THE IMPACT OF INDIVIDUAL BEHAVIOR OF INVESTORS ON STOCK MARKET OF NEPAL

A thesis

Submitted

By

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Certificate of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirement for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the presentation of this thesis itself has been acknowledge. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

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Sangita Upadhyaya

November, 2020

RECOMMENDATION LETTER

It is certified that thesis entitled **"**The impact of Individual Behavior of Investors on Stock Market of Nepal**".** Sangita Upadhyaya is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"The Impact of Individual Behavior of Investors on Stock Market of Nepal"** presented by Sangita Upadhyaya, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABSTRACT

An investor is a person who allocates capital with the expectation of a financial return. The market involves by definition. One buyer and seller. The stock market includes a very large number of investors, each having their own motives for becoming buyers and sellers. The investors consider their investment needs, goals, objectives and constraints in making investment decision.

The main objective of the study was to analyze the individual investors' behavior in Nepalese Stock market. The study adopted quantitative approach. The stud undertakes descriptive research design. The study used primary data to obtain the objectives of the study.120 structured questionnaire that was developed and was distributed among the investors of stock market through friends circle and relatives. Percentage, correlation, regression and descriptive statistics like mean, standard deviation were used for analysis purpose with the help of SPSS software. Cronbach's alpha was also used for the reliability and validity.

The major conclusion of this study is that most of the investors consider herding, rational decision and information leak as important factor that influence behavior of investors. It is found that most of the investors take rational decision before invest in share. They are gather necessary information before buying and selling share. There is positive relationship between all factors such as herding, information leak and rational decision with investment trading. The study shows investment trading is positively influenced by herding behavior rational decision and information leak but highly influenced by herding behavior. Investors are quite disagree with herding behavior and most of the investors are agree with rational decision. The study has found that respondent investors exhibited herding behavior. Their need to conform with others was one of the influences on their investment trading process.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
HMG	His Majesty Government
IPO	Initial Public Offer
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
NYSE	New York Stock Exchange
OTC	Over the Counter Market
SEBON	Securities Board of Nepal
SEC	Securities and Exchange Commession
SPSS	Statistical package for the social science
GNMA	Government National Mortgage Association
UAE	United Arab Emirate
LIC	Life Insurance Corporation

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment refers to the commitment of funds at present in anticipation of some positive rate of return in future. An investor is a person who allocates capital with the expectation of a financial return. There are three type of investors namely conservative investors, moderate and aggressive investors. The stock market involves by definition, one buyer and one seller. The stock market includes a very large number of investors, each having their own motives for becoming buyers and sellers. According to the traditional market theories (Al- Tamimi, 2006). It is not only the markets that do not behave in accordance with tenets of expected utility theory. The investors consider their investment needs, goals, objectives and constraints in making investment decisions. But it is not possible to make a successful investment decision at all times. Their attitude is influenced by various factors such as dividend, get reach quickly strategy, stories of successful investors, online trading, investor awareness program, experience of other successful investors etc. A better understanding a behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors in devising appropriate assets allocation strategies for clients (Al-Tamimi and Hussein, 2006).

In a simple word investment means to invest money to earn interest or to bring profit. Investment in its broadest sense means scarifies of current rupees for future rupees. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. Investors are those people who invest their money in the capital market for the future earnings. Therefore they are known as the backbone of the capital market. "Generally there are three types of investors in the capital market.

Stock market is a place where buying and selling of securities takes place in an organized way. The parties involved in stock market are investors. Intermediaries and specialists. Investors who are willing to buy or sell stock quickly may be searching good offers or accepting poor offers with higher risk and of higher return. The position of liquidity and profitability and the degree of risk comprise on it are indicators taken into consideration while selecting the best options for investment. There are also different avenues available to invest for investor's namely corporate securities, equity shares, preference share, debentures, bonds etc. investors invest in both primary and secondary market for their investment. Since those in the secondary investors, speculators are also investors. The investors or the specular should have better knowledge and update market news, market indicators and technical system so that he could invest them in best avenues and get back the investment safely and get regular income out of it. Individual investors are those who commit money to investment products with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing returns as opposed to a speculator, who is willing to accept a higher level of risk in the hope of collecting higher- than average profits. Investors participate in the capital market by purchasing and selling different stocks and it is quite important to identify various economic and behavioral motivations that affect their purchasing decision (Gurung, 2004).

"The major function of stock market is to provide steady and continuous market for purchase and sale of securities at a competitive price by importing marketability and liquidity. It is also a medium through which scattered savings and scare resources are transferred into productive areas that ultimately help to the economic development and industrialization of the country. The basic function of the stock market are to provide the allocate capital fund to the organization with profitable investment opportunities and to offer and avenue of liquidity for individuals to invest current income or borrow against future income and there by achieve their preferred time pattern of consumption. Because of investing involves uncertainty, capital market provides a means for transferring risk among the parties to these transaction. The stock market and economic activities move into similar direction. In the Nepalese economy the demand for and supply of money for investment in productive enterprises is low due to the absence of mechanism for direction. In the Nepalese economy the demand for and supply of money for investment in productive enterprises is low due to the absence of mechanism for transferring risk which in turn may be attributed to the absence of well-developed stock market." (B. Raghunathan, 1992).

Nepalese Stock Market is very small as compared to other neighbor countries. Capital plays a vital role in the economic development of a country. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital effectively. Securities are financial assets. Securities markets are mechanism created to facilitate the exchange of financial assets. Therefore, the market exists in order to bring together the buyers and sellers of Securities. Capital market is the mechanism designed to facilitate the exchange of financial assets by bringing orders from buyers and sellers of securities together. Stock market has been global phenomenon in the present world regardless of the size of any particular region.

The capital market is used as the main vehicle to mobilize funds for the economic growth of the country. It performs crucial functions like the conversion of savings of the households and institutions into investment, creation of financial assets and development of assets-related products. A well-functioning securities market is conducive to the sustained growth of any country in the world, Levine and Ross (2008). Nepalese capital market is one of the slightly growing markets at the current moment. It has grown impressively during the recent years in tune with the global financial market. The Nepalese capital market comprises of two segments, namely the primary market and the secondary market. The fresh issues of securities take place in primary and trading among investors take place in secondary market. The primary market is a major channel through which the saving of the households are mobilized by the companies directly for investment purposes. It is the centre stage of the capital market that really boosts industrial and financial activities by providing long term funds to the corporate and the government. It infuse new securities, adding volume and wider base of securities in the secondary market. The secondary market afford liquidity to the investment in securities and reflects the general health of the economy.

According to Kent, Hirshleifer and Teoh (2001), the most common factors that influences investors' perception while making investment decision are (1)Investors often do not participate in all asset and security categories, (2)Individual investors exhibit loss-averse behavior, (3) Investors use past performance as an indicator of future performance in stock purchase decisions, (4)Investors trade too aggressively, (5) Investors behave on status quo, (6) Investors do not always form efficient portfolios, (7) Investors behave parallel to each other, and (8) Investors are influenced by historical high or low trading stocks. While, according to (Petter, 1970) factors which motivate or guide the investment decisions of the common stock investors are: (1) income from dividends; (2) rapid growth; (3) purposeful investment as a protective outlet of savings; (4) professional investment management.

There are many factors that should be considered while taking investment decision in the Securities market. Some of these are the book value of the stock, risk and return trade off, company's future prospects, government rules and regulations, the direction of Nepal Rastra Bank. But because of the poor corporate governance and lack of timely information the investors depend upon some available experts for the analysis of the stock price. Beside the individuals investors dominate the market whose speculative behavior make the price fluctuate. This makes the potential investors depends on the whim and rumor in stock trading. So this research study will try to evaluate the investor's consciousness and the ways to be more effectively aware regarding the stock exchange.

Paudel (2005) states that stock markets, due to their liquidity, enable firms to acquire much needed capital quickly, hence facilitating capital allocation, investment and growth.

Devkota, Upadhyaya and Joshi (2007) insist that Nepalese stock market is still in infancy and could not play a significance role in terms of putting impact on the economic activities in the country. Similarly, K.C (2010) indicates that financial development does matter and stocks do spur economic growth of Nepal. However, the small market size of Nepal, illiquidity, dominance of few large companies and inability of market to handle risk relative to the volume of trading make it vulnerable to manipulation and ragging.

Investment behaviors of investor are defined as how the investors judge, predict, analyze and review the procedure for decision making, which include investment psychology, information gathering, defining and understanding, research and analysis (slovic, 1972; Alfredo and Vicente, 2010).

Investors do not act rationally in taking decisions relating to investment. They have certain weaknesses like cognitive and emotional which take a predominating role in taking investment decision of individuals. They have behavioral biases in the event of taking investment decision. The most crucial challenge faced by the investors in perhaps in the area of taking investment decisions. Every investor differs from the others in all aspects due to various factors like demographic factors, socio-economic background and marital status, educational attainment level, age , gender, information (Kabra, Mishra, and Dash, 2010).

DeBondt (1998) identified four classes of anomalies on the level of individual investor perception: (1) investors are prone to biases in the perception of asset price movements. (2)The perception of asset's value is largely dependent on popular models (3) when managing risk and return; many investors do not diversify their portfolios. (4) Although traders are often pre committed to certain rules and techniques, even professional ones seem to fail to maintain discipline and consistency several profitability variables such as quick profits, rapid growth, dividends and beside other variables such as long-term growth and investment for saving purposes are identified as effective factors on the attitudes of individual investors in making investment decisions. The investors consider their goals, investment needs, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by various factors such as get rich quickly strategy, dividend, stories of successful investors, online trading, experience of other successful investors (Potter, 1971).

Information has been one of the most important components in determining behavior of individuals. In case of their behavior in stock market, it becomes even more critical to access and incorporate into their decision making updated information included in financial reports. Periodical press releases, and media coverage and so on. There is strong demand for information about the product safety and quality, and about the company’s environmental activities Epstein (1994).

From different study it is found that the behavior of investors in the stock market is influenced by certain factors such as demographic factors, awareness and risk attitude factors. Investors do not act rationally they have certain weakness like cognitive and emotional which take predominating role in taking investment decision. All the investor differs from the others in all aspect due to various factors.

The field that has been recently getting lots of attention from finance academics and the behavior of investor will be dealt and will focus on exploring why Nepalese investors invest in share market and whether their decisions to invest in share market are in a way influenced by behavioral factors.

1.2 Statement of the Problem

The study on individual investor and their behavior has received a lot of consideration during the past and is increasingly in the focus of interest of many scientists, being not confused only to economists. The globalization of financial markets has been increasing the number of small investors over the past two decades by providing a wide variety of market and investment options. However, it make the investment decisions process much more complex. The small investors generally consider their investment needs, goals, objectives and constraints while making investment decisions. But it is not possible for them to make a successful investment decision at all.

According to Lovric, Kaymak & Spronk (2008) large body of empirical research indicates that real individual investors behave differently from investor in these models. Most individual investors hold under diversified portfolios. Many apparently uninformed investors trade actively, speculatively, and to their detriment. And, as a group, individual investors make systematic, not random buying and selling decision.

Financial economists and investors have been spending considerable time searching for investment strategies that yield abnormal returns. But the reliable one is yet to be found several studies have confirmed that the firm level fundamental variables are useful in explaining the stock returns patterns and the future price movements. For instance, earning yield effect of (Basu, 1977), size effect of (Banz, 1981), leverage effect of (Bhandari, 1988), book-to-market effect of (Stattman, 1980), joint effect of beta , size, leverage, book-to-market equity and earning yield of (Chan, et al, 1991) ,annual reports and interviews with company official (Gentry and Fernandez, 2008) are some of the major studies. These evidences shows that firm level past accounting variables have the explanatory power to predict the future returns. The return comprises the dividends plus the capital gains. The future prospects and the market opportunities determine the degree of stock returns and level of investments. Similar to stock returns, investment decision is an important phenomenon in the area of finance. Among the others, the size and book-to-market equity have more significantly explained the variation in stock returns. These variables are taken as explanatory variable for the study that help to conform the existence of similar results in Nepalese context.

The overreaction hypothesis and Lakonishok, et al. (1994) argued that the reversal and book-to-market effect are the result of investor’s overreaction to the past firm performance. In contrast, Fama and French (1995, 1996) argued that since past performance is likely to be negatively associated with changes in systematic risk, high book- to-market firms are likely to be riskier and hence require higher expected returns. Some evidences explained investors overreact to the past accounting growth rates. On the contrary, some other studies documented that the increased risk and return of high book-to-market firm is the result of distress brought by the poor past performance. The controversy in whether investor overconfidence or the risk and return trade-off is the causes of book-to-market effect or return reversal is the motivation of the study.

The prominent issues in the stock market might be the fluctuating stock market indices, the capital centric trading system, limited numbers of dominant investors, and their influences in stock market. Kafle (2007) stated that the stock market is bullish and getting to new peaks, there are numbers of contributing factors out of them investors awareness on the risk return and investment profile is the one. The major task of the securities regulating authorities is to protect investor’s right and to provide the congenial trading environment with confidence and commitment. The development and expansion of the current infrastructure and the facilities is the another aspect. There is no the practice that regulators provides the specific investment advice, regulators should not recommend the purchase or sale of particular stocks. Similarly, they should not provide particular strategies to guide investor’s investment decisions. But, the authority can do well and compel to do awareness level of the investment communities.

The above reviewed literature shows that there is no uniformity in the findings. Some of the major studies indicates the positive relation between stock return and size whereas inverse relation between returns and market-to-book value. The positive relation between stock returns with earning yield and size whereas negative relation with book-to-market ratio and cash flow yield and book-to-market value is found to be more informative, book-to-market equity is the most significant determinant of stock returns and in other study the evidence shows that Nepalese stock market is inefficient. These studies provided the evidences that book-to-market equity and size are the major determinant of stock return even if the capital market is inefficient in Nepal. Thus, the existing literature provides sufficient evidences of the controversy and lack of consensus. The existing gap justifies the need of further evidences on factors interacting stock returns.

To sum up, this study tries to address the following research question

i. What is the position of investor's behavior in stock market of Nepal?
ii. Do Nepalese investors take rational decision for investment in stock market?

1.3 Purpose of the Study

The aim of the study is analysis of individual behavior of investor on stock market. To reach the aim we have three specified objective. These are.

i. To assess the position of investor's behavior in stock market of Nepal.
ii. To determine the way of investment decision of Nepalese investors in stock market.

1.4 Significance of the Study

The study on factors influencing retail investors' attitude towards investing in equity stocks in Tamil Nadu concluded that the factors that had very high influence over the retail investor's attitude towards investing in equity stocks are investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business (Bennet, et. al. 2011). The main objective of the study was to identify the various factors that influence the retail investors' attitude towards investing in equity stock markets. The study was heavily depend upon primary data and was descriptive in nature. The required data were collected from the retail investors living in Tamil Nadu conducted during the period between July and October 2010 through a structured questionnaire. The sample size covered 200 retail investors who were spread through ten different places in Tamil Nadu. However, on a detailed scrutiny of the filled in questionnaires, it was found that

12 of them had given incomplete information and the study was based on 188 selected respondents from the retail investors. Participants were asked to evaluate the importance of 26 variables, identified from the literature and personal interviews as potentially influencing the value of equity shares, by making seven choices for every one of the 26 variables: “strongly agree” for the variables which had a strong influence on the factors considered to be influencing equity shares and “strongly disagree” for the variables that does not have much influence on the factors considered to be influencing equity shares. Descriptive statistics and factor analysis were used for analysis of the data. The study also revealed that four factors were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks are Stories of Successful investors, get rich quick philosophy, information available on internet and cost cutting by companies.

Sindhu, Kalidas and Anil Chandran (2014) try to analyze the various factors influencing investor sentiments in the Indian stock market. They conclude that there exists significant relationship between gender of the investors and the factors like herd behavior, risk factors, and confidence and performance factors.

The study on an empirical analysis of factors influencing Indian individual equity investors’ decision making and behavior concluded that most of the equity investors do not have the sufficient knowledge of basic economic concepts required to make investment decisions (Sultana and Pardhasaradhi, 2012). The objective of the study was to analyze and identify the factors influencing the Indian individual equity investors while choosing a stock for investment.

The study of Schmidt and Spreng (1996) specially focused that better-educated investors have a more extensive knowledge structure and are more capable of identifying, locating, and assimilating relevant information. Therefore, investors with a higher education level would be able to search using sources that require more knowledge, such as books, newspapers, or the internet. Moreover, investor with higher educational levels may be more realistic about their own ability to invest and more open-minded toward professional service provider.

Based on the review of some of the major earlier studies, it is realized that there is a specific research gap in the area of individual behavior of investors in Nepalese context. Previous studies focused only on certain factors like risk attitudes, market information. Thus, this study tries to blend both scopes in an effort.

In order to fulfill the above gap, all the factors affecting the investor's behavior can be categorized into demographic factors, awareness and risk attitudes factors. It focused on analysis of major factors determining investor's behavior while trading stock market in Nepal and also consider about the way of Nepalese investor's investment decision in stock market. This study help to overcome the limitations of the previous studies and also to make a valid conclusion.

1.5 Limitation of the study

Every study is conducted under any constraints and limitations. Likewise, this study is also limited by some constraints. The some limitations of the study are as follows:

i. Three behavioral dimensions of individual investors is considered so may not give clear guideline for policy making.
ii. Two types of investor invest on stock market, they are individual investor and institutional investor. So the findings can only be generalized in individual investors.
iii. Most of the primary data are based on research questionnaire. Therefore, the reliability and validity of the data depends upon their source.

1.6 Chapter Plan

This study has been organized into a total of five chapters. Chapter one consists of general background of the study including statement of the problem, purpose of the study, significance of the study and organization of the study.

The chapter two provides the clear insights of literature reviews. It includes the reviews of literature from global context and review of some Nepalese context. In addition, theoretical framework has been developed.

Likewise, chapter three covers research methodology process such as research design, nature and sources of data, population, sample size, data analysis procedure and model used for data analysis.

The chapter fourth deals with analysis and interpretation of data using statistical tools such as descriptive statistics, co-relation matrix, regression analysis. Major findings of the study have been presented at the end of this chapter.

The chapter five is last chapter of the study that provides the summary, conclusion, recommendations and scope for future research.

CHAPTER II

LITERATURE REVIEW

This chapter contains conceptual framework of the study and deals with review of empirical studies associated with investor's behavior while investing. This section was divided in to three section namely, literature review, research gap and conceptual framework.

2.1 Conceptual Review

The success of every investment decision matters more than the investment itself. "Making sound investment decision requires both knowledge and skill. Skill is needed to evaluate risk and return associated with investment decision knowledge is regarding the complex investment alternatives available in the economic environment".

Investment should be based on information lack of this result in disaster. For the knowledge, the investment process can be financially rewarding and exciting. Investor should select most suitable alternatives among various alternatives. Thus conscious investor should consider some factor in choosing among investment alternatives.

2.1.1 Concept of Stock Market

Stock market is known as secondary market in the other side of market segment under capital market. It includes all transferable securities issued previously by corporate bodies; such securities are also traded in the stock exchange. Stock market does not include securities of private company as they are not capable of being dealt in on stock exchange and are not marketable securities due to the restrictions on transferability. In order to take the benefit from stock market the corporate bodies should have listed the security in the stock exchange.

Stock market covers activities pertaining to the dealing in securities, whether good or bad, for the liquidity and marketability. Only the securities of existing companies are tradable on the stock exchange irrespective of issuers corporate bodies or government (Vaidya, 2000).

In Nepalese context, the government has initiated liberal economic policies since the mid 1980s. The Nepalese financial system has undergone rapid structural changes in the last two and half decades. It has been revealed that the Nepalese financial system is basically bank-dominated. Capital markets and stock markets have not been developed in full scale of operations and the banking institutions, particularly the commercial banks, appear to be the major financial intermediaries in satisfying financing need of productive units of the economy.

In Nepal, Nepal Stock Exchange has opened investment avenues to the capitalist or so called investors who can investment in varieties of investment securities like in banks, finance companies, hotels, manufacturing and service. Capital Market is a one of the significant aspect 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.

Stock exchange is the heartbeat of much of the corporate, governmental and public financial activity in the world today. Stocks and bonds are bought and sold in these open markets under careful regulation, which protects companies, governmental agencies and individuals alike. Such markets are essential in raising financial capital for our economy.

Investors buy stocks and bonds with the intentions of getting back their entire investment and making a profit. This booklet presents basic information about these familiar financing building blocks and discusses the pertinent issues about investing in stocks and bonds.

Securities market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significances to the financial assets. Practically, the activities of buying and selling securities on the security markets are extremely important for the allocation of capital within economics the securities market serves as a reliable guide to the performance of companies and thereby promoting efficiency.

Though stocks are one of the most commonly traded securities, there are also other types of secondary markets. For example, investment banks and corporate and individual investors buy and sell mutual funds and bonds on secondary markets. Entities such as Fannie Mae and Freddie Mac also purchase mortgages on a secondary market.

Corporations sell two different kinds of stocks, which provide investors with significantly different benefits. The word "common" is used to describe the more widely recognized stocks. "Preferred" stocks are not as widely known. Both raise money for the corporation, and both are considered "equity" financing. Their differences are found in the "rights" each provides to the investors.

The stock market is one of the most important sources for companies to raise money. This allows business to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to sell securities quickly and easily. It plays a crucial role in the financial system. It is considered as one of the best ways to increase funds. But before we make any investment into stock market, we should know how to get started. It may turn out to be a profitable affair as long as we know the tricks of the trade.

A stock market is a market for trading of publicly held company stock and associated financial instruments. Originally, stock markets were “open outcry”, where trading occurring on the floor of a stock exchange. Most modern stock trading is done in electronic exchanges where buying and selling occurs via online matching of order placed buyers and sellers (Manandhar, 2063).

2.1.2 Types of Stock market

i) Primary Market

Securities available for the first time are offered through the primary market. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the offers of the issuer (Fischer and Jordan, 2000). The primary markets are media through which new financial assets issued or generated. They are the media through the demanders and suppliers of today’s funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of demanders and suppliers of today’s fund. At present context, it is the market for direct issuances of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issues market for industrial securities.

Soyede (2005) primary market is a market for new securities. It is a platform where the company or government can raise money for investment or where already quoted companies can raise fresh funds for expansion.

The primary market is where securities are created. It's in this market that firms sell (float) new stocks and bonds to the public for the first time. An initial public offering, or IPO, is an example of a primary market. These trades provide an opportunity for investors to buy securities from the bank that did the initial underwriting for a particular stock. An IPO occurs when a private company issues stock to the public for the first time.

A primary market issues new securities on an exchange for companies, governments, and other groups to obtain financing through debt-based or equity-based securities. Primary markets are facilitated by underwriting groups consisting of investment banks that set a beginning price range for a given security and oversee its sale to investors.

ii) Secondary Market

The secondary financial markets are that market where many outstanding assets are traded from old to new owners. The secondary market provides liquidity for financial assets making them more attractive. So, secondary market is a place where the securities once sold are purchased and repurchase to provide liquidity to the government securities. In Nepal, the secondary market is very thin because of limited distributors of the securities. NEPSE is established in order to promote the market used to support the market even involving itself buying and selling activities if necessary. Secondary market allows outstanding securities to be traded from old to new owner. The advantage of secondary market is to provide cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange, the over- the –counter market Secondary market in simple, are markets in which outstanding securities are traded. It is the market that creates the price allow for liquidity. If secondary market did not exist, the investors would have no place to sell their assets. Without liquidity many people would not invest at all. The corporations whose securities are being traded are not involved in secondary market transactions and, thus, do not receive any funds from such a sale (Brigham, 2001).

Pandey (2006) it is a type of market where existing securities of a market are traded on daily and continuous basis. It is a market for existing securities. This consist of exchanges and over the counter markets where securities are bought and sold after their issuance in the primary market. It has little to do with influencing the way an economy allocates its capital resources or the way in which sailing surplus and savings deficit unit deal.

The secondary market is where investors buy and sell securities they already own. It is what most people typically think of as the "stock market," though stocks are also sold on the primary market when they are first issued. The national exchanges, such as the New York Stock Exchange (NYSE) and the NASDAQ, are secondary markets. The number of secondary markets that exists is always increasing as new financial products become available. In the case of assets such as mortgages, several secondary markets may exist. Bundles of mortgages are often repackaged into securities such as GNMA pools and resold to investors.

In conclusion, secondary market is a place where once securities purchased and sold to provide liquidity to the government securities and the market is operated by the securities exchange center. The trading of government securities is very thin because of limited distributors of the securities.

iii) Third Market

The Third market is an OTC market where the securities listed in the Organized Stock Exchange are also traded. More generally, the term “third market” now refers to the trading of any exchange listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange and continue to trade securities even when trading is halted on an exchange. In the third market dealers provide only execution and record keeping services for their clients.

A third market consists of trading conducted by non-exchange member broker-dealers and institutional investors of exchange-listed stocks. In other words, the third market involves exchange-listed securities that are being traded over-the-counter between broker-dealers and large institutional investors.

With a third market, exchange-listed securities are traded by investors operating outside a centralized exchange through a network of broker-dealers and institutional investors. Institutional investors, such as investment firms and pension plans, tend to participate in the third market, as do traders in the over-the-counter markets.

Regardless of the era and instrument traded, third markets typically adopt rules and practices that are intended to preclude, or at least sharply curb, informed trading. For example, third market stock dealers in the united states often accept only small orders that are most likely submitted by uninformed retail traders, and sometimes buy such orders from brokers who have a largely retail clientele. Similarly, the bucket shops of old accepted only small traders. At the other end of the trade-size spectrum, block traders also attempt to screen out the informed (Seppi, 1990).

iv) Fourth Market

The fourth market also exists in the over the counter market and here trades occur directly among investors. In other words, in this type of market the buyer and seller deal directly with each other. This deal occurs in the exchange listed securities. Forth market participants completely bypass normal dealer’s services. In this market, investors and investor securities are transacted. It is a communication network between block traders. The Fourth Market organizer collects only a small commission or an annual retainer for having to arrange block transactions. Thus, the costs of trading blocks are very small. Through the direct negotiation, more rapid execution and protection of anonymity, traders operating in the Fourth Market also expect to obtain better price. In the United States, some of these transactions are facilitated by an automated computer communication system called Instant, which provides quotations and execution automatically. A subscriber can enter a limit order in the computerized book where it can be seen by other subscribers who can, in turn, signal their desire to take it. Whenever two orders are matched, the system automatically records the transactions and sets up the paper work for its completion.

The fourth market refers to a market where securities trade directly between institutions on a private, over-the-counter (OTC) computer network, rather than over a recognized exchange such as the New York Stock Exchange (NYSE) or Nasdaq. It is similar to the third market, which involves exchange-listed securities that are being traded over-the-counter between broker-dealers and large institutional investors. Fourth market trading differs from third market trading in that there is no intermediary or broker facilitating the trade. Institutions directly trade with each other without brokers or dark pools.

Institutions can trade various types of securities and derivatives contracts on the fourth market, often to increase anonymity or to effect large trades without moving the market.

v) Organized Securities Exchanges vs. over-the-counter (OTC) Market

Organized securities exchanges are the physical locations where trading of securities is done under a set of rules and regulations. Company has to register the share in this place. Without Registration Company share cannot be buy or sell. Company has to pay certain fee and renew share each year following certain rules and regulation. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal stock exchange (NEPSE) is an example of organized stock exchange and this is the only stock exchange in Nepal. Similarly, the New York stock Exchange (NYSE), Tokyo stock Exchange, American Stock Exchange (AMEX), Bombay Stock Exchange (BSE) are the examples of organized stock exchanges. After an account has been opened, the broker relays the investor’s order to a dealer that handles that security.

The organized security exchange are tangible physical entitles. Each of the larger once occupied its own building, has specifically designated members, and has an elected governing body- its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Weston & Brigham, 1997).

The preponderance of the empirical evidence on investment outcomes focuses on companies with equity listed on a stock exchange such as the New York stock exchange (NYSE) or Nasdaq. Yet, another broad set of companies, consisting primarily of smaller firms, have stock that is quoted on OTC markets. While the stock of company listed on exchanges are predominately held by institutional investors, OTC stocks are owned and traded almost exclusively by individual (retail) investors (Ang et al, 2013).

OTC market is not organized in the sense of having a site where unlisted stock is traded. In this market trading operates by using a nationwide network of phone lines and computer links where the price is determined by financial paper negotiations. Haugen (2001) argue that there are two levels of price i.e. wholesale and retail prices are offered to individual investors who wish to alter their inventory positions.

The term "over-the-counter" typically refers to the trading of securities that are not listed on widely-recognized exchanges such as the New York Stock Exchange (NYSE). These securities are instead traded through a broker-dealer network, as the securities don't meet the listing requirements of a centralized exchange. In the case of the third market, the securities are exchange-listed, but they are not being traded through the exchange.

The over the counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchange.

2.1.3 Participants in Stock Market

The major participants in Stock Market are:

i) Broker

Various types of broker participate in stock market. A stock broker is a member of stock exchanges and sub broker is any person who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such broker. Condition for granting of certificates to stock broker, the rules stipulates the registration is necessary for acting as broker or sub-broker. The conditions for grant of a certificate of registration to act as stock-broker are;

i. He holds the membership of a stock exchange act.

ii. He shall abide by the rules, regulations and bye-laws of the stock exchange of which he is a member.

iii. He shall pay the amount of fee for registration.

A stock broker is expected to maintain high standards of integrity, promptitude and fairness in the conduct of his business. He is expected to exercise due to skill, diligence and comply with statutory requirements and not to indulge in manipulation and practice.

A floor broker reveals the order only in response to the arrival of a contra-side order that he or she wants to trade against. This implies that the floor broker has some ability to refuse to trade with well-informed traders and to selectively tare with other brokers with whom she is more comfortable. If traders are concerned about who wants to trade and why they want to trade, then the ability to selectively disclose the order may be an important dimension of the trading process (Handa, Puneet, Schwartz and Tiwari, 1998).

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage. A brokerage firm or stockbroker accepts investors' orders to purchase and sell securities and is paid a commission for transmitting these orders to the appropriate exchange for execution. There are two broad types of brokerage firms-retail houses, which deal with individual investor, and wholesale houses, which deal with institutional investors. Some firms have both retail and wholesale customers. They include most of the well-known firms like Merrill Lynch, Pierce. Fanner and Smith Inco, Prudential Bache Securities Inc. Others, such as Salomon Brothers, however, accept only institutional investors as clients. As soon as an order is placed with a brokerage house it is relay by high speed lines to the exchange floor. They are the members of the exchange who actually see that customer orders get executed according to instructions.

The floor brokers are officially attached to other members. Floor brokers are also the member of the stock exchange and they assist commission brokers when there are too many orders following into the market for the commission brokers to handle alone. For their assistance, they receive part of the commission paid by the customers. Floor brokers are sometimes called two-dollar brokers because for a commission (which once was $ 2 per order). They are ordinarily free-lance members of the exchange (Francis, 1992).

ii) Floor Traders

These members trade solely for themselves and are prohibited by exchange rules from handling public orders. They hope to make money by taking advantage of perceived trading imbalances that result in temporary miss-pricings, thereby allowing them to "buy low and sell high". These members are also known as registered competitive markets-makers, competitive traders or registered traders.

A floor trader is an exchange member who executes transactions from the floor of the exchange, exclusively for their own account. Floor traders used to use the open outcry method in the pit of a commodity or stock exchange, but now most of them use electronic trading systems and do not appear in the pit. Floor traders fulfill an important role in commodity and stock markets by providing liquidity and narrowing bid-ask spreads. Floor traders may also be referred to as individual liquidity providers or registered competitive traders.

Floor traders are the traders typically represented in movies when a scene of a securities exchange is shown. These traders are often depicted as being emotionally invested in the trades they are executing because they are trading with their own money. In reality, most traders are not floor traders, and floor traders are increasingly rare, primarily because most traders who use their own money have switched to electronic trading, which is not conducted in the pit.

Harries (1997) says “The art of trading lies in knowing when and how to expose trading interests. Traders who never expose never trade. Traders who over expose generate high transaction cost”. If traders are forced to display their order fully, the trading system may not obtain the liquidity. Hence, designers of trading system (floor-based and automated system) formulate trading rules to help liquidity providers better control the risk of order exposure. Rules of trading are very important important because they constrain the ability of liquidity providers may accept less compensation for their services in trading system that provide better facilities to control risk.

iii) Dealers

A dealer buys securities at a price and accepts to sell them at a higher price. Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access to the floor and can own securities in their own name, they benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy- and-sell actions add up to the liquidity of the securities.

The odd- lot dealer specializes in buying and selling in amount less than the prescribed trading units. He buys odd lots and makes them up into marketable trading units. He likewise sells odd lots obtained by buying or splitting up round lots. The odd- lot dealer doesn’t rely on commission but earns profit on the differences between price at which he buys and sells.

Dealers are people or firms who buy and sell securities for their own account, whether through a broker or otherwise. A dealer acts as a principal in trading for its own account, as opposed to a broker who acts as an agent who executes orders on behalf of its clients. Dealers are important figures in the market. They make markets in securities, underwrite securities, and provide investment services to investors. That means dealers are the market makers who provide the bid and ask quotes you see when you look up the price of a security in the over-the-counter market. They also help create liquidity in the markets and boost long-term growth.

The security dealers specialize in buying and selling securities, i.e. securities issued by government and public orders. They acts as jobber and is prepared to take risks inherent in the ready purchase and sale of securities to meet current requirement. The market is an OTC market and each purchase and sale has to be separately negotiated. The market, therefore, tends to be restricted (Bhalla, 1983). Dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high price. The benefit of dealers to the market is that their buy and sells action added up liquidity of the securities.

Investors generally purchase stocks from securities broker-dealer firms, which buy and sell stocks for investors. When investors place an order to buy or sell stocks, the broker-dealer accepts their money and "fills" the customer's order from stock held in inventory or the broker may go to a securities exchange to "fill" the customer's order Broker-dealer charge a fee, called a commission, for buying and selling stock for investors. Commissions usually amount to a small percentage of the stock value purchased or sold. Since commissions are charged both for buying and for selling stocks, investors are generally better off holding their stock and not selling frequently. Unless stock prices appreciate very quickly, commission may offset any profits made over a short period of time.

iv) Market Makers

Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers.

Securities exchange is considered as quote-driven market where prices are determined from quotations made by market maker or specialists. While securities exchange considered as order-driven market or auction market where prices are determined by publication of orders to buy or sell shares via public investors without market makers' intermediation (Madhavan, 2000).

The market maker is any company or corporate body which deals in securities at the stock exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities, issued by HMG, as well as to the securities listed at the

Stock Exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies and not to let to occur improper instability in the prices of such securities, shall be granted membership of securities market maker.

A market maker is an individual market participant or member firm of an exchange that also buys and sells securities for its own account, at prices it displays in its exchange's trading system, with the primary goal of profiting on the bid-ask spread, which is the amount by which the ask price exceeds the bid price a market asset. The most common type of market maker is a brokerage house that provides purchase and sale solutions for investors in an effort to keep financial markets liquid.

v) Issue Manager

Issue manager carry out the functions related to public issuance of securities on behalf of the issuing company. Issue managers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within four months of the expiry of the fiscal year.

Any financial institution / intermediary which can carry out the activities connected with issue management is registered with SEBI and follow its regulations and guidelines is capable of venturing into issue management. Issue management is an important activity for merchant bankers.

2.2 Empirical Review

Namazi and Saleh (2010) has analyzed the sentiment of investors positively influence the probability of occurrence of stock market crises with in a one year horizon and the impact of investors sentiment on stock markets in stronger for countries that culturally more prone to herd like behavior and overreaction and countries with low efficient regularity institutions. The main objective of the study wasto analyze the ability of sentiment indicators to predict international stock market crises. To achieve the objective, the study used a "leading indicator" of crises using data from 16 countries. The study used sample of different countries which allows comparisons with U.S. data and also cross-country studies provide evidence on how cultural differences as well as institutional differences affect the sentiment-return relation. Panel data was used to generate more accurate predictions for individual outcomes by pooling the data. The study used a logit model, which relates qualitative crises indicator to a set of quantitative macro-economic variables and the indicator of sentiment. The study also used Discriminant analysis which was a method used to find linear combinations of features which best separate two or more classes of objects or events, in this case, healthy countries from those facing difficulties. The study estimated three different logit models. Model 1 includes only macro-economic variables. Model 2 focuses on sentiment. Model 3 combines macroeconomic and sentiment variables.

Bennet, Amoako, Charles. Edward, & Darkwah (2012) analyzed the factors that had very high influence over the retail investor's attitude towards investing in equity stocks are investors' tolerance for risk strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business.The study on determinants of individual investor behavior concluded that the five underlying psychological axes that appear driving the Indian individual investor behaviour are prudence and precautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction (Chandra and Kumar, 2011). The objectives of the study are identification and verification of the psychological biases considered to drive a momentum effect by influencing investor behaviour in stock market. The study was based on primary data which used questionnaire which comprised of scenario based questions relating to all psychological and contextual biases. In the questionnaire are included simple and direct questions in order to avoid any confusion on the part of the respondents; each question was based on some specific scenario relating to stock market investing and equity investment decision-making. The survey questionnaire consists of four parts, one each for personal information, use of heuristics, use of prospect theory, and impact of other factors on investment decision-making.

Nayak (2010) examined the nature of investor's grievances and also to evaluate the role of grievance redressal agencies. Using convenient random sampling technique he collects primary data on the investor's demographic profile, knowledge about various grievances redressal agencies, loading of complain and their satisfaction level in Valsad district of Gujrat state. By using chi squre analysis he shows that there is significant differences between the various demographic variables and investor's knowledge of grievances, awareness of functions of redressal agencies, loading of complain and their satisfaction level.

Chaudhary (2013) examined the meaning and importance of behavioral finance and its application in investment decision. He has also discussed some trading approaches for investors in stock and bonds to assist them in manifesting and controlling their psychological roasblocks.

Ngoc (2014) investigate behavioral factors influencing the decision of individual investors at the securities companies in Ho Chi Minh city, Vietnam.There are five behavioral factors of individual investors at the Ho Chi Minh stock exchange: herding market, prospect, overconfidence, gamble's fallacy, and Anchoring ability bias. The herding factors includes behavioral dimensions: following the decision of other investors (buying and selling, choice of trading stock, volume of trading stocks). The market factors consist of dimension: prices changes, market informations. The prospect factor consist of dimensions: loss aversion, regret aversion, and mental accounting. The heuristic dimensions are grouped in to two factors: overconfidence-gamble's fallacy and anchoring-ability bias. He recommends that investors should consider carefully before investment, but should not care too much about the prior loss for later investment. Besides, the investor should not reduce their regret in investment by avoiding selling decreasing stock and selling increasing ones.

Gavriilidis, Kallinterakis, & Micciullo, (2007) further explain in the case of intentional herding, conformity, namely the condition under which people feel more convenient when doing what others do, seems to be playing a major role. If investors have conformity needs, investors might not make their investment decisions in isolation Hirschleifer & Teon (2003) agree on existence of conformity bias and point out that all of us are influence by others in almost every activity and this includes investment and financial transactions.

Kadariya (2012) analyzed the market reactions to tangible information and intangible information in Nepalese stock market to examine the investors opinion in Nepalese stock market issues. After analysis of 185 stock investors he find that the capital structure and average pricing method is one factor that influence the investment decision, the next is political and media coverage , the third factor is belief on luck and the financial education, and intangible information are essential to succeed in Nepalese capital market.

Varadharajan & Vikkraman (2011) focused on identifying the investor's perceptions towards investment decision in equity market. They study their attitude towards selection of stock, company, risk, equity, portfolio, financial affairs and their expected return. They find that there exists independency between the demographic, majority of the factors and the returns obtained.

Barber (2011) study motivates on studying the behavior of individual investors mostly stressing that the bulk of research in modern economics has been built on the notion that human beings are rational agents who attempt to maximize wealth while minimizing risk. He cited Grossman and Stiglitz's (1980) study that shows rational expectations model, some investors choose to acquire costly information and other choose to invest passively. Informed, active, investors earn higher pre-cost returns, but in equilibrium, all investors have the same expected utility.

Subedi (2017) explained that the secondary market is under pressure due to the increasing lending rates and deposit crunch in banks and financial institutions. He also explained that if the interest rates do not drop soon, the secondary market may fall further. "Investors were expecting the market to grow after the elections. However, though the political environment was favorable, the problem of credit crunch hit the banks and this has put pressure on investors."

Namazi & Salehi (2010) study on affect of stock market crises on investor sentiment concluded that the sentiment of investors positively influence the probability of occurrence of stock market crises within a one-year horizon. Moreover, the impact of investor sentiment on stock markets is stronger for countries that culturally more prone to herd-like behavior and overreaction and countries with low efficient regularity institutions. The main objective of the study was to analyze the ability of sentiment indicators to predict international stock market crisis.

The study on determinants of Tunisian individual investors' behaviors concluded that the Tunisian investors' behaviors are subject to five behavioral biases: representativeness, herding attitude, loss aversion, mental accounting, and anchoring (Rekik and Boujelbene, 2013).The study reveals the absence of overconfidence bias in the Tunisian Stock Market. Tunisian investors seem to be under-confident, hesitant and very sensitive to others' reactions and opinions. There was also an interaction between demographic variables and financial behavioral factors. The result also found that gender, age and experience have an interaction with behavioral financial factors in investment decisions.

The study on small investor's behavior on stock selection decision of Guwahati stock exchange concluded that majority of the sample small investors in Assam took into consideration all the 38 factors before selecting the stocks to invest (Das, 2011). The main objective of the study was to identify the factors which influencing the stock selection decision and examine the role of various socio-economic, demographic and attitudinal factors affecting the investment decision of investors in the market. The study used a qualitative methodology to investigate small investor's behavior in choosing stocks in Guwahati stock market.

The study on study on investment preferences among urban investors in Orissa concluded that the study reveals that investors invest in different investment avenues for fulfilling financial, social and psychological need (Mohanta & Debasish, 2011)). The main objective of the study was to the factors that influence investment behavior of Urban Investors. The study was based on primary data obtained through a structured questionnaire containing 35 questions. The questionnaire has two part one related to socio-economic background of employees consisted of 12 questions that included age, educational qualification, income etc. The second part of the questionnaire consisted of 23 statements related to various factors of avenue selection for the study. The sample size for the study was 210 and the respondents were randomly selected from the two leading districts of Orissa state namely Cuttack and Khurda. The Primary data obtained from the questionnaire was analyzed by using the simple descriptive tools like average and percentage. The analysis was performed using Microsoft Excel application package. Further, the secondary data from various internet websites, journals, magazines and other published sources was obtained to gain a better understanding of the concerned subject. The study also indicates that there was significant role of income and occupation in Investment Avenue in order to satisfy safety, periodic return, liquidity, better future and future contingency needs, etc. selection by the male and female investors. Mostly male investors are found as active participant in avenue selection than female and generally they are sound in these two respects than female investors. Risk bearing capacity and educational level of investors was also the two main factors which affect in investment avenues selection. The study also suggested that the financial investment avenues should be designed by seeing the geographical horizon of the investors, their age, income, occupation, gender and risk tolerance capacity etc, as investors or customers are the key of success for any business.

Maditinos, Sevic, & Theriou (2007) Analyzed most of people rely more on newspapers/media and noise in the market when making their investment decisions. While professional investors rely more on fundamental and technical analysis and less on portfolio analysis.

Sawalqa (2012) analyzed Jordanian individual investors place more emphasis on the usage of written information rather than verbal information for the purpose of the investment decision making. The main objective of the study was to examine the importance of different corporate financial information sources in investment decision-making. The investors were not categorized into small and large investors unlike previous researchers. Participants were invited to participate in this study through a covering letter enclosed on the first page of the questionnaire. To ensure the content validity of the questionnaire, several stages were taken. First, most sections of the questionnaire were developed based on previous research in the field. Second, the researcher consulted many academic scholars in the field to assess the construct validity.

The study on an empirical evidence of factors in equity selection process in Malaysia concluded that neutral information appeared to be the most important factor for Malaysian investors, followed by accounting information, social relevance and advocates' recommendations in equity selection process (Chong and Lai, 2011) The objective of the study was to examine the factors influencing equity selection process and its association with expected and actual return. The result reveal that neutral information was significant positively correlated while accounting information was negatively correlated with expected return.

Baker & Wurgler (2006**)** conducted a study on 'Investor Sentiment and the Cross-Section of Stock Returns' to identify how investor sentiment affects the cross-section of stock returns and they have found that that when beginning-of-period sentiment are low, subsequent re-turns are relatively high for small stocks, young stocks, high volatility stocks, un-profitable stocks, non-dividend-paying stocks, extreme growth stocks, and distressed stocks. When sentiment is high, on the other hand, these categories of stock earn relatively low subsequent returns.

Al-Tamimi & Kalli (2009) conducted a study on ‘Financial Literacy and Investment Decision of UAE Investors’ and found that the most influencing factor that affects the investment decision is religious reasons and the least affecting factor is rumours. They also found that women have lower level of financial literacy than men and financially educated investors help financial markets to operate efficiently, as they take better trading decisions based on fundamental and or technical analysis instead of acting irrationally.

Al-Tamimi (2005) conducted a study on ‘Factors Influencing Individual Investor Behavior: An Empirical Study of UAE Financial Markets’ and found that there are six most influencing factors affect the behavior of individual investor. The factors in order of importance were: expected corporate earnings, get rich quick, stock marketability, past performance of the firm’s stock, government holdings and the creation of the organized financial markets. He also found five least influencing factors in order of importance were: expected losses in other local investments, minimizing risk, expected losses in international financial markets, family member opinions and gut feeling on the economy. Two factors had unexpectedly least influence on the behavior of the UAE investors’ behavior, namely the religious beliefs and the factors of family member opinions.

Merikas, vozikis, & prasad (2008) conducted a study on ‘Economic factors and individual investor behavior: The case of the Greek stock exchange’ and found that various factors such as expected corporate earnings, firm status in industry, condition of financial statements, protection of the investor, recent price movements, get rich quick, ethics of the firm significantly influence investor decisions.

Rashid & Nishat (2009) conducted a study on ‘Satisfaction of Retail Investors on The Structural Efficiency of the Market: Evidence from a Developing Country Context’ and found that in Bangladesh, the most influencing factors on investors’ decisions are efficiency of the company, inflation rate, easy and quick transactions, transaction cost and access to the company and industry information, quality of information and prior knowledge of securities.

Hossain, Nasrin. (2012) conducted a study on ‘Factors Affecting Selection of Equity Shares: The Case of Retail Investors in Bangladesh’. The study reveal that the most important principal factors influencing retail investors are company specific attributes/reputation, net asset value, accounting information, trading opportunity, publicity, ownership structure, influence of people, and personal financial needs respectively. Findings also suggest that extent of importance given to each of the factors excluding ownership structure significantly differs with at least one demographic characteristics of sample respondents like gender, age, occupation, income, education, and experience.

Kaleem, Wajid & Hussain (2009**)** conducted a research on ‘Factors Affecting Financial Advisor’s Perception in Portfolio Management: With Reference to Pakistan’. It argues that personal, psychological, socio-cultural, religious and gender issues influence the advisor’s perception leading him to a non-optimal decision. The results indicate that age, income, language and orientation of education have significant role in determining the investment style of an investor.

Rakesh and Shrinivas (2013) with his study on individual investment behavior in mutual funds on 400 investors covering the categories of Executive & Non-Executives and observed that 185 investors are interested in investing in bank sponsored mutual funds because of security and 126 investors are interested in investing in institutions because of their returns, remaining 89 investors are interested in investing in private sector & joint venture to maximize their returns and to hedge against risk.

Masomi, Ghayekhloo (2011) conducted a study on ‘Consequences of human behaviors’ in Economic: the Effects of Behavioral Factors in Investment decision making at Tehran Stock Exchange’ to investigate the role of behavioral finance and investor psychology in investment decision-making at the Tehran Stock Exchange with special reference to institutional investors. It found that behavioral factors such as representativeness, overconfidence, Behavioral aspects of individual investors for investment in Bangladesh Stock Maeket anchoring, gambler’s fallacy, loss aversion, regret aversion and mental accounting affected the decisions of the institutional investors operating at the TSE. It also found that price changes, information, past trends of stocks, fundamentals of underlying stocks, seasonal price cycles, customer preference, over/under reactions to price change has very high to moderate impact on decision making on investment.

Chen, A. Kim, Nogsinger & Rui (2010) studied investment decision making in an emerging market. They found that Chinese investors make poor trading decisions suffering from three behavioral biases (i) They tend to sell stocks that have appreciated in prices, but not those that have depreciated (ii) they seem to be overconfident (iii) they seem to believe that past returns are the indicative of future returns. For this purpose they selected the Chinese market and investors. The dataset came from a brokerage firm of SHSE & SZSE in China. The complete dataset included 74960 investor accounts out of which 27779 were deleted due to some reasons leaving a final sample of 46969 individual investors and 212 institutional investors. They used regression relation for this purpose and concluded that Chinese investors make trading mistakes, they are reluctant to realize their losses, they tend to be overconfident and they exhibit a representativeness bias.

Charness and Gneezy (2003) studied basic intuition during decision: how investment split between risky lottery and assets having fix return by using three biases ambiguity aversion, illusion if control and myopic loss aversion. This paper replicated the previous result related to basic intuition and then tests the participants by paying small sum of money with line of bias (less ambiguity, more perceived control). The experimental research is conducted in University of California and graduates school of business in University of Chicago, which included 275 students, pages that having 10 treatments one of them is given to each student. This paper studied how portfolio choice depends on above biases and concluded the illusion of control was eliminated when investors want to gain more control, in less or more control investors always face fractions if they invest in risky options. This paper discussed there was no influence on investment against the level of ambiguity but people always want to pay for less ambiguity. In loss aversion people less invested where more freedom to change their investment.

Bashir and Rasheed (2013) investigated the influence of behavioral biases on investment decisions. The study was conducted through questionnaire. About 100 respondents were targeted out of them 55% were employees and the remaining students. They took female and male as dependent variable and confirmation biases, illusion of control, overconfidence, loss aversion as independent. The methodology used in this study was chi-square. The finding concluded that there is no significant difference between decision making regarding overconfidence bias of male and female.

Thaler (1999) Analyzed that mental accounting was consisted on three components. The first section of mental accounting was how outcomes were experienced and perceived, how decisions were made and evaluation of decisions. The second components of mental accounting assigned the actions to specific accounts. It maintained the way how inflow and outflow of funds was done from each specific activity. The third component was concerned with the rate at which account were evaluated. Investors were can be balanced accounts on a daily, weekly, monthly, or yearly basis. Each component of mental accounting violated the economic principle of balance. Due to the mental accounting the decision of investors were influenced.

Seppala (2009) examined the effects of three behavioral biases hindsight, overconfidence and self-attribution. This paper examined the effect of individual thinking style and cognitive ability on investment advisors. The survey was created by three separate groups of people, financial professionals, university students and employees of engineering company and also creates two-pronged structure for recollect and repeat the issues. Asset selection effect, sign of return effect, drift of return effect and strange of views were used to analyze the hindsight biases. Commonly behavior biases were shown by people but it varies individual to individual due to experience and characteristics. They found that all people including investment advisors are suffered to hindsight bias. Findings on overconfidence indicated that people are confident and results on self -attribution bias also showed that people suffer from it.

Babajida & Adetiloye (2012) examined the effects of behavior biases in performance of stock market in Nigeria of last twenty years and the variables they studied were overconfidence, loss aversion, framing, anchoring and status quo bias. The research has been conducted through administrating a questionnaire by targeting 300 respondents. . The Pearson product moment coefficient method was used to analyze the survey, this paper concluded that every investor must engage in the service of investor advisor that may reduce the personal biases of management decision process, also found that there is negative relation between independent and dependent variables due to indirect involvement in trade activity.

Shiller (1997) explained that investors place their investments into haphazardly separate mental compartments, and in different ways to the investment based on which compartment they are in. In the study researcher investigated that people of India save money for some specific purpose, like for children education and they borrow money from other people for other needs and desires of their lives like for buy car. Even the interest rate on the borrowed money was higher that the interest rate which they receive on saving for the education purpose of children's. Ultimately this bias of people effect their decision making process.

Fischer and Gerhardt (2007) in an attempt to reduce the welfare costs that individual investors suffer from investment mistakes, normatively introduced the crucial component in investment process: financial advice. The author compared findings from existing research then, contrasted normative recommendations with empirical evidence about actual behavior of individual investors and showed that any deviations lead to considerable welfare losses. Finally, the author presented financial advice as (potentially) correcting factor and postulated that financial advice from professionals has a positive impact on trading, as it allows investors to better analyze their own skills and, therefore, leads to more rational trading decisions.

Sharma & Gupta (2011**)**, conducted a study on 'Role of Subjective Norm in Investment Decision Making of Casual Investors', and found various factors affecting investment decisions in India include risk, return, peer influence, recommendation of financial advisors and market trend.

Ramprasath & Karthikeyan (2013) has focused on individual investors' behavior towards selection of investments, states that the majority of the investors are giving much importance for the factor "safety". Similarly investment avenues such as Bank deposits, LIC polices and Bullion has been preferred by the individual investors.

Similarly the majority of the investors are periodically evaluating the performance of their investment avenues.

This study specially focuses on identifying the choice of investment and the focus of selecting the listed companies with reasons behind the selection criteria. Ongoing through the review of literature it is found that there are number of factors which affect the investment decisions of an individual and this has added more the scope for the research in this area is wide and not conclusive. Some few reviews like: Sanjay (2012) studied the middleclass household's investment behavior and found that the trends of investment by households are not similar in nature and they vary between several financial instruments. The study reveals that amongst other avenues the bank deposits remain the most popular instrument of investment followed by insurance and small saving scheme with maximum number of respondents investing in fixed income bearing option.

Tauni, Rao, Fang and Gao (2017a) in the study conducted in Chinese stock market posited that the key sources of information have a significant influence on investors' trading behavior and investor personality traits moderate the said relationship. The findings confirmed that financial advice tend to increase the frequency of trading in investors with openness, extraversion, neuroticism and agreeableness personality traits, and tend to decrease the intensity of trading in investors with conscientiousness trait. On the other hand, financial information acquired from word-of-mouth communication is more likely to enhance trading frequency in extraverted and agreeable investors, and is more likely to reduce trading frequency in investors with openness, conscientiousness and neuroticism traits. Finally, the use of specialized press leads to more adjustment in portfolios of the investors with openness and conscientiousness traits than those with other personality trait.

Dangol and Shrestha (2018) investigated the effect of personality traits on behavior biases. These studies showed that all the investors analysis securities in the same way and share the same economic view of the world. Inventors use the same assumption that is referred to homogeneous expectation or beliefs. These beliefs are concerned with the investor's perception and their behavior including overconfidence. This overconfidence bias affects investment decisions of the investors. Thus, this study focuses the issues - how does individual's overconfidence can influence in investment decisions among Nepalese investors? And how do selected variables like level of education, gender, etc., effect on overconfidence bias among Nepalese investor's in investment decision in Nepalese stock market? Therefore, the major objective of this paper is to analysis the influence of the individuals' overconfidence in investment decision making. Further the study assesses the effect of educational qualification on individuals overconfidence, and the link between gender and overconfidence among the individual investors in Nepalese stock market.

Kadariya, Subedi, Joshi, & Nyaupane (2012) Analyzed the equity investors are aware and their level of awareness is high compare to needed level, aware and their equity investors have more chances of holding high volume of equity investment and there is problem on access to information for equity investors in secondary market. The major objective of the study was to find the level of awareness among the stock investors and to find the extent of relationship between investor awareness and volume of equity investment in secondary market. The study was based on collection of primary data. Questionnaire method was used which contained 37 statement comprises of 21 yes/no questions to know the extent of awareness, 5 likert item with 1 to 4 scale developed to identify the investors access to information, 4 statement of yes/no questions,1 open question were formulate for suggestions section, and 6 personal questions for demographic characters. 100 questionnaires, 50 in Nepali and 50 in English language were distributed. Out of which 73 were collected and 65 were qualified for the research purpose. The research design employed for the study was descriptive and correlation. The descriptive research design was selected to learn the profile of the respondent, presentation and description of the data collection and to describe the characteristics of the investors in Nepalese stock market. The correlation research design was used to obtain the description of the phenomena and to ascertain the extent of relationship of two variables. The study revealed that there is positive co relationship between awareness and level of investment. Investors need to have good access to the market information but the study showed there is problem on access to information for equity investors in secondary market.

Pradhan (1993) has conducted a study on "Stock Market Behavior in a small Capital Market: A case of Nepal" by collecting the data of 17 enterprises from 1986-1990. He has applied Market Equity, Market value to Book Value, Price Earning and Dividend as technical tools to analysis of data. His findings indicate that larger stocks have larger price earning ratios, larger ratios of market value to book value of equity, lower liquidity, lower profitability, and smaller dividends. Price – earnings ratios and dividend ratios are more variable for smaller stocks whereas market value to book value of equity is more variable for larger stocks. Larger stocks also have higher leverage, lower assets turnover, and lower interest coverage but these are more variable for smaller stocks than for larger stocks. Stocks with larger market value to book value of equity have larger price-earning ratios, and lower dividends. These stocks also have lower liquidity, higher leverage, lower earnings, lower turnover, and lower coverage.

Prasad Dangol (2004) examine the impact on stock market as per the change in investors' perception and to examine whether investors perception leads to growth of the stock market.

His study contributes to the importance of the investor's perception and shows the change of investors' perception impacts on the stock market and how the perception on investors leads to growth of the stock market. It shows that there is a negative impact on the Nepalese stock market as per the changes of investors' perception because there has been a negative effect on the perception on investors.

Jeevan, Puspa & Arjun (2000) concluded that individual Nepalese savers have extremely limited opportunities for investing their long- term savings. To secure maximum returns, these investors should have opportunity to invest into long-term corporate equities rather than state of the stock market. Both individual and institution are putting for more of their savings into bank deposits and fixed interest, government securities than they would if the market were working properly. Thus, long-term saving that should be invested in the stock market is going into short term investment.

Rekha Pant (2000) in her thesis concluded that investors' confidence in Nepal stock market relatively low because of the stock market volatility, low return on investment inadequate information, lack of financial markets instrument and investors knowing about the risk of stock market investment. Pant used only secondary data. She focused her study mainly on the secondary sources of data.

Pandey (2001) analyze the pattern of public response to shares and concluded that public response is high due to lack of opportunities for investment in other fields. Despite this, public are attracted towards shares then other sectors, basically to increase their value of investment, dividend, capital gain or bonus share. Due to delay in allotment, refund of money delivery of certificate and listening of shares in the stock exchange, people are starting to lose confidence. Some companies have not been listed even after the prescribed time period. For example Oriental hotel limited has not been listed even after 8 months of having closed its issue. He also found that the dynamism of the stock market has been greatly reduced by the domination of the long term shareholders, who prefer holding the shares with hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market. The investors have been very few rather no alternative to holding shares.

2.3 Research Gap

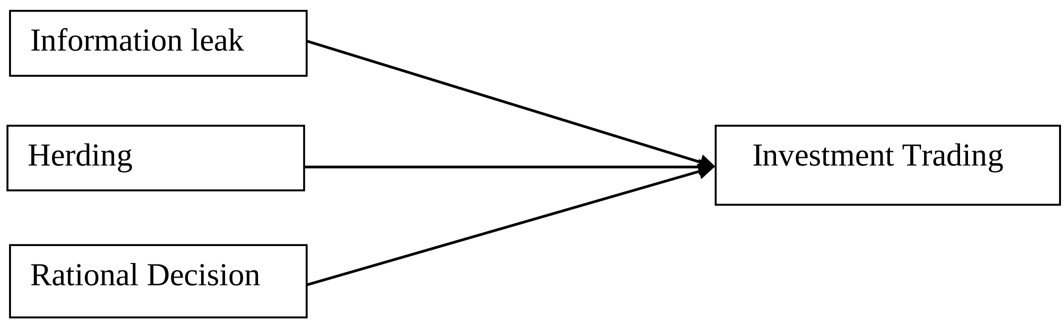
The above reviewed literature showed that there is specific research gap. Some researchers focused on small investor's behavior on stock market selection decision. The study was to identify the factors which influencing the stock selection decision and examine the role of various socio-economic, demographic and attitudinal factors affecting the investment decision of investors in the market. Some of the major studies focused only on urban investor's investment preferences. The study reveals that investors invest in different investment avenues for fulfilling financial, social and psychological needs. Some researcher have concluded that the sentiment of investors positively influence the probability of occurrence of stock market crises.

Based on above literatures reviewed, this study attempts to analysis the major factors determining investor's behavior while trading stock market in Nepal. Previous studies focused only on investor's awareness, tangible and intangible information. Some has generalized all factors. This study has categories all factor affecting the investor's behavior in to 3 categories: information leak, herding and rational. The study tries to examine these relationship among individual investors in stock market of Nepal.

2.4 Conceptual Framework

Below are indicated independent and dependent variables included in the research topic individual behavior of investors on stock market of Nepal. The study categorized these factors in to 3 groups: information leak, herding and rational decision.

Independent variable **Dependent variable**



2.4.1 Operational Definition of Variables

i) Information Leak

Information leakage is an important channel through which private information affects stock prices and trading behavior, then it is important to understand why informed individuals would be motivated to leak their private information. The standard intuition holds that some privately informed individuals, e.g, corporate executive and board members hindered from actively trading in their form' shares, share or sell their private information to related parties and associated who then trade on the private information for their joint benefit. For instance, the U.S. Securities and Exchange Commission (SEC), in its ongoing campaign against insider trading, has noted the rise of so-called "expert networks" where insiders with access to private information are hired and compensated as hedge fund consultants (Zuckerman and Pulliam, 2010).

Brunnermeier (2005) information leakage reduces informational efficiency and the long term price informativeness, making it an important regulatory issue.

Information leakage damages market fairness and integrity for the majority of investors do not receive the material information until companies publicly disclose it.

Executive control the corporate information supply, time the disclosure and choose the target user of disclosure (Lakhal, 2008).

Loibl & Hira (2009) investigated that sources of information based on the internet, mass media, interpersonal and workplace are correlated with various investor psychological characteristics. Based upon the use of these sources, investors in their study were categorized into five clusters: balanced investors, online investors, moderate investors, workplace investors and reluctant investors.

Word-of-mouth communication is a convenient way for potential investors to obtain relevant information from friends and neighbors regarding stock market (Liang and Guo, 2015). Ivković and Weisbenner (2007) argued that word-of-mouth communication is a broad phenomenon that may influence financial decisions of individual investors as they tend to reduce information search costs by relying on social interaction.

Information is one of the keys in making rational financial decisions. Previous literature shows that information acquisition is positively correlated with the investors' trading behavior. This means that the more often investors invest in acquiring information, the more frequently they trade in assets (Abreu and Mendes, 2012; Barlevy and Veronesi, 1999; Grossman and Stiglitz, 1980; Guiso and Jappelli, 2006; Holthausen and Verrecchia, 1990; Karpoof, 1986; Peress, 2004).

ii) Herding

Herding behavior originates from psychology research. Sherif (1966) referred to herding as a behavior that blindly follows the decisions of the majority rather than relying on rational thinking.

The herding behavior in the stock market can take three forms. Information based herding happens when everyone reacts the same way to announced information. Reputation-based herding is caused by a respected investor or major trading house taking a specific trading stance. Compensation-based herding occurs when certain conditions prompts large institutional money managers to take profit, generally to protect fund earnings before year end reporting. These behaviors create large volume in certain stocks or sectors that are popular institutional portfolio investments, prompting those watching to react quickly.

There are many instances in Nepali as well as the world primary financial market where under rated shares of companies are oversubscribed. In the secondary market as well, the price of the shares fluctuates like the movement of a pendulum, often oscillating between the lows and highs. The oversubscription of underrated shares is not a rational decision.

Scharfstein and Stein (1990) had explained that the herding behavior can be rational or irrational. Herding can be rational if the investor’s actions are intentional whereas irrational herding means that the actions of the investor are non-intentional as the investor disregards his prior beliefs and blindly follows others investor’s decision.

The herding effect in financial market is identified as tendency of investors’ behaviors to follow the others’ actions. Practitioners usually consider carefully the existence of herding, due to the fact that investors rely on collective information more than private information can result the price deviation of the securities from fundamental value; therefore, many good chances for investment at the present can be impacted. Academic researchers also pay their attention to herding; because its impacts on stock price changes can influence the attributes of risk and return models and has impacts on the viewpoints of asset pricing theories (Tan, Chiang, Mason, & Nelling, 2008).

Iihara et al. (2003) found that the herding behaviors induced from foreigner and institutional average. Generalizing the above-mentioned viewpoints, one may conclude that if the investors have definitely identified themselves investment demand or have well evaluated the feasible alternatives, then they will be likely to form an optimistic investment attitude leading to overconfidence.

Grinblatt and Titman (1994) designed herding indicators to elucidate significant herding behavior in mutual fund market. Christie and Huang (1995) designed a crosssectional standard deviation method to detect herding behavior, suggesting that investment decision making of market participants depends on overall market conditions. By such an approach, the extreme returns of investors must be defined. However, identifying the extreme returns is rather difficult if the market history is relatively short, that is why Demirer and Kutan (2006) found no evidence of herding behavior in Chinese equity markets.

Human herding behavior usually results from a tendency to imitate the actions of others. The definition proposed by Christie and Huang (1995) is “individuals who suppress their own beliefs and base their investment decisions solely on the collective actions of the market, even when they disagree with its predictions”. One line of research explains the presence of herding behavior among market participants through investor psychology, regarding herding among investors as irrational behavior.

Waweru, Munyoki & Uliana (2008) propose that herding can drive stock trading and create the momentum for stock trading. However, the impact of herding can break down when it reaches a certain level because the cost to follow the herd may increase to get the increasing abnormal returns. Waweru et al. (2008) identify that buying, selling, choice of stock, length of time to hold stock, and volume of stock to trade of other investors can influence the investment decisions of Running Head: disposition effect, overconfidence and herding behavior an individual investor. Waweru et al. conclude that buying and selling decisions of an investor are significantly impacted by others’ decisions, and herding behavior helps investors to have a sense of regret aversion for their decisions.

iii) Rational Decision

Rational decision asserts that decision makers generate various strategies and follow specific logical procedures to resolve problems according to the nature of problem, timing, and decision environment. In other words, a rational decision attempts to reach an optimum decision by categorizing decision making into three types based on the level rationality. The most rational type, that is pure rationality, allows decision makers to reach optimum decisions and achieve the highest efficiency out of unlimited time, resource and knowledge in order to make decisions. This type assumes the administration dichotomy, in which the former identifies goals for the latter to achieve (Gianakis, 2004). The incremental type is a less rational model in which goals are politically feasible and decisions are made by comparing several immediately available alternatives (Lindblom, 2005). The bounded rationality type is a mixture of the above two types that refers to the achievement of given goals found that fluctuating future stock prices has a “scale effect”. Cross (1973), French (1980), and Gibbons and Hess (1981) also found the “week effect” on the moving trend of stock prices so that the investors can gain the excess returns by adapting the reverse operation strategy. Kahneman and Tverskey (1979) proposed the prospect theory to explain decision-making behavior under uncertain circumstances. According to the prospect theory, psychological factors of investors will drive their actual decision-making process to deviate from rationality, which is continued to Simon's (1957) argument of bounded rationality. Investors thus often simplify their decision processes and are prone to behavioral heuristics that might make systematic errors and lead to satisfactory investment choices, but does not maximize decisions.

Due to the fact that people are not always rational, their financial decisions are at times driven by behavioral preconceptions. In case the decisions of people do not follow rational thinking, effects of behavioral biases should be identified. It will be more important if their cognitive errors affect prices and are not arbitraged away easily (Kim & Nofsinger, 2008). Recently, "the ramifications of less-than rational agents" have been explored based on many theoretical models. At first, most of the studies concentrated on asset pricing, however, recently, many models incorporate the effects rather than rational ones that managers may have in decision-making process.

In general, if an investor's decision making process complies with logical path including the procedures of identifying demand, cognitions of financial products, and evaluating alternatives, then such the investment choice will be deemed as a rational investment decision. Additionally, according to the practical observations of individual investors' behaviors, investors usually have the self- perception capability of rationality. Since the investors' declare themselves trading or choosing process as a rational decision-making behavior, why do most of investors still apparently display behavioral biases? In recent decades, most empirical evidence generally views various behavioral biases as common cognitive illusions existing in decision making process among investors. Previous researchers have either identified various investor types or examined how behavioral biases could impact investment returns. However, the relationship linking the antecedents of behavioral biases with each stage of decision-making process has never been examined in literature, especially for a comprehensive survey of pertinent literature on investment behavioral biases. This study thus attempts to re-examine whether the decision behaviors of investors complies with the theoretical model of rational decision making process, and reveals the causal relationships between three proposed behavioral biases and each stage of decision making. Moreover, the influence of various demographic variables on behavioral biases is also discussed.

Therefore, despite the investment decisions complying with each stage of rational decision-making process, the behavioral biases would still exist in the mind of investors. In other words, one may infer that other important exogenous variables such as demand identification, public information searching, and personal investment experience would also affect the formation of behavioral biases.

iv) Investment Trading

The term investment trade is normally understood as an investment made by a company in share or debenture of another company, to promote the trade or business of the first company. Trade investment the acquisition of stock and shares in one firm by another firm. Trade investment may be undertaken for a variety of reasons including the profitable investment of surplus cash. Thapa (2013) determined investment may be defined as the purchase by an individual or institutional investor of a financial or real assets that produces a return corresponding to the risk expected over some future investment period.

investment means to invest money to earn interest or to bring profit. Investment in its broadest sense means scarifies of current rupees for future rupees. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. Investors are those people who invest their money in the capital market for the future earnings. Therefore they are known as the backbone of the capital market.

Investments often are held for a period of years, or even decades, taking advantage of perks like interest, dividends, and stock splits along the way. While markets inevitably fluctuate, investors will "ride out" the downtrends with the expectation that prices will rebound and any losses eventually will be recovered. Investors typically are more concerned with market fundamentals, such as price-to-earnings ratios and management forecasts.

It is obvious that imperfect rationality and cognitive constraints of the traders might affect the trading process. For example, Corwin and Coughenour (2008) test whether the limited attention of human market makers influences trading in securities markets.

They conduct pooled time-series and cross-sectional tests on individual NYSE specialist portfolios and find that transaction costs increase with the degree specialists are likely to allocate their attention across stocks. The results indicate that specialists face significant processing limits, and that they allocate effort toward their most active stocks during periods of increased trading activity. Concurrently, specialists reduce their attention to the other stocks in their portfolio, resulting in less frequent price improvement and increased transaction costs. Their evidence suggests that limited attention, and the resulting allocation of effort across stocks, have a significant impact on liquidity provision in securities markets. Corwin and Coughenour (2008) suggest that increased automation may relieve specialist capacity constraints and reduce the necessity to allocate effort across stocks. Nonetheless, the level of automation that must be incorporated to relieve specialist constraints and the quoestion of whether technology can replace the specialist entirely are a matters for future research. Overall, the relationship between human cognitive abilities and the complex, 17.

2.4.2 Relationship between investment behavior and investment trading

Investment trading is related with information leak, herding behavior and rational decision. Khan and Lu (2013) suggested that leaked information can explain the increased short-sale trading of both market makers and non-market makers shortly before the sale of shares by corporate executive. Information leakage is an important channel through which private information affects stock price and trading behavior. Herding is simply defined as an investment strategy based mimicking other investors' actions or the market consensus. Herding is one of the important behavioral biases affecting investor's decision. The investment is influenced by the investor's psychology as opposed to the classical theory of finance. Investment activities will reflect all investment decisions such as equity, technology and fixed assets, or generally described as the act of putting money, effort and time, into something to make a profit or get an advantage**.** Thus, investing into an assets or other item that hopefully will generate income or appreciate in the future. Rational decision assert that decision maker generate various strategies and follow specific logical procedures to resolve problems. If an investor's decision making process complies with logical path including the procedures of identify demand, cognitions of financial products, and evaluating alternatives, then such the investment choice will be deemed as a rational investment decision.

Human beings are sometime biased both intentionally and unintentionally in their routine life decisions. Psychology is an art in which we study the human behavior, nature and attitude and how human deviates from rational decision. Behavioral finance depends on the psychological decision of the investors. Current research will evaluate and extend the psychological phenomenon specially it ‘ill analyze the influence of Overconfidence, Confirmation, Illusion of control, Excessive optimism.

Mental accounting, Status quo and Loss aversion on investor’s decision. The purpose of the research was: (1) to identify the each above mentioned behavioral biases on the financial decision making process and (2) to empirically measure the strength of relationship between these behavioral biases and investor’s financial decision making.

Waweru et al (2008) conclude that buying and selling decisions of an investor are significantly impacted by others’ decisions, and herding behavior helps investors to have a sense of regret aversion for their decisions.

Even completely rational people can participate in herd behavior when they take into account the decision of others, and even if they know that everyone is behaving in herd like manner. The behavior, although individually rational, produces group behavior that is irrational and causes fluctuations in the market. The “noise trading” theory stems from the fact that investors with a short time horizon are influencing the stock price more than the long- term investors are. Investors, with no access to inside information, irrationally act on noise as if it were information that would give them an edge (Thaler, 1993).

The social influence has an immense power on individual decision. When people are confronted with the decision of a large group of people, they tend to change their “wrong” answers. They simply think that all the other people could not be wrong. They are reacting to the information that a large group of people had reached a decision different from theirs. This is a rational behavior. In everyday living as well we have learned that when a large group of people is unanimous in its decisions they are certainly right (Shiller, 2000). People are influenced by their social environment and they often feel pressure to conform. Fashion is a mild form of herd behavior while an example of the strong form is furors that constitute speculative bubbles and crushes. Herd behavior may be the most generally recognized observation on financial markets in a psychological context.

Understanding the decision making process of various participants in the market has always been a challenging mission for academics and practitioners. Conventional theory of efficient markets asserts that markets are informationally efficient and investors form rational expectations of future prices, and that any new information entering into the market is instantaneously incorporated into expected prices in a homogenous manner. However, the efficient market hypothesis has been disputed both empirically and theoretically and its major shortcomings in modelling real-life security returns have been noted by numerous past literature (Shiller, 1989; Summers, 1986). Behavioral economists however have attributed the imperfections in financial markets to various cognitive biases, human errors and responses. Herding activities among investors have been a popular behavioral explanation for the excess volatility and short term trends observed in financial markets. Investor herding causes prices to deviate from fundamental values and create implications for trading strategies and asset pricing models thus it has received great attention in recent years.

CHAPTER III

RESEARCH METHODOLOGY

This chapter puts lights on the research process and methods design to meet the stated objectives of the study. The research methodology explores the research process regarding the impact of individual behavior of investors on share market of Nepal. The broad process of research methodology has been further categorized for simplicity into various subtopics which consists of research design, population and sample, sources of data, data collection and processing procedure and data analysis tools.

3.1 Research Design

This study used descriptive research design and made attempted to collect data from randomly selected individual investors of stock market. The study used variable like information leak, herding and rational for primary data analysis. A five point likert scale ranging from (1.Strongly agree, 2.agree, 3.neutral, 4.disagree and 5.strongly disagree) has been used to collect opinion data. The target population of this study is all individual investors of stock market. To determine the sample size of population, rule of thumb proposed by Roscoe (1975) is used. Following this rule, 120 investors are taken as a sample. This study includes descriptive statistical tools like standard deviation, mean and percentage is used to described result obtained and regression model used to show the relationship between variable.

3.2 Population and Sample

The target population of this study is all individual investors of stock market. To determine the sample size of population, rule of thumb proposed by Roscoe (1975) is used. Following this rule, 120 investors are taken as a sample.

3.3 Sources of Data

This study is mainly based on primary data. Primary data are collected by means of structured questionnaire administering on individual investors of stock market. For the purpose of questionnaire the investors are walk-in basis.

3.4 Data Collection and Processing Procedure

The data is collected from individual investors of stock market through a structured questionnaire using five point likert scale ranging from (1.strongly agree, 2.agree, 3.neutral, 4.disagree, 5.strongly disagree). Hence, choices of 1 and 2 indicated agreement with statements and choices of 4 and 5 indicated disagreement with statements.

3.5 Data Analysis Tools

This study uses the descriptive statistics associated with the primary data analysis which is carried out on the basis of responses derived from Questionnaire Survey.. The responses were coded in Microsoft excel and then analyzed by using SPSS software. This study used correlation analysis, regression model and descriptive statistics like mean, standard deviation and percentage. The demographic variables was explained through descriptive statistics. Frequency, percentage and mean were computed to describe the variable. Correlation analysis is used to identify the relationship between dependent and independent variables and Regression analysis is used to analyze the impact of independent variables with the dependent variable by considering the possible influence of demographic variables as well.

3.6 Validity and Reliability

The reliability analysis was conducted using the Cronbach'a alalysis. This approach was used to test the the internal consistency and reliability of measurements. Nunnally (1978) suggested 0.7 to be an acceptable reliability coefficient but lower thresholds are sometimes used in the literature. Hence, this study considered the acceptable Cornbach's alpha to be 0.7 or more and the Cornbach's alpha test was done by SPSS software.

Table 3.1

Variables	No of items	Crobach's Alpha
Herding	4	0.663
Rational decision	4	0.690
Information leak	3	0.726
Investment trading	5	0.683
Overall	4	0.711

Table 3.1 shows the reliability statistics of item scale. The data presentation show the Cronbach's alpha value for the constructs used in the study. All the constructs have value higher than thresholds i.e. overall reliability value is 0.771. Hence, the scale was found reliable and fit for use.

CHAPTER IV

RESULT

This chapter deals with the analysis, presentation and interpretation of data. The purpose of this chapter is to analyze and elucidate collected data to achieve the objective of the study following conversion of un-processed data to an understandable presentation. The data have been analyzed according to the research methodology as mentioned in third chapter. Descriptive analysis, correlation analysis and regression analysis has been conducted to find the relationship between different variables with investor's behavior.

4.1 Data Presentation and Analysis

Table 4.1 shows the frequency and percentage of respondents considering personal character.

Table 4.1 Profile of Respondents Based on Personal Characteristics

Respondent's profile	Frequency	Percentage
Gender		
Male	68	56.7
Female	52	43.3
Total	**120**	**100.0**
Age		
<30	66	55.0
30-50	35	29.2
50+	19	15.8
Total	**120**	**100.0**
Marital Status		
Single	49	40.8
Married	70	58.3
Divorced	1	.8
Total	**120**	**100.0**
Occupation		
Student	44	36.7

Retired	5	4.2
Self-employed	35	29.2
Unemployed	10	8.3
Salaried individual	26	21.7
Total	**120**	**100.0**
Education		
Below bachelor’s degree	30	25.0
Bachelors	44	36.7
Masters	45	37.5
Above masters	1	.8
Total	**120**	**100.0**
Average gross annual income		
<0.5M	59	49.2
0.5M-1.0M	39	32.5
1.0M-3.0M	22	18.3
Total	**120**	**100.0**

Source: Survey

The majority of respondents are male which occupied 56.7% of total population. It means most of the male investors are invest in stock market than female investors. Similarly most of respondents are under age group <30 age group, it means they are interested in share investment and they have proper knowledge about investment trading than other age group. In case of education most of respondents have degree of master. This shows that most of the respondents considered holds qualification of master degree. The majority of respondents are student. In case of marital status majority of respondents are married. Most of the students are investment in share than others. Most of the respondents have <0.5M annual income and only 18.3% having 1.0M-3.0M annual income it means most of the respondents are belong to small investors. Age, gender, marital status, income level and education level were emphasized as important factors for one’s behavior toward investment trading.

Table 4.2 Position of Investor's Behavior

This table shows the number of responses on the five likert scale items about the considerations that investors think important while investment trading. Also reported are mean value and standard deviations associated with each statement.

Theme (Items)	Mean	Std. Deviation
Herding	**1.7146**	**0.42542**
I would invest stock by following my friends' recommendation.	1.72	0.700
I would invest in the stock market as my relatives are investing.	1.76	0.698
I would follow the newspaper when buying/selling stocks.	1.75	0.812
I would follow the market information to trade.	1.63	0.829
Rational Decision	**1.6507**	**0.42001**
I prefer to gather all the necessary information before buying/selling stock.	1.45	.620
I consider levels of risk associated with particular stocks before investing in stock market.	1.60	.726
I would like to realize the gain as soon as the stock increases in price.	1.80	.856
I consult with others ultimately choose my own investment.	1.76	.883
Information Leak	**1.6837**	**0.45174**
I buy stock of the company where my spouse work.	1.73	.707
I buy stock of the company where my colleagues work.	1.57	.658
My spouse works in Nepal Rastra Bank.	1.75	.964
Investment Trading	**2.2533**	**0.45174**
I prefer IPOs than secondary market instruments.	2.00	1.085
I prefer buying share when the market goes up.	2.20	1.112
I sell shares when there is news about fall in market.	2.59	1.192
I choose secondary market for trading.	2.32	1.021
I purchase share in secondary market using financial data.	2.16	1.085

Source: Survey.

Table 4.2 shows the position of investor's behavior. In herding dimension, the results shows investors are agree. They are invest in stock market by friend's recommendation and some investors are invest in stock market because relatives are investing. Most of the investors are invest in stock by follow market information. In case of rational decision the results shows investors are agree. They prefer to gather necessary information before invest in stock. Some investors are consult with others and ultimately choose own investment. Some investors are consider level of risk associated with particular stock before investing in stock market. In case of information leak investors are agree. They are buying of share when spouse work because they are easily take information. Some investors are buying of share where colleagues work. In investment trading investors are agree. Some investor prefer to invest in secondary market and some are prefer to invest in IPO. They are prefer to buying share when the market goes up and some investor purchase of share by using financial data.

Aggregate mean value of herding is 1.7146 and standard 0.42542, mean value of rational decision is 1.6507 and standard deviation 0.42001 and mean value of information leak is 1.6837 and standard deviation 0.45174 showing that most of the investors are agreed with rational decision and few investors are agreed with herding behavior. It means most of the investors are rational they have knowledge about investment. From the findings, we could conclude that investors are rational decision maker as they relying on the fundamental before making their decision.

Table 4.3 Correlation analysis of dependent and independent variable

		Investment trading	Herding	Rational decision	Information leak
Investment trading	Pearson Correlation	1			
	Sig. (2-tailed)				
Herding	Pearson Correlation	.648**	1		
	Sig. (2-tailed)	.000			
Rational decision	Pearson Correlation	.693**	.616**	1	
	Sig. (2-tailed)	.000	.000		
Information leak	Pearson Correlation	.718**	.604*	.766**	1
	Sig. (2-tailed)	.000	.000	.000	

Source: Survey.

Table 4.3 shows that all independent variables were significantly correlated with investment trading at 1% level. There is positive relation between herding behavior and investment trading. It showing that higher the herding behavior, higher the investment trading. There is a significant correlation between rational decision and investment trading. The positive correlation between these two variables showing that investors are rational and positive towards investment, investment trading increases. In case of information leak and investment trading there is positive relation between these variable when higher the information leak increase in investment trading. It means volume of stock trading per year increase when investors get professional advice.

In case of rational decision and herding behavior there is positive relation between these variables. It means rational people can participate in herd behavior when they take in to account the decision of others. Herding behavior can be rational. There is positive relationship between information leak and rational decision. It shows information is instrumental factors in rational decision making. In case of information leak and rational decision. There is significant relation between these variables. It means rational investors always gather right information before investment.

Table 4.4 Impact of information leak, herding and rational decision on Investment Trading-Model Summery

Model	Variables	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
						R Square change	F Change	df1	df2	Sig. F change
1	Herding	.648	.420	.415	.584	.420	85.453	1	118	.000
2	Rational decision	.693	.481	.476	.552	.481	109.215	1	118	.000
3	Information leak	.718	.515	511	.534	.515	125.425	1	118	.000

Source: Survey

Table 4.4 shows the model summery results of the impact of information leak, herding and rational decision on investment trading. The model 1 represents summery of the relationship between investment trading and herding behavior. The R square=0.420 shows that independent variables are able to explain 42% of dependent variable. The R square range from 42% to 51.5%. In model 3, R square is 0.515, which means that the independent variable are able to explain 51.5% of variability in dependent variable. Higher the value of correlation coefficient higher will be the percentage of variation explained.

F value gives power to judge whether the relationship is statistically significant or not. Here, the p-value for F in each model is 0.000 with 1% level of significant. Here, herding behavior positively affect the investment trading. It means herding behavior of investors increase investment trading also increase. In case of rational decision there is positively affect the investment trading. If investors are take rational decision then investment trading will be increase. In information leak there is positive impact with investment trading. It means for investment trading information is most important if investors are collect right information then they are influence to invest in share and investment trading is increase. The study conclude that each independent variables affect the investment trading.

Table 4.5 Impact of information leak, herding behavior and rational decision on investment trading- model fit

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.306	3	14.102	60.534	.000[b]
	Residual	27.023	116	.233		
	Total	69.330	119			

Source: Survey.

Table 4.5 explains the model fit results of the impact of herding, information leak and rational decision on investment trading. It is shows that the significant value of 0.000 is less than the p value of 0.05. It means the model is fit.

4.2 Major Finding

This topic focuses on the major finding of the study, which are derived from Questionnaire Survey. Some of the major findings of this analysis are summarized and presented below.

i. By analyzing the overall aspect of investors it is found that most of the investors are take rational decision with mean value of 1.6507 and standard deviation 0.42001 and very few investors have herding behavior with mean value 1.7146 and standard deviation 0.42542.

ii. It shows that all independent variables such as herding, rational decision and information leak positively correlated with investment trading at 1% level of significant.

iii. The study found that investors are rational decision maker as they relying on the fundamentals before making decision.

iv. There is positive relation between herding behavior and rational decision, it means herding behavior can be rational.

v. All variable such as herding, information leak and rational decision of investors have significant positive impact on the investment trading it means F value = 0.000 which is positively significant with 1% level of significant. If herding behavior, information leak and rational decision of investor increase investment trading also increase.

vi. Among all independent variable investment trading is highly influenced by herding with value of 0.420.

CHAPTER V

CONCLUSION

This chapter includes discussion, conclusion and implication. All the discussion, conclusion and implications are made according to obtained data from analysis.

5.1 Discussion

Individual investors are those who commit money to investment products with the expectation of financial return. Stock market is a place where buying and selling of securities takes place in an organized way. The parties involved in Stock market are investors, intermediaries and specialists. Investors who are willing to buy or sell stock quickly may be searching good offers or accepting poor offers with higher risk and of higher return. Investors do not act rationally in taking decisions relating to investment.

The main objective of the study is to analyze the individual investors' behavior in Nepalese Stock market. The result from the correlation analysis shows that there is positive relation between information leak and investment trading. The result is consistent with the result of several studies (Khan & Lu, 2013). The positive correlation between these variable consider that higher the information leak higher will be the investment trading. Information leak can explain the increased in investment trading. The finding relived that source of information used by stock investors as a foundation for their financial decision have a significant impact on trading behavior. Information leak is positively correlated with the investors' trading behavior. This finding is consistent with previous studies like (Abreu and Mendes, 2012; Barlevy and Veronesi, 1999; Grossman and Stiglitz, 1980; Guiso and Jappelli, 2006; Holthausen and Verrecchia, 1990; Karpoof, 1986; Peress, 2004). Which suggest that the more often investors invest in acquiring information, the more frequently they trade assets.

Secondly, this study revealed that there is positive relation between herding behavior and investment trading, and investment trading is influence by herding behavior. The finding is consistent with the study done by Hackett and Dominguez (1994). According to Hackett and Dominguez, investors do not make decisions in a vacuum. They may make better decisions by trying to understand the behavioral factors that can influence their judgment for example herd behavior (i.e. following the behavior of others). Herd behavior on investment decisions has the potential to provide investors with many psychological benefits. Herding reduces the time needed to properly analyze an investment decision. It can also help reduce feelings of regret if the investment choice was a bad one. Investors can find comfort knowing that they were not alone in their decision. Herding can also be a powerful tool in influencing market movements. There is positive relation between rational decision and herding behavior. It means herding behavior can rational. The finding is inconsistent with Scharfstein & Stein (1990) explained that the herding behavior can be rational and irrational.

The finding of the current study also found that investors are rational they analyzed financial statement and they consider level of risk. This findings is consistent with the assumption of Friedman (1988), that most of the investors consider economic condition and price movement as the most significant contribution to their gain and losses in investing. This finding implies that individual investors follow the rational decision-making process to select investment.

5.2 Conclusion

The study investigates the behavior of individual investors on Nepalese stock market and also consider about way of investment of Nepalese investors. The major conclusion of this study is that most of the investors consider herding, rational decision and information leak as important factor that influence behavior of investors. It is found that most of the investors take rational decision before invest in share. They are gather necessary information before buying and selling share. Most of the investor prefer to invest in IPO’s than secondary market. There is positive relationship between all factors such as herding, information leak and rational decision with investment trading. Investors are quite disagree with herding behavior and most of the investors are agree with rational decision. Most of the investors follow market information to trade and they use financial data for share investment. This study has found that investors participating in the survey have behavioral influences in their investment decision making process. This study has found that the respondent investors exhibited herding behavior. Their need to conform with others was one of the influences on their investment decision making process.

The study shows investment trading is positively influenced by herding behavior rational decision and information leak but highly influenced by herding behavior. The study has found that respondent investors exhibited herding behavior. Their need to conform with others was one of the influences on their investment trading process.

5.3 Implication

The result of the study may have valuable implication for investors and financial decision makers. Investment is not a game but instead a planned action which can affect investor’s interest in future. Behavior of individual investors affected by herding behavior, information leak and rational decision. On the basis of findings of our study, rational decision is very important for better investment performance. Most of the investors considers rational decision as major factor that influence behavior of investors. Majority of Nepalese investors’ investment decisions on shares are based on anticipation of other individuals’ behavior. So, investors are recommended to invest based on market information and financial information rather than other individual's decisions.

The study would help different interested parties to take care of the factors influencing the behavior for proper planning and decision making. This study suggests some future research to enhance our understanding about the effect of variable on the investment behavior of individual investors. Further research studies could either eliminate some of the limitations or expand the scope of investigation in this study. The possible extension of this study is to consider the institutional investors also besides the individual investors, the study use of larger sample size and the more diversified respondents. But these are beyond the aim of this present study. These are left for future research. Many studies have been conducted aiming to understand the behavior of investment in more developed stock markets. In context of NEPSE, there has hardly been any research in the field of investor behavior. There is thus a future research scope for understanding of the behavior of Nepalese investors and their motives for investment.

Future research is suggested to incorporate psychological variables as well as investment techniques such as fundamental analysis, technical trading rules to further illustrate investor’s investment decision. Future studies are suggested to extend the survey in broad categories of respondents such as policy makers, business man and stock market analyst with a view to assess the opinion in broader term. The research is concentrated only in Kathmandu valley. So, future studies are suggested to extend the survey around other places of the country. The variables included in the study have been researched by many researchers in the past but it still needs further work due to the controversy of the results as many studies conclude with totally opposite results.

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Appendix A: Questionnaire Survey amongst Investors

Section I: Respondent Profile

Name (optional):………………………………………………………………….
Gender: Male [ ] Female [ ]
Age (In years): < 30 [ ] 30–50 [ ] 50+ [ ]
Marital Status: Single [ ] Married [ ] Divorced [ ] Widowed [ ]
Occupation: Student [ ] Retired [ ] Self-employed [ ] Unemployed [ ] Salaried Individual [ ]
Education: Below Bachelor's Degree [ ] Bachelors [ ] Masters [ ] Above Masters [ ]
Average Gross Annual Income (in NRs).: < 0.5 M [ ] 0.5M-1M [ ] 1M-3M [ ] > 3M [ ]

1. **Please express you level of agreement/disagreement with the following statements.**
   [Strongly agree = 1, Agree = 2, Neutral = 3, Disagree = 4, Strongly disagree = 5]

Theme (Items)	**1**	**2**	**3**	**4**	**5**
Herding					
I would invest stock by following my friends' recommendation.					
I would invest in the stock market as my relatives are investing.					
I would follow the newspaper when buying/selling stocks.					
I would follow the market information to trade.					
Rational Decision					
I prefer to gather all the necessary information before buying/selling stock.					
I consider levels of risk associated with particular stocks before investing in stock market.					
I would like to realize the gain as soon as the stock increases in price.					
I consult with others ultimately choose my own investment.					
Information Leak					
I buy stock of the company where my spouse work.					
I buy stock of the company where my colleagues work.					
My spouse works in Nepal Rastra Bank.					
Investment Trading					
I prefer IPOs than secondary market instruments.					
I prefer buying share when the market goes up.					
I sell shares when there is news about fall in market.					
I choose secondary market for trading.					
I purchase share in secondary market using financial data.					