

BEHAVIOURAL FACTORS INFLUENCING INVESTMENT DECISIONS IN NEPALESE SHARE MARKET

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfilment of the requirements for the Master of Business Studies (MBS)

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of my dissertation entitled “**Behavioral Factors Influencing Investment Decision in Nepalese Share Market**”. The work of this dissertation has not been submitted previously for the conferral of any degrees. It has been proposed and presented as part of the requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

Mr. Ram Sundar Shrestha has successfully defended research proposal entitled “**Behavioral Factors Influencing Investment Decision in Nepalese Share Market**”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per the suggestions and guidance of supervisor Arun Neupane and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Behavioral Factors Influencing Investment Decision in Nepalese Share Market**” presented by Ram Sundar Shrestha a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Table of Contents

<i>Title page</i>	<i>i</i>
<i>Certification of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figure</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>
CHAPTER - I Introduction	1
1.1 Background of the Study.....	1
1.2 Problem Statement.....	4
1.3 Objectives of the Study.....	5
1.4 Research Hypothesis.....	6
1.5 Rationale of the Study.....	6
1.6 Limitations of the Study.....	7
CHAPTER - II Literature Review	8
2.1 Conceptual Review	8
2.1.1 Behavioral finance.....	8
2.1.2 Behavioral Bais.....	9
2.2 Theoretical Review.....	10
2.3 Empirical Review.....	14
2.4 Research Gap.....	28
CHAPTER - III Research Methodology	30
3.1 Research Design.....	30
3.2 Population and Sampling and Sampling Design	30
3.3 Nature and Source of Data and Instrument of Data Collection.....	30
3.4 Data Analysis Tools.....	31
3.5 Conceptual Framework.....	32
3.6 Definition of Variables.....	33

CHAPTER - IV Results And Discussions.....	35
4.1 Results of respondents' feedback.....	35
4.2 Reliability test result.....	37
4.3 Results of descriptive statistic of the study	38
4.4 Result of correlation coefficient	47
4.5 Regression result.....	49
4.6 Results of hypothesis test.....	51
4.7 Discussion	53
CHAPTER - V Summary and Conclusion.....	56
5.1 Summary.....	56
5.2 Conclusions.....	57
5.3 Implications.....	58
References	

List of Tables

Table 1 Summary of Empirical Review.....	20
Table 2 Demographics Statistics	35
Table 3 Cronbach Alpha	37
Table 4 Descriptive Statistics of Heuristics Bias.....	39
Table 5 Descriptive Statistics of Prospects Bias	40
Table 6 Descriptive Statistics of Market Bias	41
Table 7 Descriptive Statistics of Herding Bias.....	43
Table 8 Descriptive Statistics of Investment Decision.....	44
Table 9 Overall Mean and Standard Deviation	46
Table 10 Correlation Coefficient.....	48
Table 11 Regression Results	49
Table 12 Hypothesis Results.....	51

Abbreviations

List of

Figures

Figure 1	Conceptual Framework.....	33
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CFA	Confirmatory Factor Analysis
CV	Coefficient of Variation
DSE	Dhaka Stock Exchange
EFA	Exploratory Factor Analysis
EMH	Efficient Market Hypothesis
IPO	Initial public offering
MPT	Modern Portfolio Theory
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
NSE	National Stock Exchange
SD	Standard Deviation
SEBON	Securities Board of Nepal
SEM	Structural Equation Modeling
TV	Tolerance Value

Abstract

This study aimed to investigate the connection between behavioral bias factors and investment decisions, as well as the impact of behavioral bias factors (Heuristic, Prospects, Market, Herding bias) on Nepalese share market investment decisions. This study employed a descriptive and causal comparative research design. With the use of questionnaires given to 426 investors, this study was carried out on all investors who invest in NEPSE-listed firms as a population. Data was gathered and surveyed, and descriptive statistics, correlation, and regression were used for analysis. The results of the regression analysis showed that heuristic bias was a positive and significant impact on investment decisions, as do prospect bias, market bias, and herding bias. The study offers implications for financial advisors to become more proficient, policymakers to consider biases in previous policy changes, the development of sustainable investment management methods, and individual investors to better understand their behavior. Legislators have the power to enact rules that would aid in removing investors' perceived prejudices. The biases influencing investor behavior might be found using this study by brokers. They can provide their clients with wise counsel to keep investors from making poor decisions.

Keywords: *Heuristic, Prospects, Market, Herding, and Investment Decision.*

CHAPTER –I

Introduction

1.1 Background of the study

In a complex ecosystem that is the stock market, it is becoming more widely recognized that behavioral factors, rather than solely logical calculations, influence investment decisions (Baker et al., 2024). The numerous anomalies and illogical actions witnessed in global stock markets have proven too difficult for conventional financial theories based on the efficient market hypothesis to explain (Shiller, 2023). This discrepancy has made behavioral finance an important research topic, particularly in emerging countries where cognitive biases appear to be more pronounced (Kahneman & Tversky, 2023 edition). Recent research indicates that behavioral biases affect over 75% of investment decisions in developing nations, compared to 58% of decisions in developed markets (Global Investor Behavior Report, 2024).

These patterns of conduct have been supported by scientific evidence according to recent developments in microfinances. “Research using MRI shows that while unexpected earnings cause dopamine responses akin to those triggered by drug rewards, financial losses stimulate the same brain regions as physical pain (Knutson et al., 2024). “Traditional financial education frequently fails to stop illogical behaviors, which can be explained by this neurological base. This suggests that new behaviorally-informed intervention tactics are needed” (Thaler, 2023). The current study concentrates on the distinct behavioral dynamics in share market investing while expanding upon this multidisciplinary understanding.

Cultural and psychological factors create distinct behavioral patterns across different markets. In Asian markets, research identifies unique manifestations of overconfidence bias, where investors demonstrate 23% higher trading frequency compared to Western markets (Chen et al., 2023).

The Nepalese stock market has witnessed significant growth in recent years, driven by increasing retail investor participation and regulatory reforms by the Securities Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE). However, despite advancements in market infrastructure, investment decisions in Nepal remain heavily

influenced by behavioral biases rather than fundamental analysis (Poudel et al., 2022). Traditional finance theories assume rational decision-making, but behavioral finance challenges this notion by demonstrating that psychological factors—such as overconfidence, herd mentality, loss aversion, and anchoring—often distort investor judgment (Kahneman & Tversky, 1979; Thapa, 2023). In Nepal, where financial literacy is relatively low and market speculation is prevalent, these biases contribute to excessive volatility and irrational trading patterns (Shrestha & Bhattarai, 2023). Studies in other emerging markets, such as India and Bangladesh, confirm that behavioral factors significantly impact investment choices (Sehgal & Singh, 2021; Rahman et al., 2022), yet limited empirical research exists in the Nepalese context.

According to earlier research conducted in Nepal, “ing overreacting to news, blindly following market trends, and underestimating risks” (Shrestha & Sharma, 2019). “As the global financial landscape continues to change and as more investors are drawn to the Nepalese share market, there is a notable gap in the literature caused by the lack of thorough research into the distinct behavioral aspects influencing this market. The purpose of this study was to investigate and evaluate the behavioral elements affecting choices about investments in the Nepalese stock market.” It will identify important behaviors, assess how they affect investment decisions, and offer insights that could help investors make better selections by utilizing both quantitative and qualitative research approaches. In the end, comprehending these behavioral dynamics would improve the general effectiveness and growth of the financial sector in Nepal”.

Nepalese investors” behavioral biases have been exacerbated by the growth of social media and online trading platforms; instead of conducting unbiased analysis, many now rely on rumors, peer pressure, and fads (Gautam & Dhakal, 2023). Furthermore, herd behavior is made worse by cultural elements including risk aversion and a propensity to follow market "gurus" (Bhandari & Shakya, 2022). Understanding behavioral impacts is essential for enhancing investment outcomes and market stability in light of these dynamics. By analyzing important behavioral characteristics influencing Nepalese investors, this study aims to close the research gap and offer guidance to market participants, financial educators, and regulators on how to promote more logical investment behaviors.”

Decision-making is the process by which an individual reacts to possibilities and hazards through assessing the options accessible to him or her and coming to conclusions or judgments concerning particular goals and behavior (Akintoye, 2006). As a result, investors in shares, bonds, and securities likewise go through a method of making decisions. According to Eastlick (1996), a large number of equity investments can involve a number of participants, including initiators, influencers, buyers, and users who might have roles in the following areas: problem identification, information search, post-purchase behavior, an assessment of alternative purchasing options, and purchasing behavior. undergo a decision-making method.

Mehta and Chaudhari (2016) “defined an investment as a current financial commitment made for a specified period of time with the goal of receiving future payments that will the investor for (i) the duration of the commitment, (ii) the expected rate of inflation throughout that duration, and (iii) the degree of uncertainty surrounding future payments that will be made in the future. Studying the behavioral elements that affect investors' decisions on the Nepal Stock Exchange is necessary to comprehend their decision-making process. The paper attempts to study the behavioral factors (heuristics, prospects, market, and herding) in the investment decision of the investors, which may even lead to the return of the investment.”

Bennet et al. (2012) “examined an effect on the attitude of retail financial backers toward investing in value securities exchanges. Retail investors' attitudes toward investing in particular equity stocks were found to be strongly influenced by five factors, according to the study: investors' tolerance for risk, the media's focus on the share market, the strength of the economy, political stability, and the business policies of the government.”

Filiz et al. (2011) “presumed that there was medium mindfulness on changed speculation decisions accessible however there was little mindfulness about the financial exchange, value, bond and debentures. Investments in social security, banks, and insurance products were deemed more important by all age groups, according to the study. Viswanadham et al. (2014) identified the factors that influence investors' purchasing decisions. The study found that all listed businesses placed a greater emphasis on decisions related to quality management, branding efforts, and

transparency regarding issues related to settlement. Decision tools were frequently used to support investment decisions. It is expected that data structure and the elements in the market methodically impact people's speculation choices as well as market results. To explain why people, buy or sell stocks, investor market behavior derives from psychological decision-making principles. These aspects focused on how investors use information to make judgments about their investments.”

1.2 Problem statement

According to surveys, 65% of Nepalese investors trade impulsively based on social media trends rather than fundamental analysis, “which has been made worse by the quick digitization of trading, especially through mobile platforms (Gautam et al., 2024). According to Bhandari and Shakya (2024), these behavioral inclinations are further exacerbated by Nepal's distinct sociocultural environment, which includes a dependence on unofficial "market gurus" and a gambling-like speculative mindset ("satta baji"). Even with SEBON's regulatory attempts to improve investor education, behavioral hurdles still exist, which leads to market inefficiencies and the depletion of retail participants' wealth” (Nepal Rastra Bank, 2023).

Retail investors are becoming more involved in the Nepalese share market, but the frequency of illogical investment choices is still a major worry since it causes excessive volatility and less-than-ideal results (SEBON, 2023). “The regular market oddities seen in Nepal, such as abrupt speculative bubbles and panic-driven sell-offs, are not explained by traditional financial theories, which presume rational decision-making (Poudel & Dahal, 2024). Research indicates that behavioral biases, such as herd mentality, anchoring, loss aversion, and overconfidence, influence investing decisions, but there is still a dearth of local studies measuring their effects” (Khatriwada & Sharma, 2023).

Investment decisions in the Nepalese share market are influenced not only by “financial and economic factors but also by behavioral biases. Investors often rely on heuristics, emotions, and social influences rather than purely rational analysis (Dangol & Manandhar, 2020). Factors such as overconfidence, herd behavior, risk aversion, and market sentiment significantly impact investment choices, leading to potential inefficiencies in the market. Despite the growing interest in behavioral finance, there

is limited research on how these psychological and social factors shape investment decisions in Nepal. Understanding these influences is crucial for investors, policymakers, and financial institutions to develop strategies that promote informed and rational investment behavior, ultimately contributing to a more stable and efficient share market” (Adhikari, 2020).

Millions of decisions are made every minute in the business world. “This expression additionally applies to venture choices. Investing decisions are influenced by a wide variety of behavioral factors. One sort of these factors has to do with the mental cosmetics of financial backers, which decides how they act monetarily. Various exploration has been led in Nepal to more readily figure out financial backers” (Bhattarai, 2020).

Nepalese stock market are the study's ultimate objectives. The consequences of this study will frame the establishment for creating centered financial backer instruction drives and strategy intercessions pointed toward working on monetary proficiency and empowering more consistent decision-production among Nepalese financial backers. It is essential to investigate the behavioral factors that influence investors' actions at the Nepal Stock Exchange (NEPSE) (Kumar, 2022).

- i) What is the current status of behavioral factors affecting the investment decision in Nepalese market?
- ii) Is there any relationship between behavioral bias (heuristics bias, prospects bias, market bias and herding bias) and investment decision of Nepalese share market?
- iii) What is the impact of behavioral bias (heuristics bias, prospects bias, market bias and herding bias) on investment decision of Nepalese share market?

1.3 Objective of the study

The main objective of this study is to investigate how behavioral factors influence investment decisions in the Nepalese share market. The specific objectives of the study are:

- i) To assess the current status of behavioral factors affecting the investment decision in Nepalese market.

- ii) To analyze the relationship between behavioral bias (heuristics bias, prospects bias, market bias and herding bias) and investment decision of Nepalese share market.
- iii) To examine the impact of behavioral bias (heuristics bias, prospects bias, market bias and herding bias) on investment decision of Nepalese share market.

1.4 Hypothesis of the study

The following hypotheses have been evaluated.

H₁: Investment decisions are significantly influenced by heuristics bias.

H₂: Investment decisions are significantly influenced by prospects bias.

H₃: Market bias has a significant effect on investment decisions.

H₄: Investment decisions are significantly influenced by herding bias

1.5 Rationale of the study

This research especially ought to be taken into consideration by the government, financial advisors, businesses that are listed on Nepal's stock exchanges, and private investors. “Because they have an impact on investors' long-term financial objectives, the factors that influence their decision-making are significant. Organizations' future procedures and plans might be affected by their recognizable proof of the main components impacting financial backer way of behaving. Last but not least, facilitate the development of plans for prospective investors and assist government stakeholders in formulating policies and other matters”.

Beyond conventional financial theories, “the study contributes to a better understanding of how psychological and emotional elements influence investors' decision-making processes. Biases including overconfidence, herd mentality, risk perception, and market rumors frequently impact investment decisions in Nepal, where the share market is still in its infancy and many investors may not have easy access to sophisticated financial tools or expert guidance. Policymakers, regulators, and financial institutions can create investor awareness programs, increase market transparency, and lessen irrational trading behavior by looking at these behavioral characteristics of the market. Additionally, it makes individual investors more self-

aware, which empowers them to make more thoughtful and sensible choices, thus fostering a more robust and stable Nepalese capital market”.

In order to get a better understanding of how different investor groups respond to market fluctuations, future research can also analyze behavioral characteristics including age, income, education, and trading experience. Better risk management techniques could also be developed by investigating the connection between behavioral biases and market volatility in Nepal. In addition to adding to the body of knowledge in academia, this kind of research would assist in developing tools and policies that encourage prudent investing and bolster the robustness of the Nepalese stock market.

1.6 Limitations of the Study

The study's limitations have been reviewed and are as follows:

- i) The sample size of in this study is only be from the 426 individual investors of NEPSE.
- ii) The majority of the study's data on investor determinants came from primary sources. Therefore, the reliability of the conclusions of the study upon the accuracy of the information provided by the respondents.
- iii) This study considers other biases such as mental accounting, representation bias, and the gambler fallacy.
- iv) This study considers other biases such as anchoring bias, loss aversion bias and regency bias.
- v) The findings of the study will be based on cross-sectional data. Therefore, it may vary.

CHAPTER – II

Literature Review

This chapter provides an overview of the theoretical and empirical research that has been done on this topic throughout the years by many experts. This section provides a summary of the writing on the topic about my expertise, investigation, and pertinent analyses of this issue. Surveys of previous proposal work, papers, and book audits are also included. The theoretical review in the first section and the empirical review in the second are thus followed by the research gap.

2.1 Conceptual review

An analysis of the behavioral elements that impact investing choices in the Nepalese stock market looks at the “Behavioral finance emphasizes biases like overconfidence, herd mentality, loss aversion, and anchoring that frequently result in illogical investment behaviors, in contrast to classical finance theories that presume rational decision-making (Adhikari, 2020). These behavioral characteristics are important in Nepal, where the stock market is still in its infancy and is impacted by sociocultural norms, rumors, and a lack of financial awareness. Instead of using fundamental analysis, investors can rely on media hype, peer recommendations, or market sentiment, which could result in erratic market fluctuations. This review examines how emotions, cognitive errors, and social influences affect trading patterns by synthesizing important behavioral theories, such as prospect theory and heuristic-driven biases, and applying them to Nepal's particular market conditions” (Shrestha & Silwal, 2017).

2.1.1 Behavioral finance

The study of behavioral finance, which departs from the conventional view of market rationality, “integrates psychology and economics to explain why investors frequently make irrational financial decisions. It investigates how social factors, emotions, and cognitive biases affect investing decisions, resulting in anomalies and inefficiencies in the market. One of the most important theories is prospect theory (Kahneman & Tversky, 1979), which demonstrates that people have different values for gains and losses and frequently display loss aversion, in which the suffering of losing outweighs

the joy of comparable gains. Additionally, behavioral finance studies heuristics, or mental shortcuts, where decisions are disproportionately influenced by recent or dramatic occurrences, such as the availability heuristic (Tversky & Kahneman, 1974). Stock market booms and crashes are caused by a variety of other biases, such as herd mentality” (Shiller, 2000) and overconfidence (Barber & Odean, 2001).

2.1.2 Behavioral bias

Overconfidence

Studying overconfidence bias is important while making decisions. “Research has examined how behavioral finance, which is connected to emotional and cognitive characteristics, is replacing traditional finance” (Kartini & Nahda, 2021). According to Hirsh Leifer and Daniel (2015), “overconfidence is a bias that affects their trading abilities since it causes them to overreact to unimportant information and underreact to positive information”.

Loss aversion

A basic concept in “behavioral economics and decision psychology, loss aversion reflects the tendency of individuals toward avoiding losses overachieving equivalent benefits. To put it differently, the psychological effects of losing something happen to be stronger than the joy getting it. In their Prospect Theory, Daniel Kahneman and Amos Tversky first proposed this concept” (Kahneman & Tversky, 1979).

Investment Interest

Being interested in investing also means “being willing to engage in activities to achieve investment objectives, such as attending investment seminars and participating in capital market training” (Cahya & Kusuma, 2019).

Regret aversion

Malik et al. (2021) examined how “behavioral biases affect financial choices within the real estate industry in Pakistan. They found that regret aversion bias, gamblers' fallacy, and overconfidence bias had a stronger effect on real estate prices than regret aversion and herding prejudice”.

Barnum effect

The "Barnum effect" is a term used in psychology literature to describe the notion that people's descriptions and comments about them are made up and applicable to almost everyone in almost every circumstance (Claridge et al., 2008).

Endowment effect

When contrasted with comparable resources they don't claim, financial backers normally put a higher value on resources they as of now have. According to Roger (2009), this may lead people to hold on to investments even when there are better opportunities elsewhere because they are comfortable with them.

Regency bias

Investors focus more on recent performance or events than the broader historical background. This could cause them to chase recent high-performing equities without taking their long-term potential into account (Spiwoks & Bizer, 2018).

Disposition effect

Investors frequently hold onto failing stocks for an excessive amount of time to avoid losses, "while simultaneously selling winning stocks too soon to lock in gains. This training can contribute to neglected opportunities and an inefficient portfolio. Financial backers can mitigate the impact of social biases on investment decisions by employing strategies that include creating a diversified investment strategy, maintaining a broad portfolio, conducting thorough analysis, and consulting with financial advisors. Additionally, financial backers can make more thoughtful and objective decisions by being conscious of these tendencies and regularly evaluating their venture decisions" (Odean, et al., 2010).

2.2 Theoretical Review

A theoretical review is a critical analysis of existing theories, models, and conceptual frameworks relevant to a research topic. It goes beyond summarizing literature by evaluating, comparing, and synthesizing theories to identify gaps, contradictions, or areas for further development.

Modern portfolio theory (MPT)

Harry Markowitz invented MPT in 1952, “which asserts that investors can construct an optimal portfolio by balancing the risk-return trade-off of various assets and diversifying their holdings. MPT highlights how important it is to keep a variety of assets that are not entirely related in order to lower overall portfolio risk. Harry Markowitz made the present-day Portfolio Hypothesis (MPT), once in a while alluded to as portfolio theory or portfolio the executive hypothesis, a financial hypothesis in the 1950s. It presents an approach for developing and structuring investment portfolios with the goal to improve returns for a given degree of chance or break point risk for a particular level of return (Markowitz, 1952). A number of portfolio management methodologies, include risk-parity portfolios, index investing, and passive investing, depends on MPT, which is frequently utilized in the field of investment management. Like any other monetary model, MPT has its imperfections too, and its detractors point out that it probably won't work as predicted under all market conditions, such as the regular distribution of resource returns and relationship stability. However, MPT remains an essential instrument for deciding how to allocate portfolio asset” (Markowitz, 1952).

In addition to winning Markowitz the Nobel Prize, “this work served as the basis for the Capital Asset Pricing Model (CAPM), which was developed by Sharpe (1964) and Lintner (1965) and established systematic (market) risk as the main factor influencing returns. Even though MPT is still fundamental, Statman (1999) exposed its flaws in behavioral finance by demonstrating how investor psychology” (such as overconfidence or herd mentality) differs from MPT's logical presumptions.

Efficient market hypothesis (EMH)

According to the finance theory known as the Efficient Market Hypothesis (EMH), “asset prices fairly represent all available information and financial markets are efficient. To put it another way, the theory says that when determining a product's price, financial markets excel at taking into account all of the available information. As a result, using active trading or investment strategies, investors find it difficult to consistently outperform the market or generate unusual returns (Lim, 2012). As indicated by the Efficient Market Hypothesis (EMH), resource costs in every case completely retain every single pertinent datum and monetary business sectors

effectively mirror all suitable data. In this thought, all open data is now valued into the protections, making it difficult to reliably outflank the market through stock choice or market timing. Economist Eugene Fama's work on the Efficient Market Hypothesis (EMH) has had a significant impact on the banking sector ever since it was first presented in his doctoral thesis in the 1960s. The hypothesis is based on three forms: the weak form, the semi-strong form, and the strong form of the EMH” (Meriks, 2004).

Changes in consumer reactions, stock preferences, market pricing, and other factors all have an impact on investor decisions. “Because of this, an investor could respond to the market situation either too strongly or too weakly. Changes in fundamental values, the market price, and market information can lead to the reaction of an investor and their decisions to invest in the market. Investors can mistakenly observe that market information can affect their decisions in the market, and this overreaction can, in turn, lead to significant stock market changes. Past trends in equities should not motivate the investor to respond to expectations and experience. Despite not being behavioral, the market-related elements have an impact on investor behavior and have the potential to significantly alter investor decision-making” (Mueller & Brettel, 2012).

Herd behavior theory

As per the thought of group conduct, “individuals duplicate the moves of others, which makes enlightening fountains and patterns in the monetary business sectors. “Without completely assessing current realities, financial backers can join the crowd, which could prompt market blasts or crashes. The term "herd behavior theory" describes the propensity of individuals to mimic the choices or behaviors of a larger group in the domains of behavioral finance and social psychology (Kengatharan & Kengatharan, 2014). A domino effect, in which a large number of people act in the same way without necessarily considering the underlying principles or logic, frequently occurs as a result of this phenomenon. In the financial markets, herd behavior can have a significant impact on the formation of asset values and market movements over the long and short term. In order to lower the risks, at least in their own perceptions, investors who have invested a significant sum of money sometimes imitate the actions of others. Besides, the preference for herding also depends on the types of investors; for example, individual investors tend to follow the crowds in making investment decisions more than institutional investors” (Goodfellow et al. 2009).

Investors tend to follow the reactions of others. “Because it has a significant impact on risk characteristics and performance values, grazing is regarded as a key element (Tan, et al., 2008). The heritage can greatly contribute to the analysis and performance evaluation because individuals with poor ability try to imitate individuals’ behaviors that have a great ability to develop their reputation (Kallinterakis et al., 2010). Consequently, decisions about the purchase and sale of other investors are influenced by those of other investors, which reduces risk”. The effective market is because rational investors do not follow the masses, rating leads to speculative conditions that make the market ineffective.

Prospect theory

Developed by Kahneman and Tversky in 1979, “prospect theory is one of the most well- documented and frequently used concepts in economic psychology. We have an unreasonable propensity to be less ready to gamble with gains than with losses, according to the hypothesis. Prospect theory showed human behaviour when they are faced with risk& uncertainty. Prospect Theory states that people make decisions in the face of risk and uncertainty (Tegegn et al.,2020). This theory says that when it comes to gains, people tend to avoid taking risks and seek them out when it comes to losses. Different gamble-taking perspectives result from the outlining of potential increases or misfortunes, which influences financial backers' way of behaving. Prospect theory asserts a conventional utility function, which analyzes investments in terms of expected utility, is consistent with investor preference. According to these academics, people examine the potential benefits and negatives of a certain course of action in light of a particular reference point, usually the investment's purchase price, the decision-maker's expectations, or relevant historical backdrop”. Expected usefulness is influenced by the way a problem or conclusions is proposed.

The investor can regret his decision, which can lead to a loss. “The levels of mental stress caused by loss or profit are the loss aversion, and the investor’s evaluation of their financial transaction prepares them to invest or avoid investments, which are called their spiritual accounting. Huang (2001) identified two types of spiritual accounting: loss-making and a more limited framework in two asset valuation frameworks, one for the portfolio and one for individual shares. The individual inventory framework was

more successful". This enables an investor to organize their portfolio, which can lead to better performance and thus improve return on investment.

2.3 Empirical Review

Pertiwi et al. (2025) sought at investigating which behavioral biases affects investment interest and decision-making, employing his Generation Z as the research the population. All 116 of those participating in the sample were respondents from Generation Z. For investigating the relationships between the variables, partial least squares (PLS) was the data statistical method used. The results of the study show that: (1) herding bias influenced investment decision-making; (2) overconfidence bias influences investment decision-making; (3) herding bias influenced investment interest; (4) overconfidence bias influenced investing decision-making for individuals; (5) investment interest influenced investment decision-making; (6) Overconfidence bias influenced investment decision-making by conducting investment interest, and (7) herding bias influenced investment decision-making through interest in making investments.

Shukla et al. (2024) examined how certain behavioral biases affect traders' choices in North India was the goal of financial theories have been found to be the foundation of the majority of research projects, which influences investing choices. Although behavioral biases were not as well-considered in earlier research, they now play a significant impact in investment decisions. The impact of several behavioral biases on stock trading decisions was examined using original data gathered from a sample of North Indian states (Punjab, Haryana, Delhi, and Uttar Pradesh) via a structured questionnaire. Structural equation modeling was employed to determine the substantial influence of behavioral biases on stock trading and investment choices. Results: According to the study, most of the identified cognitive biases—including the Overconfidence Bias, the Representativeness Bias, and the Herding Bias—has a large impact on investors' choices about stock trading and investments. Novelty: While there has been a lot of research in this area, most of it has been done in other nations; very few studies has been done specifically in India. However, it was clear from the literature assessment that this study is revolutionary in North India. The goal of this study was to better understand the psychological characteristics of clients in order to increase the efficacy of financial counselors.

Suresh (2024) researched to analyze the financial literacy and behavioral biases' effects on investment decisions. A questionnaire was developed using the Likert scaling technique to elicit study variables, and the collected data were analysed using the SEM technique. The results showed that heuristic bias and the emergence of behavioral bias in decision-making were strongly positively correlated. However, the framing effect, cognitive illusions, and herd mentality has negative associations in forming behavioral biases. Furthermore, rather than using other irrational methods while making investment judgments, investors frequently employ and adhere to heuristic biases. Therefore, the financial literacy of individual investors has a significant impact on stock market investment decisions.

Hossain and Siddiqua (2022) researched on the impact of behavioral influences on the stock market has significant implications for investment analysis and portfolio management. “When making investing decisions, one must take behavioral biases into account. This study aimed to educate Bangladeshi investors on behavioral biases that they can run into in the current frontier environment when making investment decisions. Bangladeshi individual investors often base their investment choices on sensations rather than theories, according to the study, which conducted the paired-samples t-test, chi-square test, one-way analyses of variance (ANOVA). The findings showed that uncertainty avoidance and perceived risk are the two most significant psychological factors influencing choices made by investors”. The findings are consistent with those of other experts and demonstrate that investors frequently adhere to the rules defined by financial theories.

Cao et al. (2021) investigated the “influence by behavioral factors on the stock market performance and “investment decisions of Vietnamese individual investors. 250 investors were surveyed for the study. Heuristic, prospect, market, and herding all have a direct and beneficial impact on investment decision-making, according to research. The previously mentioned variables also have an immediate and favorable impact on investment success. The strongest influence on investment success and decision-making is the Prospect aspect in particular. The major results of the study showed that heuristic, prospect, market, and herding all have significant effects on how well investment perform and how decisions happen”.

Silwal and Bajracharya (2021) “investigated the personality characteristics that influence the activities of individuals who invest and explored into the relation between these variables and the final results of investment choices. Heuristics include anchoring bias, gambling fallacy, bias related to overconfidence, availability and representativeness bias, mental accounting, herding factors and market variables, and loss and regret aversion from the prospect factor. Additionally, structural equation modeling is used to test the theories. It revealed that expected behavioral traits and investment performance were negatively correlated. It is found that market characteristics, herding, and heuristics (such as anchoring biases and overconfidence) all significantly correlate with investment performance”.

Adhikari (2020) sought to investigate those variables influencing the investing strategies of “individual investors on the Nepal Stock Exchange. Based on the inflexible slice system, 214 reacts from individual investors were used for the study. A structured survey was distributed to the respondent in order to collect data for the purpose of the investigation. There were 35 details in the questionnaire. Individual investors made up the people who responded. Frequency, mean scores, standard deviations, probabilities, and factor analysis methodologies were used to analyze the data in this study. The analysis verified that the behavioral finance proposition's definition of the typical equities investor's preferences and earlier evidence backing it seem to be slightly related. The experimenter explored that the most significant factors shaping individual investment opinions were statement of the government officers, anticipated capital increase, establishment's status in assiduity, diversification purpose, the attractiveness of non-stock investment, ease of carrying espoused finances, opinions of the establishment's maturity stockholders, family member opinions, recent price movement in a establishment's stock, oscillations in the stock indicator, rumors, anticipated commercial eating, stock marketability, the result of specialized analysis, the tip paid, perceived ethics of establishment, the character of the establishment's shareholders, and feeling for a establishment's product and services”. The results of this exploration will give an understanding of the different opinions to be taken by investors grounded on the prevailing factors and the possible consequences of each decision.

Keswani et al. (2019) sought to investigate how the four elements heuristic, prospect, request, and herding affect investors' perceptions at the NSE. "Data from the survey was analyzed using a Likert scale. The reliability of the questionnaire was examined employing the Cronbach's alpha element, which measured out at 0.728. Multiple regression analysis and EFA have both been used. Employing Cronbach's alpha, the internal thickness of the element was investigated. Heuristic, prospect, market, herding, investment performance, and investors' opinions that are in consensus at an acceptable place are the components that Cronbach's nascent underlined. The analysis's findings showed that the four factors had a big impact on the choice to invest, and that the return on investment behavioral element had a big impact on investors' choices".

Rana (2019) "conducted a study to look into the factors that influence the stock investment choices made by individual investors in the context of the Nepali stock market. The study also seeks to understand how investors judge the relative importance of different factors while making investment decisions based on their demographic traits. An organized poll overview was used to collect 106 individual financial backers' example responses between January and April 2019. To identify the typical characteristics influencing the stock money management decisions of the example financial supporters, the review employs exploratory factor analysis. profit and picture elements, and dynamic elements. The results also reveal that the sample investors believed that fundamental market factors were the most relevant of the six categories that were retrieved".

Chhapra (2018) investigated how investors' "behavior biases affect their financial decision-making. It has been repeatedly demonstrated by experts that the indifference of financial backers is a natural reality (Statman, 2008). The purpose of this analysis was to evaluate the impact of social predispositions on financial decision-making at the Pakistan Stock Exchange (PSX). An overview survey is created using a comfort test process, which also gathers responses from a sample of 250 PSX financial backers. Cognitive bias, herd mentality, overconfidence, overanalysis, and the investor's hindsight effect were a few examples of behavioral biases. The impact of five behavioral biases on investing choices was evaluated using multiple regression models. The findings indicated that investing decisions are positively impacted by the

hindsight effect, herd mentality, overconfidence, overthinking, and cognitive bias. The overall findings indicate that behavioral tendencies are mostly responsible for shifts in speculative decisions. Financial advisors will be able to provide their consumers with better services because to this study. Financial backer education and preparation may be the most effective means of reducing these prejudices”.

Gupta and Ahmed (2017) examined the impact of “behavioral biases on investors' activities in the Indian stock market. Conventional financial theories that rely on the presumption of flawless financial markets and investor behavior include the Capital Asset Pricing Model, the Efficient Market Hypothesis, and Modern Portfolio Theory. To put it another way, these theories contend that stock prices quickly adjust to any new information that enters the market, eliminating the chance of making larger gains based only on insider knowledge of the business. In order to assess the prevalence of tragedy repugnance, lament revulsion, group behavior, arrogant propensity, and mental cacophony inclination, 380 respondents lived in Delhi/NCR. It was discovered that these tendencies has a respectable impact on the independent direction of financial donors. By exposing the most common social tendencies against which they are helpless, these results will assist investors in reducing risk and increasing earnings from their wagers. It will also help financial advisors create personalized asset allocation plans and portfolios for their clients”.

Mweu and Omwenga (2017) examined the different facets of “capital markets that will help business students gain a better grasp of how the stock market operates. Self-administered questionnaires were mailed to Dyer & Blare Investment Bank for completion to gather data. Out of 150 replies, 75 were selected, comprising both individual investors and Bank staff According to the study, the NSE's investment decision-making process benefited by the financial statement circumstances of listed companies. Market knowledge and investors' decision-making about investments were positively correlated. This has happened as a result of the NSE posting market data online for investors to easily access. At the NSE, the availability of market information is crucial to investors' decision-making. Investors may now obtain the information they require instantly thanks to the nation's improving ICT infrastructure, which makes investment decisions easier. According to many of the responses, the majority of NSE investors were knowledgeable about the securities industry”. Academic credentials

and a desire to learn more about securities investing have made some of them well-known.

Raut et al. (2016) investigated the different psychological “elements that affect investors' choices in the Indian stock market. 380 retail investors, who are further divided into two groups according to their investment experience, provided the data used in this study. Discriminant analysis and the chi-square test were used to examine and evaluate four behavioral biases: loss aversion bias, regret aversion bias, herding bias, and anchoring bias. Both groups were shown to demonstrate herding bias in an equally likely manner. Additionally, compared to less experienced investors, experienced investors were found to be more susceptible to anchoring bias, regret aversion bias, and loss aversion bias”.

Vijaya (2014) aimed to determine the elements affecting the actions of “individual investors in the Indian stock market. Principal Component analysis was utilized in this study to identify the factors that influence an individual's investment behavior. Five key elements have been highlighted by the current study as having the potential to impact the investment behavior of retail investors in the Indian stock market. These were market variables, herd behavior, loss aversion, anchoring, and overconfidence”. The results will assist financial advisors create suitable asset allocation plans for their customers and investors in understanding common behaviors that support their responses for higher returns.

Wamae (2013) investigated activity that comes after a thorough assessment of all the available options. “When making decisions, individual investors typically consider their age, education, income, and investment portfolio. Although the investor making the selection has no control over the future natural states, the results of any strategy an investor chooses to employ will undoubtedly be impacted by those states. In addition to having strong financial acumen and the capacity to maximize returns on investments, effective stock market decision-making necessitates superior insight and comprehension of human nature from a global viewpoint. The main objective of this study was to determine which behavioral factors influence the decisions made by individual investors on the Nairobi Stock Exchange”. The study's particular goals were to determine how risk aversion influences investment choices in the Kenyan stock

market and how crowding, prospecting, and anchoring may affect these decisions.

Table 1

Summary of empirical review

Author/s	Topic	Objectives	Methodology	Findings
Pertiwi et al. (2025)	The Impact Of Behavioral Biases on Investment Decision Making Among Generation Z.	To examine how behavioral biases affect investment interest and choices, with a particular emphasis on Generation Z.	1. Designed a structured questionnaire to collect the data. 2. Non-probability sampling methods were used. 3. 115 respondents were participation. 4. Tabulate and refine data were into SPSS 5. Analysis through PLS-SEM (Partial Least Squares Structural Equation Modeli.ng)	Findings from studies indicated that people are more likely to follow popular investment trends due to herding bias. Investment decisions are also directly impacted by herding bias since people are more inclined to base their choices on what the majority does. Overconfidence bias also raises interest in investments.
Shukla et	The	To	1. Used	The study found

al. (2024)	influence on specific behavioral biases on the stock trading options of investors in North India.	Investigate the behavioral biases affect the stock trading choices of investors in North India.	primary data collected from a sample of North Indian States (Uttar Pradesh, Delhi, Haryana, and Punjab) 2. Structured questionnaire to collect the data. 3. Used structural equation model was used.	that most of the identified cognitive biases, including the Herding Bias, the Representativeness Bias, and the Overconfidence Bias, have a large impact on the choices made.
Hossain and Siddiqua (2022)	Analyzing the influence of behavioural aspects on stock investment decision making.	Determining how behavioral variables influence the stock market has significant implications for making investments analysis.	1. Questionnaires were distributed 2. Use the chi-square test, one-way ANOVA, paired-sample t-test, and descriptive analysis for data analysis.	The results shows that the two most significant emotional factors affecting investors' decision are risk aversion and risk perception. The results show that investors rarely behave in accordance with the standards suggested by

financial theories and are in line with those of other studies.

Cao et al. (2021)	Behavioral intention on individual investors' decision making and investment performance.	Examined the impact of behavioral intention on the stock market performance and investment decision of individual investors in Vietnam.	1. The hypothesis is tested using structural equation modeling. 2. Structural equation modeling is used to test the result.	The main conclusions of this study indicated that market, herding, prospect, and heuristic all had a significant impact on investment performance and decision-making.
Silwal and Bajracharya (2021)	Behavioral factors influencing stock investment decision of individuals.	To determine which behavioral factors affect the choices made by individual investors.	1. The hypothesis is tested using structural equation modeling. 2. Structural equation modeling is used to test the result.	When it came to making investment decisions, prospects had the biggest influence. The impact of heuristics was the second highest, followed by herding, while the market had the least impact. Heuristic Herding and Market have less of an impact

				on investment performance than the Prospect component.
Adhikari (2020)	Factors determining investment decisions of individual investors in NEPSE .	Finding the variables influencing individual investors' choices to invest on the Nepal Stock Exchange.	1. 214 replies from individual investors were used for the study 2. The random sample approach. 3. A structured questionnaire given to the respondents in order to gather data for the study.	Investment performance is found to be negatively correlated with prospective behavioral factors. It has been discovered that there is a positive association between investing performance and herding, market characteristics, and heuristics (such as anchoring bias and overconfidence).
Keswani et al. (2019)	Behavioral Factors influencing in making investment decisions and performance	This study aimed to determine how the four factors heuristic, prospect,	1. A Likert scale is used to collect data from the questionnaire. 2. Using the Cronbach alpha value, which	The investigation verified that the characteristics of the typical equities investor as outlined by behavioral

market, and herding affect investors' decision making choices. was 0.728, the questionnaire's reliability was assessed. 3. Several regression analyses have been used. The

finance theory and earlier empirical data seem to be somewhat correlated. Government officials' statements, expected capital increases, technical analysis results, dividend paid, the reputation of the firm's shareholders, and sentiment for a firm's goods and services were all found to be the most important factors influencing individual investment decisions.

Rana (2019) Factors influencing individual investors' To analyzed the factors associated with The study used a sample response of 106 individual According to the results of the factor analysis, the six common

	share investment decisions-making Nepal.	individual investors' stock in investment decision.	investors obtained through a structured questionnaire survey.	factors that influence the share investment decision of the Nepali sample investors are: Earnings Factors, Market fundamentals, industry competition and size, government positioning and factors, goodwill and market share factors, and decision-making factors.
Chhapra et.al (2018)	An Empirical Investigation of Investor's Behavioral Biases on Financial Decision Making.	To evaluate how behavioral biases affect financial decision-making.	1. A survey Questionnaire were designed and used to collect responses using convenience sampling.	The results show that overconfidence, herding, overthinking, the hindsight, and cognitive are all significantly improve investing decision.

Mweu and Omwenga (2017)	Factors affecting investment choices in the Nairobi Securities Exchange	To determine the factors influencing investment Decisions at the Nairobi Securities Exchange.	<ol style="list-style-type: none"> 1. Random sampling procedures were employed to select 150 individuals from the target demographic. 2. SPSS used to analyze the result. 3. statistical tools used to analyze the data. 	<p>The study discovered that the NSE's investment decision-making was positively impacted by the financial statement conditions of listed firms. Other variables also considered the decision toward investmend decision making.</p>
Ahmed and Gupta (2016)	The impact of physiological factors on investment decision-making of investors: An empirical analysis.	Intended to identify the many psychological aspects that affect investors' choices in the Indian stock market.	<ol style="list-style-type: none"> 1. A survey Questionnaire were designed and used to collect 380 responses using convenience sampling. 2. Data analysed using discriminant analysis and chi-square test. 	<p>Herding prejudice was discovered to be equally likely to be displayed by both groups. Furthermore, compared to less experienced investors, investors with more experience were found to be more susceptible to loss aversion bias, regret aversion bias,</p>

and anchoring bias.

- Raut et al. (2016) Extending the theory of planned behaviour: impact of past behavioural biases on the investment decision of indian investors. Sought to find out if the Theory of Planned Behavior (TPB) might be used to analyze people's behavioral intention to make capital market investments. Through a survey, information was gathered from 396 people in Eastern India, and it was subsequently examined. The study indicated a significant relationship between behavioral objectives and perceived behavioral control, attitude toward conduct, and subjective norms. These results demonstrate that the model's predictive ability can be improved by embrace earlier PBB.
- Vijaya (2014) An Empirical Analysis Of Influential Factors On Investment Behaviour Of Retail Investors' In Indian Stock Market. To determining the elements affecting the actions of individual investors in the Indian stock market. 1. A survey Questionnaire was designed and used to collect responses using convenience sampling. The results indicate that in some situations, individuals investors should have a reasonable amount of overconfidence in their ability to

	Market.			apply their knowledge and abilities to enhance investing outcomes.
Wamae (2013)	The effect of behavioral variables on trading choices as a study of Kenyan investment companies.	To examine behavioral factors influencing investment decision In stock market.	The study produced both quantitative and qualitative data, with the latter being coded, imported into SPSS Version 17.0 (Statistical Packages for Social Scientists), and subjected to descriptive statistical analysis.	The study comes to the conclusion that among Kenyan investment banks, the herding effect influences their stock market investment decisions. As a result, investors typically make investments in the stock market with certain possibilities, while organizations provide investors with advises.

2.4 Research Gap

A research gap occurs when there is not enough information available to give a conclusive response to a certain question. The investor should be aware of the benefits and hazards. In Nepal, however, a lot of research has been done on the decisions made by individual investors. Additionally, the previous research on the venture choices of

financial backers only used a few section characteristics. The majority of research on investment decision-making, despite the growing interest in behavioral finance, focuses on industrialized markets, with less attention paid to emerging economies such as Nepal. The majority of the existing literature on the Nepalese stock market concentrates on fundamental and macroeconomic factors, leaving a significant information gap regarding the influence of psychological biases on individual investors, such as loss aversion, herd mentality, and overconfidence. Additionally, little is known about the ways in which media, financial literacy, and social elements influence the choices made by Nepalese investors. To fill these gaps, this study looks at the main behavioral factors affecting investment choices.

According to research, more knowledgeable investors typically make better business selections (Nofsinger & Sias, 1999), but persistent traders and haughty investors frequently experience poor speculating returns (Odean, 2001). However, other research has shown that investors often overreact to news and events, exposing emotional and cognitive biases, and that people make irrational judgments when they are more sensitive to losses than gains (Tversky & Kahneman, 1974). (De Bondt & Thaler, 1985). Furthermore, it has been observed that investors are routinely swayed by the beliefs and behaviors of others; this phenomenon is referred to as accessibility propensity (Brown & Reilly, 2009). This phenomenon happens when investors overemphasize easily accessible information, which can result in bad investment choices and reduced returns (Odean, 1998).

Given the precise assessment and setting analysis shown above for Nepal, conducting finance is still an unexplored area of inquiry. Very few studies have been conducted in Nepal that demonstrate the influence of social factors on the kinds of speculative decisions made by individual investors in the Nepal Stock Market. Therefore, this study covers the previously identified gap.

CHAPTER - III

Research Methodology

3.1 Research Design

In terms of research methodology, the quantitative research is adopted to carry out the current study, because the study has intended to examine the relationship between behavioral factors and investment decision using statistical tool. Under quantitative research methodology, a descriptive and causal comparative research design has been employed. Descriptive research supports to fulfill the aim of assessing the current status of behavioral aspects and investment strategy of the Nepalese investors while investing in stock market, whereas causal comparative research supports to fulfill the aim examining the relationship between the behavioral factors and investment decision. The study performed a survey method to carry out the study for collecting the data and to make analysis regarding behavioral factors and investment decision in context of Nepalese share market.

3.2 Population and Sample, and Sampling Design

Individuals who invest in the Nepalese stock market (NEPSE) will be included in the study's population. To represent all the Nepalese investors who have been engaging in Nepalese stock market, 426 respondents have been selected as sample. Because 426 of the 450 questionnaires that were sent to research participants were returned, which was thought to be sufficient. The method utilized to choose the sample respondents for this study is convenience sampling method.

3.3 Nature and Sources of Data, and Instrument of Data Collection

The data used in the current study is the primary data which have been accumulated using questionnaire. The data are concerned with the demographic characteristics of the respondents and variables under the study heuristics bias, prospects bias, market bias, herding bias and investment decision. The sources of the data are the respondents themselves. The respondents are individual Nepalese investors and the brokers.

The instrument of the data collection used in the study is a closed end and self-administered questionnaire. The questionnaire has two parts. The first part contains

questions related to demographic characteristics age, gender, education, monthly investment, investment purpose, and investment experience. Another part contains 5-point Likert scale questionnaire designed to represent the variables under the study heuristics bias, prospects bias, market bias, herding bias and investment decision. Every variables have five items to measure the perceptions of respondents towards the variables. In 5-point Likert scale questionnaire, the study ranks the level agree from 1 (strongly disagree), to 2 (disagree), to 3 (neutral), to 4 (agree) and to 5 (strongly agree). The items for the variables heuristics bias, prospects bias, market bias, herding bias and investment decision are adopted from the studies of Keswani et al. (2019), and Vijaya (2014).

3.4 Data Analysis Tools

The study includes demographic profile analysis, regression analysis, and correlation analysis under the data analysis approach. The analysis has made the use of reliability tests, ANOVA testing, regression tests, correlation tests, and descriptive statistics. The required statistics are computed using SPSS.

Descriptive Statistic

Using the mean and standard deviation the behavioral features of the variables influencing investment choices in the Nepalese stock market were identified.

Correlation analysis

To examine the relationship between the behavioural factors heuristics bias, prospects bias, market bias, herding bias and investment decision, the study performed correlation analysis using Karl Pearson's correlation coefficient.

Regression analysis

To examine into how behavioral bias determinants, such as heuristics bias, prospects bias, market bias, and herding bias affect investment decision in Nepalese share market.

Baseline model

The study's dependent variable is the decision to invest. The independent factors are heuristic bias, markets bias, prospects bias, and herding bias. Using this method to examine the impact of heuristics bias, prospects bias, market bias, herding bias on share

investment decision.

Model 1

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_{it}$$

$$ID = \beta_0 + \beta_1 HB_S + \beta_2 PB + \beta_3 MB + \beta_4 HB + e_{it}$$

Where,

ID = Investment Decision

HB_S = Heuristics Bias

PB = Prospect's Bias

MB = Market Bias

HB = Herding Bias

β_0 = Constant when all independent variables are zero

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

e_{it} = Error Term

3.5 Conceptual Framework

The research framework discussed in this part was developed after a survey of the theoretical and empirical literature.

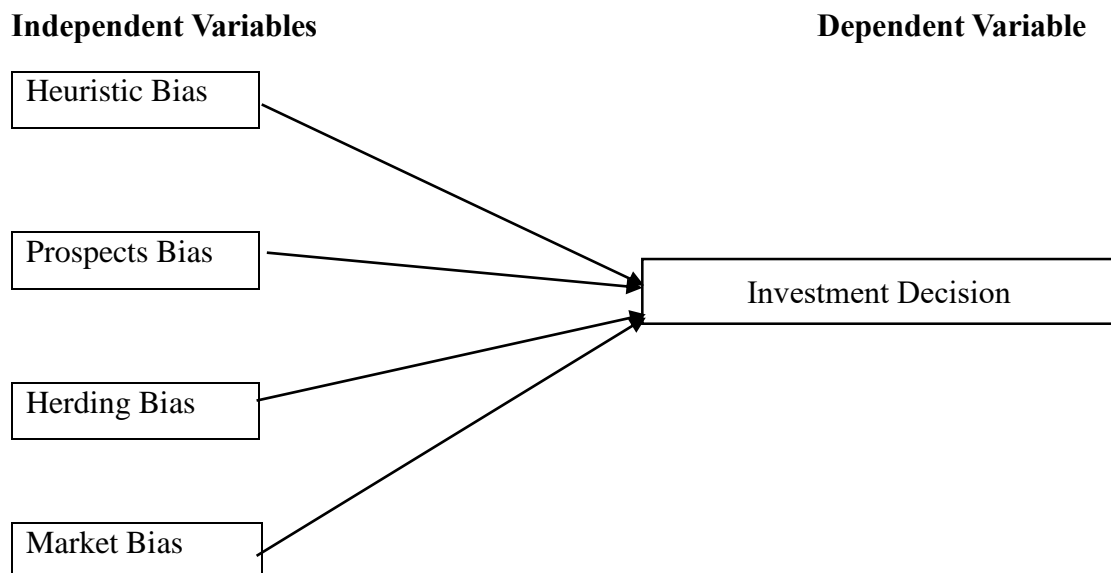


Figure 1: Conceptual framework

Sources: Keswani et al. (2019), and Vijaya (2014)

3.6 Definition of variables

Investment decision

Tversky (1979) investigated how the disposition effect here investors hold losing assets for an extended period of time and sell winners too soon is caused by loss aversion and frequently detracts from long-term gains (Frydman & Wang, 2024). This bias is even more noticeable in cryptocurrency markets, as traders exhibit high loss aversion during downturns, which can result in panic selling (Barberis et al., 2024). Financial losses cause increased activity in the amygdala, a part of the brain linked to fear, according to neuroeconomic research employing MRI. This could help to explain why investors act irrationally when the market is stressful (Tom et al., 2023). The framing effect, another key component of prospect theory, reveals how identical choices presented differently (e.g., in terms of potential losses versus gains) can lead to contradictory decisions, with significant implications for financial advising and public policy design (Levin et al., 2024). Behavioral economists have applied these insights to explain phenomena like the disposition effect in investing, where investors hold losing assets too long while selling winners prematurely (Frydman & Wang, 2024), and to develop more effective policy nudges that account for natural human biases (Thaler, 2025). However, some scholars argue that certain prospect theory effects may diminish in high-stakes, real-world contexts, suggesting boundary conditions to these cognitive biases (Eriksson et al., 2025).

Heuristic bias

Ritter (2003) asserted that heuristics are general guidelines that make it easier to assess probability and predict values, which in turn makes decision-making easier, especially in intricate and uncertain situations. Although these heuristics can occasionally result in biases, they are frequently quite helpful, particularly when time is of the essence.

Prospect bias

Kahneman and Tversky (1979) revolutionized our understanding of uncertain choices by pointing out significant cognitive biases that vary from conventional conceptions of rational choice. The theory shows how people overestimate small probabilities and underestimate moderate to large ones, exhibit loss aversion, where losses seem greater than equivalent gains, and evaluate possible outcomes in relation to a reference point rather than final wealth (Kahneman & Tversky, 1979; Barberis, 2013). These

behavioral tendencies have been validated by recent neuroeconomic research, which suggests that monetary losses cause the brain's danger response systems to become more active than profits of a comparable size (Tom et al., 2023).

Market bias

DeBondt and Thaler (1995), market bias is the idea that investor behavior can influence financial markets through behavioral finance. Investors are thought to overreact or underreact to news or price changes, extrapolate past trends into the future, ignore the fundamentals of a stock, and concentrate on popular stocks and seasonal price cycles, if behavioral finance concepts are accurate. Investors in the stock market are influenced by these market characteristics when making decisions.

Herding bias

The convergence of financial market behaviors due to mutual copying is referred to as "herding" (Hirshleifer & Teoh, 2003). Following the majority's investment choices is the most frequent error made by investors. The primary cause of this is peer pressure or influence. Many investors registered for the Reliance Power initial public offering (IPO) in 2008 without fully understanding the issue. Investors utilize herd behavior because they are worried about what other people would think of their choices (Scharfstein & Stein, 1990).

Chapter IV

Results and Discussion

4.1 Results of Respondents' Feedback

The input from respondents is analyzed in this section regarding the demographics of the respondents.

Table 2

Demographic Statistics

Demographic Variables	Categories	Frequency	Percentage
Age	Below 25	29	6.8
	26-35	281	66.0
	36-45	116	27.2
	Above 45	0	0
Gender	Male	203	47.7
	Female	223	52.3
	Others	0	0
Education	High School	0	0
	Bachelor	29	6.8
	Masters	339	79.6
	Phd or others	58	13.6
Investment Experience	Less than 1 year	0	0
	1 to 5 years	189	44.4
	More than 5	237	55.6
Investment Purpose	Short-term gain	249	58.5
	Long term wealth creation	73	17.1
	Retirement Planning	46	10.8
	Others	58	13.6
Monthly Investment	Less than Rs. 5000	29	6.8
	Rs. 5000 to Rs. 10000	72	16.9
	Rs. 10000 to Rs. 50000	180	42.3
	Above Rs. 50000	145	34

Source: Field survey, 2025

The demographic details of the respondents are presented in Table 2, providing an overview of their gender, age, educational background, investment experience, and investment profile. Out of the total 426 respondents, 47.7% were male and 52.3% were female, indicating that the sample was almost evenly distributed between genders. This near balance reflects a fairly equal level of participation of both men and women in the stock market, with a slightly higher proportion of female respondents. Notably, none of the participants identified themselves in the “others” gender category, suggesting that stock market participation in the surveyed group was limited to the binary gender classification.

In terms of age distribution, the majority of respondents fell within the economically active and professionally engaged age groups. Specifically, 6.8% were under the age of 25, a significant majority of 66% were between the ages of 26 and 35, and 27.2% were aged between 36 and 45. Interestingly, no respondents were found to be above the age of 45, which may indicate that older individuals are either less engaged in stock market activities or less represented in this sample. The concentration of participants in the 26–35 age range suggests that younger professionals and mid-career individuals form the backbone of stock market participation in the context of this study. The educational profile of respondents revealed a highly educated investor base. While 6.8% had attained a bachelor’s degree, a substantial 79.6% were master’s degree holders, and 13.6% possessed PhD degrees or equivalent higher qualifications. The absence of respondents with only basic higher secondary education implies that stock market participation in this group is strongly associated with advanced educational attainment, possibly reflecting the influence of financial literacy and analytical skills in investment decision-making.

Investment experience among respondents also varied, but the majority had substantial exposure to the market. About 44.4% reported having between one to five years of investment experience, while 55.6% had more than five years of experience, suggesting that most participants had developed significant familiarity with market dynamics over time. Interestingly, none of the respondents had been investing for less than a year, indicating that the surveyed group consisted entirely of individuals with established market involvement rather than complete beginners. When examining their investment profiles, it was found that 58.5% of respondents participated in the stock market with

the intention of earning short-term gains, making this the most common investment objective. Meanwhile, 17.1% focused on long-term wealth creation, 10.8% invested for retirement planning, and the remaining 13.6% invested for other purposes, which may include diversification or meeting specific financial goals. Regarding the monthly volume of investment, 6.8% invested less than Rs. 5,000, 16.9% invested between Rs. 5,000 and Rs. 10,000, 42.3% invested between Rs. 10,000 and Rs. 50,000, and 34% invested more than Rs. 50,000. This distribution reflects a diverse range of investment capacities among respondents, with a significant portion committing substantial amounts to the market on a monthly basis, which may point towards a financially capable and active investor population.

The demographic analysis presents that stock market participation in the surveyed group is characterized by a balanced gender distribution, a concentration of young and mid-career professionals, high levels of educational attainment, and considerable investment experience. The predominance of short-term investment objectives alongside a wide range of monthly investment volumes suggests an active, financially literate, and relatively affluent investor base, whose market engagement is likely driven by both opportunity-seeking and informed decision-making.

4.2 Reliability Test Results

The data which are not reliable, cannot be eligible for making analysis because analysis of unreliable data shows the misleading guidance and will be meaningless. Therefore, the study has checked the reliability of the data using Cronbach alpha before making analysis of the variables under the study.

Table 3

Cronbach Alpha

Variables	Cronbach Alpha
Heuristics bias	0.817
Prospects bias	0.878
Market bias	0.882
Herding bias	0.850
Investment decision	0.926

Source: Field survey, 2025

Table 3 presents the coefficients of Cronbach's alpha for the study variables, which include the four behavioural bias dimensions—heuristics bias, prospect bias, market bias, and herding bias—along with the independent variable, investment decision-making. Cronbach's alpha is a widely accepted statistical measure used to assess the internal consistency or reliability of a scale, indicating how closely related a set of items are as a group. Gujarati (2004), a Cronbach's alpha value of 0.70 or higher is generally considered sufficient to demonstrate acceptable reliability for research purposes. The results show that all variables in this study exhibit high levels of internal consistency. Specifically, the Cronbach's alpha values were found to be 0.817 for heuristics bias, 0.878 for prospect bias, 0.882 for market bias, 0.850 for herding bias, and an exceptionally high 0.926 for investment decision-making. Since all these values exceed the recommended threshold of 0.70, it can be concluded that the measurement instruments used in this study are statistically reliable.

These findings imply that the responses provided by participants to the items measuring each construct are internally consistent, meaning that the statements under each variable measure the same underlying concept effectively. Consequently, the reliability analysis confirms that the data collected from respondents is dependable for subsequent statistical analyses and hypothesis testing, strengthening the overall validity of the study's conclusions.

4.3 Results of descriptive statistics of study variables

This section includes the results and analysis of the behavioural bias variables heuristics bias, prospects bias, market bias, and herding bias and independent variable investment decision making. The results of descriptive statistics are presented in terms of mean and standard deviation regarding the responses provided by the participants of the study towards the statements of heuristics bias, prospects bias, market bias, and herding bias and independent variable investment decision making.

Heuristics bias

Heuristics bias concerns with the mindset of investors relying on past stock performance to predict the future, quick investment decision with short information, and lack of deep fundamental analysis.

Table 4

Heuristics bias

Code	Statements	Mean	SD
HBs1	I rely on past stock performance to predict future returns.	4.06	.58
HBs2	I make quick investment decisions based on limited information.	4.07	.44
HBs3	I follow a few key indicators (e.g., news, rumors) rather than deep analysis.	4.08	.83
HBs4	I believe stocks that have recently risen will continue to rise.	3.42	.80
HBs5	I avoid complex financial analysis and rely on simple rules.	3.73	1.01

Source: Field survey, 2025

The descriptive statistics for heuristic bias are presented in Table 4. In this study, heuristic bias was measured using five statements designed to capture the extent to which investors rely on mental shortcuts and simplified decision-making processes when engaging in the stock market. The analysis reveals that the highest mean score (4.08) corresponds to the statement, “I follow a few key indicators (e.g., news, rumors) rather than deep analysis”, suggesting that many respondents tend to depend on limited yet familiar sources of information instead of conducting comprehensive financial evaluations. In contrast, the lowest mean score (3.42) was recorded for the statement, “I believe stocks that have recently risen will continue to rise”, indicating comparatively lower agreement with this momentum-based belief among respondents.

Across all five statements, the mean scores were above 3, signifying a general tendency toward agreement with heuristic-driven behavior in investment decision-making. This suggests that, on average, respondents acknowledge employing mental shortcuts to some degree when evaluating investment opportunities. Regarding variability in responses, the statement “I avoid complex financial analysis and rely on simple rules” demonstrated the highest standard deviation (SD = 1.01), reflecting considerable differences in opinion among respondents. This was followed by the statement “I follow a few key indicators (e.g., news, rumors) rather than deep analysis” with a standard deviation of 0.83, indicating relatively moderate variation in responses.

These results collectively imply that while heuristic tendencies are present among investors, the extent to which they are applied varies depending on the specific decision-making context. The high mean values for reliance on simple information sources underscore the potential influence of easily accessible cues, such as market news or rumors, on investment behavior.

Prospects bias

Prospect bias is concerned with the mentality of the investors holding losing stocks, hoping they will recover, selling winning stocks too early to secure profits, feel more regret over losses than satisfaction over gains, and avoid risky stocks.

Table 5

Prospects bias

Code	Statements	Mean	SD
PB1	I often hold onto losing stocks, hoping they will recover.	3.97	.62
PB2	I sell winning stocks too early to secure profits.	4.18	.74
PB3	I feel more regret over losses than satisfaction over gains.	4.04	.76
PB4	I avoid risky stocks even if they have high potential returns.	4.21	.71
PB5	I prefer investments with guaranteed small returns over uncertain high returns.	4.08	.90

Source: Field survey, 2025

Table 5 presents the descriptive statistics for prospect bias, which in this study was measured using five statements designed to capture investors' tendencies toward loss aversion, risk avoidance, and preference for certainty over uncertainty. The results indicate that the highest mean score (4.21) was recorded for the statement "I avoid risky stocks even if they have high potential returns", suggesting that a large proportion of respondents demonstrate a strong aversion to high-risk investments, even when such investments may offer substantial profit opportunities. Conversely, the lowest mean score (3.97) was associated with the statement "I often hold onto losing stocks, hoping they will recover", indicating a comparatively lower—yet still notable—level of agreement with this behavioral tendency, which is commonly linked to the disposition effect in behavioral finance.

All five statements yielded mean values above 3, reflecting an overall degree of agreement among respondents with the characteristics of prospect bias. This suggests that, on average, investors in the sample exhibit behaviors consistent with the principles of prospect theory, such as avoiding losses more strongly than seeking equivalent gains. In terms of variability, the statement “I prefer investments with guaranteed small returns over uncertain high returns” displayed the highest standard deviation (SD = 0.90), indicating that respondents’ views on this cautious investment approach were more diverse. In contrast, the statement “*I often hold onto losing stocks, hoping they will recover*” had the lowest standard deviation (SD = 0.62), suggesting that respondents were relatively more consistent in their opinions on this behavior.

These findings presents that risk aversion is a dominant trait among the respondents, while tendencies like holding onto losing investments—though present—are less uniformly expressed. This aligns with prospect theory’s assertion that individuals tend to weigh potential losses more heavily than equivalent gains, shaping their investment preferences and decision-making strategies.

Market bias

Market bias is concerned with the investors’ perceptions about their confidence towards market behavior, and beat the market.

Table 6

Market bias

Code	Statements	Mean	SD
MB1	I am confident in my ability to time the market correctly.	4.15	.81
MB2	I rely heavily on the first piece of information I receive (e.g., IPO price).	4.07	.86
MB3	I believe I can outperform the market consistently.	4.14	.81
MB4	I ignore new information that contradicts my initial beliefs.	3.41	.88
MB5	I trust my intuition more than expert analysis.	4.14	.96

Source: Field survey, 2025

Table 6 presents the descriptive statistics for the market bias variable, which was measured using five items aimed at assessing investors' confidence, responsiveness to information, and reliance on intuition in the context of market movements. The mean values for these items range from 3.41 to 4.15, indicating varying degrees of agreement among respondents. The highest mean score (4.15) corresponds to the statement "I am confident in my ability to time the market correctly", suggesting that many respondents possess a strong belief in their capability to predict market movements and adjust their investment strategies accordingly. This finding reflects a high level of self-assurance, which may be associated with overconfidence bias in investment decision-making. On the other hand, the lowest mean score (3.41) was recorded for the statement "I ignore new information that contradicts my initial beliefs". This comparatively lower level of agreement implies that, although some investors may exhibit confirmation bias, the majority appear willing to reconsider their positions when confronted with new or conflicting information.

The statement "I trust my intuition more than expert analysis" demonstrated the highest standard deviation ($SD = 0.96$), indicating substantial diversity in respondents' reliance on gut feelings over professional evaluations. This suggests that while some investors heavily depend on intuition, others place greater value on systematic, expert-driven analysis.

These results indicate that investors in the sample generally show strong confidence in their market-timing abilities, while also displaying mixed tendencies in terms of information processing and reliance on intuition. Such patterns have important implications for understanding the behavioral underpinnings of investment decisions, as high self-confidence in market timing can lead to both profitable opportunities and increased exposure to risk, depending on the accuracy of the investor's judgment.

Herding bias

Herding bias refers to the behavior of investors following to others to make investment strategy, and believe in others' recommendation.

Table 7

Herding bias

Code	Statements	Mean	SD
HB1	I invest in stocks because others are buying them.	2.39	.85
HB2	I follow stock recommendations from friends or social media.	2.52	.77
HB3	I panic and sell when I see others selling.	2.63	.76
HB4	I feel safer investing in popular stocks rather than undervalued ones.	2.73	1.09
HB5	I believe "the crowd" knows better than individual analysis.	3.45	.93

Source: Field survey, 2025

Table 7 presents the descriptive statistics for herding bias, which was measured using five distinct items. The mean values of these statements range from 2.39 to 3.45, indicating varying degrees of agreement among respondents regarding the influence of others on their investment decisions. The highest mean value, 3.45, corresponds to the statement, “I believe ‘the crowd’ knows better than individual analysis”. This suggests that a notable proportion of participants tend to trust the collective judgment of a group of investors—particularly those who are actively engaged in the share market—over their own independent analysis. Such a perception reflects a moderate inclination towards herd mentality, where investors may feel that following the majority provides a safer or more informed approach. In contrast, the remaining four statements all have mean scores below 3.00, signifying that, overall, respondents were less inclined to agree with views that endorse following others in developing investment strategies or relying heavily on others’ recommendations. This implies that while some investors acknowledge the potential value of collective wisdom, most remain cautious about uncritically adopting the investment actions of others.

Furthermore, the greatest variation in responses was observed for the statement, “I feel safer investing in popular stocks rather than undervalued ones”, which recorded a standard deviation of 1.09. This relatively high dispersion suggests that opinions on this matter were divided—some participants showed a clear preference for popular, widely

traded stocks, while others were more willing to consider undervalued opportunities despite their lower popularity. Overall, the findings highlight a nuanced picture of herding behavior among investors, where trust in the crowd exists but is not uniformly accepted across all aspects of investment decision-making.

Investment decision making

Investment decision making relates to the cognitive process of decision making for investment strategy. During the cognitive process, the investors considers various facts in which the majority are analysis and research, market sentiment, investment objective, and experience.

Table 8

Investment decision making

Code	Statements	Mean	SD
ID1	I make investment decisions after thorough analysis and research.	4.42	.80
ID2	I use a fixed strategy or plan when making investments.	4.51	.81
ID3	I am confident in my investment decisions, regardless of market sentiment.	4.51	.81
ID4	I revise my portfolio based on performance and long-term goals.	4.31	.79
ID5	My past investment experiences influence my current investment choices.	4.61	1.02

Source: Field survey, 2025

Table 8 presents the descriptive statistics related to investment decision-making, measured through five distinct items. The mean values for these statements range from 4.31 to 4.61, indicating a generally strong agreement among respondents regarding their approach to making investment decisions. The highest mean score of 4.61 was recorded for the statement, “My past investment experiences influence my current investment choices”, highlighting that many investors consider their previous experiences as a significant factor when making current investment decisions. This suggests that

experiential learning plays an important role in shaping investor behavior in the stock market.

Conversely, the statement “I revise my portfolio based on performance and long-term goals” received the lowest mean value of 4.31, though it still reflects a high level of agreement. This indicates that most respondents actively engage in portfolio management by adjusting their holdings to align with both performance outcomes and their broader investment objectives.

Notably, all the items related to investment decision-making scored mean values above 4.00, demonstrating that respondents generally exhibit careful consideration in their investment choices. This includes conducting thorough analysis and research, following a planned investment procedure, maintaining confidence in their decisions, and periodically revising their portfolio to meet their long-term goals. Such responses imply a disciplined and strategic approach among the investors surveyed.

However, there is relatively greater variability in opinions regarding the influence of past experiences on current choices, as evidenced by the highest standard deviation of 1.02 for that statement. This indicates that while many investors heavily weigh their previous investment outcomes, a portion of respondents may rely less on past experiences, potentially preferring other factors such as market conditions or expert advice in their decision-making process.

These results reveal that investment decision-making among the respondents is marked by a strong emphasis on experience, strategic planning, and active portfolio management, reflecting mature investment behavior in the context of the stock market.

Results of overall descriptive statistics

Table 9 presents the summary of descriptive statistics in terms of overall mean and standard deviation related to research variables heuristic bias, prospect bias, market bias, herding bias and investment decision making.

Table 9

Overall mean and standard deviation

Variables	Mean	Standard deviation
Heuristics bias	3.87	.58
Prospects bias	4.09	.61
Market bias	3.98	.72
Herding bias	2.74	.70
Investment decision making	4.47	.78

Source: Field survey, 2025

Based on the summary results of the descriptive statistics, examining the overall mean and standard deviation values of the key variables, the respondents demonstrated a strong agreement with the statements related to heuristic bias, prospect bias, market bias, and investment decision-making. This conclusion is drawn from the fact that the overall mean values for these variables exceed 3.00, indicating a positive inclination toward acknowledging these biases and active engagement in investment decisions. In contrast, the statements pertaining to herding bias received a comparatively lower level of agreement, with an overall mean falling between 2.00 and 3.00. This suggests that respondents generally disagreed or showed less inclination toward following the crowd or relying heavily on others' investment behaviors.

Furthermore, when comparing the variables, the highest levels of agreement were observed in relation to prospect bias and investment decision-making, both of which recorded mean values above 4.00. This highlights that respondents not only recognize the impact of prospect theory-related biases on their investment behavior but also actively incorporate thoughtful decision-making processes in their investment practices. The strong agreement with these variables suggests a heightened awareness among investors about how cognitive biases affect their choices, as well as a commitment to making well-informed investment decisions.

In terms of variability, the respondents' perceptions regarding investment decision-making exhibited the greatest dispersion among all the variables, with the highest standard deviation (SD) of 0.78. This suggests that while many respondents share similar views on investment decision-making, there is also a wider range of opinions and experiences within the group. Following investment decision-making, the perceptions related to market bias showed the next highest variability, with an SD of 0.72, indicating a moderate spread in how respondents perceive market-related biases. On the other hand, heuristic bias demonstrated the least variation among respondents, with the lowest standard deviation of 0.58. This relatively low dispersion implies a stronger consensus or more uniform perception regarding heuristic biases within the sample.

The results underscore that while investors tend to recognize and experience various cognitive biases, such as heuristic and prospect biases, they are less prone to herd behavior, and they emphasize deliberate and strategic investment decision-making. Despite some differences in opinion—particularly around investment decision-making and market bias—the respondents generally hold positive perceptions towards the heuristic bias, prospect bias, market bias, and investment decision variables. The relatively consistent views on heuristic bias, combined with positive attitudes across all variables, suggest a general awareness and acknowledgment of these cognitive and market factors influencing investment behavior.

4.4 Results of Correlation Coefficients

To present the strength and direction of association between the variables, a correlation analysis between the dependent variable—investor decision making—and the behavioural bias—heuristic bias, prospect bias, market bias, and herding bias—has been performed.

Table 10
Correlation Coefficients

Variables	HBs	PB	MB	HB	ID
HBs	1				
PB	.705**	1			
	.000				
MB	.462**	.642**	1		
	.000	.000			
HB	.476**	.542**	.021	1	
	.000	.000	.669		
ID	.764**	.721**	.761**	.284**	1
	.000	.000	.000	.000	

Note. The correlation coefficients between the variables under the study are presented in table 10. The cell's first row presents the correlation coefficients, while the second row presents the p-values. The abbreviations HBs, PB, MB, HB, and ID stand for heuristic bias, prospect bias, market bias, herding bias, and investment decision.

The results indicate that heuristic bias has a strong and statistically significant positive relationship with investment decision-making in the share market, as evidenced by a correlation coefficient of $r = 0.764$ ($p < 0.01$). This suggests that investors who exhibit heuristic tendencies—relying on mental shortcuts or simplified decision rules—tend to have a notable relationship with their investment choices. Similarly, prospect bias also shows a positive and highly significant association with investment decision-making, with a correlation coefficient of $r = 0.721$ ($p < 0.01$). This implies that the way investors perceive gains and losses under prospect theory significantly associated with their investment decisions.

In addition, market bias is found to be strongly and significantly correlated with investment decision-making ($r = 0.761$, $p < 0.01$), indicating that perceptions related to

market trends and sentiments play a crucial role in shaping investors' behavior. On the other hand, herding bias exhibits a weaker, yet still positive and statistically significant, relationship with investment decision-making ($r = 0.284$, $p < 0.01$). This lower correlation suggests that while following the crowd has positive relation to investment decisions to some extent, it is less impactful compared to heuristic, prospect, and market biases.

Overall, these findings highlight that cognitive biases such as heuristics, prospect, and market biases have a substantial relationship on how investors make decisions in the share market, whereas herding bias, although significant, has a comparatively smaller association.

4.5 Regression results

Regression analysis has been performed to explore the degree of effect of behavioural bias on investment decision making in Nepalese stock market.

Table 11

Regression results

Model	Unstandardized		Standardized			Collinearity	
	Coefficients		Coefficients			TV	VIF
	B	Error	Beta	t	Sig.		
(Constant)	.582	.130		4.480	.000		
HBs	.671	.043	.494	15.644	.000	.484	2.07
PB	.045	.055	.035	.824	.411	.262	3.82
MB	.557	.037	.510	15.188	.000	.430	2.33
HB	.020	.035	.018	.585	.559	.504	1.98

R=.892, R²=.796, Adj. R²=.794, SEE =.357, F=411.429, F-sig. =0.000

Dependent variable: Investment decision making

Table 11 presents the results of the regression analysis examining the effects of different behavioural biases on investment decision-making. According to the result of constant value, level of investment decision making will be 0.582, when the coefficients of HBs,

PB, MB and HB are nil. The findings reveal that heuristic bias has a strong positive effect on investment decision-making, with a standardized coefficient (β) of 0.671. The associated t-value of 15.644 and a p-value of 0.000 indicate that this relationship is highly statistically significant at the 1% level. This suggests that investors who rely on heuristic approaches tend to have a greater influence on their decision-making processes in the share market.

Similarly, market bias also exhibits a positive and highly significant impact on investment decision-making, with a β coefficient of 0.557, a t-value of 15.188, and a p-value of 0.000. This highlights that perceptions related to market trends and sentiments lay a crucial role in shaping investment decisions.

In contrast, while both prospect bias and herding bias show positive coefficients ($\beta = 0.045$ and $\beta = 0.020$, respectively), their effects on investment decision-making are statistically insignificant. The t-values for prospect bias (0.824) and herding bias (0.018) and the p-values (0.411 and 0.585, respectively) exceed conventional significance thresholds, indicating that these biases do not have a meaningful impact on investment decisions within the sample studied.

Out of the four behavioural biases, market bias and heuristics bias are found to have greatest effect on investment decision making as revealed by the results of standardized beta of 0.510 for market bias and 0.494 for heuristics bias, whereas herding bias is standing to have least impact on investment decision making with standardized beta of 0.018.

Further the results of collinearity statistics present that the independent variables regarding behavioural biases heuristic bias, prospect bias, market bias, and herding bias are really and truly independent variables. In other words, heuristic bias, prospect bias, market bias, and herding bias do not pose themselves as the unitary variable because the tolerance value (TV) are resulted above 0.10 and variance inflation factors are below 10.

Therefore, estimated regression model can be written as

$$ID = \beta_0 + \beta_1 HB_s + \beta_2 PB + \beta_3 MB + \beta_4 HB + e$$

$$ID = .582 + .671(HB_s) + .045(PB) + .557 (MB) + 0.020 (HB) + e$$

The outcome shows R square of 0.796. This shows that the selected variables heuristic bias, prospect bias, market bias, and herding bias account for 79.6% of the variability in the dependent variable investment decision making, whereas the remaining 20.4% are not fully explained. In other words, 20.40% of the variance can be accounted for by unaccounted-for components. The estimation of the regression model may fluctuate by 0.357 units, as the standard error of estimates is 0.357.

Similarly, F-ratio has been calculated dividing mean sum of square of regression by mean sum of square of regression, which results 411.429 and its p-value is found to be 0.000. The p-value is less than 0.01 i.e. 0.000, indicating that the regression model is statistically well-fitting at the 1% significance level.

Therefore, the regression results indicate that among the four behavioural biases examined, heuristic bias and market bias emerge as the most influential factors driving investment decision-making in the share market, both showing strong and highly significant effects. In contrast, prospect bias and herding bias, despite having positive coefficients, do not significantly influence investment decisions in the studied sample, suggesting that investors in this context are more guided by cognitive shortcuts and market perceptions than by risk framing or collective market behaviour.

4.6 Results of hypothesis test

The results of hypothesis are presented in this section and also performed analysis as well regarding the influence of behavioural biases on investment decision making in stock market of Nepal.

Table 12

Hypothesis test results

Hypothesis	Relationship	Beta	P-value	Remarks
H ₁	HB _s > ID	.671	.000	Accepted
H ₂	PB > ID	.045	.411	Rejected
H ₃	MB > ID	.557	.000	Accepted

H ₄	HB >ID	.020	.559	Rejected
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Table 12 presents the hypothesis of relationship between behavioural biases and investment decision making in stock market of Nepal, beta value, p-value and remarks of accept and reject for the developed hypothesis.

H₁: Investment decisions are significantly influenced by heuristics bias.

The result of multiple regression presents that heuristics bias have positive and significant effect on investment decision with beta coefficient of 0.671 and p-value <0.01. Therefore, the hypothesis one is accepted.

H₂: Investment decisions are significantly influenced by prospects bias.

The result of multiple regression presents that prospects bias have positive but insignificant effect on investment decision with beta coefficient of 0.045 and p-value >0.01. Therefore, the hypothesis two is rejected.

H₃: Investment decisions are significantly influenced by market bias.

The result of multiple regression presents that market bias have positive and significant effect on investment decision with beta coefficient of 0.557 and p-value <0.01. Therefore, the hypothesis three is accepted.

H₄: Investment decisions are significantly influenced by herding bias

The result of multiple regression presents that herding bias have positive but insignificant effect on investment decision with beta coefficient of 0.020 and p-value >0.01. Therefore, the hypothesis four is rejected.

The hypothesis testing results reveal that among the four behavioural biases examined, only heuristics bias (H₁) and market bias (H₃) have a significant positive influence on investment decisions, leading to their acceptance. In contrast, prospects bias (H₂) and herding bias (H₄) show positive but statistically insignificant effects, resulting in their rejection. This indicates that investors' decision-making in the share market is more strongly driven by cognitive shortcuts and market perceptions than by risk-related framing or collective crowd behaviour.

4.7 Discussion

The purpose of the current study was to investigate how investor behavioral bias affects stock market decision-making in Nepal. There are various types of measures to represent the behavioural bias. The study has taken heuristics bias, prospect bias, market bias and herding bias to represent the behavioural bias and these variables are adopted from the studies of Keswani et al. (2019). To fulfill the aim, the study followed the quantitative research and performed the inferential analysis using ordinary least square method of regression analysis. The study found that investment decision making has been positively and significantly influenced by heuristics bias and market bias, whereas prospect bias and herding bias have also positive influence but insignificant.

The results of the present study are partially consistent with the findings of several previous studies, including those by Pertiwi et al. (2025), Shukla et al. (2024), Silwal and Bajracharya (2021), Cao et al. (2021), Keswani et al. (2019), Mweu and Omwenga (2017), Adhikari (2020), and Wamae (2013). Pertiwi et al. (2025) demonstrated that herding bias plays a crucial role in shaping investor behavior, as individuals tend to follow prevailing market trends rather than relying solely on independent analysis. According to their findings, the tendency to imitate the actions of the majority significantly influences investment decisions, often resulting in synchronized market movements. Similarly, Shukla et al. (2024) reported that overconfidence bias, representativeness bias, and herding bias exert a statistically significant impact on investors' stock trading and investment decisions, suggesting that cognitive and social biases jointly shape market participation. In the context of the Nepalese stock market, Silwal and Bajracharya (2021) found that prospect bias had the most substantial influence on investment decision-making, followed by heuristic bias and herding bias, with market-related factors exerting the least impact. They further concluded that heuristic, herding, and market components have less influence on overall investment performance compared to prospect-related behavioral elements. In a broader context, the study by Cao et al. (2021) highlighted that market conditions, herding behavior, prospect bias, and heuristic factors each have a significant effect on both investment performance and decision-making processes, emphasizing that investor psychology interacts with market dynamics in complex ways. Keswani et al. (2019) contributed by

characterizing the typical equity investor as described by behavioral finance theory, reinforcing the notion that psychological factors are deeply embedded in investment practices. Complementing this perspective, Mweu and Omwenga (2017) found that both the financial condition of firms and various behavioral biases positively influence investment decision-making at the Nairobi Securities Exchange (NSE). Adhikari (2020) also identified a positive relationship between investment performance and herding, market characteristics, and heuristic biases; however, their results indicated that investment decisions were negatively associated with prospect-related behavioral factors, suggesting potential risk aversion or loss aversion effects. Furthermore, Wamae (2013) observed that among Kenyan investment banks, herding bias significantly shapes stock market investment decisions. This implies that investors, whether individuals or institutions, often align their investment choices with prevailing market sentiments or recommendations from financial organizations. As a result, stock market investments are frequently made based on perceived opportunities and collective trends, with advisory support from organizations further reinforcing these behavioral tendencies.

Similarly, the results of the present study are fully consistent with the findings of Suresh (2024) and Chhapra et al. (2018). Suresh (2024), herd mentality, cognitive illusions, and the framing effect were negatively correlated with the development of specific behavioral biases, suggesting that these elements may lessen the prevalence of irrational decision patterns. However, the study also highlighted that investors frequently rely on heuristic biases—mental shortcuts and rules of thumb—more than other irrational techniques when making investment decisions, as these heuristics often provide a sense of simplicity and speed in complex market environments. Complementing these findings, Chhapra et al. (2018) concluded that overconfidence, herding, overthinking, the hindsight effect, and cognitive biases all significantly enhance investment decision-making, demonstrating the multifaceted influence of psychological tendencies on financial behavior.

Furthermore, the positive effect of herding bias observed in the present study lends empirical support to the Herd Behavior Theory. This theory posits that in financial markets, herd behavior can significantly influence the formation of asset prices and market movements in both the short and long term. Investors—especially those who

have committed substantial sums—often imitate the actions of others, perceiving such mimicry as a means of reducing risk, even if the underlying rationale is not grounded in objective analysis. In parallel, the positive relationship between prospect bias and investment decision-making in this study aligns with the Prospect Theory proposed by Kahneman and Tversky. According to this idea, people assess possible gains and losses in relation to a reference point rather than absolute outcomes when making decisions in risky and uncertain situations. Specifically, people tend to avoid risk when dealing with potential gains but become risk-seeking when facing potential losses. This framing of possible outcomes—whether as gains or losses—directly shapes investors’ risk-taking attitudes and, consequently, their behavior in the stock market.

Chapter V

Summary and Conclusion

5.1 Summary

In Nepal, the share market play vital to the expansion of business and industry, which impacts the country's economy as a whole. Decision making is a complex process involving personal resources and technological factors, as well as stocks. Investors in shares also go through a decision-making process, with multiple participants including initiators, influencers, buyers, and users. Investments are defined as current financial commitments made for a specified period of time with the goal of receiving future payments that reimburse the investor for the amount of time the funds are committed, the anticipated rate of inflation during that time period, and the uncertainty surrounding future payments. Studying the behavioral elements that affect investors' decisions on the Nepal Stock Exchange is necessary to comprehend their decision-making process. Investment choices are usually upheld by dynamic instruments, and behavioral factors such as heuristics, prospects, market, and herding play a significant role in investment decisions. Factors such as firm-related, large-scale climate, and financial backer brain research factors can impact retail value financial backers' decisions. Institutional investors have informational advantages over other investor categories, improving trade outcomes and performances, while retail traders generally have poor trading performance. Behavioral finance theory has emerged in recent decades, integrating financial principles with sociological and psychological theories. Financing is based on how financial decisions of individuals and companies are affected by psychology in financial environments.

Investment decisions in the Nepalese share market are influenced by financial and economic factors, as well as behavioral biases. Factors like overconfidence, herd behavior, risk aversion, and market sentiment significantly impact investment choices, leading to potential inefficiencies. Despite growing interest in behavioral finance, there is limited research on how these psychological and social factors shape investment decisions in Nepal. Understanding these influences is crucial for investors,

policymakers, and financial institutions to develop strategies that promote informed and rational investment behavior, ultimately contributing to a more stable and efficient share market. The prevalence of explicit predispositions among Nepalese financial backers is influenced by segment and financial considerations. The study aims to frame the establishment for creating centered financial backer instruction drives and strategy interventions. The findings will frame the establishment for creating monetary proficiency and empowering more consistent decision-making among Nepalese financial backers.

The study aimed to investigate how behavioral factors influence investment decisions in the Nepalese share market. This study employed a descriptive and causal comparative research design. All the Nepalese investors who have been investing in Nepalese share market are the target population. The sample data came from investors in the stock market. There were 450 questionnaires issued to research participants; only 418 of them were returned, which was deemed enough to test the hypothesis. Convenience sampling is the approach used to choose sample organizations for this study. This study used the primary data, which were studies provided to specific NPESE funders. The data is collected using a structured questionnaire with a five-point Likert scale. Using a descriptive methodology, this study looked at the causal relationship between the variables, so the data can be used to make generalizations. The survey was modified in a few areas after experts were consulted over the accuracy of the data collected via the poll for this assessment, which will assess the poll's face validity. Questionnaires were used to collect primary data, which the researcher personally examined. Four types of bias were covered in the questionnaire: market bias, heuristic bias, prospect bias, and herding bias. This method was appropriate since it pushed respondents to provide their responses as soon as possible. The initial stages of any research effort include data presentation and analysis. To ensure accurate results, a range of descriptive and inferential tool types was employed to analyze the data in this study. The aim of the study has been accomplished using a range of statistical and mathematical techniques. The output for the data analysis has been obtained using MS Excel and SPSS.

5.2 Conclusion

The investors tend to recognize and experience various cognitive biases, such as heuristic and prospect biases, they are less prone to herd behavior, and they emphasize deliberate and strategic investment decision-making. Despite some differences in opinion—particularly around investment decision-making and market bias—the respondents generally hold positive perceptions towards the heuristic bias, prospect bias, market bias, and investment decision variables. The relatively consistent views on heuristic bias, combined with positive attitudes across all variables, suggest a general awareness and acknowledgment of these cognitive and market factors influencing investment behavior.

Cognitive biases such as heuristics, prospect, and market biases have substantial relationship on how investors make decisions in the share market, whereas herding bias, although significant, has a comparatively smaller association.

The regression results indicate that among the four behavioural biases examined, heuristic bias and market bias emerge as the most influential factors driving investment decision-making in the share market, both showing strong and highly significant effects. In contrast, prospect bias and herding bias, despite having positive coefficients, do not significantly influence investment decisions in the studied sample, suggesting that investors in this context are more guided by cognitive shortcuts and market perceptions than by risk framing or collective market behaviour.

The selected variables heuristic bias, prospect bias, market bias, and herding bias account for 79.6% of the variability in the dependent variable investment decision making, whereas the remaining 20.4% are not fully explained.

Only heuristics bias and market bias have a significant positive influence on investment decisions, leading to their acceptance. In contrast, prospects bias and herding bias show positive but statistically insignificant effects, resulting in their rejection. This indicates that investors' decision-making in the share market is more strongly driven by cognitive shortcuts and market perceptions than by risk-related framing or collective crowd behaviour.

5.3 Implications

The results indicating a positive and significant effect of heuristics bias and market bias on investment decision-making, alongside a positive but insignificant effect of prospect bias and herding bias in the Nepalese stock market, carry important implications for multiple stakeholders.

For investors, the findings suggest that reliance on mental shortcuts (heuristics) and sensitivity to market trends strongly influence their trading behavior, potentially leading to quick decisions without adequate fundamental analysis. This emphasizes the need for greater financial literacy and awareness programs to help investors critically assess information.

For brokers, understanding that clients are significantly swayed by market movements and cognitive shortcuts can guide them in providing balanced advice and encouraging more rational investment strategies, rather than merely capitalizing on prevailing sentiments.

For NEPSE, these behavioral tendencies highlight the importance of ensuring timely, transparent, and accessible market information to minimize misinformation-driven trades. For SEBON, the regulatory body, the results underscore the need to strengthen investor education initiatives, implement stricter disclosure requirements, and monitor market manipulations that exploit behavioral biases.

Lastly, for future studies, these findings open avenues to explore the psychological and informational mechanisms behind investor behavior in Nepal, possibly examining moderating factors such as financial literacy, experience level, or technological trading platforms, and to assess interventions aimed at reducing bias-driven decisions in emerging markets.

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Annex: Questionnaire

Respected Respondences

In order to fulfill the requirements of the MBS degree, I am conducting this questionnaire survey for academic research. My study, "Behavioral Factors Influencing Investment Decision in Nepalese Share Market" has the title. I want to clarify that the only academic goal of this research is to ask for your honest and open opinion. I guarantee that all information you provide will be kept strictly secret and used exclusively for classroom purposes.

Thank you for your Cooperation

Ram Sundar Shrestha

MBS student

Shanker Dev Campus, Kathmandu

Section - A

1. Gender:

Male

Female

Other

2. Age Group:

Below 25

26-35

36-45

46-55

Above 55

3. Education Level:

High School

Bachelor's Degree

Master's Degree

PhD/Other

4. Investment Experience in the Share Market:

Less than 1 year

1- 5 years

More than 5 years

5. Primary Investment Purpose:

Short-term gains

Long-term wealth creation

Retirement planning

Others (Specify: _____)

6. Monthly Investment

<5000

5000–1,0000

1,0000–5,0000

>5,0000

Section - B

Here are a few statements about you that you may or may not agree with. Select the appropriate number on the response scale below to indicate whether you agree or disagree with each topic. Kindly provide the following answers:

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

1. Heuristics Bias

No.	Statement	1	2	3	4	5
HBs_1	I rely on past stock performance to predict future returns.	1	2	3	4	5
HBs_2	I make quick investment decisions based on limited information.	1	2	3	4	5
HBs_3	I follow a few key indicators (e.g., news, rumors) rather than deep analysis.	1	2	3	4	5
HBs_4	I believe stocks that have recently risen will continue to rise.	1	2	3	4	5
HBs_5	I avoid complex financial analysis and rely on simple rules.	1	2	3	4	5

2. Prospects Bias

No.	Statement	1	2	3	4	5
PB_1	I often hold onto losing stocks, hoping they will recover.	1	2	3	4	5
PB_2	I sell winning stocks too early to secure profits.	1	2	3	4	5
PB_3	I feel more regret over losses than satisfaction over gains.	1	2	3	4	5
PB_4	I avoid risky stocks even if they have high potential returns.	1	2	3	4	5
PB_5	I prefer investments with guaranteed small returns over uncertain high returns.	1	2	3	4	5

3. Market Bias

No.	Statement	1	2	3	4	5
MB_1	I am confident in my ability to time the market correctly.	1	2	3	4	5
MB_2	I rely heavily on the first piece of information I receive (e.g., IPO price).	1	2	3	4	5
MB_3	I believe I can outperform the market consistently.	1	2	3	4	5
MB_4	I ignore new information that contradicts my initial beliefs.	1	2	3	4	5
MB_5	I trust my intuition more than expert analysis.	1	2	3	4	5

4. Herding Bias

No.	Statement	1	2	3	4	5
HB_1	I invest in stocks because others are buying them.	1	2	3	4	5
HB_2	I follow stock recommendations from friends or social media.	1	2	3	4	5
HB_3	I panic and sell when I see others selling.	1	2	3	4	5
HB_4	I feel safer investing in popular stocks rather than undervalued ones.	1	2	3	4	5
HB_5	I believe "the crowd" knows better than individual analysis.	1	2	3	4	5

5. Investment Decision

No.	Statement	1	2	3	4	5
ID_1	I make investment decisions after thorough analysis and research.	1	2	3	4	5
ID_2	I use a fixed strategy or plan when making investments.	1	2	3	4	5
ID_3	I am confident in my investment decisions, regardless of market sentiment.	1	2	3	4	5

No.	Statement	1	2	3	4	5
ID_4	I revise my portfolio based on performance and long-term goals.	1	2	3	4	5
ID_5	My past investment experiences influence my current investment choices.	1	2	3	4	5

Thank you for your participation. Have a good day!

PAPER NAME

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AUTHOR

Ram Sundar Shrestha

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