

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

Stock market provides platform of human interaction and plays a vital role in development of economy. It pools fund from the individuals and institutions and channelize towards business and industries. The main role in the market is that of individual investor, whose behavior is studied for academic as well as professional reasons. Coming to the specific Nepalese context individual investors might acquire information from friends, family, colleagues, print media, and electronic media and then invest accordingly in the stock market. In addition to this on individual might also obtain information from bankers, brokers and financial planners. Individual investors are different from each other and might take different investment decision, and yet there always seem to be a pool of investors who have similar investment pattern (Bellman, 2016).

Behavioral finance is more focused on the study of errors of judgment and of decision making characteristics in financial investments. It is inferred that the field of behavioral economics is more wide ranging than the field of behavioral finance, as the latter is a byproduct of behavioral economics. The investment decisions were the function of several factors such as market characteristics and individual risk profiles, in addition to accounting information. The classical wealth maximization criteria were important to investors, even though investors employed diverse criteria when choosing stocks. Financial self-efficacy (FSE) was the psychological trait that had significant influence over the wide array of financial behavior from credit market participation to saving and investing behavior. FSE could be supported through frequent positive effect, reduced negative effect, stronger mastery beliefs, and the higher task orientation (Asebedo, 2018). There has been observed an extraordinary growth in the investment sector both in terms of volume and number of investors over the past three decades due to deregulation of financial sectors across the world. The dynamic regulatory frameworks, the development payment guarantees by the depositories, proactive government involvement, robust intermediaries and up to date

technologically advanced exchanges have instilled and nurtured confidence in the markets.

Often human decisions are affected by psychological behavior, biasness, overconfidence and herding behavior. Today in this capitalistic world, Behavioral finance attempts to understand and explain how human emotions influence investors in their decision-making process. Investors appear to lack self-control, act irrational, and make decision based more on personal biases than facts. The study of psychological influences on investors and by extension, market, is called behavioral finance. We can also state that behavioral finance came about as a way to explain in a rational way the irrational behavior of markets and investors or, as one acclaimed economist put it, finance from a border social science perspective including psychology and sociology. Traditional financial theory holds that markets and investors are rational; investors have perfect self control, and aren't confused by cognitive errors or information processing errors. According to the Corporate Finance Institute, behavioral finance holds that investors are considered as "normal" , not "rational"; they have limits to their self-control, are influenced by their own biases, and make cognitive errors that can lead to wrong decisions. The study of behavioral finance a sub-field of behavioral economics arose in the 1980s, when cracks began to appear in what was the considered the Efficient Market Hypothesis (Risal, 2016).

Modigliani and Miller (1958) theorem establishes that in perfect capital markets (i.e., without taxes, transaction or bankruptcy costs, or asymmetric information) a firm's dividend policy does not affect its value. In this setting, investors can replicate any stream of dividend payments through the purchase and sale of appropriate equities. Miller and Modigliani (1961) hypothesize that such heterogeneity leads to what they termed a "dividend clientele effect": investors naturally sort into equity holding classes based on their dividend payout ratios. According to the dividend clientele hypothesis, firms with high (low) dividend-payout ratios attract investors with low (high) marginal tax rates. In the aggregate, an individual's portfolio dividend yield, i.e., the ratio of dividend income to the value of equity holdings, should decrease with income. Parikh (2011) assumes that there are two broad types of investors: i) relatively sophisticated or ordinary investors (e.g., individual investors or noise traders), whose time-varying demands for risky assets are not based on optimal forecasts of expected returns; and ii) relatively more sophisticated or smart investors

(e.g., institutional investors or arbitrageurs), who respond to optimal forecasts of expected returns. Investors are investing their money with the different objectives that may be for the purpose of profit, for the purpose of security of their investment, appreciation and income stability. In Nepal, Nepal Stock Exchange has opened investment avenues to the capitalist or so called investors who can invest in varieties of investment securities like in banks, finance companies, hotels, manufacturing and service. Capital Market is a one of the significant aspects of any financial market. Individual investors represent a vital element for the functioning of capital market. The most crucial challenge faced by the investors is perhaps in the area of taking investment decisions especially to the selection of the companies that gives higher return in the form of capital gain or dividend yield. Investors buy shares specifically for income. "What drives people toward buying or selling stocks" is the major issues for the researcher that supports to analyze the preference behavior of the investors.

In Nepal, stock market preference is being the issue to be raised as investors focus mostly goes to Commercial banks. The daily transactions of shares have been highly sensitive to the commercial banks. While looking after the view of the investors in terms of investment purpose, they can be further categorized into Institutional investors, informed investors, big individual investors, amateur investors and absent investors. Essentials of investment refer to why investment, or the need for investment, is required. The investment strategy is a plan, which is created to guide an investor to choose the most appropriate investment portfolio that will help him achieve his financial goals within a particular period of time. An investment strategy usually involves a set of methods, rules, and regulations, and is designed according to the exchange or compromise of the investor's risks and returns (Risal, 2016).

## **1.2 Statement of the problem**

Investment decisions are commonly assumed to be a result of many variables, such as market features and individual risk profiles. The disposition error suggests that investors are impacted by sunk cost factors and asymmetrical risk preferences for gain/loss situations, regardless of accounting information. Parikh (2011) analyzed variables influencing investor behavior and concluded that for investors, classical wealth-maximization criteria are key, while investors use different criteria when selecting stocks. Only cursory consideration appears to be given to contemporary

issues such as local or foreign activities, environmental track record, and the ethical stance of the company. The suggestions of brokerage houses, individual stockbrokers, family members, and coworkers go largely overlooked. Many individual investors ignored the benefits of valuation models when evaluating stocks.

Asebedo (2018) viewed that risk aversion decreases not only as wealth rises, but also as age, income, and education rise. Chaffai and Medhioub (2014) found that the key investment considerations for individual investors are dividends, projected returns, and the financial stability of the company. Brabazon (2015) studied further considering the risk/return tradeoff of the investment and recommended that investors behave rationally. Investment decisions need to undergo a detailed review of the prevailing circumstances based on a variety of factors, but investors are keen to avoid uncertainties associated with the final decisions they make regardless of the varied knowledge available that justifies rationality and irrationality. It is against this context that this research attempted to fill the gap by defining the variables that tend to affect individual investment decisions, and included not only the variables examined by previous studies and derived from prevailing theories of behavioral finance, but also added additional variables that have been found to influence the investment decisions of stockholders in the emerging local market, NEPSE. This study is attempted to find out the answer of the following research questions:

1. What is the demographic structure of the Nepalese investors involved in secondary market?
2. Is there any relationship of optimism, involvement and risk attitude with investment decision in Nepalese stock market?
3. What is the impact of optimism, involvement and risk attitude with investment decision in Nepalese stock market?

### **1.3 Objectives of the study**

The basic objective of this study identify in the factor influencing investment decision in Nepalese stock. The specific objective is as follow:

1. To identify the demographic structure of the Nepalese investors involved in secondary market.
2. To analyze the relationship of optimism, involvement and risk attitude with investment decision in Nepalese stock market.

3. To examine the impact of optimism, involvement and risk attitude with investment decision in Nepalese stock market.

#### **1.4 Hypothesis of the study**

Following hypothesis are presented to fulfill the objectives of this study.

*H<sub>01</sub>*: There is no significant relationship of investor optimism with investment decision.

*H<sub>02</sub>*: There is no significant relationship of involvement with investment decision.

*H<sub>03</sub>*: There is no significant relationship of risk attitude with investment decision.

*H<sub>04</sub>*: There is no significant impact of investor optimism on investment decision.

*H<sub>05</sub>*: There is no significant impact of risk attitude on investment decision.

#### **1.5 Significance of the study**

The study of behavioral finance has grown significantly over last several decades. Human psychology plays an important role in how individuals make investment decisions. Understanding behavioral finance enables investors to avoid emotion driven speculation leading to losses, and thus devise and appropriate right investment strategy. Behavioral finance is a sharp contrast to the efficient market theory and establishes that markets can also be inefficient in reality. Due to these inefficiencies, there can be changes in price of assets for reasons other than fundamental factors. The role of Behavioral finance is to empower market analysts and investors to understand price movements without the role of any fundamental changes for the company or sectors. Investors and portfolio managers need to understand behavioral finance, not just to capitalize on stock and bond market fluctuations, but also to improve their own decision- making process.

This study also helpful to the Nepalese investors, as it is shown the weaknesses and treats along with best opportunities so that the investors may improve their traditional behavior of decision -making .

- This study provides information about the investment decision making of people on timing, quality, different financial sectors, and their investment preferences.
- It helps to determine whether the components of behavioral finance affect investment decision or not.

- To empower market analysts and investor to understand price movements without the role of any fundamental changes for the company or sectors.

### **1.6 Limitations of the study**

Every research has certain boundary since the world is dynamic therefore this study also is not an exception. The main limitations of the study are as follows:

- The study is in the context of Nepalese Stock Market only which may fail to represent the actual scenario of the whole industry.
- The accuracy of the analysis depends upon the data provided by the investors in Nepalese Stock Market.
- This study prepared on the basis of sampling so the result may not free from bias.
- It is especially based on the primary data by using structured questionnaires.
- This study is prepared on the basis of casual and descriptive research design.

### **1.7 Chapter plan**

The study has been divided into five chapter Introduction, Literature review, Research methodology, Analysis and results and summary and conclusion. The Structure of the study is tried to analyze the report in a systematic way of presentation and finding. The organization of the study is divided five separate chapters which are listed below:

The first chapter deals with the background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organization of the study. Second chapter includes theoretical review of the study. The chapter is related to theoretical analysis, conceptual review, and empirical review that comprises of review of journals and articles and review of related thesis and research gap. The third chapter consists of research design, population and sample, sources and nature of data, data gathering procedure, data collection technique and tools, data presentation and analysis.

Chapter four includes presentation and analysis of data that has been gathered. This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted. In this chapter, major finding of the study is explained. The chapter five reveals the research with necessary summary, conclusion, implication

and recommendations. Finally, references and Questionnaire have also been enclosed at the end of the study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

Review of literature is the process of learning and understanding the concept of the related topic. After selecting the topic of research, researchers should study different materials (like Books, Journals, Magazines, Newspapers, Articles etc.) to collect the information's about the subject matter of the study. This process of studying different education materials which are related with the selected topic of the research is called "Review of Literature". It helps to find out the research gap.

#### **2.1 Theoretical review**

##### **2.1.1 Theory of research action**

In recent times, capital markets are attracting the attention of retail investors across the globe and this number is increasing due to diversified reasons like declining interest rates, insecurity and volatility amongst fixed income securities, increasing awareness about investment options, trading through the proper means, increasing role of technology in capital markets and their tech savvy investors etc. However, to understand this whole process, behavioral finance acts as a catalyst and helps us as a medium both for reasons and causes for those reasons. Behavioral finance refers to the psychology of finance and people dealing in finance. This subject contributes and affects finance in multiple ways as it evaluates human desire and the motivating factors of desire in making investment, there by contributing to value maximization of investments made. It is an interdisciplinary subject with flavors of psychology, economics and sociology. Advances in psychology and economics as contributors to one another are coined by researchers decades ago. Economics does follow psychology theories and sometimes it so appears that economists as psychologists in their thinking. Behavioral approach in capital markets has emerged in 1980s. Importance to psychology in economics started with the observation of anomalies and puzzles faced by theorists in their research where the main stream theories couldn't provide a solution. Prospect theory is an example for understanding the importance of Behavioral Finance. It is a descriptive theory of choice under uncertainty based on the outcome of numerous experimental psychological studies. In the Annual General Meeting of 1984, Fisher Black, the then President of American Finance Association,



has supported the concept of behavioral Finance and after one year, Journal of Finance has published two papers based on prospect theory to market pricing. This theory has become the foundation for behavioral approach in economics after integrating several psychological biases such as loss aversion, conservatism, anchoring, frame dependence and disposition effect. Later in 1980s, behavioral finance concept has come into existence along with financial economics. Later on, many books and papers have been published on behavioral finance that leads to the development and progress of this concept (Asebedo, 2018).

### **2.1.2 Importance of behavioral finance**

The prevalence of behavioral finance in our society was very beautifully demonstrated by John Keynes who was a British economist. In 1936, he stated that market behavior is analogous to the behavior of the individuals who have to choose the winner at a “beauty contest”. In a beauty contest, the judges select that person as the winner whom his/her peers are likely to select, i.e. the judges are not interested in picking the most beautiful face, but they rather concentrate on selecting the one who is likely to please the other judges. If you notice carefully, you will see the investors use a similar approach of “consensus” wherein they all combine their expectations and act in unison. On the other hand, there are investors who are likely to trade on stocks that are expected to beat the consensus and avoid those stocks whose market value is considerably less than the fundamental value as per the consensus. Therefore, the concept of behavior is applicable from the moment investors attempt to spot the future behavior of fellow investors (Chaffai & Medhioub, 2014).

### **2.1.3 Concept of individual investment decision**

The investment decision of investors is normally determined by the fundamental analysis, technical analysis and judgment. Investment is the current commitment of dollars for a period of time in order to derive future payments that would compensate the investor for the time the funds are committed, the expected rate of inflation during this time period, and the uncertainty of the future payments (Civan, 2007). Investor market behavior derives from psychological principles of decision making to explain why people buy or sell stocks. The basic function of capital markets is to allow the efficient transfer of funds between borrowers and lenders. Individuals have to transform their savings into investments. Within behavioral finance, it was supposed

that information configuration and the features of capital market participants scientifically influenced individuals' decisions regarding investments as well as market results. The individual investments behavior had been concerned with choices about purchases of small amounts of securities for own account (Fama, 1998).

The investors could prefer some portfolios for being less risky although they produce the same amount of yield and again they could prefer others for higher yields even though they had the same level of risk (Civan, 2007). The market participants were exposed to the constant flow of information, ranging from quantitative financial data to financial news in the media, and socially exchanged opinions and recommendations. These factors had included coverage in the financial and general press, recent stock index returns, information obtained from internet, current economic indicators and recommendations by investment advisory services (Shefrin, 2000).

Costa, Carvalho and Moreira (2018) explained that the behavioral finance is more focused on the study of errors of judgment and of decision-making characteristics in financial investments. It is inferred that the field of behavioral economics is more wide-ranging than the field of behavioral finance, as the latter is a byproduct of behavioral economics. The investment decisions were the function of several factors such as market characteristics and individual risk profiles, in addition to accounting information. The classical wealth maximization criteria were important to investors, even though investors employed diverse criteria when choosing stocks (Dhar & Chhaochharia, 2008). Financial self-efficacy (FSE) was the psychological trait that had significant influence over the wide array of financial behavior from credit market participation to saving and investing behavior. FSE could be supported through frequent positive effect, reduced negative effect, stronger mastery beliefs, and the higher task orientation (Asebedo, 2018).

Investors had behaved rationally, taking into account the investment risk and return tradeoff (Dhar & Chhaochharia, 2008). Investor behavior had been characterized by overexcitement and overreaction in both rising and falling security markets (Odean & Barber, 2000). The axioms of utility theory had stated that the investors were expected to be rational and risk averter, meaning that investors would often go for the investment avenues that would maximize the satisfaction (Obenberger & Nagy,

1994). Chaffai and Medhioub (2014) revealed that the persons having the high level of education were subject to behavioral biases. The information on the market could not lead to the market efficiency. Risal and Khatiwada (2019) revealed that the hasty decision had relationship with herding behavior. The mood, insights, peer pressure, market factor, motivation and other dimensions of behavioral finance should be considered while making the investment decision. The return on investment could be the ultimate purpose of the investor but the time duration might varied. The factors like dividends and its growth rate, investment for saving purposes or quick benefits through trading had affected the individual investment decisions. The current situation of the market and the overall economy, education about the investment to investors, development of the market had played the vital role for creating the better environment for investment. In the line with this information, the study had focused to determine the psychological factors influencing investment decisions on Nepali stock market.

#### **2.1.4 Behavioral finance and investment decisions**

Behavioral finance seeks to find how investor's emotions and psychology affect investment decisions. It is the study of how people in general and investors in particular make common errors in their financial decision due to their emotions. It is nothing but the study of why otherwise rational people take some really thumbs investment decisions. Decision making is a process of choosing best alternatives among a number of alternatives. This decision has come out after a proper evaluation of all the alternatives. Decision making is the most complex and challenging activity of investors. Every investor differs from the others in all aspects due to various factors like demographic factor, socioeconomic background, educational level, sex, age and race. An optimum investment decision plays an active role and is a significant consideration. Investor is a rational being who will always act to maximize his financial gain. Yet we are not rational being; we are human being; an integral part of this humanness is the emotion within us. Indeed, we make most of our life decisions on purely emotional considerations (Civan, 2007).

In the financial world, investor's sometimes base their decisions on irrelevant figures and statistics, e.g., some investor may invest in the stock that have witnessed considerable fall after a continuous growth in recent past. They believe that price has

fallen which is only due to short term market movements, creating an opportunity to buy the stock cheap. However, in reality, stocks do quite often also decline in value due to changes in their underlying fundamentals. Cognitive dissonance is the perception of incompatibility between two cognitions, which can be defined as any element of knowledge including attitude, emotion, belief or behavior. The theory of cognitive dissonance holds that contradicting cognition serve as a driving force that compels the mind to acquire or invent new thoughts or beliefs or to modify existing beliefs, so as to reduce the amount of dissonance (conflict) between cognition. Festinger theory of cognitive dissonance states that individual attempts to reduce inner conflict in one of the two ways: (i) he changes his past values, feelings or options; and (ii) he attempts to justify or rationalize his choice. This theory may apply to investors and traders in the stock market who attempt to rationalize contradictory behaviors, so that they seem to follow naturally from personal values or view point (Asebedo, 2018).

In “Financial Cognitive Dissonance”, we change our investment styles or beliefs to support our financial decisions. For instance, investors who followed a traditional investment style (fundamental analysis) by evaluating companies using financial criteria such as, profitability measures, especially, profit/earnings ratios, started to change their investment beliefs. Many individual investors purchased retail internet companies in which these financial measures could not be applied. Since these companies have no financial track record, very little revenues and no net losses. These traditional investors rationalized the change in their investment style (past beliefs) in two ways: the first argument by many investors is the belief (argument) that we are now in a “new economy” in which the traditional financial rules no longer apply. This is usually the point and the economic cycle in which the stock market reaches its peak. The second action that displays cognitive dissonance is ignoring traditional form of investing and buying these internet stock simply based on price momentum. Regret theory states that an individual evaluates his or her expected reactions to a future event or situations. Psychologists have found that individuals who make decision that turn out badly have more regret when that decision was more unconventional. This theory can also be applied to the area of investor psychology within the stock market, whether an investor has contemplated purchasing a stock or mutual fund which has declined or not, actually purchasing the intended security will

cause the investor to experience an emotional reaction. Investors may avoid selling stocks that have declined in value in order to avoid the regret of having made a bad investment choice and the discomfort of reporting the loss. In addition, the investor sometimes finds it easier to purchase the “hot or popular stock of the week”. In essence, the investor is just following “the crowd”. Therefore, the investor can rationalize his or her investment choice more easily if the stock or mutual fund declines substantially in value. The investor can reduce emotional reactions or feelings since a group of individual investors also lost money on the same bad investment. In investing, the fear of regret can make investor either risk averse or motivate them to take greater risk. Prospect theory deals with the idea that people do not always behave rationally. There are different psychological factors which motivate people in investment decision under uncertainty. It considers preference as a function of “decision weights” and it assumes that these weights do not always match with probabilities. It further suggests that decision weights tend to overweigh small probabilities and under-weigh moderate and high probabilities. Prospect theory demonstrates that if investors are faced with the possibility of losing money, they often take on riskier decision at loss aversions. They tend to reverse or substantially alter their revealed disposition towards risk (Chaffai & Medhioub, 2014).

#### **2.1.5 Strategies for overcoming behavioral finance**

In recent years, behavioral finance is becoming an integral part of decision-making process because it heavily influences the investor’s performance. Understanding behavioral finance will help the investor to select a better investment instrument and they can avoid repeating the expensive error in future. They can improve their performance by recognizing their biases and errors of judgment to which we are all prone. The main issue of studying behavioral finance is how to minimize or eliminate the psychological biases in investment decisions of the investors. After an extensive study of the literature on behavioral finance, it is believed that its perfect application could make a successful investor making fewer mistakes. Several psychological and behavioral factors influence investors in decision making. Various safeguards are needed to control mental error and psychological roadblocks while invest in stocks and mutual funds. A disciplined trading strategy is required to control these mental roadblocks to all types of investors (Asebedo, 2018).

### **2.1.6 Theory of mental accounting**

The theory states that the mental accounting was the psychological theory that explained the thought that affects spending, saving, and other household behavior. The theory had tried to answer the question ‘How did people think about money?’ Mental accounts were used more generally as the way for bloodedly rational individuals to simplify their financial decision making. A key implication was then that the value the person attributes to given amount of money might depend on the account it was assigned to, which in turn depended on context, framing, and situation (Thaler, 2017). Investors had created the mental compartments for the gains they once had, causing them to wait for the return of that gainful period (Thaler, 1999).

### **2.1.7 Regret theory**

Regret theory had states that the emotional reaction people went through after realizing they had made the error in judgment. The investors become emotionally affected by the purchasing price of the stock when they faced the prospect of selling the stock. The possibility of feeling of the regret was avoided and the individual investor had rationalized the decision by following the pattern of investment of other investors (Rakesh & Nalina, 2015).

### **2.1.8 Prospect/loss aversion theory**

The theory states that people had expressed the different degree of emotion towards gains than losses. Individuals were more stressed by prospective losses than they were happy from equal gains. Prospect theory had explained why investors hold onto losing stocks, people often had taken more risks to avoid losses than to realize gains. For this reason, investors willingly had remained in the risky stock position, hoping the price would bounce back. So, despite of rational desire to get the return for the risks they had taken, they had tended to value something own higher than the price normally prepared to pay for it. Investors often had made the mistake of chasing market action by investing in stocks or funds which garnered the most attention. The money had flown into high performance mutual funds more rapidly than money flown out from funds that were underperforming (Tversky & Kahneman, 1979).

### **2.1.9 Theory of over/under reacting**

Investors had become optimistic when the market went up, assuming it would continue to do so. Conversely, investors had become extremely pessimistic amid

downturns. A consequence of anchor had placed too much importance on the events while ignoring historical data, was the over or under reaction to market events which had resulted in prices falling too much on bad news and risen too much on good news. At the peak of optimism, investor had greed moves on stocks beyond the intrinsic value (Stein & Hong, 1999).

#### **2.1.10 Heuristics theory**

Heuristics are simple efficient rules of the thumb which have been proposed to explain how people make decisions, come to judgments, and solve problems, typically when facing complex problems or incomplete information (Parikh, 2011). Kahneman and Tversky (1979) identified the influence of human heuristics on the decision making process. This theory defined heuristics as a strategy, which can be applied to a variety of problems, that usually but not always yields a correct solution. People often use heuristics (or shortcuts) that reduce complex problem solving to more simple judgmental operations (Kahneman & Tversky, 1981). The heuristics decision process is the process by which the investors find things out for themselves, usually by trial and error, lead to the development of rules of thumb. In other words, it refers to rules of thumb, which human use to make decisions in complex, uncertain environments (Brabazon, 2000).

#### **2.1.11 Prospect theory**

The prospect theory was originally conceived by Kahneman and Tversky (1979). The theory distinguishes two phases in the choice process: the early phase of framing (or editing) and the subsequent phase of evaluation. Prospect theory showed how people manage risk and uncertainty. In essence, the theory explains the apparent irregularity in human behavior when assessing risk under uncertainty. People place much more weight on the outcomes that are perceived more certain than that are considered merely probable, a feature known as the certainty effect (Kahneman & Tversky, 1979).

### **2.2 Empirical review**

The review of literature is a curial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research study being undertaken. Some of the dissertations, journals and articles are reviewed briefly below:

Dhungana and et al. (2018) investigated the behavioral factors influencing individual investor's decision making and performance. The study aims to explore behavioral factors influencing individual investor's decision making and performance. The study has been confined to five metropolitan cities and 350 samples have been taken randomly from different broker houses. The study finds association between age and duration of investment, gender and duration of investment and marital status and duration of investment. The independent sample t test shows that there is no significant impact of gender on study variables. The one-way ANOVA between age and study variable shows that gender does not have significant impact on study variables except investment performance. The one-way ANOVA between age and study variable shows that marital status does not have significant impact on study variables except herding. The one-way ANOVA between age and study variable shows that education does not have significant impact on study variables except herding. So, behavioral factors are the most important factors influencing investor's decision making and performance. The regulatory authority should empower investors in terms of both economic and behavioral aspects to make rational investment decision in stock market.

Pokharel (2018) investigated the investors preference on stock market of Nepal Stock Exchange (NEPSE). The study is based on survey method using structured questionnaire. The results demonstrated that investors were found to have investment interest in secondary market. The reasons for selecting shares are mostly liquidity and high rate of earning. The investors perception regarding the influencing factors for the investment decision in secondary market of NEPSE is the advice of brokers and then movement of indices. The news in daily newspaper and market sentiments are viewed as least influencing factors for investment decision. Most motivating factors prioritized by respondents were capital gains, then liquidity and then dividend, safety and bonus shares. The motivating factors like tax benefits and rights shares were under least preference by the respondents.

Sarkar and Sahu (2018) investigated the investment behavior of individual investors of stock market to enquire whether there is any impact of three independent variables namely Demographic Factors, Awareness and Perceived Risk Attitude on only one dependent variable Investment Behaviors. The study has collected primary data from



400 randomly selected individual investors of stock market from various districts of West Bengal using a structured questionnaire on five point Likert scale. The study finds that the awareness levels of the individual investors are on moderate level and financial awareness is more than social learning. Perceived risk attitude is mainly guided by affect rather than cognition. The analysis indicates that demographic factors, awareness and perceived risk attitude significantly influence investment behavior of individual investors of stock market.

Kandpal and Mehrotra (2018) analyze the behavior of investors towards investment pattern and to analyze the factors which an investor takes into consideration while taking Investment decision. Faculty members in Uttarakhand were surveyed using questionnaire. The study analysis of investor saving and investment decision making in Indian capital market is highlighted with 358 respondents opinion is gathered. The various parameter for which the behavior of investors for investing in Indian capital market. Majority of investor more than 50% are in the age group of 31 to 40 and the majority investors are married with 72.4% respondents, the decision of investment are not taken hurriedly it requires proper planning and education in terms of knowledge of the various investment products and 46.6% of the population is having a doctorate degree and the majority of the individuals are investing there surplus money into the capital markets with monthly income of Rs. 30000 and above with 72.4% respondents. It is concluded from our research that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investors complete behavioral pattern which includes goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity, expected return and linking of the investment with the goals, the understanding of the investment objective in line with one's goals. Study concludes that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investors complete considers factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns.

Areiqat, Rumman, Alani and Alhorani (2019) explore the impact of a number of prominent behavioral finance variables covered by the financial literature (overconfidence, loss aversion, risk perception and herding) that may affect the stock investment decision-making at Amman Stock Exchange (ASE), as well as determining which of these variables has the relative importance. The importance of this study stems from the fact that local studies focusing on the issue of behavioral finance are rare and therefore, the researchers expect that such study will enrich awareness in this domain. The study consisted of 165 individual investors who were active in the trading halls at Amman Stock Exchange during the research period. The data were collected through a questionnaire prepared for the purpose of research and were analyzed by applying multiple statistical tests (Multiple regression and Hierarchical regression analysis) and by using statistical software (SPSS) after approving the reliability and validity of the questionnaire. The results showed that there was an impact of the behavioral finance at Amman Stock Exchange represented by three behavioral factors affecting the investment decisions of the individual investors which were: overconfidence, loss aversion, and herding, the results also showed that the variable overconfidence had the most relative significance. The research provided some recommendations for investors trading at ASE to adopt scientific bases in making stock investment decisions, and suggested to conduct further research to study the impact of behavioral finance on the different types of risks and yields at ASE.

Madaan and Singh (2019) analyze the behavioral biases in investment decision making. The main objective of the study is to determine the behavioral biases in investment decision making. In this study questionnaire is designed and through survey responses collected from 243 investors. The present research has applied inferential statistics and descriptive statistics. In the existing study, four behavioral biases have been reviewed namely, overconfidence, anchoring, disposition effect and herding behavior. The results show that overconfidence and herding bias have significant positive impact on investment decision. Overall results conclude that individual investors have limited knowledge and more prone towards making psychological errors. The findings of the study also indicate the existence of these four behavioral biases on individual investment decisions. This study will be helpful

to financial intermediaries to advise their clients. Further, study can be elaborated to study other behavioral biases on investment decisions.

Upadhyay and Shah (2019) investigated the behavioral finance in investment decisions of investors in Ahmedabad. This paper seeks to find out the major influence of certain behavioral finance concepts such as overconfidence, perception, Representative, anchoring cognitive Dissonance, Regret Aversion, narrow framing and mental accounting on the decision-making process of individual investors in stock market. We conducted a primary research by framing a structured questionnaire and by collecting sample of 181 investors of Ahmedabad. The primary objective was to know effects of behavioral financing on investors and to study the impact and relevance of behavioral financing in investment decision of investors. Whereas secondary objective of our study was to know factors influencing the investors while investing and to study the concepts of behavioral financing and various theories related to it. The focus is on the behavioral biases namely: overconfidence, anchoring, familiarity, conformation bias, innumeracy, prospect theory, mantel accounting, narrow framing, shadow of past, emotional bias and information or heard instinct. Effects of the above biases on the decision making process of the investors of the Ahmedabad city was studied and analyzed. Data collection was done through questionnaire and 181 responses were obtained from individual investors. The study found out that investors are not rational and there is always the effects of above biases in more or less proportion on the decision making process of investors in the investments.

Sattar, Toseef and Sattar (2020) explore the behavioral finance biases in investment decision making. The aim of this research paper is to explore how behavioral biases affect investment decision making under uncertainty. Dependent variable investment decision making is a composite activity, it never be made in a vacuity by depending on personal resources. Based on this study investment choices alternatives influence by human rational and irrational behavior, therefore, examine the impact of behavioral finance in the decision-making process. Behavioral finance phenomenon variables; heuristic, prospects, personality characteristics, feeling, moods and ecological factors explore under this research. Overconfidence, Representativeness, Anchoring, Regret Aversion, Hindsight, Herding Effect and Home Bias included in

investors psychology behaviors. Survey questionnaire tool used to collect sample to conduct quantitative research. To test the hypothesis Regression analysis run by the SPSS software. Findings revealed that there was an effect of behavioral biases on investment decisions. Empirical results concluded investment decision making influenced by heuristic behaviors more than prospects and personality characteristics. The originality of this study, it is very beneficial for investors and financial institutions to make decision by observation of psychological factors.

Rekha (2020) investigated the determinants of behavioral finance influencing investment decisions with respect to income: A study on investment in the equity market. The present paper aims to explore the behavioral determinants influencing individual investors' decisions in the Indian equity market. Moreover, the level of influence of these factors on investment decisions is also investigated. Further, the differences in the investment decisions and behavioral determinants on the basis of respondents' income level have also been analyzed. The hypotheses of the study are tested through questionnaires and the responses obtained from 550 investors in Bangalore were evaluated. The collected data analyzed using SPSS 24. The result shows that herding, heuristics, prospect and market determinants are four most significant behavioral finance paradigms affecting the investment decisions of individual investors in the Indian equity market. Most of the variables from all factors have significant impacts whereas availability bias from heuristic factor has no significant influence on investment decision. Among the different behavioral factors, representativeness from heuristic factors, mental accounting from prospect factors, past trends and recommendation from market and herding factors indicates a highly significant positive impact on investment decision. Overall, the prospect factors represent the most important factor having the highest significant impact on investment decision making followed by market factors.

Shukla, Rushdi and Katiyar (2020) analyze the impact of behavioral biases on investment decisions. The objective of this paper is to study and describe various biases in investment decision-making through the review of research papers in the area of behavioral finance. This research paper describes various behavioral patterns of investors. For writing this paper, research papers have been collected over a period of year's right from the time when the most introductory paper was published (1974)

till the most recent papers (2019). These research papers are segregated on the basis of biases. This study is more focused towards the study of individual investors. This study has identified 7 various types of biases. This study is also based on some of the most recent research work to have a quick overview of the latest work carried out in this area. Practical implications of the research is that individual investors, investment advisers, students and other institutions in this area can get inputs from this research. The unique aspect of this paper is that this paper not only pays attention on basic principles of behavioral finance but also describes some emerging concepts of behavioral finance. Thus, the paper creates interest in the readers to find the solutions to minimize the effect of biases in decision-making.

Mumtaz and Ahmad (2020) explore the influence of behavioral finance on the decision of investors: empirical investigation from Pakistan Stock Exchange. This study aims to evaluate the influence of the factors of behavioral finance that affect decision making in the stock exchange. Three factors have been selected and used to gauge the impact on investment decision making. These factors include; overconfidence bias, representativeness bias, and availability bias. A structured close-ended question naira has been used to collect the data, and data was collected from 211 respondents who are investors on Karachi stock exchange. To analyze the collected data, multiple linear regression (MLR) models has been used. The result of this study shows that all three independent variables have a significant impact on investment decision making. Moreover, the relationship is positive between the independent and dependent variables. Therefore, it can be concluded that the null hypothesis is rejected. This study will assist investors to make decisions rationally in the stock market.

Gurbaxani and Gupte (2021) analyzed the impact of COVID- 19 on investor behavior of individuals in a small town in the state of Madhya Pradesh, India. The main objective of the study to understand how the COVID-19 pandemic has impacted investment and financial decisions of individuals in small towns in developing nations such as India. In this study literature review was undertaken on COVID-19 and steps taken by the government to fight the pandemic. A sample survey was conducted to determine the impact of COVID-19 on individuals' financial transactions in Madhya Pradesh (MP). The respondents either belonged to the service sector or owned

businesses. The relationship between the COVID-19 pandemic and change in investment decisions of individuals with respect to SIPs was studied. Significant association was found between measures taken to prevent the spread of COVID-19 (such as lockdown and travel restrictions) and individual income; such preventive measures directly impacted savings and investment behavior. Indeed, respondents reported a 43% drop in SIP investments during the COVID-19 pandemic. While decline in investment was common to genders, the difference between percentage declines was statistically non-significant. Furthermore, investment behavior did not vary with investor age. Results highlight the socioeconomic effects of the COVID-19 outbreak at the micro-level and may enable financial institutions and individuals to better handle such situations in future. The scope of the present research is limited. Future studies could consider larger samples and different contexts to gain deeper insights into the socioeconomic effects of the COVID-19 pandemic. Studies could also suggest policies and measures to help governments effectively deal with future crises.

### **2.3 Research gap**

Prior research has found that in some studies that are positive relationship between behavioral finance and its impact on individual investment decisions whereas in some studies shown the relationship between behavioral finance and its impact on individual investment decisions is not significantly related. Hence, the result is inconsistency in previous studies. Therefore, it is necessary to establish the relationship between behavioral finance and its impact on individual investment decisions in developing country like Nepal.

It is believed that this study will fulfill the gap, which had been made by the earlier researcher. Researcher has taken sample from only the investors in Nepalese Stock Market. Moreover, the researcher has been conducted on financial behavior related to stock market efficiency by using share brokers, market analysts and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers, market analyzers and individual investors who are the major stakeholders of the stock market.

Furthermore, it shows that there is very few research works conducted on various aspects of behavioral finance. Various quantitative and qualitative factors affect on

individual investment decision. Many studies documented self-image/firms image coincidence, accounting information, advocate recommendation, neutral information and personal financial needs are most influencing factors of behavioral finance. And most of the studies did not consider about that factor which impact on individual investment decision (Abul, 2019; Jagongo & Mutswenje, 2014; Kandpal & Mehrotra, 2018). Since, this study is totally different from the national and international researchers who have done their research on this particular subject. And also this study has analyzed about role of behavioral finance as well as individual investment decision which makes it completely different from other research work till now. Thus, the research work may be helpful for investor to find out the inflecting factor of behavioral finance and level of individual investment decision.

## CHAPTER III

### RESEARCH METHODOLOGY

This chapter deals with methodology aspect to be used in this study. The study uses quantitative methods in the analysis of the data gathered. This section captures the research design, population and sample, sources of data, data collection procedure, data processing procedure and data analysis tools and techniques. In this study the following methodologies are adopted:

#### 3.1 Research design

To achieve the objective of this study causal and descriptive research design has been used. In this research work, the pre- tested questionnaire was used to collect the data through self- administered form. The research finding was based on quantitative data collected by distributing questionnaire to the respondents.

#### 3.2 Population and sample

The population of this study includes all the investors in the Nepalese capital market. The population includes all the investors in the capital market NEPSE. Among the total population 384 investors of the Nepalese capital market were taken for sample. And judgment sampling method was used in this study. Altogether 384 questionnaires were distributed to the investors with proper briefing about the purpose of the study and the process of filling the questionnaires. So, to get the sample size the Cochran formula was used at 95% confidence level and 5% margin of error. Researcher would specify the precision that wants in respect of estimates concerning the population parameter. The sample size is determined using scientific formula below:

$$\text{Sample Size } (n_0) = \frac{(Z)^2 pq}{e^2} = \frac{1.96^2 (0.5) (0.5)}{(0.05)^2} = 384$$

Where,

- e is the desired level of precision (i.e. the margin of error),
- p is the (estimated) proportion of the population which has the attribute in question,



- $q$  is  $1 - p$ .
- $z$  value for 95% confidence level is 1.96

### **3.3 Nature and sources of data**

The study was mainly based on primary data. Primary data were collected using a structured questionnaire technique. The questionnaire includes ordinal and five points Likert Scale questions ranging from one (strongly disagree) to five (strongly agree). The information regarding demographic variables such as gender, age, income level, type of employment, and education level was collected through questionnaire. Respondents were explained the purpose of the study and asked to respond the set of questionnaire.

### **3.4 Instrument of data collection**

The data for the study was mainly collected using a well- structured questionnaire. The pre- tested questionnaire used by Nepali (2019) Pokharel (2018), Pandey, Chaubey, and Tripathi (2016) and Kadariya (2012) was taken to analyze and examine the investment behavior of individual investors in Nepalese stock markets. The questionnaire includes structured questions and answers in the form of single response and five point Likert Scale. Questionnaires were distributed to employees by approaching directly in their working place.

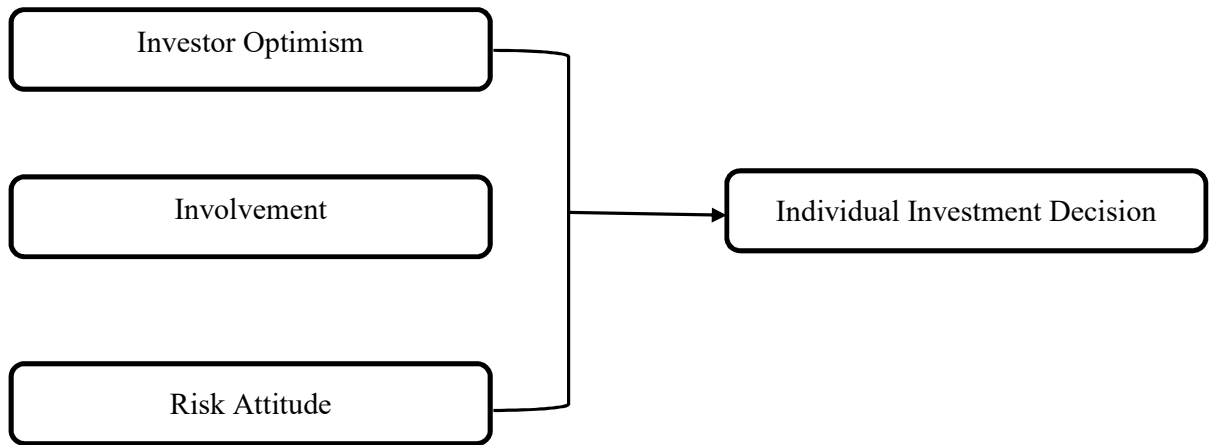
### **3.5 Methods of analysis**

In this research causal and descriptive statistics were used for driving essence of the research data and interpret them. Descriptive statistics tools like mean and standard deviation used to describe result obtained and causal statistics was used to show the relationship between dependent variables and independent variable. Data were presented table which makes easier to analyse and understand the data. In inferential statistics correlation and regression were tested for the reliability of model. The collected data were processed, analysed and interpreted by using several tools like SPSS, Ms-excel, and Ms-word etc.

### 3.6 Research framework and definition of variables

Research framework is a scheme of concept (variables) which the researchers operationalize in order to achieve the set objective. A variable is a measure characteristic that assumes different values among subject. Independent variables are variable that researcher manipulates in order to determine its effect of influence on another variable. Dependent variable attempts to indicate the total influence arising from the influence of the independent variable (Pant, 2016).

Hence, based on above theories and literature, conceptual framework of this study has been developed by overconfidence, investor optimism, involvement and risk attitude as deterministic variables. Similarly demographic characteristics such as age, gender, type of employment, monthly income and education level are considered as moderating variables. And level of individual investment decision is dependent variable. Thus, based on Nepali (2019) Pokharel (2018), Pandey, Chaubey, and Tripathi (2016) and Kadariya (2012) research the model can be adapted and developed as follow:



*Figure 1.* Research framework showing the relationship of independent variables with dependent variable.

#### 3.6.1 Independent variables

Independent variables are variable that researcher manipulates in order to determine its effect of influence on another variable. In this study independent variable included overconfidence, investor optimism, involvement and risk attitude.

### **3.6.1.1 Investor optimism**

To understand the behavior of investor while taking options between the existing alternatives certain theories are at its backend. Most popular theory describes the behavior of investor is prospect theory states that people make decisions based on the potential value of losses and gains rather than the final outcome, and that people evaluate these losses and gains on certain heuristic. The second theory related to optimism base expected utility theory, according to this investor make decision between risky and uncertain prospect by comparing their expected utility theory. Optimism bias is an important element toward investment decision it translates into both microeconomic and macroeconomic activity. For example, optimism bias influences high-stakes decisions, such as startup investment, investment behavior, and decisions (Pandey, Chaubey, & Tripathi, 2016).

### **3.6.1.2 Involvement**

Investing in Involvement provides an accessible framework for tenants and employees in landlords to identify the benefits deriving from involving tenants, service users and other stakeholders. It comes after the publication of two Government funded Tenants Leading Change reports. Both reports identified that investing in tenant involvement can produce financial, service, social and community benefits. An Investment not a Cost also identified that “the housing sector needs to be doing much more to identify and publicist the business and other benefits that derive from involvement. A widespread lack of clear understanding of what is being delivered through tenant involvement was identified in the programmer, with many respondents referring to processes as outcomes. This lack of clarity may be hampering tenants and landlords from maximizing potential benefits. Across the housing sector, a lack of a focused narrative about involvement benefits means that some sector stakeholders do not understand the potential available (Pokharel, 2018).

### **3.6.1.3 Risk attitude**

In finance, risk attitude refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision. In general, as investment risks rise, investors seek higher returns to compensate themselves for taking such risks. Every saving and investment product has different risks and returns (Kadariya, 2012).

### 3.6.2 Dependent variable

Level of individual investment decision is dependent variable of this study. Individual investment decision is a psychometric instrument specially designed to measure financial behavior of investor.

### 3.7 Analysis tools

#### 3.7.1 Percentage frequency distribution

Percentage analysis was calculated to obtain contingency table, frequency distribution and represent the collected data for better understanding. This helped to compare the result of the study.

#### 3.7.2 Arithmetic means

The arithmetic mean or simple mean of set of observations is the sum of all the observation divided by the number of observations. It is the best value, which represent to the whole group means is the arithmetic average of a variable. Arithmetic mean of a series is given by:

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n}$$

Where,

$\bar{X}$  = Sum of the variables 'x'

N = No. of Observation

#### 3.7.3 Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviation from the middle or mean. It measures the absolute dispersion. It is calculate as:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

#### 3.7.4 Correlation coefficient analysis

A correlation coefficient is a statistical measure of the degree to which changes to the value of the one variable predict change to the value of another. Karl Pearson

measure, known as Karl Pearson correlation coefficient between two variable series x (x, y) r can be obtained as:

$$r = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where, r = correlation coefficient, n = no. of year

$\sum x$  = Sum of series X

$\sum y$  = Sum of series Y

$\sum xy$  = Sum of the product X and

$(\sum x)^2$  = Sum of squares of series X

$(\sum y)^2$  = Sum of squares of series Y

### 3.7.5 Casual comparative analysis (Regression analysis)

The linear regression analysis is a basic and commonly used type of predictive analysis. It is set of statistical processes for estimating the dependent variables on the basis of independent variables. It includes many techniques for analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where, Y = Level of Individual Investment Decision

$\beta_0$  = Constant parameter

$\beta_1, \beta_2,$  and  $\beta_3$  are the parameters to be estimated

$X_1$  = Investor Optimism

$X_2$  = Involvement

$X_3$  = Risk Attitude

e = Error term of the regression equation which are not included in the equation

### F- Test

F test is a statistical test that is used in hypothesis testing to check whether the variances of two populations or two samples are equal or not. In an f test, the data follows an f distribution. This test uses the f statistic to compare two variances by dividing them.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Data presentation**

This chapter describes the analysis results generated from the process of data collection. It deals with the analysis and interpretation of the primary data collected through questionnaire from 384 respondents. Data were analyzed with reference to the purpose of this research as mentioned in the earlier chapter. The primary purpose of this chapter is to analyze and interpret the collected data and present the results of the questionnaire survey. The main purpose of this research study was fulfilled with the outcomes derived from the analysis of the data. Therefore, the findings of the study were presented and analyzed in this chapter. The questionnaire were developed in ordinal and five scales ranging from five to one; where 5 represents strongly agree, 4 agree, 3 don't know, 2 disagree, and 1 strongly disagree. In this study regression analysis was also used to test the effect of independent variable on dependent variable. For the study, 384 questionnaires were distributed to individual investor and 384 (100%) questionnaire were obtained valid and used for analysis. The collected data were presented and analyzed using SPSS software version.

#### **4.1.1 Demographic background of the respondents**

The demographic profile of the respondents was presented in this section. The personal profiles of the respondents were analyzed as per their gender, age, qualification, income level and occupation. Genders were male and female whereas educational level is divided into four parts that's below bachelors degree, bachelors, masters and above masters. Age of employees was subdivided into three groups which are under 30 years, 30 to 50 years and above 50 years. Monthly income was divided upto Rs. 40,000, Rs. 40,000 to Rs. 60,000 and finally above Rs. 60,000. Occupation is divided into five parts that are student, retired, self-employed, un-employed and salaried individual. Descriptive statistics were performed on the demographic variables as a means of describing the respondents. In addition, statistical test was conducted to investigate the difference of effect of individual investor and investment decision. Table 1 shows the General Characteristics of the Respondents. In the study demographic characteristics are measured by gender, age,

qualification, income level and occupation. Gender is categorized into males and females; 269 males and 115 females.

Table 1  
*General characteristics of the respondents*

Dimension	Frequency	Percent
<b>Age of the Respondents (in years)</b>		
Under 30	105	27.3
30 to 50	146	38
Above 50	133	34.6
Total	384	100
<b>Gender of the Respondents</b>		
Male	269	70.1
Female	115	29.9
Total	384	100
<b>Occupation</b>		
Student	46	12
Retired	81	21.1
Self-employed	74	19.3
Un-employed	65	16.9
Salaried Individual	118	30.7
Total	384	100
<b>Monthly Income of the Respondents</b>		
Below Rs. 40,000	166	43.2
Rs. 40,000 to Rs. 60,000	130	33.9
Above Rs. 60,000	88	22.9
Total	384	100
<b>Qualification of the Respondents</b>		
Below Bachelors Degree	148	38.5
Bachelors	114	29.7
Masters	93	24.2
Above Masters	29	7.6
Total	384	100

*Note from: Field Survey, 2022*

The percentages are 70.1 percent and 29.9 percent respectively. Age is grouped into under 30, 30 to 50, 35 to 45 and above 50; the frequencies of respondents are 105, 146 and 133 respectively. The percentages are 27.3 percent, 38.1 percent and 34.6 percent respectively. Income level is grouped into three categories; Rs. 40,000, Rs. 40,000 to

Rs. 60,000 and above Rs. 60,000, with the frequency of 166, 130 and 88 respectively. The percentages are 43.2 percent, 33.9 percent, and 22.9 percent respectively. Educational level is divided into four parts; Below Bachelors Degree, Bachelors, Masters and Above Masters, with the frequency of 148, 114, 93 and 29 respectively. The percentages are 38.5 percent, 29.7 percent, 24.2 percent and 7.6 percent respectively. Occupation is divided into five parts that are student, retired, self-employed, un-employed and salaried individual with the frequency of 46, 81, 74, 65 and 118. The percentages are 12 percent, 21.1 percent, 19.3 percent, 16.9 percent and 30.7 percent respectively.

#### 4.1.2 Investment motivation

Investors have some objectives of investing money in shares. In Nepalese share markets, it seems most appropriate to divide all objectives into four types- short term profit seeking, steady income, long term profit seeking and others.

Table 2

*Investment objectives of investors*

Objectives	Investors	
	Frequency	Percent
Short term profit seeking	84	21.9
Steady Income	117	30.5
Long term profit seeking	127	33.1
Others	56	14.6
Total	384	100

*Note from: Field Survey, 2022*

Table 2 presented the objectives of investing money in shares. It shows that majority of the investors (33.1%) are motivated by long term profit seeking. Nevertheless, only 21.9 percent of the investors have the aim of earning short term profit from investing in share market. It depicts the impatience of Nepalese share market investors.

#### 4.1.3 Preferences toward types of market

Preference of investors toward the type market in which they want to buy shares is crucial for the development of market. It indicates the liquidity in the market as well as attractiveness of the market. In an attempt to obtain the view of respondents about their preferences toward types of market for buying shares of common stock, both



investors and executives/security businesspersons were asked to state as to primary or secondary or both markets they prefer for buying shares of common stock.

Table 3

*Investment objectives of investors*

Types of Respondents	Primary		Secondary		Both	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Student	21	5.5	21	5.5	12	3.1
Retired	23	6	23	6	53	13.8
Self-employed	71	18.5	71	18.5	52	13.5
Un-employed	125	32.6	125	32.6	85	22.1
Salaried Individual	144	37.5	144	37.5	182	47.4
Total (Investors)	384	100	384	100	384	100

*Note from: Field Survey, 2022*

Table 3 shows the investment objectives of investors. In this research work the disaggregated result shows that majority of the investors from unemployed (32.6 %), self-employed (18.5%) and salaried categories (37.5%) prefer to buy large number of shares from both market as compare student (5.5%) and retired (6%). In other word, there is no such a specific choice between primary and secondary markets for buying shares. The aggregate results indicate that all respondents prefer to buy shares of common stock in both markets.

#### 4.1.4 Volume of investment

Volume in investing means the total amount of a security that changes hands over a given period of time. This section presents volume of investment on three different dimensions of investment size including small size (0 to 20, 00,000), medium size (20, 00,000 to 1,00,00,000) and large size (100, 00,000 to Above).

Table 4

*Volume of investment*

Investment Size	Frequency	Percent
Small Size (0 to 20, 00,000)	95	25
Medium Size (20, 00,000 to 1,00,00,000)	185	49
large size (100, 00,000 to Above)	104	26
Total	384	100

*Note from: Field Survey, 2022*

Table 4 shows that the volume of investment including small size (0 to 20, 00,000), medium size (20, 00,000 to 1,00,00,000) and large size (100, 00,000 to Above) where 49% investor invested on medium size of investment followed by large size of investment (26%) and medium size of investment (25%) respectively.

#### 4.1.5 Trading and monitoring investment

It is generally believed that frequency of trading and monitoring investment during the period and size of investment are closely related. Big investors are expected to involve more in monitoring and trading than small investors. Therefore, an attempt has also been made to identify whether investors of different investment size differ in terms of their trading and monitoring frequencies in stock market of Nepal. For this purpose, the investors were asked two different but related questions to indicate how frequently they involve in trading and monitoring investment. The results are presented in panel a and b. The transaction frequency has been measured in five categories as ‘weekly’, ‘monthly’, and ‘quarterly’, ‘bi-annually’ and ‘annually’ for measuring trading frequency and instead of ‘weekly’ daily option is given to investors in case of monitoring the investment .

Table 5

*Observation on investors across investment size*

Basis	Small size of Investment		Medium size of Investment		Large size of Investment	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Panel a: Frequency of Trading in Market						
Daily	10	2.6	37	9.6	30	7.8
Monthly	44	11.5	33	8.6	36	9.4
Quarterly	67	17.4	75	19.5	85	22.1
Bi-Annually	122	31.8	116	30.2	107	27.9
Annually	141	36.7	123	32	126	32.8
Total	384	100	384	100	384	100
Panel b: Frequency of Monitoring Investment						
Weekly	58	15.1	21	5.5	103	26.8
Monthly	44	11.5	26	6.8	78	20.3
Quarterly	81	21.1	69	18	53	13.8
Bi-Annually	102	26.6	124	32.3	43	11.2
Annually	99	25.8	144	37.5	107	27.9
Total	384	100	384	100	384	100

*Note from: Field Survey, 2022*

Table 5 shows that panel a indicates that most of the investors interested to invest on trade annually where 36.7% investor invested on small size of investment followed by large size of investment (32.8%) and medium size of investment (32%). In the same way investors interested to invest bi-annually, then quarterly, monthly and very few investors invest daily basis where 31.8%, 17.4%, 11.5% and 2.6 % investor invested on small size of investment respectively. Whereas 30.2%, 19.5%, 8.6% and 9.6 % investor invested on medium size of investment and finally 11.2%, 13.8%, 20.3% and 26.8% investor invested on large size of investment. Panel b of table shows the frequency of monitoring investment across the size of investors. It indicates that most of the investors (25.8%, 37.5% and 27.9%) monitor their investment on annually. It is followed by bi-annually, quarterly weekly and monthly respectively.

#### 4.1.6 Descriptive statistics of dependent and independent variables

##### 4.1.6.1 Descriptive statistics of investor optimism

Investor optimism is one of the independent variable that effects investment decision which includes four statements measured in five pointed Likert Scale: 1- Strongly Disagree to 5- Strongly Agree.

Table 6

*Descriptive statistics of investor optimism*

Statements	Mean	Std. Deviation
Presently I will stay invested in the Stock market.	3.91	1.16
I plan to increase my investment in the stock market in next 12 months.	3.65	1.35
The prices of stocks will increase in next 12 months.	3.87	1.14
If the NEPSE index drops by 3% tomorrow, I would suggest that it will recover most of its losses in a few days.	4.21	0.84
Valid N (listwise)	384	

*Note from: Field Survey, 2022*

Table 6 shows the descriptive statistics of the investor optimism. Among the four statements “If the NEPSE index drops by 3% tomorrow, I would suggest that it will recover most of its losses in a few days” has highest mean 4.21 with the standard deviation of 0.84 and the statement “I plan to increase my investment in the stock market in next 12 months” have the least mean 3.65 with the standard deviation of

1.35. The respondent was in between Strongly Disagree (1) and Strongly Agree (5). Thus, this section presents the independent factor of behavioural finance i.e. investor optimism on individual investment decision through descriptive analysis is not bad.

#### 4.1.6.2 Descriptive statistics of involvement

This section presents the scenario of involvement through descriptive analysis. In this study, the involvement includes two different statements that are measured in five pointed Likert Scale: 1- Strongly Disagree to 5- Strongly Agree.

Table 7

*Descriptive statistics of involvement*

Statements	Mean	Std. Deviation
I am actively involved in trade activity.	3.92	1.15
I make investment for making money quickly.	3.69	1.31
Valid N (listwise)	384	

*Note from: Field Survey, 2022*

Table 7 shows the descriptive statistics of the involvement. Among the two statements “I am actively involved in trade activity” has highest mean 3.92 with the standard deviation of 1.15 and the statement “I make investment for making money quickly” has the least mean 3.69 with the standard deviation of 1.31. The respondent was in between Strongly Disagree (1) and Strongly Agree (5). Therefore, this section presents the independent factor of behavioural finance i.e. involvement on individual investment decision through descriptive analysis is good.

#### 4.1.6.3 Descriptive statistics of risk attitude

Risk attitude played vital role in investment decision. This study aims to identify whether risk attitude impact on investment decision. Risk attitude is one of the independent variable that effects on taking investment decision which includes four statements measured in five pointed Likert Scale: 1- Strongly Disagree to 5- Strongly Agree.

Table 8 shows the descriptive statistics of the risk attitude. Among the four statements “I invest mostly in companies with stable expected returns” has highest mean 4.22 with the standard deviation of 0.84 and the statement “I usually invest in companies I am familiar with” has the least mean 3.79 with the standard deviation of 1.16.

Table 8

*Descriptive statistics of risk attitude*

Statements	Mean	Std. Deviation
I make riskier investments for enjoyment.	4.03	1.18
I usually invest in companies I am familiar with.	3.79	1.16
I am a risk taker.	4.04	0.84
I invest mostly in companies with stable expected returns.	4.22	0.84
Valid N (listwise)	384	

*Note from: Field Survey, 2022*

The respondent was in between Strongly Disagree (1) and Strongly Agree (5). Thus, this section presents the risk attitude through descriptive analysis is good.

#### 4.1.6.4 Descriptive statistics of investor's behavior

Individual investment decision is one of the dependent variable of the study. This section presents the level of investors behavior through descriptive analysis. In this study, investors behavior includes eight different statements that are measured in five pointed Likert Scale: 1- Strongly Disagree to 5- Strongly Agree.

Table 9

*Descriptive statistics of investors behavior*

Statements	Mean	Std. Deviation
Investors are confident enough while selecting stock.	3.97	0.99
Investors have adequate knowledge of stock market.	3.67	1.33
Investors are increasing their investment in stock market currently.	4.05	1.18
Investors take advice while trading shares.	4.15	0.85
Majority of investors make investment for making money quickly.	3.91	1.14
Majority of the investors are risk seeker.	4.10	0.89
Investors invest in a company that has stable return.	4.03	1.14
The individual investors are driven by emotions rather than rational analyses.	4.16	0.89
Valid N (listwise)	384	

*Note from: Field Survey, 2022*

Table 9 shows the descriptive statistics of the investors behavior. Among the eight statements “The individual investors are driven by emotions rather than rational analyses” have highest mean 4.16 with the standard deviation of 0.89 and the statement “Investors have adequate knowledge of stock market” has the least mean

3.67. The respondent was in between Strongly Disagree (1) and Strongly Agree (5). Thus, this section presents the investors behavior through descriptive analysis is good.

#### 4.1.6.5 Descriptive statistics of overall summary

This section presents the scenario of all variables of the study that are dependent variable (investors behaviour) and independent variables (overconfidence, investor optimism, involvement and risk attitude) through descriptive study. In this study, Summary of all Variables includes five different statements that are measured in five pointed Likert Scale: 1- Strongly Disagree to 5- Strongly Agree

Table 10

*Descriptive statistics of overall summary*

Statements	Mean	Std. Deviation
Overconfidence	3.98	0.50
Investor Optimism	3.91	0.71
Involvement	3.80	0.87
Risk Attitude	4.02	0.66
Investors Behavior	4.00	0.57
Valid N (listwise)	384	

*Note from: Field Survey, 2022*

Table 10 depicts summary of all the variables of the study through descriptive statistical analysis. The magnitude of investors behavior is 4.00 with standard deviation is 0.57 which means investors behavior is high within the investors on share market. Among the factor of investors behavior “risk attitude” have the highest mean with standard deviation 4.02 and 0.66 followed by overconfidence with mean 3.89 and standard deviation 0.87. Finally the factor of investors behavior “involvement” have the least mean with standard deviation 3.80 and 0.87.

#### 4.1.7 Correlation analysis

The study sought to test the relationship between independent factor and investors behavior. This was done through correlation analysis. A Pearson correlation was run to establish how the variables were related to each other. In this section the study established the statistical relationship between independent factor (overconfidence, investor optimism, involvement and risk attitude) with dependent factor (investors behavior).

Table 11  
*Karl Pearson's correlation coefficient*

	Investors Behavior		
	Pearson Correlation	Sig. (2-tailed)	N
Investors Decision	1	0	384
Investor Optimism	.886**	0	384
Involvement	.777**	0	384
Risk Attitude	.821**	0	384

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

*Note from: Field Survey, 2022*

Table 11 shows the relationship between investors decision behavior and investor optimism, involvement and risk attitude where by the respondents N is 384 and the significant level is 0.01. According to the correlation, the range of the output is between -1 to 1. A positive value indicates that the variables are positively related while a negative value indicates that the variables are negatively related. There is significant positive relationship between investor optimism ( $r=.886$ ,  $\text{sig}=.000$ ), involvement ( $r=.777$ ,  $\text{sig}=.000$ ) and risk attitude ( $r=.821$ ,  $\text{sig}=.000$ ) with investors behavior. The correlation analysis shows that all the independent variables i.e., investor optimism, involvement and risk attitude have positive and significant relationship with investment decision behaviour in Nepalese stock market.

#### 4.1.8 Regression analysis

In this study multiple regressions were conducted in order to examine the relationship between investor optimism, involvement and risk attitude with investors behavior. Here, the regression between the factors of behavioral finance and investors behavior in the form of stepwise is analyzed.

Table 12  
*Model summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883 <sup>a</sup>	.779	.793	0.247

a. Predictors: (Constant), Investor Optimism, Involvement, Risk Attitude

*Note from: Field Survey, 2022*

Table 12 shows that the R-squared statistics and the adjusted-R squared statistics of the model were 77.90% and 79.30% respectively. The result indicates that the 79.30%

variation in investment decision is due to investor optimism, involvement and risk attitude.

Table 13

*Results of multiple regressions between the independent and dependent variable*

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	104.35	3	26.09	463.86	.000 <sup>b</sup>
	Residual	21.31	379	0.06		
	Total	125.66	383			

a. Dependent Variable: Investors Investment Decision

b. Predictors: (Constant), Investor Optimism, Involvement, Risk Attitude

*Note from: Field Survey, 2022*

Table 13 predicting the effect of independent factor on investors behavior had a regression value of 104.35, while residual value of 21.31. The F-test,  $F(3, 383) = 463.86$ . The study established a significant value of  $p=0.000 < 0.05$  showing a statistical significance relationship. The significance level has been checked at 5 percent level of significance. The matrix has shown the positive and significant relationships between involvement, risk attitude, investor optimism, and investment decision with the variable individual investment decisions at 5 percent level of significance. Individual Investment decision was positive and insignificant at 5 percent level of significance with individual investment decisions. Hence, the further regression analysis could be conducted in between involvement, risk attitude, investor optimism, and investment decision.

Table 14

*Regression result*

Model		Unstandardized Coefficients			t	Sig.
		B	Std. Error			
1	(Constant)	0.65	0.11		6.09	0.00
	Investor Optimism	0.66	0.05		13.64	0.00
	Involvement	-0.13	0.04		-3.71	0.00
	Risk Attitude	0.25	0.03		7.99	0.00

a. Dependent Variable: Investors Investment Decision

*Note from: Field Survey, 2022*

Table 13 has shown R square value 0.779, which means 26.09 percentages of the variation in investment decision have been explained by the independent variables



used in the study. F- test value was found 463.86 which shown the minimal significance of error with dependent variable. The value of 0.06 means no autocorrelation detected in the sample. The values from 2 to 4 indicate the negative autocorrelation (Kenton, 2019). Thus, there was no autocorrelation among the independent variables. The variable neutral information has been removed because of its insignificant correlation with the dependent variable investment decision. Involvement, risk attitude, investor optimism, and investment decision were significant at 5 percent level of significance. Thus, they were the detrimental factors for investment decision of individual investors in Nepalese stock market. Hence the hypothesis H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub>, H<sub>4</sub>, H<sub>5</sub> are accepted and result found the impact of all these four variables on individual investment decision is significant and positive.

Table 14 analyses, the co-efficient value for investor optimism is 0.66. This means that all things being equal, when the other independent variables (overconfidence, involvement and risk attitude) are held constant, investors behavior increase by 66% if there is 100% improvement in investor optimism. This is statistically significant ( $0.00 < 0.05$ ) i.e. the variable (investor optimism) is making unique contribution to the prediction of the dependent variable (investors behavior).

The co-efficient value for involvement is -0.13. This means that all things being equal, when the other independent variables (overconfidence, investor optimism and risk attitude) are held constant, investors behavior increase by -13.0% if there is 100% improvement in involvement. This is statistically significant ( $0.00 < 0.05$ ) i.e. the variable (involvement) is not making any unique contribution to the prediction of the dependent variable (investors behavior).

The co-efficient value for risk attitude is 0.25. This means that all things being equal, when the other independent variables (overconfidence, investor optimism and involvement) are held constant, investors behavior increases 25.0% if there is 100% improvement in the risk attitude. This was statistically significant ( $0.000 < 0.05$ ) i.e. the variable (risk attitude) is making significant unique contribution to the prediction of the dependent variable (investors behavior).

## 4.2 Major findings

This study has been concentrated on investment behaviors of individual investor. The discussions of major findings of the study are as follows:

- In the study demographic characteristics are measured by gender, age, qualification, income level and occupation. Gender is categorized into males and females; 269 males and 115 females. The percentages are 70.1 percent and 29.9 percent respectively.
- Age is grouped into under 30, 30 to 50, 35 to 45 and above 50; the frequencies of respondents are 105, 146 and 133 respectively. The percentages are 27.3 percent, 38.1 percent and 34.6 percent respectively.
- Income level is grouped into three categories; Rs. 40,000, Rs. 40,000 to Rs. 60,000 and above Rs. 60,000, with the frequency of 166, 130 and 88 respectively. The percentages are 43.2 percent, 33.9 percent, and 22.9 percent respectively.
- Educational level is divided into four parts; Below Bachelors Degree, Bachelors, Masters and Above Masters, with the frequency of 148, 114, 93 and 29 respectively. The percentages are 38.5 percent, 29.7 percent, 24.2 percent and 7.6 percent respectively.
- Occupation is divided into five parts that are student, retired, self-employed, un-employed and salaried individual with the frequency of 46, 81, 74, 65 and 118. The percentages are 12 percent, 21.1 percent, 19.3 percent, 16.9 percent and 30.7 percent respectively.
- In this research work the disaggregated result shows that majority of the investors from unemployed (32.6 %), self employed (18.5%) and salaried categories (37.5%) prefer to buy large number of shares from both market as compare student (5.5%) and retired (6%). There is no such a specific choice between primary and secondary markets for buying shares.
- The magnitude of investors decision behavior is 4.00 with standard deviation is 0.57 which means investors behavior is high within the investors on share market. Among the factor of investors behavior “risk attitude” have the highest mean with standard deviation 4.02 and 0.66 followed by overconfidence with mean 3.89 and standard deviation 0.87. Finally the factor

of investors behavior “involvement” have the least mean with standard deviation 3.80 and 0.87.

- There is significant positive relationship between investor optimism ( $r=.886$ ,  $\text{sig}=.000$ ), involvement ( $r=.777$ ,  $\text{sig}=.000$ ) and risk attitude ( $r=.821$ ,  $\text{sig}=.000$ ) with investors behavior. The findings have suggested that there was a strong correlation between the factors of investors behavior with investors behavior.
- The co-efficient value for investor optimism is 0.66. This means that all things being equal, when the other independent variables (overconfidence, involvement and risk attitude) are held constant, investors behavior increase by 66% if there is 100% improvement in investor optimism. This is statistically significant ( $0.00 < 0.05$ ) i.e. the variable (investor optimism) is making unique contribution to the prediction of the dependent variable (investors behavior).
- The co-efficient value for involvement is -0.13. This means that all things being equal, when the other independent variables (overconfidence, investor optimism and risk attitude) are held constant, investors behavior increase by -13.0% if there is 100% improvement in involvement. This is statistically significant ( $0.00 < 0.05$ ) i.e. the variable (involvement) is not making any unique contribution to the prediction of the dependent variable (investors decision behavior).
- The co-efficient value for risk attitude is 0.25. This means that all things being equal, when the other independent variables (investor optimism and involvement) are held constant, investors behavior increases 25.0% if there is 100% improvement in the risk attitude. This was statistically significant ( $0.000 < 0.05$ ) i.e. the variable (risk attitude) is making significant unique contribution to the prediction of the dependent variable (investors decision behavior).

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter provides the study summary, conclusions and recommendation based on the research objective.

#### 5.1 Summary

The aim of the study is to examine the role of behavioral finance on investment decisions in Nepalese stock markets. The next objective of this study is to examine the most determinants that influences on individual investment decisions in Nepalese stock markets. To achieve the objective of this study causal and descriptive research design has been used. In this research work, the pre- tested questionnaire was used to collect the data through self- administered form. The research finding was based on quantitative data collected by distributing questionnaire to the respondents.

The population includes all the investors in the capital market NEPSE. Among the total population 384 investors of the Nepalese capital market were taken for sample. And judgment sampling method was used in this study. Altogether 384 questionnaires were distributed to the investors with proper briefing about the purpose of the study and the process of filling the questionnaires. The study was mainly based on primary data. Primary data were collected using a structured questionnaire technique. The questionnaire includes ordinal and five points Likert Scale questions ranging from one (strongly disagree) to five (strongly agree). The information regarding demographic variables such as gender, age, income level, type of employment, and education level was collected through questionnaire. Causal and descriptive statistics were used for driving essence of the research data and interpret them. A full-fledged questionnaire is constructed covering three areas namely personal information of respondents, leadership styles and employee performance. Data are described by frequency, percentage, mean and standard deviation correlation coefficient and regression analysis. Data are put in excel file and process through SPSS.

In this study the relationship between investors behavior and overconfidence, investor optimism, involvement and risk attitude where by the respondents N is 384 and the significant level is 0.01. According to the correlation, the range of the output is between -1 to 1. A positive value indicates that the variables are positively related

while a negative value indicates that the variables are negatively related. There is significant positive relationship between investor optimism ( $r=.886$ ,  $\text{sig}=.000$ ), involvement ( $r=.777$ ,  $\text{sig}=.000$ ) and risk attitude ( $r=.821$ ,  $\text{sig}=.000$ ) with investors behavior. The findings have suggested that there was a strong correlation between the factors of investors behavior with investors behavior.

Finally, in this research, investor optimism and risk attitude were making significant unique contribution to the prediction of the dependent variable (investors decision behavior), whereas involvement is not making any unique contribution to the prediction of the investors decision behavior.

## 5.2 Conclusion

The aim of the study is to examine the role of behavioral finance on investment decisions in Nepalese stock markets. The next objective of this study is to examine the most determinants that influences on individual investment decisions in Nepalese stock markets. The main research strategy use in this study is a survey which allows quantitative data collection and analyses using Causal and descriptive statistics. Quantitative research methodology is also concerned with the collection and analysis of data in numeric form. In the study investors an all-inclusive questionnaire designed to cover major aspects of taking investment decision. Investors behavior factor includes investor optimism, involvement and risk attitude as independent variables. And dependent variable includes investors decision behavior.

The magnitude of investors decision behavior is 4.00 with standard deviation is 0.57 which means investors behavior is high within the investors on share market. Among the factor of investors behavior “risk attitude” have the highest mean with standard deviation 4.02 and 0.66 respectively. Finally, the factor of investors behavior “involvement” have the least mean with standard deviation 3.80 and 0.87.

There is significant positive relationship between investor optimism ( $r=.886$ ,  $\text{sig}=.000$ ), involvement ( $r=.777$ ,  $\text{sig}=.000$ ) and risk attitude ( $r=.821$ ,  $\text{sig}=.000$ ) with investors behavior. The findings have suggested that there was a strong correlation between the factors of investors behavior with level of investors behavior. In this study the effect of independent factor on investors behavior had a regression value of 104.35, while residual value of 21.31. The F-test,  $F(3, 383) = 463.86$ . The study

established a significant value of  $p=0.000<0.05$  showing a statistical significance relationship.

In this research investor optimism and risk attitude were making significant unique contribution to the prediction of the dependent variable (investors behavior), whereas involvement had not making any unique contribution to the prediction of investors behavior.

### **5.3 Recommendation**

The investors need to analyze the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should be able to analyze the market and economic indicators since they influence the performance of the share on the market. The study findings had been hoped to add value on behavioral finance theories. The academicians, professional and policy makers were the targeted reader of this research. The generalization of the research findings would be possible only if the research had been conducted in the rest of the cluster of the nation.

Since only one case study has been performed for this research work, the method needs to be further tested in order to validate its applicability. Moreover, investment behavior of individual investors in the Stock Market of Nepal is an extensive subject with many interesting aspects to focus future research on. In numerous independent studies, the investment behavior of individual investors in the Stock Market of Nepal was examined. In almost all the studies positive significant relationships were achieved. Additionally, it is suggested that conducting a 'Meta Analysis' instead of testing the investment behavior of individual investors in the Stock Market of Nepal which is known in advance, could be more appropriate.

The measure of investment behavior of individual investors in the Stock Market of Nepal only a small number of investors were taken for sample, which reflected different aspects of investment behavior of individual investors in the Stock Market of Nepal and does not represent an overall view of share market and its impact on investors investment decision. Therefore it is recommended in future research, to consider more items and better measures, in relation to this outcome variable.

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# QUESTIONNAIRE

Dear Respondent,

I am conducting this questionnaire survey for discovering current situation of behavioral finance and investment decision. My research topic is “FACTORS INFLUENCING INVESTMENT BEHAVIOR IN STOCK MARKET: THE STUDY CASE OF INDIVIDUAL INVESTORS IN NEPAL”. Hence, I request you please go through the statements carefully and provide your response as genuinely as possible. Confidentiality of your response will be maintained. It will take you about 15 minutes to complete this questionnaire survey.

Sulochana Kanaujiya

MBS Student

People’s Campus

## Part 1

### Demographic Variable

1. Name (optional):.....
2. Gender: Male  Female
3. Age: Under 30  30-50  Above 50
4. Monthly Income  
Below Rs. 40,000  Rs. 40,000- Rs. 60,000  Above Rs. 60,000
5. Education  
Below Bachelors Degree  Bachelors  Masters  Above Masters
6. Occupation  
Student  Retired  Self-employed  Un-employed  Salaried Individual

### Basic Information

7. What are your investment objectives? (Please tick the most appropriate option only).
  - a. Short term profit seeking [ ]
  - b. Steady income (Dividends) [ ]
  - c. Long term profit seeking [ ]
  - d. Others [ ]
8. In which market do you prefer more to invest in?
  - a. Primary market [ ]

- b. Secondary market [ ]
- c. Both [ ]

9. In which volume do you make your investment?

- a. Small size (0-20, 00,000)                      b. Medium size (20, 00,000 – 1,00,00,000)
- c. Large size (100, 00,000- above)

10. How frequently do you monitor your investment in stocks?

- a. Daily
- b. Monthly
- c. Quarterly
- d. Bi-Annually
- e. Annually

11. How frequently do you trade (buying and selling) shares in the market?

- a. Weekly  
(Small size of Investment [ ], Medium size of Investment [ ], Large size of Investment [ ])
- b. Monthly  
(Small size of Investment [ ], Medium size of Investment [ ], Large size of Investment [ ])
- c. Quarterly  
(Small size of Investment [ ], Medium size of Investment [ ], Large size of Investment [ ])
- d. Bi-Annually  
(Small size of Investment [ ], Medium size of Investment [ ], Large size of Investment [ ])
- e. Annually  
(Small size of Investment [ ], Medium size of Investment [ ], Large size of Investment [ ])

12. . Please express you level of agreement/disagreement with the following statements.

[Strongly agree = 5, Agree = 4, Don't know = 3, Disagree = 2, Strongly disagree = 1]

SN	Items	1	2	3	4	5
Investor Optimism						
12.1	Presently I will stay invested in the Stock market.					
12.2	I plan to increase my investment in the stock market in next 12 months.					

12.3	The prices of stocks will increase in next 12 months.						
12.4	If the NEPSE index drops by 3% tomorrow, I would suggest that it will recover most of its losses in a few days						
Involvement							
12.5	I am actively involved in trade activity.						
12.6	I make investment for making money quickly.						
Risk Attitude							
12.7	I make riskier investments for enjoyment.						
12.8	I usually invest in companies I am familiar with.						
12.9	I am a risk taker.						
12.10	I invest mostly in companies with stable expected returns.						

**13.** Please express you level of agreement/disagreement with the following statement regarding behavior of investors in Nepalese share market. [Strongly agree = 5, Agree = 4, Don't know = 3, Disagree = 2, Strongly disagree = 1]

SN	Items	1	2	3	4	5
13.1	Investors are confident enough while selecting stock.					
13.2	Investors have adequate knowledge of stock market.					
13.3	Investors are increasing their investment in stock market currently.					
13.4	Investors take advice while trading shares.					
13.5	Majority of investors make investment for making money quickly.					
13.6	Majority of the investors are risk seeker.					
13.7	Investors invest in a company that has stable return.					
13.8	The individual investors are driven by emotions rather than rational analyses					

Thank you.