PSYCHOLOGICAL FACTORS INFLUENCING INVESTMENT DECISIONS OF YOUNG INVESTOR BEHAVIOR

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

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Psychological Factors Influencing Investment Decisions of Young Investor Behavior**". 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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Rabindra Regmi

REPORT OF RESEARCH COMMITTEE

Mr. Rabindra Regmi has defended research proposal entitled "**Psychological Factors Influencing Investment Decisions of Young Investor Behavior**", 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 Joginder Goet and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Psychological Factors Influencing Investment Decisions of Young Investor Behavior**" presented by Rabindra Regmi 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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This study entitled "**Psychological Factors Influencing Investment Decisions of Young Investor Behavior**" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the investment decision.

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Rabindra Regmi
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ABBREVIATIONS

AM	Arithmetic Mean
ASE	Athens Stock Exchange
CV	Coefficient of Variation
KMO	Kaiser-Meyer-Olkin Measure of sampling Adequacy
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 investigates the effect of behavioral biases on the investment decisions of individual investors in NEPSE. The main objective is to examine the relationship between behavioral bias factors specifically overconfidence bias, anchoring bias, disposition effect bias, and herding bias and investment decision-making in the Nepalese share market. A descriptive and causal comparative research design was employed. The study population consisted of 249 NEPSE-listed companies, and data were collected through questionnaires distributed to 400 investors. The data were analyzed using descriptive statistics, correlation, and regression techniques.

The regression results revealed that overconfidence bias has a positive and significant effect on investment decisions. Similarly, anchoring bias, disposition effect, and herding bias also positively and significantly influence investment decisions. The study offers valuable implications for various stakeholders: individual investors can gain a better understanding of their own behavioral tendencies; policymakers can identify biases to inform earlier policy interventions and promote sustainable investment management practices; and financial advisors can enhance their expertise to better guide clients. Policymakers can design regulations aimed at mitigating these biases among investors. Brokers can use these insights to recognize behavioral biases affecting their clients and provide sound advice to prevent poor investment choices. Additionally, this study empowers investors to independently evaluate their behavior, identify profitable stocks, and make more informed purchasing decisions.

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

CHAPTER- I
INTRODUCTION

1.1 Background of the Study

In recent years, behavioral finance has garnered significant attention as a framework for understanding investor behavior and its influence on decision-making. Research on individual investor conduct first emerged in the 1970s. Behavioral finance examines how investors make decisions when buying or selling financial assets and provides insights into the psychological factors that drive these decisions. Its primary focus lies in the cognitive and emotional processes that shape financial choices (Vidya, 2021).

The theory of behavioral finance was introduced by Kahneman and Tversky (1979) and further developed by Kahneman (1982). According to Kahneman and Tversky (1979), investors do not always behave in a perfectly rational manner when making investment decisions. Behavioral finance scholars argue that investors often act irrationally due to psychological influences. Shefrin (1999) described behavioral finance as "a rapidly developing area that examines the influence of psychology on the behavior of financial professionals." Many studies in behavioral finance have investigated the factors affecting how individual investors make stock selection decisions.

To identify factors influencing individual investor behavior, Meriks et al. (2004) categorized them into five groups: accounting information, subjective/personal factors, neutral information, advocate recommendations, and personal financial needs. Similarly, Nagy and Obenberger (1994) used seven classifications: social significance, self-image or firm-image alignment, neutral information, traditional wealth maximization, accounting information, advocate endorsements, and personal financial demands.

Al-Tamimi (2005) used a five-category framework to analyze individual investor behavior in the financial markets of the United Arab Emirates. These categories included advocate recommendations, neutral information, accounting information,

personal financial needs, and alignment between an investor's self-image and the company's image. However, there has been limited research focusing on investor behavior in emerging stock markets. This study aims to fill that gap by examining the factors influencing individual investors' decisions in the Nepali stock market.

The study also seeks to explore how various factors affect individuals' investment decisions and how those decisions are shaped by personal influences. Furthermore, it examines how each factor is affected by the broader investment behavior of investors. By addressing all three dimensions of investor behavior, this research makes a significant contribution to the existing literature on behavioral finance in developing countries, with a particular focus on Nepal.

1.2 Problem Statement

Investor decisions in the stock market significantly influence market trends, which in turn impact the overall economy. To effectively understand and explain these decisions, it is essential to examine the behavioral factors that affect investor choices at the Nepal Stock Exchange (NEPSE). This insight can also be valuable for financial institutions, enabling them to better understand investor behavior, make more accurate forecasts, and provide improved investment recommendations.

Compared to developed countries, research in behavioral finance is relatively limited in Asia (Das, 2012). Within the field, it is believed that the structure of information and the traits of market participants consistently impact individual investment decisions and overall market outcomes (Barberis & Thaler, 2003; Hirshleifer, 2001; Shleifer, 2000). Therefore, this study aims to address the following research question:

i. What are the behavioral biases of individual investors and their stock investment decision-making in Nepalese share market?
ii. Is there any relation between overconfidence bias, anchoring bias, disposition effect bias and herding bias?
iii. How does the overconfidence bias, anchoring bias, disposition effect bias and herding bias effect on behavioral biases of stock investment decision of Nepalese share market?

1.3 Objectives of the Study

As highlighted by the points discussed above, behavioral factors play a significant role in shaping individual investors' decision-making. The primary aim of this study is to identify and evaluate the behavioral biases that influence the investment decisions of individual investors. To fulfill this main objective, the study outlines the following specific goals:

i. To assess the behavioral biases and investment decision making of individual investors.
ii. To examine the relationship between overconfidence biases, anchoring bias, disposition effect bias and herding bias.
iii. To analyze the effect of overconfidence bias, anchoring bias, disposition effect bias and herding bias effect on behavioral biases of stock investment decision

1.4 Research Hypothesis

To address the research objectives, the study has developed the following hypotheses:

H_1**:** There is no significant relationship between behavioral biases and stock investmentdecision making.

H_2**:** Overconfidence makes no significant influence on stock investment decision-making.H_3**:** Anchoring makes no significant influence on stock investment decision-making.

H_4: Disposition makes no significant influence on stock investment decision-making.

H_5: Herding makes no significant influence on stock investment decision-making.

1.5 Rationale of the Study

This study holds significance for individual investors, financial advisors, listed companies in Nepal's stock exchanges, and the government. For investors, understanding the factors that influence their decision-making is vital, as it directly impacts their future financial planning. For companies, recognizing the key factors that shape investor behavior can inform their strategic planning and decision-making. Financial advisors can use this insight to recommend investment options that align more closely with their clients' preferences and behaviors. Lastly, for the government, identifying these influential factors can guide the development or revision of relevant

policies and regulations, ultimately supporting investor interests and enhancing market efficiency.

1.6 Limitations of the Study

- The sample size of in this study has only from the individual investors of NEPSE.
- 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 is not considering 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 presents a review of both theoretical and empirical studies conducted by various scholars over time in relation to this topic. It highlights the existing literature relevant to the subject based on available research, academic work, and previously conducted studies, including article and thesis reviews. Accordingly, the chapter is organized into three sections: the first focuses on the theoretical review, the second on the empirical review, and the third outlines the research gap.

2.1 Conceptual Review

Stock market investment decisions are often significantly affected by behavioral biases, which can lead to suboptimal outcomes for investors. These biases stem from how the human brain processes information and makes decisions, influencing both individual investors and professional fund managers alike. The following are some of the key behavioral biases that commonly impact stock investment choices:

2.1.1 Investment decision

Behavioral finance examines how emotions and cognitive biases influence investor behavior by exploring brain activity (Kengatharan, 2014). Much of the research in this field is grounded in understanding how the brain functions specifically how individuals, including investors, think, reason, and make decisions. These cognitive tendencies can mislead investors when selecting stocks or prompt impulsive reactions based on others' actions, often exposing them to risky decisions. A key concept within behavioral finance is the heuristics hypothesis, which refers to "simple rules" or mental shortcuts. These rules help simplify decision-making, especially in complex or uncertain situations, by applying practical judgment to solve problems. Heuristics also assist in making quicker decisions by evaluating a specific set of familiar patterns or criteria (Jordan et al., 2012).

In the Malaysian stock market, Lim (2012) explored the connection between mental attitudes specifically overconfidence, traditionalism, and herding tendencies—and investors' financial decisions. He found that overconfidence, traditionalism, and regret

were the primary factors influencing investors' independent decision-making, while herding behavior had minimal impact. These findings aligned with previous studies conducted in various countries. Similarly, Kengatharan (2014) examined factors affecting investor decisions at the Colombo Stock Exchange. His study revealed that herding, overconfidence, prospect theory, and market characteristics influence investors' speculative choices. Other factors had a moderate effect on investment decisions, except for anchoring, which demonstrated a strong influence.

2.1.2 Behavioral biases

Overconfidence

As a result of this bias, investors often overrate their abilities and the accuracy of their predictions. Overconfident investors may engage in excessive trading and assume higher risks, believing they possess a competitive edge (Mitroi & Stancu, 2014).

Anchoring

Investors often make decisions by relying on specific reference points, such as past stock prices or widely reported news. Through anchoring, they might form unrealistic expectations from unrelated information or hold onto losing investments for longer than advisable (Shin & Park, 2018).

Herding

People tend to instinctively follow the crowd and mimic others' actions, especially in uncertain situations. This behavior can lead to stock market bubbles and panics—investors buy simply because others are buying, creating a bubble, or sell because others are selling, causing a panic (Yu et al., 2018).

Confirmation bias

Investors often seek and favor information that confirms their existing beliefs or opinions about an investment. They may ignore or downplay conflicting information, which can lead to poor decision-making.

Loss aversion

Fear in investing often drives individuals to take unnecessary risks to avoid losses. This behavior can result in selling winning stocks prematurely or holding onto losing investments for too long (Lin, 2011).

Regency bias

Instead of considering the broader historical context, investors tend to focus more on recent events or performance. This can cause them to chase after stocks that have performed well recently, without evaluating their long-term potential (Spiwoks & Bizer, 2018).

Availability heuristic

People often rely on information that is readily available to them. As a result, investors might overlook important but less accessible information, favoring instead recent news or easily obtainable data (Mueller & Brettel, 2012).

Endowment effect

Investors usually assign greater value to the assets they already own compared to similar assets they do not hold. This can lead them to retain investments simply because they feel familiar with them, even when better opportunities exist elsewhere (Rogerm, 2009).

Gambler's fallacy

This bias refers to the belief that past events, even if unrelated, influence future outcomes. In stock investing, it often shows up as the assumption that a stock will rebound simply because it has been declining for a while (Dowie & Willows, 2016).

Disposition effect

Investors often sell their winning stocks prematurely to secure profits, while holding onto losing stocks too long in an effort to avoid losses. This behavior can lead to missed opportunities and an unbalanced portfolio. To reduce the impact of behavioral biases on their decisions, investors can adopt strategies such as creating a clear investment plan, maintaining a diversified portfolio, conducting thorough research, and seeking advice from financial professionals. Moreover, by recognizing these

biases and regularly reviewing their investment choices, investors can make more rational and objective decisions (Odean et al., 2010).

2.1.3 Traditional finance

Traditional finance assumes that investors act logically and can objectively process all available information. In contrast, behavioral finance relies on empirical evidence showing that investors are often biased, behave irrationally, and allow emotions to affect even small investment decisions. For instance, consider a student seeking online writing assistance who faces two options: a local company and a foreign one. The student is more likely to choose the local firm, influenced by biases similar to those affecting investors. Despite the foreign company's strong track record, the student invests in the local firm due to overconfidence and familiarity with it (Markowitz, 1952).

Traditional finance holds the view that financial markets are efficient and accurately reflect the true value of assets, based on the assumption that investors exercise self-control. In contrast, behavioral finance argues that market anomalies arise due to market volatility, which occurs because investors do not always exhibit full self-control. This lack of control leads to fluctuations in stock prices, resulting in an uneven or inefficient market (Shefrin & Statman, 1985).

2.2 Theoretical Review

Modern portfolio theory (MPT)

Modern Portfolio Theory (MPT), developed by Harry Markowitz in the 1950s, suggests that investors can build an optimal portfolio by diversifying their investments and considering the risk-return trade-off of different assets. MPT highlights the importance of combining assets that are not perfectly correlated to reduce overall portfolio risk. Also known as portfolio theory or portfolio management theory, MPT provides a framework to maximize returns for a given level of risk or to minimize risk for a desired return. It is a foundational concept in finance that has greatly influenced investment strategies and portfolio management practices (Harry, 1950).

The implementation of Modern Portfolio Theory typically includes the following steps:

1. Determine the range of available assets and assess their expected returns and associated risks.
2. Compute the correlations among all asset pairs to analyze how they relate to each other.
3. Build the efficient frontier by identifying the ideal asset combinations that offer the most favorable balance between risk and return.
4. Assess the investor's risk tolerance and preferences to choose a suitable portfolio from the efficient frontier.

Modern Portfolio Theory (MPT) is widely used in investment management and serves as the foundation for various portfolio strategies, such as index investing, passive investing, and risk-parity portfolios. However, like all financial models, MPT has its limitations. Critics argue that it relies on assumptions that may not always apply in real market conditions, such as the normal distribution of asset returns and stable correlations between assets. Despite these drawbacks, MPT remains an important framework for making informed asset allocation decisions within a portfolio.

Efficient market hypothesis (EMH)

The Efficient Market Hypothesis (EMH) is a financial theory that asserts asset prices fully incorporate all available information, making financial markets efficient. In other words, the theory proposes that markets are highly effective at reflecting all relevant information about an asset in its price. As a result, it is difficult for investors to consistently outperform the market or achieve abnormal returns through active trading or investment strategies.

The Efficient Market Hypothesis (EMH) asserts that asset prices always fully reflect all relevant information, meaning financial markets efficiently incorporate all available data. According to this theory, all known information is already embedded in security prices, making it impossible to consistently beat the market through stock picking or timing. Since its introduction in the 1960s through economist Eugene Fama's doctoral thesis, EMH has gained significant recognition and influence within

the finance industry. The hypothesis is built on three forms: weak form, semi-strong form, and strong form EMH (Fama, 1960).

Supporters of the Efficient Market Hypothesis argue that consistently outperforming the market without assuming additional risk is difficult. Therefore, passive investment strategies, like index funds and exchange-traded funds (ETFs), which aim to replicate the performance of a broad market index, are often recommended.

Behavioral finance

Behavioral finance combines traditional financial theories with psychological principles to better understand how emotions and cognitive factors influence investor decisions and, consequently, financial market behavior. Unlike the Efficient Market Hypothesis (EMH), which assumes markets are always efficient and investors are fully rational, behavioral finance recognizes that investors often act irrationally due to biases, emotional responses, and bounded rationality. This discipline draws from both psychology and economics to explain how cognitive biases and emotions shape financial decision-making. It specifically examines biases such as the disposition effect, anchoring, herding, and loss aversion that impact investment choices (Dirrir, 2022).

Key concepts in behavioral finance include cognitive biases, prospect theory, mental accounting, framing, regret aversion, and market anomalies. The goal of behavioral finance is to explain how markets can deviate from predictions made by traditional financial models and to help investors make better financial decisions by understanding these psychological influences. It plays a significant role in portfolio management, asset pricing, and understanding market bubbles and crashes. Additionally, behavioral finance has influenced the development of investment strategies such as robo-advisors and behavioral portfolio theory that account for investors' psychological limitations and biases, aiming to reduce the impact of emotional decision-making.

Herd behavior theory

Herd behavior theory suggests that individuals tend to imitate the actions of others, leading to informational cascades and trends within financial markets. Investors may

follow the crowd without critically assessing the underlying information, potentially causing market booms or crashes. This tendency to mimic the decisions of a larger group, studied in both behavioral finance and social psychology, often triggers a domino effect where many people act similarly without considering the rationale behind their choices. Herd behavior can significantly influence asset prices and market movements over both the short and long term (Abeedin et al., 2023).

Herd mentality can cause asset prices to stray far from their true value, leading to market bubbles and crashes. During a bubble, many investors may flock to an asset, driving its price significantly above its intrinsic worth. Eventually, a change in investor sentiment triggers a large-scale sell-off, causing prices to plummet and the bubble to burst. This herd behavior also influences investment choices, as investors often follow trends, media advice, recommendations from friends, or the actions of prominent investors without conducting their own research or fully understanding the risks. This can result in poor diversification and increased exposure to market risks (Abeedin et al., 2023).

Prospect/loss-aversion-Theory

Prospect Theory explains how people make decisions under risk and uncertainty. It suggests that individuals tend to be risk-averse when dealing with potential gains but become risk-seeking when facing potential losses. These differing attitudes toward risk are influenced by how gains or losses are framed, which in turn affects investor behavior. Unlike the traditional utility function that evaluates choices based on expected utility, Prospect Theory acknowledges that investor preferences often deviate from this model. Psychologists Daniel Kahneman and Amos Tversky developed this theory in 1979 to better understand investor behavior in risky situations. Their research showed that people make decisions by weighing potential gains and losses relative to a reference point such as the purchase price, personal expectations, or relevant past experiences and that the framing of outcomes can impact the perceived utility of a decision (Kahneman & Tversky, 1979).

Prospect theory suggests that people feel the pain of losing money more intensely than the pleasure of gaining an equivalent amount. As a result, individuals tend to put more effort into avoiding losses than pursuing gains, often holding onto losing stocks

in the hope that their value will recover. According to Tversky and Kahneman (Johnson, 2002), people are more willing to take risks to avoid losses. While losses cause discomfort, the pain from a loss is not simply twice as severe when the loss doubles, because the utility function for losses is convex. Similarly, gains bring satisfaction, but doubling a gain does not produce twice the happiness, as the utility function for gains is concave.

Capital asset pricing model (CAPM)

The Capital Asset Pricing Model (CAPM) links an asset's systematic risk, measured by beta, to its expected return relative to the overall market. This theory posits that an asset's expected return depends on its beta, which reflects its sensitivity to market fluctuations. Widely used by analysts and investors, CAPM provides a framework for understanding the relationship between risk and expected return, and serves as a benchmark to evaluate whether an asset is fairly priced, overvalued, or undervalued. William F. Sharpe introduced CAPM in 1964, with further refinements made by Jan Mossin and John Lintner. The model relies on key assumptions, including the existence of a risk-free rate, a market portfolio, efficient markets, and rational investors. In this single-factor model, beta is the sole determinant of expected return, without considering other factors such as company-specific traits or current economic conditions that might influence an asset's performance (Sharpe, 1964).

2.3 Empirical Review

Ahmad et al. (2025) examined a study on behavioral finance and investment decision making: understanding the psychology behind market choices. This study examines the intersection of psychology and financial decision-making through behavioral finance, challenging the traditional assumption of investor rationality found in classical finance theories. While conventional models assume efficient markets and logical investor behavior, behavioral finance highlights the significant influence of emotional, cognitive, and social factors on investment choices. The research aims to identify and analyze key behavioral biases such as overconfidence, loss aversion, herd mentality, anchoring, and mental accounting and their effects on both individual and institutional investors. Using a qualitative-descriptive approach, the study reviews relevant literature, case studies, and psychological theories to demonstrate how these

biases contribute to market irregularities and less-than-ideal decisions. The article explores core behavioral finance concepts and their impact on investment behavior, emphasizing cognitive biases like overconfidence, anchoring, herd behavior, and loss aversion. Through evaluation of empirical research and theoretical frameworks, it highlights how psychological factors often result in suboptimal investment outcomes. The study also discusses methods to reduce these biases, including nudges, financial education, and technology-driven advisory tools, aiming to bridge the gap between idealized financial models and actual human behavior in investing.

Kaur and Kaur (2025) explored a study on the impact of behavioral finance on investment decision-making. Traditional financial theories like the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) have long been used to analyze investment decision-making. However, behavioral finance challenges these views by incorporating psychological and cognitive biases that affect how investors behave. This paper investigates the influence of behavioral finance on investment decisions, focusing on important biases such as loss aversion, overconfidence, herd behavior, and mental accounting. It also considers the consequences of these biases for both individual and institutional investors and explores strategies to reduce irrational investing. Behavioral finance has transformed our understanding of investment choices by showing that cognitive biases play a crucial role. By identifying and managing these biases, investors can enhance their financial results and avoid costly errors. Key approaches to mitigating irrational behavior include financial education, disciplined investing, and seeking professional advice.

Zaman et al. (2025) examined a study on behavioral finance: the impact of socio-demographic factors on investment biases. This study investigates how socio-demographic factors such as age, gender, occupation, and investment experience affect investment biases like overconfidence, risk aversion, and anchoring bias, and how these biases mediate investment decisions among investors in Karachi, Pakistan. Using a quantitative approach, data were gathered through a structured questionnaire from 213 participants representing various industries. Statistical methods including the Kruskal-Wallis H test, Mann-Whitney U test, Ordinal Regression, and Mediation Analysis via PROCESS Macro were applied to explore the relationships between socio-demographic variables, behavioral biases, and investment choices. Findings

indicate that younger investors tend to be more overconfident, while older investors are more prone to anchoring bias. Male investors generally show higher overconfidence, whereas female investors exhibit stronger anchoring bias due to greater reliance on past reference points. Investment experience significantly affects risk aversion and anchoring bias but does not influence overconfidence. Mediation analysis reveals that overconfidence and anchoring bias play significant roles in mediating investment decisions, whereas risk aversion does not. The study underscores the importance of tailored financial literacy programs to help reduce behavioral biases.

Ali et al. (2024) explored on behavioral biases in investment: overconfidence, disposition effect, and herding behavior. This section introduces the study by emphasizing the importance of understanding behavioral biases in investment decisions, especially among retail investors in Pakistan. The primary goal of this research is to examine how behavioral biases influence investors' decision-making processes. The study focuses on individual investors trading on the Pakistan Stock Exchange, employing a quantitative research design. A sample of 400 individual investors was surveyed to evaluate various biases, including overconfidence, the disposition effect, and herding behavior. The findings reveal that the presence of these biases significantly impacts investment decisions. Specifically, respondents frequently exhibit overconfidence, the disposition effect, and herding behavior, which contribute to suboptimal investment outcomes. These results highlight the need to recognize and address such biases within financial decision-making. Financial professionals, such as advisors and educators, are well-positioned to develop strategies aimed at minimizing the negative effects of these biases.

Thapa (2024) investigated a study on cognitive biases on investment decisions in the Nepalese stock market. This paper examines the influence of behavioral biases on investors' decision-making concerning investment opportunities in Nepal. Using purposive sampling, the study involved participants who are active investors in the Nepalese stock market. An explanatory research design with quantitative data collection was applied, and the analysis was performed through structural equation modeling using SPSS Amos software. The results indicated strong reliability, as well as discriminant and convergent validity of the measurement scale. Behavioral biases

such as herding behavior, overconfidence, anchoring, and the disposition effect were found to positively impact investment decisions. These findings emphasize the importance of minimizing biases in investment approaches to improve decision quality. By focusing on data from the Nepalese market, this study fills a crucial gap in the behavioral finance literature.

Umeaduma (2024) assessed on behavioral biases influencing individual investment decisions within volatile financial markets and economic cycles. This paper investigates how behavioral biases emerge throughout various stages of economic cycles and amid market volatility, often resulting in poor investment decisions, loss of wealth, and heightened systemic risk. In bullish markets, overconfidence and optimism bias tend to encourage excessive risk-taking and speculative activities, whereas bearish markets see fear-driven behaviors like loss aversion and panic selling prevail. Economic downturns frequently intensify herd behavior, causing investors to follow prevailing market trends even when fundamentals suggest otherwise. The study also considers demographic and psychological factors such as age, financial literacy, and personality traits that influence how these biases affect decision-making. Drawing on empirical evidence from behavioral economics and financial psychology, it identifies recurring investor patterns and inconsistencies. The paper concludes by proposing methods to reduce the impact of these biases, including financial education, decision support tools, and algorithm-driven advisory services. Recognizing these behavioral aspects is vital for policymakers, financial professionals, and individual investors, especially amid global financial uncertainties.

Altaf and Jan (2023) examined a study on the behavioral biases in investing behavior that are related to generational theory. This study finds that millennials' investment behaviors are shaped by specific generational biases. It considers investment intention as the dependent variable, while fear of missing out (FOMO), socially conscious investing, overconfidence, herding, and inclination serve as independent variables. Data was collected through online surveys distributed via LinkedIn, Facebook, and Twitter, with a sample size of 674 participants. The results indicate that millennials' visionary investment inclination is positively driven by their fear of missing out on opportunities. This suggests that idealistic investors may feel uneasy about not capitalizing on available prospects. Additionally, their fear of missing out reflects an

optimistic tendency to stay connected with peers online. The study also attempts to explain how generational biases impact millennial investment decisions, noting that such biases may not be exclusive to this generation alone but could be observed in others as well.

Ali et al. (2023) investigated a research on real estate investment decisions in COVID-19 crisis: the effect of perception and behavioral biases. This study aims to examine the relationship between investor perceptions of assets and behavioral traits influencing investment decisions in Pakistan's real estate sector during the COVID-19 pandemic. Using a survey-based approach, data were collected from 189 valid respondents and analyzed through partial least squares structural equation modeling. The findings revealed that while the disposition effect (DE) and risk aversion (RA) had minimal impact on real estate investment decisions, perceived asset value (PAV), overconfidence (OC), and herding behavior (HD) significantly influenced investment choices. Notably, perceived asset value emerged as the strongest predictor of investment decisions during the pandemic. The authors suggest that these results have important policy implications for regulators, lawmakers, and financial institutions.

Abideen et al. (2023) examined on do behavioral biases affect investors' investment decision making? This study investigates the impact of behavioral biases on investment decision-making in the Pakistani equity market. Data were collected through a structured questionnaire using a random sampling method. Out of 687 respondents, 600 valid responses were analyzed using structural equation modeling (SEM) in SPSS. The results indicate that overconfidence bias (OB) does not have a significant relationship with fundamental anomalies (FA), suggesting that investor overconfidence may not explain these anomalies despite existing literature linking investor behavior to market irregularities. The study acknowledges limitations regarding the causal inference between variables and recommends that future research employ suitable instrumental variables and methods to better address these issues.

Dirir (2022) examined the behavioral biases that affect investors' decision-making: (A case study of Pakistanis investors). Behavioral finance, as a developing field, highlights numerous biases that significantly influence investor behavior. This paper aims to further assess the impact of several behavioral biases—namely

overconfidence, the disposition effect, anchoring bias, and herding behavior—on investors' decision-making processes. Data were collected through interviews using a Likert scale and analyzed with multiple linear regression. The empirical results, based on a sample of 260 investors from the Pakistani stock market, indicate that herding behavior and overconfidence significantly affect investors' rational decision-making, while the disposition effect and anchoring bias have an insignificant impact. This study offers valuable insights to help investors recognize and avoid psychological biases in their investment decisions and serves as a reference for future empirical research in behavioral finance.

Adil et al. (2022) investigated on how financial literacy moderate the association between behavior biases and investment decision? The study aims to examine how behavioral biases such as overconfidence, risk aversion, herd mentality, and disposition affect gender differences in investment decisions. It also investigates the mediating role of financial literacy on the relationship between gender, behavioral biases, and investment choices. A cross-sectional research design was employed, collecting data through a structured questionnaire from 253 individual investors in the Delhi-NCR region. Validity and reliability were assessed using Pearson correlation and Cronbach's alpha tests, respectively, while hierarchical regression analysis was used to test the hypotheses. The results indicate that for male investors, overconfidence positively and significantly influences investment decisions, whereas risk aversion and herding have a significant negative impact. Disposition showed no significant effect. Among female investors, risk aversion and herd mentality negatively and significantly influenced investment decisions, while overconfidence and disposition had insignificant effects. Additionally, financial literacy was found to significantly affect investment decisions for both genders. Notably, the interaction effect analysis revealed that financial literacy significantly moderates the relationship between overconfidence and investment decisions among male investors.

Kartini and Nahda (2021) assessed on behavioral biases on investment decision: A case study in Indonesia. Over the past two decades, finance has experienced a paradigm shift from traditional models to behavioral approaches, which emphasize the interplay between emotions and cognition in financial decision-making. This study aims to explore how various psychological factors influence investment

decisions, focusing on both cognitive and emotional components. From a cognitive standpoint, the study investigates the effects of anchoring, representativeness, loss aversion, overconfidence, and optimism biases on investment choices. Concurrently, it examines the impact of herding behavior as an affective influence on these decisions. Using a quantitative approach with a survey distributed through snowball sampling, data were collected from 165 individual investors in Yogyakarta. Hypotheses were tested using the One-Sample t-test. The findings reveal that all examined factors representativeness, optimism, overconfidence, loss aversion, anchoring bias, and herding behavior significantly affect investment decisions. These results underscore the substantial role behavioral influences play in shaping investor judgments. By recognizing and addressing these biases, investors can improve their decision-making processes, contributing valuable insights to the existing literature on investor behavior dynamics.

Chaturangi (2021) evaluated a research on the impact of behavioral biases on investment decision making: Reference to individual investors of Colombo stock exchange. Traditional finance models such as Modern Portfolio Theory, the Capital Asset Pricing Model, and classical decision theory assume that investors make rational decisions regarding their investments. However, these models fall short in explaining behavioral biases observed in the stock market. Investors often act irrationally due to cognitive and emotional biases. Concepts like prospect theory, heuristics, bounded rationality, and framing illustrate how investment decisions can deviate from pure logic. Most previous research in Sri Lanka has concentrated on the biases of institutional investors. Nevertheless, this study is warranted by contradictory findings and the limited scope of earlier research on behavioral biases in the Sri Lankan context. This study investigates the impact of behavioral biases specifically herding, loss aversion, and overconfidence on individual investment decisions. Using a standardized questionnaire with a five-point Likert scale, data were collected from 200 individual investors participating in the Colombo Stock Exchange through a suitable sampling method. The results indicate that overconfidence has a positive and significant effect on investment decisions. Additionally, due to information uncertainty and market volatility in Sri Lanka, herding and loss aversion significantly influence investment behavior. This research advances the theoretical understanding of prospect theory’s loss aversion and heuristic theory’s overconfidence and herding.

The findings hold important implications for policymakers to consider behavioral biases when designing policies, for financial advisors to enhance their advisory skills, and for individual investors to better understand their own decision-making behaviors.

Vidhya (2021) examined a study on behavioral biases and its impact on investment decision making: an empirical study of Indian stock market. Conventional finance theories assume that most individual investors make rational financial decisions, unaffected by emotions or personal traits. However, in reality, various factors such as sentiments, emotions, and intuition significantly influence their investment choices. This study examines the impact of behavioral biases on investors' decisions and seeks to identify the key factors shaping those choices. Using a sample of 100 equity investors from the Trissur district in Kerala, the findings reveal that several behavioral biases—including loss aversion, herd behavior, overconfidence, and optimism bias—are especially detrimental to novice investors.

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 study's results demonstrate a strong association between irrationality in investment decision-making and each of the four heuristic biases examined. Furthermore, the findings reveal that locus of control significantly moderates the relationship between investment decisions and the availability, representativeness, and anchoring heuristics. However, no moderating effect of locus of control was found on the relationship between investment decisions and overconfidence bias.

Shrestha (2020) conducted a study on the factors influencing Nepalese investors' stock market investing decisions. This study identifies three main variables influencing investment decisions among Nepalese investors: market-related variables (MRV), risk and return-related variables (RRV), and business-related variables (CRV), which include factors such as management quality, financial results, company size, and earnings per share. While MRV and RRV have a limited impact, business-related variables show a significant positive effect, indicating investors prioritize

company-specific factors. Supporting this, Rana (2019) found through exploratory factor analysis of 106 investors that six key factors influence stock investment decisions in Nepal, including market fundamentals, industry competition, goodwill, corporate governance, earnings, and decision-making. Among these, fundamental market factors were considered most important, highlighting that Nepalese investors largely base their choices on company and market fundamentals rather than broader market or risk-return metrics.

Chhapra et al. (2018) analyzed 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, 2008). This study examines the impact of behavioral biases on investment decisions at the Pakistan Stock Exchange (PSX) using a convenience sample of 250 investors. It investigates five biases overconfidence, overanalyzing, herd mentality, cognitive bias, and hindsight effect through multiple regression analysis. Results reveal that all these biases significantly and positively influence investment decisions, highlighting that behavioral biases play a major role in shaping investor behavior. The findings suggest that financial advisors can better guide clients by understanding these influences, and emphasize the importance of investor education and training to reduce such biases.

Aduda et al. (2017) determined the financial performance and behavior of individual investors when in the NSE listed shares. The study utilized secondary data from CMA and NSE alongside a questionnaire survey, revealing that many investors exhibited irrational decision-making, often leading to financial losses. The majority of respondents were male, reflecting their confidence in outperforming the market, while most held bachelor's degrees, indicating a reasonable level of education for sound investment decisions. Additionally, factors such as stock exchange performance, influence from friends, family, and colleagues, inflation, management stability, share quantity, stock capitalization, and family and religious background were identified as significant influences on investor behavior.

Gupta and Ahmed (2017) examined on the impact of behavioral biases on investor's behavior in Indian stock market. Traditional financial theories like the Capital Asset Pricing Model, Efficient Market Hypothesis, and Modern Portfolio Theory assume

perfect markets and rational investor behavior, suggesting that new information is instantly reflected in stock prices, eliminating the advantage of insider knowledge. However, numerous empirical studies show that investor decisions are influenced by various behavioral biases rather than pure rationality. This paper aims to identify key behavioral biases loss aversion, regret aversion, herd behavior, overconfidence, and cognitive dissonance affecting investors in Delhi/NCR, based on data from 380 respondents analyzed using Principal Component Analysis. Findings reveal that these biases moderately impact investment decisions, highlighting the importance of recognizing such biases to help investors manage risk and optimize returns, while also aiding financial advisors in tailoring personalized asset allocation and portfolio strategies.

Table 1

Summary of Empirical Review

S.N	Authors	Variables	Methodology	Major Findings
1	Ahmad et al. (2025)	Overconfidence, loss aversion, herd mentality, anchoring, mental accounting	Qualitative-descriptive; review of literature, case studies, psychological theories	This study identifies key behavioral biases responsible for market anomalies and suboptimal investment decisions, and proposes mitigation strategies such as nudges, financial education, and technology-based advisory tools to help align investor behavior more closely with rational financial models.
2	Kaur and Kaur (2025)	Loss aversion, overconfidence, herd behavior, mental accounting	Conceptual analysis	Behavioral biases significantly influence investment decisions, and addressing them through targeted education and professional guidance can

				lead to better financial outcomes for investors.
3	Zaman et al. (2025)	Age, gender, occupation, investment experience; overconfidence, risk aversion, anchoring	Quantitative; survey of 213 respondents; Kruskal-Wallis, Mann-Whitney U, Ordinal Regression, Mediation	Age, gender, and experience affect behavioral biases like overconfidence and anchoring, which in turn mediate investment decisions; thus, targeted financial literacy programs are recommended to mitigate these effects.
4	Ali et al. (2024)	Overconfidence, disposition effect, herding behavior	Quantitative; survey of 400 retail investors in Pakistan	Behavioral biases, notably overconfidence, disposition effect, and herding, strongly impact investment decisions, highlighting the need for intervention through advisory support and educational strategies.
5	Thapa (2024)	Herding, overconfidence, anchoring, disposition effect	Quantitative; explanatory research using SEM in SPSS AMOS	Behavioral biases significantly influence investment decisions in the Nepalese stock market, underscoring the need to reduce these biases to improve decision quality.
6	Umeaduma (2024)	Overconfidence, optimism bias, loss aversion, panic selling, herd behavior	Conceptual-empirical; data from behavioral economics and financial	Behavioral biases fluctuate across market phases, with demographic and personality traits moderating their impact; mitigation strategies such as

			psychology	education and technology-based tools can help reduce associated risks.
7	Altaf and Jan (2023)	Fear of missing out, socially conscious investing, overconfidence, herding, inclination	Online survey (LinkedIn, Facebook, Twitter); sample size = 674	Generational biases shape millennials' investment behavior, with fear of missing out and social influences playing key roles in their decision-making.
8	Ali et al. (2023)	Perceived asset value (PAV), overconfidence (OC), herding (HD), disposition effect (DE), risk aversion (RA)	PLS-SEM on 189 valid responses during COVID-19	During the crisis, perceived asset value (PAV), optimism (OC), and herding behavior (HD) significantly influenced real estate investment decisions, while risk aversion (RA) and disposition effect (DE) had limited impact, highlighting important considerations for policymakers and financial institutions.
9	Abideen et al. (2023)	Overconfidence, fundamental anomalies (FA)	Random sampling; 600 respondents; SEM using SPSS	Overconfidence bias was found to have no significant relationship with fundamental anomalies (FA), challenging conventional assumptions and highlighting the need for further research employing instrumental variable methods to clarify these dynamics.

10	Dirir (2022)	Overconfidence, disposition effect, anchoring, herding	Interviews; Likert scale; multiple linear regression	Overconfidence and herding biases significantly influence investment decisions, while anchoring and disposition effects have an insignificant impact, highlighting the need for strategies to reduce psychological biases in investors.
11	Adil et al. (2022)	Overconfidence, risk aversion, herding, disposition, financial literacy, gender	Cross-sectional; 253 investors; hierarchical regression	Gender differences influence how behavioral biases affect investment decisions, with financial literacy playing a key moderating role in shaping the relationship between biases and decision-making for both men and women.
12	Kartini and Nahda (2021)	Representativeness, optimism, overconfidence, loss aversion, anchoring, herding	Quantitative; 165 investors; One-sample t-test	All examined behavioral biases significantly impact investment decisions, and reducing or eliminating these biases can enhance investors' ability to make more rational and informed choices.
13	Chaturangi (2021)	Overconfidence, loss aversion, herding	Quantitative; survey of 200 investors in Colombo Stock Exchange	Overconfidence positively influences investment decisions, while herding and loss aversion exert strong effects driven by market volatility, supporting the

				principles of heuristic and prospect theories.
14	Vidhya (2021)	Loss aversion, herd behavior, overconfidence, optimism bias	Quantitative; 100 equity investors in Kerala	Novice traders are more vulnerable to behavioral biases, with emotional factors playing a dominant role in shaping their investment decisions.
15	Dangol and Manandhar (2020)	Representativeness, availability, anchoring, overconfidence; locus of control	Quantitative; heuristic biases tested with moderator (internal locus of control)	Behavioral biases significantly reduce investment rationality, with locus of control moderating the effects of availability, representativeness, and anchoring heuristics, but not overconfidence.
16	Shrestha (2020)	Market-related variables (MRV), risk-return variables (RRV), company-related variables (CRV)	Quantitative; regression model	CRV (a company-related factor) had the strongest impact on investment choices made by Nepalese investors.
17	Rana (2019)	Six factor categories: market fundamentals, industry competition,	Exploratory factor analysis	Market fundamentals were the most influential factor in decision-making, with varying perceptions noted across different demographic groups.

		goodwill, corporate governance, earnings, decision-making		
18	Chhapra et al. (2018)	Overconfidence, overanalyzing, herd mentality, cognitive bias, hindsight effect	Quantitative; survey of 250 PSX investors; multiple regression	All five biases have a significant impact on decision-making, emphasizing the need for education to help minimize irrational behavior.
19	Aduda et al. (2017)	Financial performance, investor behavior, demographics	Mixed-method (secondary data & survey)	Rationality is influenced by both education and demographic factors, while emotional and social elements also play a role in shaping investment behavior.
20	Gupta and Ahmed (2017)	Loss aversion, regret aversion, herd behavior, overconfidence, cognitive dissonance	Quantitative; 380 respondents from Delhi/NCR; PCA used	All biases have a moderate impact, offering valuable insights for developing personalized portfolios and understanding investor psychology.

2.4 Research Gap

A research gap refers to a topic or area lacking sufficient information, making it challenging to draw clear conclusions. Investors should be well-informed about the associated risks and rewards. While extensive research has been conducted in Nepal on individual investment choices, earlier studies have primarily focused on the influence of limited and demographic factors on investment decisions.

Empirical research indicates that investors with higher financial literacy are more likely to make sound investment decisions (Nofsinger & Sias, 1999). In contrast, those who trade frequently and display overconfidence often experience reduced returns (Barber & Odean, 2001). Additionally, studies have shown that investors frequently overreact to news and events, reflecting emotional and cognitive biases (De Bondt & Thaler, 1985). Tversky and Kahneman (1974) further found that individuals are more affected by potential losses than equivalent gains, leading to irrational behaviors. Social influence also plays a significant role, as investors are often swayed by the actions and opinions of others (Brown & Reilly, 2009). Moreover, availability bias—where decisions are based on easily accessible information—can result in poor choices and diminished returns (Odean, 1998).

Based on the above empirical review and the contextual situation in Nepal, behavioral finance remains an underexplored area of research. There is a limited number of studies in Nepal that specifically examine how behavioral factors influence the quality of investment decision-making among individual investors in the Nepal Stock Exchange. Therefore, this study aims to address the existing research gap by exploring these behavioral influences in the Nepalese context.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology referred to the systematic sequence of steps, each with a clear rationale that a researcher followed to study a problem while aiming to achieve specific objectives. This chapter outlined the overall approach taken in the research. It included the research design, sample size and selection method, data collection procedures, as well as the techniques and tools used for data processing and analysis.

3.1 Research Design

This study employed both descriptive and causal research designs. The descriptive design was used to measure, compare, and categorize the characteristics of independent variables that affected the profitability of banks, which was the dependent variable. Additionally, an informal comparative research design was applied to explore people's opinions and behaviors through questionnaires, a common approach for studying the general condition of individuals and organizations (Cooper & Schindler, 2003). Overall, the research design in this study combined elements of both descriptive and causal approaches.

3.2 Population and Sampling

The population for this study consisted of all 226 companies listed on the Nepal Stock Exchange (NEPSE). However, the sample was drawn specifically from investors who were employees of commercial banks. Data were collected from individuals who invested in the stock market. According to Hair et al. (2011), the minimum sample size for regression analysis should have been ten times the number of variables, which in this case equaled 250 (10 × 25). Despite this, the study used a larger sample size of 400 to test the hypotheses. Convenience sampling was employed to select the sample organizations for this research.

3.3 Nature and Source of Data

This study relied solely on primary data collected through a survey conducted among individual investors in the NEPSE. A structured questionnaire using a five-point Likert scale was employed to gather the data. The data were suitable for generalization as the study used a descriptive methodology to explore the causal

relationships between the variables. To ensure reliability, experts reviewed the questionnaire responses. Additionally, some sections of the questionnaire were modified based on expert feedback to enhance the validity of the data, thereby assessing the questionnaire's face validity.

3.4 Data Collection Procedures

Data had been collected by distributing the questionnaire's soft copy via email to 400 respondents. After gathering the responses, various tools within the SPSS program were utilized for data analysis. To achieve the study's objectives, several statistical and mathematical techniques had been applied, including regression analysis, correlation analysis, and descriptive statistics.

3.5 Data Analysis Tools

Primary data was collected through questionnaires, which the researcher personally reviewed. The questionnaire addressed four types of biases: herding bias, anchoring bias, disposition effect bias, and overconfidence bias. Individual investors personally completed the questionnaires, a method that encouraged prompt responses. Every research project began with data analysis and presentation. To ensure accurate results, this study employed a range of descriptive and inferential statistical tools. Various statistical and mathematical techniques were applied to achieve the study's objectives.

1. Descriptive statistics

To identify the behavioral biases that influenced investment decisions in the Nepalese share market and to describe the behavioral aspects of these variables, the tools used in the study were mean and standard deviation.

2. Correlation analysis

The objective was to examine the relationship between behavioral bias components herding, anchoring, disposition effect, and overconfidence and investment decisions in the Nepalese share market.

3. Regression analysis

To analyze the impact of behavioral biases overconfidence, anchoring, disposition effect, and herding on investors' decision-making in the Nepalese share market.

3.6 Baseline Model

In this study, investment decision served as the dependent variable, while herding bias, anchoring bias, disposition effect bias, and overconfidence bias were the independent variables. This model was used to analyze the impact of these behavioral biases on investment decisions.

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

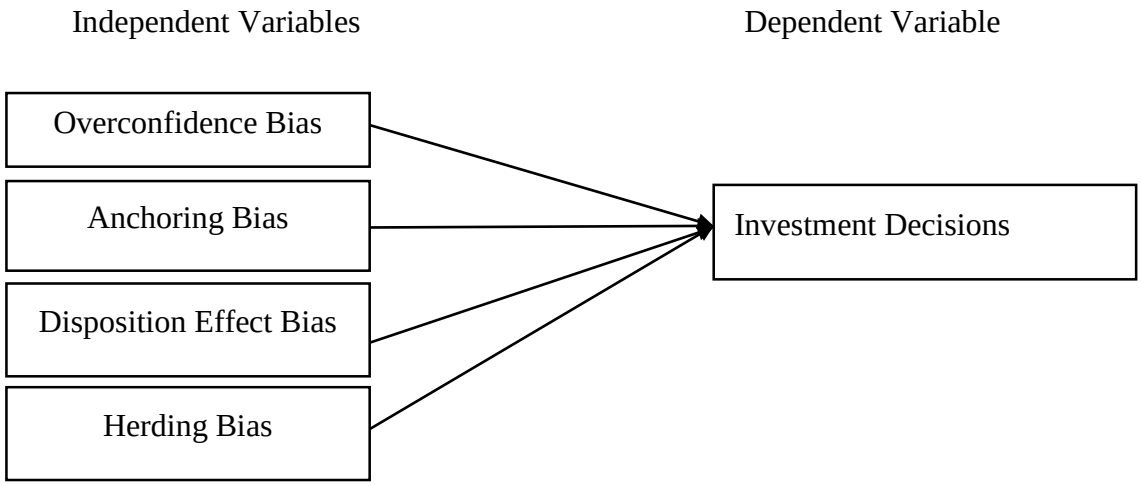
$\beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + \ldots.$ = Corresponding coefficients

3.7 Research Framework and Definition of Variables

The research framework presented there had been developed through a review of theoretical and empirical literature. In that study, investment decisions served as the dependent variable, while overconfidence, anchoring, disposition, and herding biases were the independent variables.

Figure 1

Research framework



(Source: Modified from Dirir, 2022)

Definition of variables

The dependent variable in this study is the extent of individual investment decisions, measured using a psychometric tool specifically designed to assess investors' financial behavior.

Dependent variable

Stock investment decisions

The investment decisions of institutional investors in NEPSE were influenced by overconfidence, anchoring, disposition effect bias, and herding behavior. Additionally, these investors were aware of the trading activities of other institutional investors. An investment decision involves a carefully planned allocation of funds aimed at maximizing returns. This decision depends on the investor's characteristics such as being an individual or a corporation as well as their investment goals and risk tolerance.

Independent variables

The independent variables in this section include four factors: herding bias, disposition bias, anchoring bias, and overconfidence bias.

Overconfidence bias

Overconfidence bias is a type of cognitive bias where individuals tend to overestimate their abilities in certain areas. Many people believe they are smarter, more reliable, or have better prospects than the average person. Mittal (2019) found that overconfidence bias has a significant positive impact on investment decisions. However, Dirir (2022) suggests that its influence on investment decisions may not be very significant. This bias reflects the tendency to overrate one's skills and knowledge in a specific domain, often leading to inaccurate perceptions of risk and success due to mistaken beliefs about one's abilities, traits, or behavior.

Anchoring bias

Anchoring bias is a cognitive bias where individuals heavily rely on the first piece of information they receive about a subject. Investment decisions have been found to be positively correlated with anchoring bias, aligning with Dirir's (2022) findings, though this is not supported by Ali et al. (2023). Conversely, Artif (2023) found that anchoring bias has a significant negative impact on investment decisions. This bias reflects people's tendency to use initial information as a reference point, or anchor, to make subsequent judgments, regardless of the information's accuracy.

Disposition effect bias

The disposition effect bias has been shown to have a significant negative impact on investment decisions, although its overall relationship with investment decisions is weakly positive, as supported by Chathurangi (2021). This finding contrasts with the conclusions of Gupta (2017) and Madan (2019). The disposition effect is one of the most studied behavioral biases and refers to the tendency of investors to sell winning assets—those that have appreciated in value—more readily than losing assets, which have declined in value since purchase.

Herding bias

Herding bias negatively impacts investment decisions, as demonstrated by Chhapra (2018). Likewise, Madan (2019) supports the idea that herding bias has a positive but statistically insignificant effect on investment decisions, a finding consistent with Narahari (2021). Herding bias occurs when individuals justify their actions based on the behavior of a large group. In trading psychology, this often appears as buying or

selling an asset simply because many others are doing so, which can lead to the formation of asset bubbles.

CHAPTER – IV
RESULTS AND DISCUSSION

Social predispositions play a crucial role in investors' decision-making. These tendencies are psychological inclinations that can cause investors to make poor or irrational choices, often deviating from traditional financial strategies that rely on logical and independent judgment.

4.1 Demographic Profile

In this study, 205 of respondents, or 51.25 of the total, were male, making up the majority (Table 2).

Table 2

Demographics Characteristics of Respondents (N=400)

Attributes	Parameters	Frequency	Percentage (%)
Gender	Male	205	51.25
	Female	195	48.75
	Total	400	100
Age	Under 25	50	12.5
	26-35	280	70
	36-45	50	12.5
	46-55	15	3.75
	Over 55	5	1.25
	Total	400	100
Profession	Student	56	14
	Salaried Private	94	23.5
	Business	160	40
	Salaried Government	80	20
	Professor	10	2.5
	Total	400	100
Marital Status	Single	61	15.25
	Married	330	82.5
	Widow	9	2.25
	Total	400	100
Qualification	+2	80	20
	Bachelors	140	35
	Masters	180	45
	Total	400	100

Source: Self- Survey, 2025

Table 3

Reliability Test (N=400)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.833	.831	5

The purpose of a reliability test is to evaluate the internal consistency or dependability of a measurement instrument. Cronbach's alpha coefficient ranges from 0 to 1, with higher values indicating greater reliability. Ideally, Cronbach's alpha should be above 0.70—for example, a value of 0.833 signifies good reliability. In this study, the scale demonstrates high internal validity and reliability, with a Cronbach's alpha of 0.831 for standardized items.

4.2 Items wise descriptive analysis

The use of investment decisions in the Nepalese financial market was assessed through responses from the banks. Each question was rated on a five-point Likert scale, where 1 represents "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree."

Table 4

Descriptive Statistics of Overconfidence (N=400)

Items	Min	Max	Mean	SD
I think I can outperform the market with my abilities and stock market knowledge.	1	5	2.277	0.882
I believe I am competent enough to influence the investments to my advantage.	1	5	2.24	0.787
I consider it a blessing that I consistently invest in the greatest offers.	1	5	2.795	1.050
I base my analysis on the most recent market data and spend as little time as feasible on them.	1	5	1.845	0.896
In the interim between accounting periods, I trade more.	1	5	1.852	0.963
Overall Mean and SD			3.257	1.325

Source: Survey, 2025

Descriptive statistics for the overconfidence sub-factor, both overall and for each item, are presented in Table 4. The factor was assessed using five statements, with responses collected on a five-point Likert scale from all respondents. The overall mean for overconfidence is 3.257, which is above the midpoint of 3, with a standard

deviation of 1.325. This suggests that investment decisions influenced by overconfidence may not always lead to optimal outcomes.

Table 5

Descriptive Statistics of Anchoring (N=400)

Items	Min.	Max.	Mean	SD
Recent market events have an impact on my trade.	1.00	5.00	2.397	.800
When trading, I utilize the stock's acquisition price as a point of reference.	1.00	5.00	2.532	.946
When making my next investment, I typically draw on my prior market experience.	1.00	5.00	2.570	.915
I typically purchase stocks that have had a significant decline from their previous closing or all-time high.	1.00	5.00	2.525	.939
It seems to me that past performance predicts future performance.	1.00	5.00	2.242	.797
Overall Mean and SD			3.227	1.337

Source: Survey, 2025

Table 5 presents descriptive statistics for the overall anchoring sub-factor. The factor was measured using five statements, with responses collected from each respondent using a five-point Likert scale. The overall mean for anchoring is 3.227, which is above the midpoint of 3, with a standard deviation of 1.337. This indicates that investment decisions influenced by anchoring tend to be reasonably well-founded.

Table 6

Descriptive Statistics of Disposition Effect (N=400)

Items	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	2.507	.989
I base my investing judgments on trend analysis.	1.00	5.00	2.582	.983
I purchase the same company's fresh share offering that I previously invested in.	1.00	5.00	2.437	.918
It seems to me that past performance predicts future performance.	1.00	5.00	2.430	.887
I disregard information in the market that conflicts with mine before purchasing a share.	1.00	5.00	2.322	.806
Overall Mean and SD			3.326	1.369

Source: Survey, 2025

Table 6 provides informative insights into the disposition effect both overall and for specific items. The factor was measured using five statements, with responses

gathered from each respondent on a five-point Likert scale. The overall mean for the disposition effect is above 3, accompanied by a standard deviation of 1.369. This suggests that the disposition effect can contribute to making appropriate investment decisions.

Table 7

Descriptive Statistics of Herding (N=400)

Items	Min	Max	Mean	SD
Your investing decisions are influenced by the stock volume decisions made by other investors.	1.00	5.00	2.070	.756
Your investing selections are influenced by the stock purchases and sales made by other investors.	1.00	5.00	2.398	.892
Your investing decisions are influenced by the stock kinds chosen by other investors.	1.00	5.00	2.518	.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	2.693	1.056
Usually, once I book profits, I think I could have waited.	1.00	5.00	2.488	.861
Overall Mean and SD			3.26	1.334

Source: Survey, 2025

Table 7 provides descriptive insights into specific herding items. The factor was measured using five statements, with each respondent completing a five-point Likert scale. The standard deviation for herding is 1.334, and the overall mean is 3.26, which is above the midpoint of 3. This indicates that herding behavior may be used to make better financial decisions.

Table 8

Descriptive Statistics of Investment Decision (N=400)

Items	Min	Max	Mean	SD
The returns on my investment are better than I had anticipated.	1.00	5.00	2.335	0.796
Over the previous five years, my stock investment has shown increased cash flow growth.	1.00	5.00	2.648	0.972
Compared to the market as a whole, the risk associated with my stock investment is smaller.	1.00	5.00	2.450	0.871
My stock investment has a high level of security.	1.00	5.00	2.378	0.858
The money I make from my investments will be put to good use for society.	1.00	5.00	2.178	0.770
Overall Mean and SD			3.36	1.365

Source: Survey, 2025

Table 8 presents descriptive statistics for investment decisions in the Nepalese securities market. The factor was measured using five statements, with each respondent completing a five-point Likert scale questionnaire. The overall mean for investment decisions is 3.36, above the midpoint of 3, with a standard deviation of 1.365. This indicates a tendency toward making informed financial decisions.

Overall Descriptive statistics of Dependent and Independent Variables

Table 9

Descriptive Statistics of Behavioral Biases (N=400)

Variables	Min	Max	Mean	SD
Investment Decision	1.00	5.00	2.202	.5537
Overconfidence	1.00	5.00	2.453	.59660
Anchoring	1.00	5.00	2.456	.72414
Disposition Effect	1.00	5.00	2.433	.68299
Herding	1.00	5.00	2.397	.65419

Source: SPSS Output

Table 9 presents descriptive statistics on investors' investment decisions and related factors. Five components of social biases were used to measure these factors. The overall results for each factor were determined using a five-point Likert scale. This data indicates that Nepalese investors tend to make sound investment decisions.

Correlation analysis

In this section, to achieve research objective two—which is to examine the relationship between overconfidence, anchoring, disposition effect, herding, and investment decisions correlation analysis has been used.

Table 10

Correlation between Dependent and Independent Variables

Variables	Inv. Decision	Overconfidence	Anchoring	Disposition	Herding
Inv. Decision	1				
Overconfidence	0.025	1			
Anchoring	-0.050	0.037	1		
Disposition	0.107*	0.081	-0.094*	1	
Herding	-0.024	-0.008	0.118**	-0.004	1

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

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

Source: SPSS Output

In the Nepalese stock market, overconfidence bias shows a positive but insignificant relationship with investment decisions ($r = 0.025$, $P > 0.05$). Similarly, anchoring bias has no significant relationship with investment decisions ($r = -0.050$, $P > 0.05$). However, the disposition effect demonstrates a significant and positive relationship with investment decisions at the 0.05 significance level ($r = 0.107$, $P < 0.05$). Lastly, herding bias exhibits a negative but insignificant relationship with investment decisions ($r = -0.024$, $P > 0.05$).

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	.765a	.585	.581	.42371

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

The coefficient of determination (R^2) value obtained in the model summary is 0.585, indicating that 58.5% of the variation in the dependent variable, investment decision, is explained by the independent variables—herding, overconfidence, disposition

effect, and anchoring biases. This reflects the combined influence of all the independent factors on the dependent variable.

Table 12

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	99.843	4	24.961	139.035	.000b
	Residual	70.914	395	.180		
	Total	170.758	399			

a. Dependent Variable: ID

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

Table 12 indicates that the tested model is suitable for further analysis, with an F-value of 139.035 and a p-value of 0.000, which is less than the 5% significance level. The high F-value and significant p-value demonstrate that the independent variables herding, overconfidence, disposition effect, and anchoring biases collectively have a significant impact on the dependent variable, investment decision.

Table 13

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.082	.109		.754	.451
	Overconfidence	.095	.044	.080	2.154	.032
	Anchoring	.375	.048	.342	7.811	.000
	Disposition Effect	.110	.039	.122	2.791	.006
	Herding	.376	.042	.393	9.028	.000

a. Dependent Variable: ID

Source: SPSS Output

According to Table 13, overconfidence has a significant positive impact on investment decisions ($\beta = 0.080$, $P < 0.05$). This means that if overconfidence increases by one unit, investment decisions are expected to increase by 0.080 units. Similarly, anchoring bias significantly affects investment decisions ($\beta = 0.342$, $P < 0.05$), indicating that a one-unit increase in anchoring leads to a 0.342-unit rise in investment decisions. The disposition effect also has a positive and significant influence on investment decisions ($\beta = 0.122$, $P < 0.05$), suggesting that a one-unit increase in disposition effect results in a 0.122-unit increase in investment decisions. Additionally, herding bias positively and significantly impacts investment decisions ($\beta = 0.393$, $P < 0.05$), meaning that a one-unit increase in herding corresponds to a 0.393-unit increase in investment decisions.

4.3 Discussion

Based on the above survey, the primary objective of the study was to identify the behavioral biases that influence investment decisions in the Nepalese stock market. Respondents accepted all statements across the different sections, including overconfidence, anchoring, disposition effect, herding, and investment decisions. In other words, they believe that their evaluation of skills and performance, along with associated rewards both direct and indirect motivates them to improve their efficiency at work. This reflects a tendency toward sound investment decisions.

Similarly, the second objective highlights the relationship between investment decisions in the Nepalese stock market and behavioral bias factors such as overconfidence, anchoring, disposition effect, and herding biases. Investment decisions in the Nepalese stock market are significantly influenced by these biases. Among them, anchoring and herding biases showed the strongest positive correlations with both investment decisions and the disposition effect. The multiple correlation coefficient indicates that disposition, overconfidence, and herding together explain a portion of the variation in investment decisions. However, contrary to Weeraratne's findings, the ANOVA results for the regression model reveal that the relationship between investment decisions and these explanatory variables is statistically insignificant, aligning with the results reported by Fakai (2022) and Kellie (2018).

Lastly, the third objective illustrates how investment decisions are influenced by behavioral biases such as overconfidence, anchoring, disposition effect, and herding biases. The regression analysis shows an R-squared value of 58.50%, indicating that these independent variables collectively explain 58.5% of the variation in investment decisions. Overconfidence significantly impacts investment decisions, meaning that a one-unit increase in overconfidence leads to a rise in investment decisions. Similarly, anchoring, disposition effect, and herding also have significant positive effects on investment decisions, with each one-unit increase in these biases resulting in a corresponding increase in investment decisions. This study's findings contrast with those of Dangol and Manandhar (2020) and Adil, Singh, and Ansari (2022), but align with the results reported by Chhapra et al. (2018).

CHAPTER – V

SUMMARY AND CONCLUSION

This section presents the main findings of the study and provides a concise summary of the entire research. Additionally, the key conclusions are discussed in a separate part of this section, followed by several implications related to behavioral biases and investment decisions. The primary aim of the study was to understand how behavioral biases influence investment decisions.

5.1 Summary

The researcher collected data using a structured questionnaire that was personally distributed to respondents. The purpose of the study was to identify the factors influencing investment decisions in NEPSE. Regression results revealed that key factors include the firm's position and performance; interest rates; ease of obtaining borrowed funds; management quality; stock volatility; assessment of majority shareholders; general and financial media coverage of the company's stock; current financial market conditions; the firm's commitment to social causes; strong dedication to Corporate Social Responsibility; stock market value; and government ownership. Behavioral biases such as overconfidence, anchoring, disposition effect, and herding also significantly impact investor behavior, particularly in relation to the company's reputation, market value, and government ownership. Most investors agreed that their investment decisions align with their investment goals.

Data was collected through both personal visits and electronic means, specifically via Google Docs. The gathered data underwent statistical analysis, including reliability analysis, correlation coefficient analysis, and regression analysis, to examine responses and test the hypotheses. A survey was developed based on identified factors measuring behavioral biases affecting individual investors' decisions in Nepal, drawing from relevant literature. Convenience sampling was used to select respondents, primarily college students, to represent the financial and behavioral factors influencing individual investor decision-making in the Nepalese stock market. The study explored the relationships between independent and dependent variables using a sample of 400 respondents. Participants responded using a 5-point Likert scale ranging from strongly disagree to strongly agree.

The current review was centered around principally detailing and examination of four social inclination to be specific securing, carelessness, demeanor impact, and grouping conduct. In future review can be expounded by examining other social predispositions that also significantly affect individual venture dynamic in their extraordinary manner. Additionally, the study can be expanded to investigate the influence on group or corporate investment decision-making.

5.2 Conclusions

Based on the above results and findings, it was concluded that overconfidence, anchoring, disposition effect, and herding biases influence the investment decisions of Nepalese individual investors who invest in NEPSE. Furthermore, the study concluded that Nepalese investors are likely to make better investment decisions when selecting stocks based on their skills, knowledge, and prior experience. Similarly, investors may also base their stock choices on market trend analysis and the buying or selling behaviors of others, which can negatively impact their investment decisions.

The study concluded that overconfidence, anchoring, disposition effect, and herding have a positive and significant impact on investment decisions. There is a strong positive correlation between these biases and the choice to invest, indicating that leveraging these biases can be beneficial and meaningful in stock investment. Additionally, the findings suggest that a one-unit increase in overconfidence, anchoring, disposition effect, or herding leads to a corresponding increase in investment decisions.

5.3 Implications

The researcher recommends that investors carefully analyze investment factors using sound business knowledge before making any investment decisions. Since these factors influence stock market performance, investors should also be capable of interpreting economic and market indicators. Rather than focusing on a single factor, they should consider all environmental variables. To reduce risk and maximize returns, investors are advised to diversify their portfolios by investing in various companies. This study examined factors that significantly impact individual stock

investors, incorporating not only elements explored in previous research and derived from behavioral finance theories but also additional factors identified through interviews, which have been found to affect investors' decisions in Nepal.

First, this study was limited to investors in Kathmandu. Second, future research should aim to determine the relative importance of various decision factors influencing individual investors' stock purchase choices. Third, to verify whether there are homogeneous clusters or groups of variables that serve as key decision determinants for investors, similar studies should be conducted in other regions across the country.

The key focus should be to identify additional factors that influence individual stock investors, beyond those already studied and derived from established behavioral finance theories. The primary aim of the study was to clarify the overall significance of various decision-making factors for individual stock buyers. Another important goal should be to determine which factors have the greatest and least impact on investors' investment behavior. Future research should specifically explore how behavioral biases affect individual investors' stock investment decisions in the Nepalese share market.

Several key contributions emerge from this study. First, it reinforces previous research by producing similar findings, thereby adding to the broader body of literature. Second, the results provide individuals and investors with practical strategies to recognize and overcome biases in decision-making. Lastly, the study offers valuable financial guidance and insights for financial intermediaries and advisors.

Policymakers can develop regulations aimed at reducing investors' perceived biases. Brokers can use the insights from this study to identify the biases that affect investor behavior, enabling them to provide sound advice that helps clients avoid poor decisions. This research can also assist investors in objectively evaluating their own actions, identifying profitable stocks, and making informed investment choices. Investment institutions should leverage the findings to offer more reliable recommendations grounded in a deep understanding of investor profiles and market

dynamics. Additionally, future researchers can benefit from this study by gaining a clearer understanding of how various biases impact investment decisions.

Future research could incorporate market anomalies to explore their impact on investors' decisions in the Nepalese stock market. Additionally, examining other cognitive biases may provide a deeper understanding of factors influencing investment choices.

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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 "Psychological Factors Influencing Investment Decisions of Young Investor Behavior" 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

Rabindra Regmi
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
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 Bias (OC)

OC_1	I believe that my skills and knowledge of the stock market can help me to outperform the market	1	2	3	4	5
OC_2	I feel I have ability enough to manipulate the investments in my favors	1	2	3	4	5
OC_3	I feel that I am always lucky to invest in the best deals.	1	2	3	4	5
OC_4	I take least time possible to analyses and rely on available market statistics	1	2	3	4	5
OC_5	I conduct more trades in between the accounting periods.	1	2	3	4	5

Anchoring Bias (AB)

AB_1	My trading is affected by recent experiences in the market.	1	2	3	4	5
AB_2	I use the purchase price the stocks as a reference points in trading.	1	2	3	4	5
AB_3	I usually rely on past experience in the market for next investment.	1	2	3	4	5
AB_4	I usually buy a stocks, which have fallen considerably from previous closing or all-time high.	1	2	3	4	5
AB_5	I appear believe that past returns are indicative for future returns.	1	2	3	4	5

Disposition Effect (DE)

DE_1	I prefer to depend on the past performance of the stock when take my investment decision over any other indices.	1	2	3	4	5
DE_2	I use trend analysis to make investment decisions.	1	2	3	4	5
DE_3	I buy the new equity offering of the same company, in which I have already invested.	1	2	3	4	5
DE_4	I appear believe that past returns are indicative for future returns.	1	2	3	4	5
DE_5	Before buying a share, I ignore the information in the market that conflate with mine.	1	2	3	4	5

Herding Bias (HB)

HB_1	Other investors' decisions of the stock volume have impact on your investment decisions.	1	2	3	4	5
HB_2	Other investors' decisions of buying and selling stocks have impact on your investment decisions.	1	2	3	4	5
HB_3	Other investors' decisions of choosing stock types have impact on your investment decisions.	1	2	3	4	5
HB_4	You usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market.	1	2	3	4	5
HB_5	After booking profits, I usually feel I could have waited.	1	2	3	4	5

Investment Decision (ID)

ID_1	My investment reports better results than expected.	1	2	3	4	5
ID_2	My investment in stock has demonstrated increased cash flow growth.	1	2	3	4	5
ID_3	My investment in stocks has a lower risk compared to the market I general.	1	2	3	4	5
ID_4	My investment in stocks has a high degree of safety.	1	2	3	4	5
ID_5	My investment proceeds will be used in a way that benefits society.	1	2	3	4	5

Thank you for your participation. Have a good day!

PAPER NAME

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