is as follows:

1. **Strongly Disagree (1)**: The respondent completely disagrees with the statement.
2. **Disagree (2)**: The respondent partially disagrees with the statement.
3. **Neutral (3)**: The respondent neither agrees nor disagrees; they are undecided or indifferent.
4. **Agree (4)**: The respondent partially agrees with the statement.
5. **Strongly Agree (5)**: The respondent fully agrees with the statement.

Select the relevant opinion to you

	Question	**1**	**2**	**3**	**4**	**5**
Beliefs	I rely on my personal beliefs when making investment decisions.					
	I trust information that aligns with my pre-existing beliefs about the stock market.					
	My investment choices are influenced by my perception of market trends.					
Self-Confidence	I feel confident in my ability to make profitable investment decisions.					
	I believe I have sufficient knowledge to assess stock performance accurately.					
	I often feel I can predict market trends better than others.					
Regret and	I often regret not investing in stocks that later perform well.					

Remorse						
	I avoid selling underperforming stocks to prevent realizing a loss.					
	Fear of making a wrong decision prevents me from making timely investments.					
Loss Aversion	I prioritize avoiding losses over pursuing potential gains.					
	I am more concerned about potential losses than the rewards of an investment.					
	I prefer safer investments, even if they offer lower returns.					
Investment Decisions	I make investment decisions based on a thorough analysis of available data.					
	Psychological factors significantly influence my investment choices.					
	I frequently adjust my investment strategies based on my emotional state.					

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Abstract This study explores the psychological factors influencing investment decisions in the Nepalese stock market, focusing on beliefs, self-confidence, regret and remorse, and loss aversion. The research adopts a descriptive design, utilizing structured questionnaires distributed among 150 retail investors to examine the interplay between cognitive biases and financial behaviors. Findings reveal that psychological factors significantly impact investment decisions, with loss aversion and regret being prominent drivers of conservative strategies, while self-confidence often leads to overconfident behaviors. Correlation and regression analyses demonstrate weak to moderate relationships between these psychological factors and investment outcomes, underscoring their nuanced effects. The study highlights the need for enhanced financial literacy programs and policy interventions to mitigate cognitive biases and promote rational decision-making in the Nepalese stock market. These insights contribute to the growing field of behavioral finance, offering region-specific evidence and practical implications for emerging markets. Keywords: Behavioral Finance, Investment Decisions, Psychological Factors, Beliefs, Self-Confidence, Loss Aversion, Cognitive Biases, Financial Literacy, Nepalese Stock Market. i CHAPTER I INTRODUCTION 1.1 Background of the Study Investment decisions in stock markets are influenced by numerous factors, ranging from economic indicators to individual psychological traits (Daniel et al., 2002). According to Tseng, K. C. (2006), Behavioral finance is an emerging field that challenges the rational assumptions of traditionalfinance, provides insights into how investors' psychological and emotional statesaffect decision-making processes. This study focuses on understanding how psychological factors impact investment decisions in the Nepalese stock market, a context characterized by retail investor dominance and unique market dynamics. Traditional theories, such as the Efficient Market Hypothesis (EMH), assume rational behavior among investors, suggesting that markets reflect all available information efficiently (Fama, 1970). However, behavioral finance has challenged these views by showing that psychological and cognitive biases significantly impact investor behavior. For instance, loss aversion, overconfidence, and herding behavior have been identified as critical factors influencing investment patterns globally and regionally (Lamichhane, 2024; Mehmood et al., 2019).

Prospect theory , introduced **by Kahneman and Tversky (1979), explains how** investors **perceive gains and losses** asymmetrically, leading to risk-averse or risk-seeking behaviors. These biases are amplified in emerging markets, such asNepal, where investors rely heavily on personal perceptions, third-party recommendations, and limited financial literacy (Khan et al., 2023). The Nepalese stock market, represented mainly by the Nepal Stock Exchange (NEPSE), is one of the most