BEHAVIORAL BIASES ON INVESTMENT DECISIONS OF NEPALESE SECONDARY MARKET INVESTORS

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfillment of the requirements for the Master of Business studies

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "BEHAVIORAL BIASES ON INVESTMENT DECISIONS OF NEPALESE SECONDARY MARKET INVESTORS". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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Bijaya Devkota

May, 2024

REPORT OF RESEARCH COMMITTEE

Mr. Bijaya Devkota has defended research proposal entitled "BEHAVIORAL BIASES ON INVESTMENT DECISIONS OF NEPALESE SECONDARY MARKET INVESTORS" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Dilli Ram Bhandari and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "BEHAVIORAL BIASES ON INVESTMENT DECISIONS OF NEPALESE SECONDARY MARKET INVESTORS" presented by Bijaya Devkota a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva Voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

Page No.

LIST OF TABLES

Page No.

LIST OF FIGURES

Page No.

ABBREVIATIONS

AM	Arithmetic Mean
ASE	Athens Stock Exchange
CV	Coefficient of Variation
NEPSE	Nepal Stock Exchange
NSE	Nairobi Stock Exchange
NRB	Nepal Rastra Bank
NYSE	New York Stock Exchange
PCA	Principal Component Analysis
SEBON	Securities Board of Nepal
SEC	Securities Stock Exchange
TSX	Torrento Stock Exchange
UAE	United Arab Emirates

ABSTRACT

This study shows how individual NEPSE investors' decisions are impacted by behavioral biases. The objective of this research is to examine the correlation between behavioral bias factors and investment choices, as well as the influence of behavioral bias variables on share market investment decisions in Nepal, including herding bias, anchoring bias, overconfidence bias, and disposition effect bias. A descriptive and causal comparative research design was used in this investigation. The 249 NEPSE listed enterprises were the population of this study, which was conducted using questionnaires distributed to 215 investors. After data collection and surveying, analysis was done using regression, correlation, and descriptive statistics. The regression analysis's findings demonstrated that herding bias, anchoring bias, disposition impact, and overconfidence all had significant and favorable effects on investing choices. The study has implications for financial counselors to become more proficient, policy makers to investigate biases in prior policy changes, and individual investors to better understand their own behavior. Regulators has the authority to create regulations aimed at eliminating investor perceptions of prejudice. This study can be used by brokers to identify the biases impacting investor behavior. They are able to protect investors from making bad choices by offering sage advice to their clients. With the help of this study, investors can assess their own conduct. They also have the ability to recognize profitable stocks and increase their purchases.

Key words: Overconfidence, Anchoring, Disposition Effect, Herding, Investment Decision

CHAPTER- I
INTRODUCTION

1.1 Background of the Study

In recent years, behavioral finance has received a great deal of interest as a means of elucidating investor behavior and its impact on decision-making. Research elucidating the conduct of individual investors initially surfaced in the 1970s. Behavioral finance studies how decisions are made when purchasing or disposing of financial assets and offers an explanation for these decisions. Its primary focus is on the psychological concepts that investors use to guide their financial decisions (Vidya, 2021).

The theory provided by (Kahneman and Tyevsky, 1979; Kahneman, 1982) defines behavioral finance. According to Kahneman and Tyevsky (1979), investors might not always seem like the most logical people to make investments. These behaviorists believe that when making investing decisions, investors may act irrationally. "A rapidly developing area that contracts with the influence of psychology on the behavior of financial professionals" is how Shefrin (1999) described behavioral finance. Numerous behavioral finance research have looked at the variables influencing an individual investor's process of choosing stocks.

To characterize the factors influencing the behavior of individual investors, Meriks et al. (2004), for instance, used five categories: accounting information, subjective/personal, neutral information, advocate recommendation, and personal financial needs. Nagy and Obenberger (1994) employed seven classifications: social significance, self-image/firm-image coincidence, neutral information, traditional wealth maximization, accounting information, advocate endorsement, and personal financial demands.

Al-Tamimi (2005) employed a five-category approach to examine individual investor behavior in the financial markets of the United Arab Emirates. These categories comprised advocate recommendations, neutral information, accounting information, personal financial needs, and coincidences between one's self and company image. But not enough study has been done on investor behavior with an emphasis on emerging

nation stock markets up to this point. Examining the factors influencing individual investors' decisions in the Nepali stock market was the aim of this study.

The study also aims to investigate how different factors influence people's investing behaviors and how those actions are influenced by themselves. Additionally, the study looked into how each element was impacted by the overall investing behavior of investors. This research creates a remarkable appeal to the body of literature on behavioral finance in underdeveloped nations, particularly with reference to Nepal, by integrating all three facets of investor behavior.

1.2 Problem Statement

Investors' psychological considerations also have an impact on their investment decisions, in addition to market oddities. When making stock market investments, individual investors are influenced by a number of factors, including mood, cultural prejudice, cognitive dissonance, representative bias, overconfidence, and herd behavior. The current study emphasizes the importance of behavioral factors in influencing investment decisions in this environment. Investor decisions on the stock market have a significant impact on the market trend, which in turn has an impact on the economy (Ahmed, Ahmed & Usman, 2011).

Every minute, millions of decisions are made worldwide in the corporate sector. This phrase also applies to investment decisions. There are a wide range of behavioral elements that influence investing decision-making. One kind of these variables has to do with the psychological makeup of investors, which determines how they behave financially. Numerous research have been conducted in Nepal to better understand investors' (Bhattarai, 2020).

Numerous studies have been conducted in Nepal to better understand investor behavior and how it affects the performance of investments. For instance, research by Thapa (2014), Dangol and Manandhar (2020), and Gnawali (2021) revealed that behavioral biases affect the investing decisions made by Nepalese investors. The relationship between the investing decision-making process and behavioral biases in Nepal has not

been empirically studied, despite a vast number of studies on understanding investor behavior having been conducted.

Finding out if investor and decision-making behaviors align with the theoretical framework of rational decision-making is the aim of this research. It also establishes the causal relationships between each step of the decision-making process and three behavioral biases that have been proposed. Furthermore, the influence of several demographic variables on behavioral biases is also investigated. As a result, this research will attempt to identify the behavioral factors influencing investment decision making as they are affecting the decisions made by investors in the Nepalese stock exchange. There are many behavioral factors that influence investment decision making, but they haven't been studied in Nepal specifically in relation to the Nepal Stock Exchange (Shrestha and Silwal, 2017).

The Nepalese stock market has experienced tremendous expansion in recent years, along with a surge in new investors looking to take advantage of investment opportunities. Nevertheless, a lot of investors still display behavioral biases that affect their choice of stocks, even in the age of knowledge and financial education. To improve investment results and market efficiency, regulators, financial institutions, and individual investors must have a thorough understanding of these biases in order to develop successful strategies and solutions (Kadariya, 2012).

The study's ultimate goals are to enhance investor safety, market efficiency, and overall investment results in the Nepalese stock market. The results of this study will form the foundation for developing focused investor education initiatives and policy interventions aimed at improving financial literacy and encouraging more logical decision-making among Nepalese investors. Investigating the behavioral elements impacting investors' actions at the Nepal Stock Exchange (NEPSE) is crucial (Kumar et al., 2022).

In the ever-evolving realm of financial markets, understanding the underlying psychological dynamics shaping investor behavior is paramount. Financial behavior refers to the choices and actions people make when managing their own cash across a range of investment vehicles, including stocks, bonds, mutual funds, and real estate. It

includes components that are vital in determining the results of investments, including risk tolerance, investment objectives, decision biases, emotions, and financial literacy. Achieving long-term investment success and financial security requires an understanding of and ability to control one's own financial behavior. An extensive research model has been painstakingly built to clarify the complex connections between these psychological variables and the process of making investing decisions (Lakshmi et al., 2024).

The frequency of particular biases among Nepalese investors is influenced by socioeconomic and demographic factors. Comparatively speaking to other industrialized nations, Asia has relatively little study on behavioral finance (Dao et al., 2014). Behavioral finance makes the assumption that the information structure and characteristics of market participants continuously influence the actions of individual investors and the performance of the market (Barberis, Huang & Thaler, 2003; Hirshleifer 2014).

The purpose of this study is to look into how behavioral biases affect Nepalese investors' decisions to buy stocks. The study will delve into the following specific questions:

i. What are the behavioral bias-related aspects influencing Nepalese share market investment decisions?
ii. How do behavioral bias factors such as overconfidence, anchoring, disposition effect, and herding bias relate to investing decisions made in the Nepalese share market?
iii. What is the effect of factors of behavioral bias (overconfidence bias, anchoring bias, disposition effect bias and herding bias) on investment decision of Nepalese share market?

1.3 Objectives of the Study

This study's main goal is to investigate how behavioral biases affect investors' decisions in the Nepalese share market. Additionally, the following are the research's specific goals:

i. To evaluate the behavioral bias-related aspects influencing Nepalese share market investment decisions.
ii. To investigate the connection between behavioral bias components (herding, anchoring, disposition effect, and overconfidence biases) and share market investment decisions in Nepal.
iii. To examine how behavioral bias factors overconfidence, anchoring, disposition effect, and herding affect investors' choices in the Nepalese share market.

1.4 Research Hypothesis

The following study hypothesis are highlighted below:

H_1**:** Overconfidence bias has a significant effect on investment decision.

H_2**:** Anchoring bias has a significant effect on investment decision.

H_3: Disposition effect bias has a significant effect on investmentdecision

H_4: Herding bias has a significant effect on investment decision.

1.5 Rationale of the Study

The government, financial advisors, businesses listed on Nepal's stock exchanges, and private investors should all take note of this report. The elements that affect investors' decision-making are important since they will have an impact on their future financial goals. Businesses' future strategies and plans will be impacted by their identification of the most important elements influencing investor behavior. Financial advisors can recommend investments that best suit their clients by taking these aspects into account. And lastly, identifying the key determinants will assist the government in adjusting necessary laws and other policies that are essential to both appease investors' wishes and strengthen market efficiency.

1.6 Limitations of the Study

- The sample size of this study has only from the individual investors of NEPSE i.e. 215 among all population.
- The study mostly relied on primary sources of information about the factors that influence investors. As a result, the validity of the data supplied by the respondents determines how reliable the study's conclusions are.

- This study has not considered other biases such as mental accounting, representation bias, and gambler fallacy.
- The findings of the study only based on cross-sectional data. Therefore, it may vary.

CHAPTER- II
LITERATURE REVIEW

This chapter deals with review of theoretical and empirical study conducted by different scholars in different time related to this topic. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of articles and review of thesis work performed previously. Therefore, first section is related to theoretical review and second section related to empirical review followed by research gap.

2.1 Theoretical Review

Investing in stocks is heavily influenced by behavioral biases, which frequently result in less than ideal results for investors. These biases, which can have an impact on both ordinary investors and professional fund managers, are a result of the way human brains process information and make judgments. The following significant behavioral biases frequently affect stock investment decisions:

2.1.1 Investment decision

The study of behavioral finance focuses on how emotions and cognitive errors affect investors' behaviors by analyzing brain activity (Kengatharan 2014). A significant portion of the research in the field of behavioral finance comes from the study of how the brain works. Put another way, it's the study of how people, like investors, reason, make decisions, and think. These tendencies will lead investors astray when choosing a stock to buy or cause them to act impulsively in response to the decisions made by others. Consequently, exposing them to actions involving taking risks. The heuristics hypothesis—referred to as "basic guidelines"—is shaped by the behavioral finance hypothesis. This latter settles on dynamic simpler particularly in complex and unsure conditions by utilizing sound judgment to tackle an issue. Heuristics likewise work making decisions easier to take by spotting a characterized set of models to assess (Hirt and Block, 2012).

In the Malaysian stock market, Lim (2012) has examined the relationship between mental dispositions, specifically the tendency toward overconfidence and

traditionalism as well as the tendency to herd investors' financial backing. He discovered that the main factors influencing the independent path of financial backers are overconfidence, traditionalism tendency, and lament. Nevertheless, it was discovered that herding behavior had little effect on the autonomous direction of financial donors. The study's findings were applicable to earlier investigations conducted in several countries. Kengatharan (2014) focused on the Colombo Stock Exchange while examining factors influencing investors' decisions. Furthermore, the relationship between the components showed that herding, overconfidence, prospects, and market characteristics affect investors' possibilities for speculation at the Colombo stock exchange. The remaining variables showed to have a medium effect on venture selections, with the exception of anchoring, which shown a high impact.

2.1.2 Behavioral biases

Overconfidence

Due to this bias, investors tend to overestimate their own skills and forecast accuracy. Investors that are overconfident may trade excessively and take on greater risks because they believe they have a competitive advantage (Mitroi and Stancu, 2014).

Anchoring

Investors frequently base their choices on particular benchmarks, including historical stock prices or popular news stories. By anchoring, they may generate unreasonable expectations based on unrelated information or cling onto losing positions for an extended period of time (Park and Shin, 2020).

Herding

Individuals naturally have a predisposition to follow the herd and copy the behavior of others, particularly when things are unclear. This can result in bubbles and panics in the stock market, when investors purchase when others are buying, forming a bubble, or sell when others are selling, generating a panic (Zhang et al., 2018).

Confirmation bias

Information that supports an investor's preexisting views or ideas on an investment is typically sought out and preferred by investors. Contradictory information may be disregarded or minimized, which might result in bad decisions.

Loss aversion

Investing fear frequently pushes people to take unwarranted risks in an attempt to reduce losses. This may lead to selling winners too soon or holding onto losing positions for an excessive amount of time (Lim, 2012).

Regency bias

Rather than taking into account the larger historical context, investors place greater emphasis on recent events or performance. This may lead people to go after recently successful stocks without taking their long-term prospects into account (Filiz et. al, 2018).

Availability heuristic

Individuals frequently depend on information that is easily accessible to them. This may cause investors to ignore potentially relevant but less accessible information in favor of more recent news or readily available data (Mueller & Brettel, 2012).

Endowment effect

When compared to equivalent assets they do not own, investors typically place a higher value on assets they already possess. This may cause people to hang onto investments even when there are better prospects elsewhere just because they feel comfortable with them (Rogerm, 2019).

Gambler's fallacy

This bias is the idea that even in cases where previous events are unconnected, they nonetheless have an impact on future events. This can appear in stock investing as the belief that a stock will turn around just because it has been down for some time (Deo & Sundar, 2015).

Disposition effect

Investors often sell winning stocks too soon in order to lock in gains, while holding onto failing stocks for an excessive amount of time in an attempt to prevent losses. Missed chances and an unbalanced portfolio can result from this practice. Investors can use techniques including making a clear investment plan, keeping a diverse portfolio, doing extensive research, and consulting financial experts to lessen the influence of

behavioral biases on investment decisions. Additionally, investors can make more logical and impartial decisions by being aware of these biases and routinely assessing their investment selections (Farooq & Sajid, 2015).

2.1.3 Traditional finance

Conventional finance makes the assumption that an investor is a logical person who is capable of processing all information objectively. However, behavioral finance is based on empirical evidence that suggests investors are biased, act irrationally, and let their emotions influence even little investments. For example, a student contacts an online firm or company for writing assistance, and there are two options to choose from. The scholar will most likely select the local business because it is local and the other is foreign. This occurs because, similar to an investor, the scholar's biases influenced the choice. The scholar invested in the local firm due to his overconfidence and familiarity with it. Despite the foreign company's impressive performance and diary, the scholar will invest within the local company due to these biases (Markowitz, 1952).

According to conventional wisdom, the financial market is efficient and might accurately reflect its true worth. The foundation of this argument is the belief held by traditional finance that investors possess self-control. Behavioral finance, on the other hand, contends that market oddities are caused by market volatility. Because these investors lack absolute self-control, there are restrictions. Stock prices rise and decrease as a result of market volatility, so an uneven market (Shefrin and Statman, 1985).

2.1.3.1 Modern portfolio theory (MPT)

MPT was developed by Harry Markowitz and posits that investors can create an optimal portfolio by diversifying their holdings and taking into account the risk-return trade-off of various assets. In order to lower total portfolio risk, MPT emphasizes the significance of maintaining a mix of assets that are not perfectly connected. Harry Markowitz created Modern Portfolio Theory (MPT), sometimes referred to as portfolio theory or portfolio management theory, as a financial theory in the 1950s. In order to maximize returns for a given level of risk or limit risk for a given level of return, it offers a framework for building and optimizing investment portfolios. MPT is a fundamental idea in finance that has had a big impact on investing strategies and portfolio management techniques.

The practical application of Modern Portfolio Theory involves the following steps:

1. Identify the universe of available assets and estimate their expected returns and risks.
2. Calculate the correlations between all pairs of assets to understand their relationships.
3. Construct the efficient frontier by finding the optimal combinations of assets that provide the best risk-return tradeoff.
4. Determine the investor's risk tolerance and preferences to select an appropriate portfolio along the efficient frontier.

Several portfolio management techniques, including index investing, passive investing, and risk-parity portfolios, are based on MPT, which is extensively utilized in the field of investment management. Like any financial model, MPT is not without flaws, though, and detractors point out that it is predicated on a number of assumptions that might not hold true in all market scenarios, including the normal distribution of asset returns and stable correlations. MPT is still a vital tool for choosing how to allocate assets within a portfolio, though (Adil, 2022).

2.1.3.2 Efficient market hypothesis (EMH)

A theory in finance known as the Efficient Market Hypothesis (EMH) contends that asset prices accurately reflect all available information and that financial markets are efficient. Put differently, the theory suggests that financial markets excel at factoring in all accessible information about an item when determining its price. Consequently, it becomes challenging for investors to regularly beat the market or produce unusual returns through active trading or investment techniques.

According to the Efficient Market Hypothesis (EMH), asset prices always fully absorb all relevant data and financial markets efficiently reflect all available information. In this idea, all accessible information is already priced into the securities, making it impossible to consistently outperform the market through stock selection or market timing. Since its initial introduction in the 1960s in his doctoral thesis, economist Eugene Fama's work on the Efficient Market Hypothesis (EMH) has gained substantial traction and influence in the banking industry. Three forms—weak form EMH, semi-strong form EMH, and strong form EMH—provide the basis of the hypothesis.

The Efficient Market Hypothesis' proponents contend that beating the market on a regular basis without taking on more risk is challenging. As a result, passive investment techniques that seek to mimic the performance of a broad market index, such as index funds and exchange-traded funds (ETFs), are frequently advised (Fama, 1970).

2.1.4 Behavioral finance

The study of behavioral finance integrates standard financial concepts with psychological concepts to comprehend and explain how psychological and emotional aspects affect investors' decision-making and the behavior of financial markets as a result. In contrast to the Efficient Market Hypothesis (EMH), which postulates that markets are always efficient and that investors are perfectly rational, behavioral finance acknowledges that investors can deviate from perfectly rational behavior due to cognitive biases, emotional reactions, and limited rationality. The field of behavioral finance integrates concepts from psychology and economics to comprehend the ways in which emotions and cognitive biases impact financial judgments. This theory investigates how several biases that affect investing decisions-such as the disposition effect, anchoring, herding, and loss aversion-are accounted for.

Cognitive bias, prospect theory, mental accounting, farming, regret aversion, behavioral finance, and market anomalies are a few of the fundamental ideas and ideas in behavioral finance. Behavioral finance aims to provide insights into how markets can diverge from the forecasts of conventional finance models and how investors can more skillfully navigate financial decision-making by comprehending these psychological biases and behaviors. It affects portfolio management, asset pricing, and our comprehension of market booms and crashes. Furthermore, it has impacted the creation of investment techniques that consider investors' psychological constraints and biases, such as robo-advisors and behavioral portfolio theory, which aim to lessen the influence of investors' emotional decision-making (Fama, 1970).

2.1.4.1 Herd behavior theory

According to the notion of herd behavior, people copy the moves of others, which creates informational cascades and trends in the financial markets. Without thoroughly evaluating the facts, investors can join the herd, which could lead to market booms or crashes. The tendency of individuals to mimic the decisions or actions of a larger group

is known as "herd behavior theory" in behavioral finance and social psychology. This phenomenon frequently results in a domino effect where a sizable number of people follow the same behavior without necessarily taking into account the underlying principles or logic. Herd behavior in the financial markets can have a big impact on how asset values and market movements are formed over the long and short terms.

Herd mentality can cause asset prices to diverge from their intrinsic worth, which can result in market bubbles and crashes. A lot of investors may rush into an asset during a bubble, pushing its price well above its intrinsic value. Ultimately, a shift in investor mood leads to a massive sell-off, which sharply lower prices and collapses the bubble. Herd mentality is also common while choosing investments. Investing trends, media or friend recommendations, or the moves of well-known investors can all be followed by investors without them doing their homework or realizing the hazards. This may result in a lack of diversification and heightened vulnerability to market hazards (Banerjee, 1992).

2.1.4.2 Prospect/loss-aversion-theory

Prospect Theory describes how people decide when faced with risk and uncertainty. According to this theory, people are often risk-averse when it comes to gains and risk-seeking when it comes to losses. Different risk-taking attitudes result from the framing of possible gains or losses, which affects investors' behavior. Prospect theory states that investor preference defies the conventional utility function, which evaluates investments based on expected utility. Psychologists Daniel Kahneman and Amos Tversky created this hypothesis in 1979 to explain the behavior of investors in risky situations. As per the findings of these experts, individuals make decisions by assessing the possible benefits and losses associated with them, taking into account a specific reference point such as the investment's purchase price, the decision maker's expectations, or the relevant past. The expected utility of a problem or result is influenced by how it is framed.

According to prospect theory, people experience greater stress when they lose money than when they earn a certain amount of cash. Individuals will work harder to prevent losses than to make profits, thus they will hang onto lost stocks in the hopes that their value would rise. People are risk takers for losses, according to Tversky and Kahneman.

Although people feel pain when they lose, twice the loss does not equal twice the misery since the utility function is convex for losses. People feel good when they win, but not twice as good when they gain twice, which is why it is concave for gains ((Kahneman & Tversky, 1979).

2.1.4.3 Capital asset pricing model (CAPM)

The CAPM model connects the systematic risk (beta) of an asset with the market as a whole and the asset's projected return. According to this theory, the expected return of an asset should be related to its beta, a metric that expresses how sensitive it is to changes in the market. A popular financial tool used by analysts and investors to calculate the expected return on a single asset or portfolio of assets is the Capital Asset Pricing Model (CAPM). It offers a framework for comprehending the connection between an investment's risk and projected return, and it's frequently used as a standard to determine if an asset is properly priced, overpriced, or underpriced. Sharpe first presented the CAPM in 1964, Mossin and Lintner later refined it on his own. A number of fundamental presumptions underpin the model, including the risk-free rate, market portfolio, efficient markets, and rational investors. The systematic risk measure, beta, is the only component that determines the expected return in the single-factor model offered by CAPM. It doesn't take into account other elements like firm-specific characteristics or prevailing economic conditions that could affect an asset's return.

2.2 Empirical Review

Under this review of nationally and internationally published articles conducted by scholars in developing and developed securities market.

Lakshmi et al. (2024) studied on financial behavior in personal investment: influence of psychological factors on investment decision. This study examined the impact of three psychological aspects on investment decisions made by 220 investors who trade on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE): information asymmetry, problem framing, and risk propensity. Effective investing strategies necessitate an awareness of the interplay between psychological biases and cognitive processes, as these aspects influence personal investment decisions. By using a quantitative research methodology, information was gathered by sending surveys to

investors who were actively trading stocks on the BSE and NSE platforms. Regression analysis and correlation studies are two statistical analytic approaches that were used to investigate the connections between investing decisions and psychological aspects. The study's conclusions add to the corpus of knowledge by illuminating the complex dynamics of financial decision-making and the part played by psychological variables. Furthermore, the knowledge gained from this study has important ramifications for financial advisors, investors, and legislators that aim to improve investor welfare and encourage well-informed stock market decision-making.

Singh (2024) examined a study on aggressive investment choices–Do cultural values and past investing experiences play a role? The study assessed impact of individual cultural values on investment choices (aggressive or conservative), of 450 investors with behavioral biases and risk propensity in serial as mediators in the relationship. The study used serial mediation analysis using Hayes model 6 for creating six models. Findings of the study indicated that individualism traits are inclined to aggressive investment choices due to presence of overconfidence biases. Uncertainty avoidance and long termism traits of investors resulted in aggressive investment choices due to presence of herd mentality bias. The moderating impact of past investing experiences was found significant.

Altaf and Jan (2023) study on the behavioral biases in investing behavior that are related to generational theory. According to this study, investment behavior among millennials is influenced by generational biases that they exhibit. This study employs investment intention as a dependent variable and fear of missing out, socially conscious investing, overconfidence, herding, and inclination as independent variables. Surveys were distributed, a sample of 674 individuals was surveyed, and they were conducted online via LinkedIn, Facebook, and Twitter. The findings showed that visionary inclination to invest is positively influenced by their fear of losing out. These results imply that idealistic might be uncomfortable with the investing prospects they are unable to take advantage of. Furthermore, optimistic propensity to maintain online connections with their peers may be signaled by their fear of missing out. This study also made an effort to theorize how generational biases could influence the actions of millennial investors. On the other hand, these prejudices might not only affect the millennial generation alone but may be exhibited.

Ali et al. (2023) conducted a research on real estate investment decisions in COVID-19 crisis: the effect of perception and behavioral biases. The purpose of the study is to investigate how investor perceptions of assets and behavioral characteristics related to investment decisions during the COVID-19 pandemic in Pakistan's real estate industry are related to each other. The study employed partial least square structural equation modeling to collect a total of 189 useable samples utilizing a survey-based instrument. The study's conclusions showed that while DE and RA had little bearing on real estate investment decisions, PAV, OC, and HD significantly predicted the choice to make an investment. Furthermore, this study discovered that PAV is the most significant factor in predicting real estate investment decisions made during the COVID-19 pandemic. The study's findings, according to the authors, bolster the implications of policy for regulators, legislators, and financial institutions.

Abideen et al. (2023) examined on do behavioral biases affect investors' investment decision making? Evidence from the Pakistani equity market. The goal of the study is to find out how behavioral biases affect investors' decision-making when making investments. Developed a methodical questionnaire and utilized a random sampling approach to obtain the data. A sample of 600 out of 687 respondents had their data tabulated and refined using structural equation modeling (SEM) in SPSS. The findings support the rejection by showing that overconfidence bias (OB) is not significantly correlated with basic anomalies. This finding implies that investors' overconfident conduct does not explain fundamental anomalies (FA), despite the body of existing evidence suggesting that investor behavior can contribute to FA in the market. The study's empirical evidence includes limitations concerning the causal relationship between several variables. Therefore, we propose that in order to further address the issues raised by this, future research in this field should look for suitable instruments and use the instrumental variable method.

Dirir (2022) researched on an examination of behavioral biases that affect investors' decision-making: (A case study of Pakistanis investors). Numerous biases or inclinations that have been examined in the developing discipline of behavioral finance have a significant impact on an investor's behaviors. Therefore, this paper is an additional attempt to assess the impact of behavioral biases on the decision-making process of investors. Thus, the purpose of this study is to evaluate a number of biases

that affect the financial backer's investment habit, including overconfidence, the disposition effect, anchoring biases, and herding behavior biases. Because of this, data were gathered using the Likert scale from interviews and multiple linear regression analysis. Overall, the empirical findings from a sample of 260 participants in the Pakistani stock market show that herding biases and overconfidence have an impact on investors' ability to make rational decisions. Whereas, the disposition effect and anchoring have an insignificant effect on the investors' decision process. Finally, this research will be useful to guide investors to avoid psychological biases when conducting investments. In addition, it will provide a reference for upcoming studies in the empirical studies of behavioral finance.

Adil, Singh and Ansari (2022) investigated on how financial literacy moderate the association between behavior biases and investment decision? The study's goal is to investigate how behavioral biases, such as overconfidence, risk aversion, herd mentality, and temperament, affect gender differences in investing choices. The authors also look at how financial literacy affects how gender differences in behavior biases and investing choices are mediated. Cross-sectional research was taken into consideration in the study. A systematic questionnaire was used to gather data for this survey from 253 individual investors in the Delhi-NCR area. The Pearson correlation and Cronbach's alpha test have been used, respectively, to assess the validity and reliability. Hierarchical regression analysis has been employed in the study to evaluate the hypothesis.

The study's findings show that, among male investors, overconfidence had a positive and statistically significant impact on investing decisions, whereas risk aversion and herding had a negative and statistically significant influence. Nonetheless, it was determined that disposition had no statistically significant impact. The findings showed that risk aversion and herd mentality had a negative and statistically significant impact on the investing decisions made by female investors. Overconfidence and inclination, however, had a statistically negligible impact on the choice to invest. It has been shown that both male and female investors' investing selections have been greatly impacted by financial literacy. According to the findings of the interaction effect among male investors, financial literacy had a major impact on the interaction between overconfidence and investment decision.

Kartini and Nahda (2021) conducted a research on behavioral biases on investment decision: A case study in Indonesia. Over the past 20 years, the field of finance has undergone a paradigm change from standard to behavioral, which clarifies the relationship between emotions and cognition in financial decision-making. The purpose of this study is to look into how different psychological aspects affect people's decisions when making investments. The two types of psychological components under investigation are the cognitive and emotive aspects. We look at how investment decisions are impacted by anchoring, representativeness, loss aversion, overconfidence, and optimism biases from a cognitive perspective. In the meantime, the impact of herding behavior on investment choices is examined from an affective perspective. Based on a survey method and snowball sampling, a quantitative methodology is applied, yielding 165 questionnaires from individual Yogyakarta investors. In addition, we test each and every hypothesis using the One-Sample t-test. The study's conclusions demonstrate that all of the factors-representativeness, optimism, overconfidence, loss aversion, anchoring bias, and herding behavior-have a big impact on investing choices. The impact of behavioral influences on investors' judgments is highlighted by this outcome. By eliminating all potential biases, it improves investors' capacity to make better informed decisions and adds to the body of material already in existence regarding the dynamics of investor behavior.

Chaturangi (2021) conducted a research on the impact of behavioral biases on investment decision making: Reference to individual investors of Colombo stock exchange. Traditional finance's model portfolio theory, capital asset pricing model, and classical decision theory all make the assumption that investors make logical decisions about their investments. Nonetheless, their explanation of behavioral biases in the stock market was inadequate. Investors behave irrationally due to cognitive and emotional biases. Prospect theory, heuristics, constrained rationality, and framing all demonstrate how illogical people's investing decisions may be. The majority of earlier research has focused on the biases of institutional investors in Sri Lanka. Nonetheless, the current study is justified by the contradictory results and constrained approach to the study variables of earlier research conducted in Sri Lanka. This study looked into how behavioral biases affect the decisions people make when they make investments. The dependent variable is making an investment decision; the independent factors are herding, loss aversion, and overconfidence. A standardized questionnaire with a five-

point Likert scale was distributed to 200 individual investors who participate in the Colombo Stock Exchange using an appropriate sample approach. The results show that overconfidence has a favorable and significant impact on investing decisions. Due to the unpredictability of information and the volatility of the Sri Lankan stock market, herding and loss aversion greatly influence the way that decisions are made about investments. The work has added to the theoretical understanding of prospect theory's loss aversion and heuristic theory's overconfidence and herding. The study has implications for policy makers to look into biases in previous policy changes, financial advisors to become more proficient, and individual investors to have a better understanding of their own behavior.

Vidhya (2021) conducted a research on behavioral biases and its impact on investment decision making: an empirical study of Indian stock market. The majority of individual investors, according to conventional finance theories, make logical financial decisions free from the impact of their emotions or personalities. However, in actuality, a variety of factors, including sentiments, emotions, and intuitions, have a significant impact on their investment decisions. The current study looks at how behavioral biases affect their investing choices and also tries to pinpoint the many components that affect those choices. In the Keralan district of Trissur, a sample of one hundred equity investors is used for this study. The study's findings indicate that a variety of behavioral biases, including loss aversion, herd, overconfidence, and optimistic bias, are particularly detrimental to novice traders.

Dangol and Manandhar (2020) analyzed the effects of four heuristic biases on the rationality of Nepalese investors' investment decision-making: representativeness, availability, anchoring and adjustment, and overconfidence bias. In order to determine how heuristics affect investment decisions, they also looked at the moderating role of the internal locus of control in between. The results of the study demonstrate a strong link between irrationality in investing decision-making and each of the four heuristic biases. Additionally, the study's conclusions show that locus of control has a significant moderating effect on the relationship between investing choices and the availability, representational, and anchoring heuristic biases. However, the study finds no evidence of a moderating effect on the association between investing decisions and overconfidence bias.

Shrestha (2020) conducted a study on the factors influencing Nepalese investors' stock market investing decisions. The three main variables that affect investing decisions are the market related variable (MRV), the risk and return related variable (RRV), and the business related variable (CRV). Included are company-related variables like the management group, financial results, size, EPS, and DPS; risk-related variables like past returns, projected returns, company risk, and liquid securities; and market-related variables like market data, market price per share, dividend growths, etc. This study indicates that market related variables (MRV), risk and return related variables (RRV), and business related variables (CRV) have less of an influence on the investing decisions of Nepalese investors. There is a positive and significant coefficient of business related variable (CRV) in every regression model. Thus, it can be said that Nepalese investors base their investment decisions on the company-related variables of Nepalese businesses.

Rana (2019) carried out a study to investigate the variables related to individual investors' stock investment decisions. The study also intends to investigate how investors, according to their demographic attributes, view the relative relevance of various aspects while making investment decisions. The study uses sample responses from 106 individual investors that were gathered using a structured questionnaire survey between January and April 2019. The study uses exploratory factor analysis to determine the common variables impacting the stock investment decisions of the sample investors. The findings of the factor analysis show that six common factors influenced the sample investors' decisions about stock investments in Nepal: factors related to the fundamentals of the market; factors related to industry competition and size; factors related to goodwill and market share; factors related to corporate governance and positioning; factors related to earnings and image; and factors related to decision-making. The results also show that among the six categories that were retrieved, fundamental market factors had the highest relative relevance according to the sample investors.

Madan and Singh (2019) conducted a research on an analysis of behavioral biases in investment decision-making. The conduct of individual investors is greatly impacted by a variety of biases, as the expanding field of behavior finance has shown. Thus, this study is part of an ongoing attempt to evaluate the influence of behavioral biases on the

National Stock Exchange's investing decision-making process. 243 investors' survey responses are gathered to create a questionnaire. Both descriptive and inferential statistics were used in this study. Four behavioral biases—overconfidence, anchoring, disposition effect, and herding behavior—have been reviewed in the current study. The findings demonstrate that herding bias and overconfidence significantly influence investment decisions in a beneficial way. The overall findings indicate that individual investors are less knowledgeable and more likely to make psychological mistakes. These four behavioral biases on individual investment decisions are also evident in the study's findings. Financial intermediaries will find this study useful in providing advise to their clients. Additional research can be conducted to examine additional behavioral biases that affect investment decisions.

Chhapra et.al (2018) conducted a research on an empirical investigation of investor's behavioral biases on financial decision making. Researchers have repeatedly shown that investors' irrationality is an inherent fact (Statman, 1988). Thus, this research is an additional attempt to evaluate the impact of behavioral biases on financial decision-making at the Pakistan Stock Exchange (PSX).A convenience sample technique is utilized to create a survey questionnaire and gather responses from a sample of 250 PSX investors. Overconfidence, overanalyzing, herd mentality, cognitive bias, and the investor's hindsight effect are examples of behavioral biases. Five behavioral biases are tested for their impact on investment decisions using multiple regression models. The findings demonstrate that herd mentality, overconfidence, overthinking, cognitive bias, and the hindsight effect all significantly influence investment decisions in a positive way. The overall findings indicate that behavioral biases are largely responsible for changes in investment decisions. Financial advisors will be able to advise clients more effectively because to this study. Possibly the only way to lessen these prejudices is through investor education and training.

Table 1

Summary of Empirical Review

Authors	Variables	Methodology	Findings
Devkota (2024)	Psychological, Cognitive and Investment decision	Quantitative research methodology	The study's conclusions add to the corpus of knowledge by illuminating the complex dynamics of financial decision-making and the part played by psychological variables.
Singh (2024)	Cultural value and Past investment experiences	Serial mediation model	Findings of the study indicated that individualism traits are inclined to aggressive investment choices due to presence of overconfidence biases. Uncertainty avoidance and long termism traits of investors resulted in aggressive investment choices due to presence of herd mentality bias.
Altaf and Jan (2023)	Independent Variables: Fear of missing out, socially responsible investing, overconfidence, herding and disposition. Dependent Variables: Investment intention	Questionnaire were distributed. survey was conducted on a sample of 674 participants. The survey was conducted online through Facebook, Twitter, and LinkedIn.	The findings showed that millennials' inclination to invest is positively influenced by their fear of losing out. These results imply that millennials might be uncomfortable with the investing prospects they are unable to take advantage of. Furthermore, millennials' propensity to maintain online connections with their peers may be signaled by their fear of missing out.
Ali et al. (2023)	Independent variables: asset quality, asset price	A survey-based instrument was utilized in the	The study's conclusions showed that while DE and RA had little bearing on real estate investment decisions,

	and asset value, overconfidence, herding, disposition effect and risk aversion Dependent Variables: investment decisions	study to collect 189 valid samples in total. 2. combining structural equation modeling with partial least squares	PAV, OC, and HD significantly predicted the choice to make an investment. Furthermore, this study discovered that PAV is the most significant factor in predicting real estate investment decisions made during the COVID-19 crisis.
Abideen, et. al (2023)	Independent Variables: herding bias, the disposition effect and the overconfidence bias	Random sampling method were used. Sample of 600 out of 687 respondents. Tabulate and refine data were into SPSS.	The findings support the rejection by showing that overconfidence bias (OB) is not significantly correlated with basic anomalies. This finding implies that investors' overconfidence is not the cause of fundamental anomalies (FA), despite the body of existing research suggesting that investors' actions might lead to FA in the market.
Dirir (2022)	Independent Variables: overconfidence, disposition effect, anchoring biases, and herding behavior biases	Multiple regression analysis. The Likert scale was employed during the interview process to gather data.	The study shows the variables of overconfidence and herding biases affect the rational conduct of investors' decision-making. Whereas, the disposition effect and anchoring have an insignificant effect on the investors' decision process
Adil, Singh and Ansari (2022)	Independent Variables: risk-aversion and herding, overconfidence and disposition Dependent Variables: investment decisions	the data have been collected through a structured questionnaire from 253 individual investors of the	The results stated that amongst female investors the effect of risk-aversion and herding on investment decision was negative and statistically significant. the effect of overconfidence and disposition was statistically insignificant influence the investment decision

		Delhi-NCR region	
Kartini and Nahda (2021)	Independent Variables: anchoring bias, representativeness bias, loss aversion bias, overconfidence bias, optimism bias, and herding behavior Dependent variables: investment decisions		
Chaturangi (2021)	Independent Variables: overconfidence bias, herding and loss aversion Dependent Variables: investment decisions	A structured questionnaire based on five-point Likert scale was distributed to the sample of 200 individual investors using a convenient sampling method.	The results show that overconfidence has a positive and significant impact on investment decision-making. As a result of the uncertainty of information and volatility of the Sri Lankan stock market, herding and loss aversion have a significantly positive impact on investment decision.
Vidhya (2021)	Independent Variables: Anchoring bias, overconfidence bias, herding bias, conservative bias, and over-optimism bias. Dependent Variables: investment decisions	This study is conducted with a sample with of 100 equity investors in Trissur district in Kerala.	The result of the study shows that investors with few years of trading experience are highly affected with various behavioral biases.
Thambireddy, et. al (2021)	Independent Variables: regret aversion bias, overconfidence bias, self-attribution bias, cognitive dissonance	The survey was done through a Structured questionnaire. The tools used in	The research shows that the investors are irrational and are majorly affected by their emotions while they make any financial decisions

	bias, herd instinct, attribution bias, conservative bias, and over-optimism bias. Dependent Variables: investment decisions	this research are SPSS and excel	
Samal and Mohapatra (2021)	Variables: Overconfidence, Herding, Cognitive Dissonance, Regret aversion and Loss aversion, investment decisions	Primary data collected through own developed structured questionnaire. A total of 101 respondents have filled up.	Investment decision making experience a depth examination of different factors, regardless of the diverse information accessible, that validates the irrationality and hence, trying to avoid uncertainties related with their financial decision making.
Chathurangi and Bandara (2021)	Variables: overconfidence, loss aversion and herding, investment decision making	Sample of 200 individual investors. using a convenient sampling method. Structured questionnaire based on five-point Likert scale was distributed	The results show that overconfidence has a positive and significant impact on investment decision-making. As a result of the uncertainty of information and volatility of the Sri Lankan stock market, herding and loss aversion have a significantly positive impact on investment decision- making.
Dangol and Manandhar (2020)	Variables: Four Heuristics bias	The study used 391 respondents based on a convenient sampling procedure, and structured questionnaire survey.	The study result indicates that there is a significant relationship between irrationality in investment decision-making and all four heuristic biases. In addition, the study also concludes that locus of control has significant moderating effect in the relationship between investment decisions and three heuristic biases

Shrestha (2020)	Variables: affective commitment, job stress, turnover intention and job satisfaction	Data were collected using a questionnaire-based survey of 282 employees working at a bank in Kathmandu. Data were analyzed using multiple regression analysis.	The results suggested that affective commitment and job satisfaction had a negative effect, while job stress had a positive influence on turnover intention.
Rana (2019)	Variables: Earnings and Image Factors, Corporate Governance and Positioning Factors, Goodwill and Market Share Factors, Industry Competition and Size Factors, Fundamental Market Factors, and Decision-Making	The study uses a sample response of 106 individual investors obtained through structured questionnaire survey	The results of factor analysis show that six factors, namely Earnings and Image Factors, Corporate Governance and Positioning Factors, Goodwill and Market Share Factors, Industry Competition and Size Factors, Fundamental Market Factors, and Decision-Making Factors are the common factors affecting stock investmentdecision of the sample investors in Nepal.
Madaan and Singh (2019)	Overconfidence, anchoring, disposition effect, and herding behavior are examples of independent variables. Investment choices are dependent variables.	research has applied inferential statistics and descriptive statistics A survey is created, and 243 investors' replies are gathered through it.	The findings demonstrate that herding bias and overconfidence significantly influence investment decisions in a beneficial way. The overall findings indicate that individual investors are less knowledgeable and more likely to make psychological mistakes.

Chhapra, et. al (2018)	Independent Variables: overconfidence, over thinking, herding, cognitive bias, and hindsight Dependent variables: investment decision	To gather responses, a survey questionnaire is created. Sampling technique is Convenience sampling. sample of 250 investors of PSX	The findings indicate that herd mentality, overconfidence, overthinking, cognitive bias, and the hindsight effect significantly influence investment decisions.

Based on above empirical review and context allegation in Nepal, behavioral finance is still unexpected area of research. There are limited research found in Nepal that expose behavioral factors influence quality of investment decision making of individual investors who invested in Nepal Stock Exchange. Therefore, this study explain the current above discussed gap.

2.3 Research Gap

A research gap is a topic or area where the lack of information makes it difficult to draw conclusions about a certain question. Risks and rewards should be known to the investor. On the other hand, a lot of research has been done in Nepal on the choices made by individual investors. Additionally, prior research on the impact of restricted and demographic characteristics on investors' investing decisions.

Empirical studies suggest that investors with greater financial knowledge tend to make better investment decisions (Nofsinger & Sias, 1999), while investors who make frequent trades and exhibit overconfidence tend to have lower returns on their investments (Barber & Odean, 2001). Conversely, other studies have found that investors tend to overreact to news and events, indicating emotional and cognitive biases (De Bondt & Thaler, 1985), and that individuals are more sensitive to losses than to gains, leading to irrational decision-making (Tversky & Kahneman, 1974). Furthermore, investors are often influenced by the opinions and actions of others, indicating social influence (Brown & Reilly, 2009), and availability bias, where

investors rely too heavily on readily available information, can lead to poor investment decisions and lower returns (Odean, 1998).

CHAPTER – III
RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps (along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view. Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, sample size and selection process, data collection procedure and data processing techniques and tools.

3.1 Research Design

The research design used in this study is causal comparative and descriptive. The features of the independent variables that influence the profitability of the banks, or the dependent variables, are measured, compared, and classified using a descriptive study design. While conducting the research, this study also made use of the informal comparative research design. Since it looks into people's opinions and behavior by asking them questions, it is frequently used to research the general state of individuals and organizations (Cooper & Schindler, 2003). Furthermore, the research design used in this study is a combination of casual comparative and descriptive.

3.2 Population and Sampling

All the 249 listed companies in NEPSE are the population of this study. Out of total listed companies, only the investors from different capital market investment areas are the sample of this study. The sampling data was collected from people investing in the stock market. However, this study used 215 sample size to test the hypothesis. Convenience sampling method is used while selecting sample organizations for this study.

3.3 Nature and Source of Data

This study only used primary source of data by using survey among individual investors who invest in NPESE. A systematic questionnaire with a five-point Likert scale is used to gather data. The data are useful for generalization since this study used a descriptive methodology to examine the causal relationship between the study variables. Experts will review the data collected from the questionnaire to ensure its reliability. A few

portions of the questionnaire were changed after experts were contacted to improve the validity of the data acquired through the questionnaire for this study, which will assess the questionnaire's face validity.

3.4 Data Collection Procedures

Altogether, 250 questionnaire were distributed. Out of distributed 232 were returned. Finally, 215 response were used for further analysis since 17 questionnaire were not useable due to multiple non-responses. Following data collection, several tools were used in SPSS program to conduct analysis. To accomplish the study's goal, a number of statistical and mathematical techniques have been applied. Regression analysis, correlation analysis, and descriptive statistics are the statistical methods used in this investigation.

3.5 Method of Analysis

Questionnaires were used to gather primary data, which the researcher personally reviewed. Four types were covered by the questionnaire Statements: herding bias, anchoring bias, disposition effect bias, and overconfidence bias. The individual investors were the ones who personally answered the questionnaires. This approach was suitable since it prompted respondents to answer as soon as possible. Every research project starts with data analysis and presentation. To ensure accurate findings from this study, a variety of descriptive and inferential tool types were used to examine the data. To accomplish the study's goal, a number of statistical and mathematical techniques have been applied.

1. Descriptive statistics:

To achieve the factors of behavioral biases that influence investment decision of Nepalese share market that describe the behavioral aspect of this variables these tools have been used, mean and standard deviation.

2. Correlation analysis

To investigate the connection between behavioral bias components (herding, anchoring, disposition effect, and overconfidence biases) and share market investment decisions in Nepal.

3. Regression analysis

To examine how behavioral bias factors overconfidence, anchoring, disposition effect, and herding affect investors' choices in the Nepalese share market.

3.6 Research Framework and Definition of Variables

The research framework covered in this part was developed by a survey of the theoretical and empirical literature. The dependent variables in this study were investment decisions, while the independent variables were overconfidence, anchoring, disposition, and herding biases.

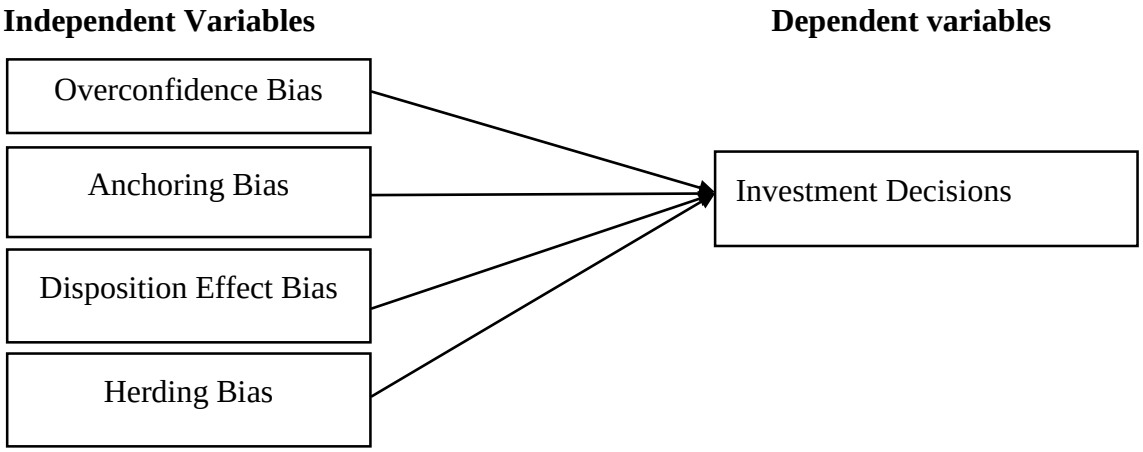

Figure 1

Research Framework

Source: Modified from Dirir (2022)

3.6.1 Definition of Variables

The amount of individual investment decision, which is measured by a psychometric tool specifically created to assess investor financial behavior, is the dependent variable in this study.

3.6.1.1 Dependent variable

Stock investment decisions

The NEPSE's institutional investors' decisions were impacted by overconfidence, anchoring, disposition effect bias, and herding prejudice. Furthermore, these investors mentioned what the other institutional investors were trading. A well-thought-out move

that distributes funds in order to maximize return is an investment choice. The choice is based on the investor's characteristics, such as whether they are an individual or a corporation, as well as their investing goals and risk tolerance.

3.6.1.2 Independent variables

The independent variable in this part consisted of four variables: herding bias, disposition bias, anchoring bias, and overconfidence bias.

Overconfidence bias

Overconfidence bias is a form of cognitive bias that might lead us to overestimate our talents in some areas. Most people believe they are more intelligent, more reliable, or have brighter futures than the ordinary person. Mittal (2019) found that overconfidence bias has a positive substantial impact on investing decisions. Given that Dirir (2022) supports the investment decision, it is probably not very important. The propensity to overestimate our skills and knowledge in a particular field is known as overconfidence bias. People's perceptions of danger and achievement are typically inaccurate because they frequently have false beliefs about their abilities, traits, or conduct.

Anchoring bias

The anchoring bias is a kind of cognitive bias that causes us to rely a lot on the first piece of information we are given about a subject. Investment decisions are positively correlated with anchoring bias. Similar to Dirir's (2022) findings, but unsupported by Ali et al. (2023). Furthermore, as Artif (2023) supports, anchoring bias has a negative significant impact on investing decisions. People's propensity to place an undue amount of weight on the first piece of information they learn about a subject is known as anchoring bias. People utilize such information as a reference point, or anchor, to create subsequent judgments, regardless of how accurate it is.

Disposition effect bias

The disposition effect bias exhibits a negative substantial impact on investment decision but a favorably negligible relationship with it. In support of this is Chathurangi (2021). Additionally, this runs counter to Gupta's (2017) and Madan's (2019) conclusions. One of the behavioral biases that has been studied the most is the disposition effect. This effect refers to the propensity, at any particular moment, to sell winners more easily

than losers, with winners and losers being assets that have increased in value or decreased in value since their acquisition.

Herding bias

Herding bias has a detrimental effect on investing decisions, as Chhapra (2018) has shown. Similarly, Madan (2023) supports the investment decision, which is positively insignificant but consistent with Narahari's (2021) findings. When someone justifies a behavior based on the fact that a large number of other individuals are following suit, this is known as herd mentality bias. In terms of trading psychology, this may manifest as trading an asset merely because other traders think it's a hot commodity, which could produce asset bubbles.

3.6.2 Measurement of variables

Table 2

Measurement of Variables

Variable	Measurement	Expected Sign	Source
ID	Better portfolio than expected, lower risk compared to market general		Positive relation with explanatory variables. (Bajracharya, 2018)
OC	Skills and knowledge of stock market, ability enough to manipulate the investment	_	Insignificant impact on investment decision Dirir (2022) and Pompian (2011)
AB	Price indexes and past experience as reference points,	+	Positive and significant relationship. Shin and Park (2018) & Wright and Anderson (1989)
DEB	Wrong decision of selling purchasing, past performance of the stock	+	Pompian (2011) shows significant impact on decision
HB	Other investors' decisions, react quickly to the changes of other investors' decisions.	-	Insignificant and negative relation. Ali, et. al (2023) and Kengathram & Kendatharam (2014)

3.7 Baseline Model

Investment decision was chosen by the study as a dependent variable. Herding bias, anchoring bias, disposition effect bias, and overconfidence bias are the independent

factors. Using this model, investment decisions were examined for the impact of herding, anchoring, disposition effect, and overconfidence biases.

Model 1

$ID = \beta_0 + \beta_1 OC_{it} + \beta_2 AB_{it} + \beta_3 DE_{it} + \beta_4 HB ..... + e_{it}$

Where,

ID = Investment Decision

OC = Overconfidence Bias

AB = Anchoring Bias

DE = Disposition Effect Bias

HB = Herding Bias

β_0 = Constant when all independent variables are Zero

$\beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \ldots$ = Corresponding coefficients

CHAPTER – IV
RESULTS AND DISCUSSION

Behavioral biases play a significant role in the investment decisions of investors. These biases are psychological tendencies that can lead investors to make suboptimal or irrational decisions, often deviating from traditional economic theories that assume rational decision-making.

4.1 Results

The purpose of this study was to examine the variables influencing individual investors' choices in the Nepali stock market. The study also aims to investigate how different factors influence people's investing behaviors and how those actions are influenced by themselves.

Further, the study also investigated the influence of investor's general investment behavior on each factor. By combining all these aspects of investor's behavior, this research crafts exceptional appeal to the existing literature of behavioral finance in developing countries, especially in the context of Nepal.

4.1.1 Data analysis and presentation

The outcomes of the analysis produced throughout the data collection procedure are covered in this chapter. It addresses the examination and interpretation of the primary data that was gathered from 215 respondents via questionnaire.

The impact of behavioral biases on the investment decisions made by individual NEPSE investors is examined using the main data. Collected data have been analyzed as in regression coefficient of two variables. The main purpose of this research study will be fulfilled with the outcomes derived from the analysis of the data.

4.1.1.1 Respondent profile

Majority of the respondents were female (i.e. 142) in this study which comprises of 66 % of the total respondents (Table 3).

Table 3

Demographics Characteristics of Respondents (N=215)

Respondent Character	Frequency	Percentage (%)
Gender		
Male	73	34
Female	142	66
Age		
Under 25	4	2
26-35	181	84
36-45	21	10
46-55	7	3
Over 55	2	1
Profession		
Student	6	3
Salaried Private	34	16
Business	151	70
Salaried Government	22	10
Professor	2	1
Marital Status		
Single	26	12
Married	176	82
Widow	13	6
Qualification		
+2	8	4
Bachelors	52	24
Masters	155	72

Source: Field- Survey, 2024

4.1.1.2 Statements Wise Descriptive Analysis

The use of investment decisions in the Nepalese stock market was rated by the responding banks. Each question on the five-point Likert scale has a code that indicates its response: 1 indicates "strongly disagree," 2 indicates "disagree," 3 indicates "neutral," 4 indicates "agree," and 5 indicates "strongly agree."

Table 4

Descriptive Statistics of Overconfidence (N=215)

Statements	Min	Max	Mean	SD
I think I can outperform the market with my abilities and stock market knowledge.	1	5	3.090	1.351
I believe I am competent enough to influence the investments to my advantage.	1	5	3.322	1.326
I consider it a blessing that I consistently invest in the greatest offers.	1	5	3.282	1.355
I base my analysis on the most recent market data and spend as little time as feasible on them.	1	5	3.157	1.287
I conduct more trades in between the accounting periods.	1	5	3.285	1.367
Overall Mean and S.D.			3.227	1.337

Source: Field- Survey, 2024

Table 4 displays descriptive statistics for the overconfidence sub-factor as a whole and for each individual item. The variables are measured using five statements. Every respondent filled out a five-point Likert scale response form. The overconfidence shows 3.2272 in average and 1.3372 as a standard deviation. This demonstrates how investing decisions made with excessive confidence are not always the best ones.

Table 5

Descriptive Statistics of Anchoring (N=215)

Statements	Min.	Max.	Mean	SD
Recent market events have an impact on my trade.	1.00	5.00	3.22	1.327
When trading, I utilize the stock's acquisition price as a point of reference.	1.00	5.00	3.60	1.341
When making my next investment, I typically draw on my prior market experience.	1.00	5.00	3.47	1.416
I typically purchase stocks that have had a significant decline from their previous closing or all-time high.	1.00	5.00	3.17	1.223
Overall Mean and S.D.			3.365	1.326

Source: Field- Survey, 2024

The descriptive statistics of the anchoring sub-factor as a whole and for each individual item are displayed in Table 5. The variables are measured using five statements. Every respondent filled out a five-point Likert scale response form. With a standard deviation

of 1.326, the global mean of anchoring is larger than 3, at 3.365. This demonstrates that wise anchoring choices could be made when making investments.

Table 6

Descriptive Statistics of Disposition Effect (N=215)

Statements	Min	Max	Mean	SD
When making an investment decision, I would rather rely on the stock's historical performance than any other index.	1.00	5.00	3.18	1.349
I base my investing judgments on trend analysis.	1.00	5.00	3.35	1.321
I purchase the same company's fresh share offering that I previously invested in.	1.00	5.00	3.28	1.352
It seems to me that past performance predicts future performance.	1.00	5.00	3.17	1.286
I disregard information in the market that conflicts with mine before purchasing a share.	1.00	5.00	3.32	1.359
Overall Mean and SD			3.326	1.369

Source: Field- Survey, 2024

Table 6 shows descriptive statistics of individual Statements and as a whole of disposition effect. The variables are measured using five statements. Every respondent filled out a five-point Likert scale response form. With a standard deviation of 1.369, the disposition effect's overall mean is 3.326, which is higher than 3. This demonstrates how the disposition impact can make an investment selection the appropriate one.

Table 7

Descriptive Statistics of Herding (N=215)

Statements	Min	Max	Mean	SD
Your investing decisions are influenced by the stock volume decisions made by other investors.	1.00	5.00	3.070	1.756
Your investing selections are influenced by the stock purchases and sales made by other investors.	1.00	5.00	3.398	1.892
Your investing decisions are influenced by the stock kinds chosen by other investors.	1.00	5.00	3.518	1.920
When other investors make adjustments to their decisions, you often take note of them and follow their lead in the stock market.	1.00	5.00	3.693	1.056
Usually, once I book profits, I think I could have waited	1.00	5.00	3.488	1.861
Overall Mean and SD			3.433	1.697

Source: Field- Survey, 2024

Table 7 shows descriptive statistics of particular Statements of herding. The variables are measured using five statements. Every respondent filled out a five-point Likert scale response form. The standard deviation of herding is 1.697 and the overall mean is 3.433, which is higher than 3. This demonstrates how herding may be used to make the best financial decisions.

Table 8

Descriptive Statistics of Investment Decision (N=215)

Statements	Min	Max	Mean	SD
The returns on my investment are better than I had anticipated.	1.00	5.00	3.153	1.363
Over the previous five years, my stock investment has shown increased cash flow growth.	1.00	5.00	3.347	1.323
Compared to the market as a whole, the risk associated with my stock investment is smaller.	1.00	5.00	3.281	1.336
My stock investment has a high level of security.	1.00	5.00	3.152	1.279
The money I make from my investments will be put to good use for society.	1.00	5.00	3.355	1.326
Overall Mean and SD			3.257	1.325

Source: Field- Survey, 2024

Table 8 shows descriptive statistics of investment decision on Nepalese stock market. The variables are measured using five statements. Every respondent filled out a five-point Likert scale response form. With a standard deviation of 1.365, the decision factor's overall mean is 3.36, which is higher than 3. This demonstrates wise investment choices.

4.1.1.3 Summary of Descriptive statistics of Variables

Descriptive statistics refers to a set of methods used to summarize and describe the main features of a dataset, such as its central tendency, variability, and distribution. These methods provide an overview of the data and help identify patterns and relationships.

Table 9

Descriptive Statistics of Behavioral Biases (N=215)

Variables	Min	Max	Mean	SD
Investment Decision	1.00	5.00	3.227	1.3372
Overconfidence	1.00	5.00	3.365	1.327
Anchoring	1.00	5.00	3.326	1.369
Disposition Effect	1.00	5.00	3.433	1.697
Herding	1.00	5.00	3.257	1.324

Source: SPSS Output

Table 9 shows descriptive statistics of investment decision, factor of investors. There are five factor of behavioral biases that are used to measure the variables. Each of factor submitted their overall result in the five point Likert scale. This shows good investment decisions in context of Nepalese investors.

4.1.1.4 Correlation analysis

Under this section, to achieve research objective two to examine the relationship between overconfidence, anchoring, disposition, herding and investment decision. Correlation has been used.

Table 10

Correlation between Dependent and Independent Variables

	Decision	Overconfidence	Anchoring	Disposition	Herding
Inv. Decision	1				
Overconfidence	.403**	1			
Anchoring	.398**	.181**	1		
Disposition	.580**	.350**	.592**	1	
Herding	.339**	.050	.394**	.336**	1

**. Correlation is significant at 0.01 level (2-tailed).
*. Correlation is significant at 0.05 level (2-Tailed).
Source: SPSS Output

Overconfidence biases positively related to investment decision and significant relation (r= 0.403) P < 0.05 in Nepalese stock market. Similarly, Anchoring bias shows moderate positive relation with investment decision with significant relationship (r = 0.398, P < 0.05). Disposition effect was found to be strongly positively related also significant at 0.05 level of significance (r = 0.580) P < 0.05. Lastly, Herding bias is also moderate positively related and significant relation with investment decision (r = -0.339) P < 0.05.

4.1.1.5 Effect of overconfidence, anchoring, disposition effect and herding on investment decision

Table 11

Model summary of investment decision

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642a	.412	.401	.41918

a. Predictors: (Constant), HB, OC, DE, AB

The regression analysis's findings are shown in the table 11. The dependent variable and the predictors i. e. overconfidence, anchoring, disposition effect and herding have a moderately positive connection, as indicated by the model's R value of 0.642. With a

R Square value of 0.412, the model can account for about 41.2% of the variance in the dependent variable i.e. investment decision. The standard error of the estimate is 0.41918, indicating the average distance that the observed values fall from the regression line, and the adjusted R Square of 0.401, which accounts for the number of predictors, shows a little reduction from R Square.

Table 12

ANOVA table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.897	4	6.474	36.846	.000b
	Residual	36.900	210	.176		
	Total	62.797	214			

a. Dependent Variable: ID

b. Predictors: (Constant), HB, OC, DE, AB

Table 12 indicates tested model is suitable for further analysis (F = 36.846; p-value <0.05). In addition R^2 = 41.20% explain the variation in investment decision by variation in independent variables (overconfidence, anchoring, disposition effect and herding).

Table 13

Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.504	.176		2.856	.005
	OC	.252	.059	.243	4.284	.000
	AB	.039	.061	.043	.635	.526
	DE	.382	.065	.412	5.902	.000
	HB	.152	.052	.172	2.949	.004

a. Dependent Variable: ID

Source: SPSS Output

Table 13 reveals that OC has positive and significant effect on investment decision (β = 4.284, P<0.05). It means, if OC increased by 1 unit, then ID leads to increase by 4.284 units. Likewise, AB has positive and insignificant effect on investment decision (β = 0.635, P>0.05). It means, if AB increased by 1 unit, then ID leads to increase by 0.635 units. Similarly, DE also has positive and significant effect on investment decision (β = 5.902, P<0.05). It means, if DE increased by 1 unit, then ID leads to increase by 5.902 units. HB has also positive and significant effect on investment decision (β = 2.949, P<0.05) which indicates that if HB increase by 1 unit then ID leads to increase by 2.949 respectively.

4.2 Discussion

Based on above review, the first objective of the study shows the factors of behavioral biases that influence investment decision of Nepalese share market. The respondents agreed to all the statements categorized undervarious sections like ‘overconfidence, anchoring, disposition, herding and Investment decision. In another words, they believe that the justice in the evaluation of their work and capabilities with tied rewards or direct and indirect compensations encourage them to improve their efficiency at work. This shows good decision in investment.

Similarly, the second objective shows the relationship between factors of behavioral bias (overconfidence bias, anchoring bias, disposition effect bias and herding bias) and investment decision of Nepalese share market. The effective biases is significantly correlated with the investment decision in Nepalese stock market. Those Biases have shown the significant correlation with the Anchoring and disposition. The relationship between the investment decision and disposition was found to be strongly positively correlated followed by that with anchoring and herding. The multiple correlation coefficient shows that percentage of the variation in investment decision is explained by three variables viz. Overconfidence, Disposition and Herding. The ANOVA for regression model shows that the relationship between the investment decision and explanatory variables are statistically insignificant and this is similar to the findings of Fakai (2022) and Kellie (2018) but opposite to the findings of Weeraratne (2020).

Lastly, the third objectives reveal the effect of factors of behavioral bias (overconfidence bias, anchoring bias, disposition effect bias and herding bias) on investment decision. It shows the regression analysis of dependent and independent variables which shows R-square that depicts 41.20 percent in investment decision explained by variation in independent variables (overconfidence, anchoring, disposition effect and herding). OC has positive and significant effect on investment decision. It means, if OC increased by 1 unit, then ID leads to increase. Likewise, AB, DE and HB has also positive and significant effect on ID which indicates that if AB, DE and HB increase by 1 unit then ID leads to increase. This study is consistent with the findings of Chhapra et al. (2018) but contradict with the findings of Dangol and Manandhar (2020); Adil, Singh and Ansari (2022).

CHAPTER – V

SUMMARY AND CONCLUSION

5.1 Summary

The study was conducted to collect data, the researcher used a structured questionnaire that was personally administered to the respondents. The objective of the study was to identify the factors influencing investment decisions inNEPSE. Results of regression revealed that the most important factors were: Firms position and performance; Interest rate, Ease of obtaining borrowed funds and Management, Volatile stock, Opinion of firm's majority shareholders and General and Financial press coverage of firm's stock, Current economic Indicator and Contribution of firm towards social causes, Firm's commitment toward Corporate Social Responsibility, Stock Market Value. Overconfidence bias, anchoring bias, disposition effect bias and herding bias influences on investor investment behavior on Firm's reputation in industry stock market value and government holdings factors mostly. Most of the investors are agree that their investment decision is tally with their investment objectives.

The data was collected through personal visit and through electronic means, i.e., Google docs. The collected data were then analyzed using Statistical tools. Reliability analysis, coefficient correlation analysis and regression analysis were conducted to examine the responses and to test the hypotheses. For the purpose of conducting the study, questionnaire was developed that included questions representing the identified variables which measure behavioral biases in investment decisions of individual investors in Nepal. Those variables were also used in order to see behavioral biases in investment decisions of individual investors as stated by related literature. Survey was carried out using convenience sampling and the sample obtained included the respondents who are studying in the universities which aimed to describe the economic and behavioral factors that influence individual investor's decision making process in Nepal stock exchanges. From the sample of 215 respondents the possible relationship between dependent and independent variables were examined. Respondents answered on a 5 point Likert scale ranging from strongly disagree to strongly agree.

The present study was focused on mainly formulation and analysis of four behavioral bias namely anchoring, overconfidence, disposition effect, and herding behavior. In

future study canbe elaborated by analyzing other behavioral biases that too have a substantial impact on individual investment decision making in their unique way. Moreover, the study can also further be elaborated to investigate the impact on a group or corporate investment decision making as well.

5.2 Conclusion

Based on above result and findings of the study it concluded that overconfidence, anchoring, disposition effect and herding influence investment decision of Nepalese individual investors who invested in NEPSE. Moreover, it concluded that if Nepalese investors select stock for investment based on their skills, knowledge and past experience then (they able to select right stock) it will increase quality investment decision making. Similarly, investor can select stock for investment on the basis of trend analysis of market and also others decision of buying and selling of stock which shows negative impact on investment decision.

The study concluded that overconfidence, anchoring, disposition effect and herding has significant positive impact on investment decision. Also significant positive relationship with investment decision. It indicates that investing in stock through those bias is beneficial and positively significant. Also shows if overconfidence, anchoring, disposition effect and herding increase 1 unit, investment decision also leads to increase respective units.

5.3 Implications

The researcher recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns. This study examined the factors that appear to exercise the greatest influence on the individual stock investor and included not only the factors investigated by previous studies and derivedfrom prevailing behavioral finance theories, but also introduced

additional factors generated through personal interviews that have been found to influence the stockholders' investment decisions in Nepal.

First, future research should attempt to explain the relative importance of decision variables have for individual investors making stock purchase decisions, Secondly, the study was conducted among investors in Kathmandu. The findings can be verified by conducting the same study in therest of the country, and thirdly, whether there are homogeneous clusters or groups of variables that form identifiable decision determinants that investors rely upon when making stock investment decisions.

The first action they can take is to take into account additional characteristics that impact individual stock investors, in addition to those that have been previously studied and drawn from popular behavioral finance theories. The study's main goal was to clarify the relative significance of various decision-making factors for individual stock buyers. Finding the variables that influence investors' investment behavior the most and the least should be another main goal of the study. Future research projects ought to evaluate the influence of behavioral biases on individual investors' stock investing decision-making in the Nepalese share market.

From this research, a few contributions can be drawn. First and foremost, the study will add to the extensive body of knowledge and validate earlier studies that discovered comparable findings. Second, the outcome will allow people and investors a practical way to steer clear of and get over prejudices while making decisions. Ultimately, the research will offer financial advisors and financial intermediaries valuable information in addition to financial counsel.

Regulators have the power to establish rules that would aid in the eradication of investor perceptions of bias. Brokers can utilize this study to determine the biases influencing investor behavior. They are able to shield investors from making poor decisions by providing their clients with wise counsel. Investors can evaluate their behavior independently with the aid of this study. They can also recognize profitable stocks and increase their purchases. The results of this study must be applied by investment organizations who wish to provide more trustworthy recommendations and possess in-depth understanding of investor characteristics and financial market fluctuations. This

methodology can help future researchers gain a better grasp of how different biases affect investment decisions.

In future market anomalies can be included to see impact on investment decision of investor in Nepalese stock market. Other cognitive bias can also be used to determine investment decision.

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Annex:

Questionnaires

Dear respondent,

I am conducting this questionnaire survey for an academic research as required by the MBS program. The title of my research is "BEHAVIORAL BIASES OF STOCK INVESTMENT DECISIONS OF NEPALESE INVESTORS" I would like to state that this research is purely for an academic purpose and I am simply interested in your candid and honest opinion. I assure you that strict confidentiality will be maintained and the information furnished by you will be used only for the academic purpose.

Thanking for your Cooperation

Bijaya Devkota

MBS student

Shanker Dev Campus, Kathmandu

Part I

Particular	Please Tick:
Investment Avenue	a) Yes b) No
Gender	a) Male b) Female
Age	a) Under 25 b) 25-35 c) 36-45 d)46-55 e)Above 55
Qualification(Highest Degree)	a) +2 b) Bachelors c) Masters
Marital Status	a) Married b) Unmarried c) Divorce d) Widow
Years of Experience	a) Less than 5 b) 5-15 c) More than 15
Profession	a) Salaried Private b) Salaried Government c) Student d) Business e) Professor
Education	a) Under Graduate b) Graduate c) Post Graduate d) Professional
Earning per month	a) up to 25000 b) 25001-50000 c) 50001-75000 d) above 75000

Part II

Below are several statements about you with which you may agree or disagree. Using the response scale below, indicate your agreement or disagreement with each item by choosing the appropriate number. Please give your responses as followings:

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

Overconfidence

OC_1	I think I can outperform the market with my abilities and stock market knowledge.	1	2	3	4	5
OC_2	I believe I am competent enough to influence the investments to my advantage.	1	2	3	4	5
OC_3	I consider it a blessing that I consistently invest in the greatest offers.	1	2	3	4	5
OC_4	I base my analysis on the most recent market data and spend as little time as feasible on them.	1	2	3	4	5
OC_5	I conduct more trades in between the accounting periods.	1	2	3	4	5

Anchoring

A_1	Recent market events have an impact on my trade.	1	2	3	4	5
A_2	When trading, I utilize the stock's acquisition price as a point of reference.	1	2	3	4	5
A_3	When making my next investment, I typically draw on my prior market experience.	1	2	3	4	5
A_4	I typically purchase stocks that have had a significant decline from their previous closing or all-time high.	1	2	3	4	5
A_5	Recent market events have an impact on my trade.	1	2	3	4	5

Disposition Effect

DE_1	When making an investment decision, I would rather rely on the stock's historical performance than any other index.	1	2	3	4	5
DE_2	I base my investing judgments on trend analysis.	1	2	3	4	5
DE_3	I purchase the same company's fresh share offering that I previously invested in.	1	2	3	4	5
DE_4	It seems to me that past performance predicts future performance.	1	2	3	4	5
DE_5	I disregard information in the market that conflicts with mine before purchasing a share.	1	2	3	4	5

Herding

H_1	Your investing decisions are influenced by the stock volume decisions made by other investors.	1	2	3	4	5
H_2	Your investing selections are influenced by the stock purchases and sales made by other investors.	1	2	3	4	5
H_3	Your investing decisions are influenced by the stock kinds chosen by other investors.	1	2	3	4	5
H_4	When other investors make adjustments to their decisions, you often take note of them and follow their lead in the stock market.	1	2	3	4	5
H_5	Usually, once I book profits, I think I could have waited	1	2	3	4	5

Investment Decision

ID_1	The returns on my investment are better than I had anticipated.	1	2	3	4	5
ID_2	Over the previous five years, my stock investment has shown increased cash flow growth.	1	2	3	4	5
ID_3	Compared to the market as a whole, the risk associated with my stock investment is smaller.	1	2	3	4	5
ID_4	My stock investment has a high level of security.	1	2	3	4	5
ID_5	The money I make from my investments will be put to good use for society.	1	2	3	4	5

Thank you for your participation. Have a good day!

BEHAVIORAL BIASES ON INVESTMENT DECISIONS OF NE...

By: Bijaya Devkota

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ABSTRACT This study shows how individual NEPSE investors' decisions are impacted by behavioral biases.

The objective of this research is to examine the correlation between behavioral bias factors and 3

investment choices, as well as the influence of behavioral bias variables on share market investment decisions in Nepal, including herding bias, anchoring bias, overconfidence bias, and disposition effect bias. A descriptive and causal comparative research design was used in this investigation. The 249 NEPSE listed enterprises were the population of this study, which was conducted using questionnaires distributed to 215 investors. After data collection and surveying, analysis was done using regression, correlation, and descriptive statistics. The regression analysis's findings demonstrated that herding bias, anchoring bias, disposition impact, and overconfidence all had significant and favorable effects on investing choices. The study has implications for financial counselors to become more proficient, policy makers to investigate biases in prior policy changes, and individual investors to better understand their own behavior. Regulators has the authority to create regulations aimed at eliminating investor perceptions of prejudice. This study can be used by brokers to identify the biases impacting investor behavior. They are able to protect investors from making bad choices by offering sage advice to their clients. With the help of this study, investors can assess their own conduct. They also have the ability to recognize profitable stocks and increase their purchases. Key words: Overconfidence, Anchoring, Disposition Effect, Herding,

Investment Decision vi CHAPTER- I INTRODUCTION 1.1 Background of the Study 1

In recent years, behavioral finance has received a great deal of interest as a means of elucidating investor behavior and its impact on decision-making. Research elucidating the conduct of individual investors initially surfaced in the 1970s. Behavioral finance studies how decisions are made when purchasing or disposing of financial assets and offers an explanation for these decisions. Its primary focus is on the psychological concepts that investors use to guide their financial decisions (Vidya, 2021). The theory provided by (Kahneman and Tyevsky, 1979; Kahneman, 1982) defines behavioral finance. According to Kahneman and Tyevsky (1979), investors might not always seem like the most logical people to make investments. These behaviorists believe that when making investing decisions, investors may act irrationally. "A rapidly developing area that contracts with the influence of psychology on the behavior of financial professionals" is how Shefrin (1999) described behavioral finance. Numerous behavioral finance research have looked at the variables influencing an individual investor's process of choosing stocks. To characterize the factors influencing the behavior of individual investors,

Meriks et al. (2004), for instance, used five categories: accounting information, subjective/personal, neutral information, advocate recommendation, and personal financial needs 1