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The factors influencing investment behavior among individual investors in Nepal's stock market

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Abstract
The goal of this study is to comprehend individual investors' stock market behavior in Nepal. A 384-respondent structured questionnaire survey serves as the basis for the entire study. The study found that an investor's level of involvement is significantly positively correlated with the amount they invest, while their optimism is negatively correlated. Greater professional expertise increases the likelihood of taking risks, whereas larger investors typically have lower willingness to do so. Parallel to this, more active, confident, upbeat, and risk-taking investors also tend to trade the stock market more regularly. Therefore, an investor's investing behavior is greatly influenced by their psychology and personal characteristics.

Keywords: Individual investors, investors' psychology, investors' personal characteristics, investment behavior

Introduction

Behavioral finance focuses on analyzing decision-making traits and judgment errors in financial investments. Rooted in behavioral economics, it has a narrower scope compared to the latter. Besides accounting data, individual risk profiles and market conditions influence investment selections. While investors consider various factors, wealth maximization remains a significant objective. Financial self-efficacy (FSE) significantly impacts financial behaviors, including credit market involvement and saving practices. Asebedo (2018) suggests that stronger mastery beliefs, reduced negative effects, heightened task orientation, and frequent positive effects enhance FSE, influencing investment decisions positively.

The stock market serves as a vital platform for economic growth, facilitating communication and channeling funds from individuals and organizations into businesses and industries. Individual investors play a pivotal role, with their actions scrutinized for professional and academic purposes. In Nepal, investors gather information from various sources including media, peers, and financial professionals before making investment decisions. While each investor is unique, patterns in investment behavior exist among groups. Bellman (2016) notes the presence of investors with similar investment habits despite individual differences, highlighting the influence of information sources and market dynamics on investment decisions.

In Nepal, investors often focus on the stock market, particularly commercial banks, influencing daily share transactions. Investors vary in type, from institutional and knowledgeable to novice and absent. Understanding the essentials of investment, such as necessity and strategy, guides investors in achieving financial objectives while managing risks (Risal, 2016). Investment strategies entail multiple procedures and guidelines, balancing returns and risks within a specific timeframe.

Statement of the problem

Investment decisions are influenced by diverse factors, including market conditions and personal risk profiles. The disposition effect suggests investors are swayed by sunk costs and risk preferences over gains and losses, regardless of financial knowledge. Parikh (2011) found varied criteria in stock selection, prioritizing wealth maximization. Contemporary concerns like ethics and environmental impact are often overlooked, as are recommendations from brokerage firms and valuation models by individual investors.

This study is attempted to find out the answer to the following research questions:

- How do Nepalese investors in the secondary market fit into the demographic structure?
- Does the Nepalese stock market investing decision have anything to do with optimism, engagement, and risk-taking attitude?
- How much optimism, participation, and risk-taking attitude influence stock market decisions in Nepal?

Objectives of the study

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

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

Hypothesis of the study

The following hypothesises are presented to fulfill the objectives of this study.

- ***H_1:*** There is a significant relationship of investor optimism with investment decisions.
- ***H_2:*** There is a significant relationship of involvement with investment decisions.
- ***H_3:*** There is a significant relationship of risk attitude with investment decision.

Significance of the study

Behavioral finance explores how human psychology influences investment decisions, helping investors avoid emotional trading and devise better strategies. Unlike the

efficient market hypothesis, it acknowledges market imperfections driven by non-fundamental factors. Embracing behavioral insights enables investors to navigate market shifts, improve decision-making, and understand human behavior in financial contexts, enriching portfolios and comprehension. This study is particularly beneficial to Nepalese investors, highlighting strengths, weaknesses, and opportunities, empowering them to make informed decisions and improve their investment outcomes.

- This study offers insights into how individuals make investment decisions about time, quality, various financial sectors, and their own investing preferences.
- Determining whether behavioral finance components influence investing decisions is helpful.
- to enable investors and market analysts to comprehend price fluctuations without requiring any significant adjustments to the business or industry.

Limitations of the study

Since the world is dynamic, all research has boundaries, and this study is no different. The following are the study's primary limitations:

- The research is limited to the Nepalese stock market, which may not accurately reflect the true state of the sector.
- The information supplied by investors in the Nepalese stock market determines how accurate the analysis is.
- Because this study was conducted via sampling, bias may have been introduced into the data.

The preparation of this study was done using a descriptive and informal research approach.

Chapter ii review of literature

1. Literature Review

Investor optimism

Understanding investor behavior relies on core ideas explaining decision-making processes. Prospect theory suggests individuals evaluate potential gains and losses using heuristics, focusing on perceived outcomes rather than actual results. Another theory, based on optimism and expected utility, contrasts risky and uncertain prospects to inform decisions. Optimism bias, a significant factor, influences both macro and microeconomic activities, impacting choices such as startup investments. These theories shed light on investor behavior, aiding comprehension, and decision-making (Pandey, Chaubey, & Tripathi, 2016) [8].

Involvement

Investing in Involvement can benefit both renters and landlords by incorporating stakeholders such as renters and service users. Two government-funded reports titled "Tenants Leading Change" highlight the financial, service, social, and community advantages of tenant engagement. They suggest that engagement is an investment rather than a cost and emphasize the need for the housing industry to recognize and promote its benefits. However, ambiguity surrounding these benefits may hinder landlords and tenants from realizing their full potential. Clear communication about the advantages of participation is essential to ensure stakeholders in the housing industry fully understand the opportunities available (Pokharel, 2018).

Risk Attitude

The degree of uncertainty and/or possible financial loss associated with an investment choice is referred to in the finance world as risk attitude. Investors want bigger returns to make up for the increased risk associated with their investments. Each investment and savings plan has a unique set of risks and rewards (Kadariya, 2012) [4].

Research Gap

The deficiency of knowledge on certain elements influencing investor decisions is the reason for the study gap on the "Investment Behavior of Individual Investors in the stock Market of Nepal". The analysis of the socioeconomic, cultural, and regulatory influences on investment choices in the existing studies is shallow. Furthermore, little research has been done on the effects of technological innovations such as online trading platforms. Additionally, absent are longitudinal studies to monitor changes in investment behavior over time and evaluate the efficacy of interventions. To boost investor trust and promote sustainable growth in Nepal's stock market, officials, regulators, and market participants may find that filling these gaps may provide vital insights.

Chapter iii research methodology

1. Research design

A descriptive and causal research design has been employed to meet the study's goal. In this study, data was gathered using a self-administered form using a pre-tested questionnaire. Based on quantitative data gathered from respondents via questionnaire distribution, the research findings were made.

2. Population and sample

The research targeted all investors in Nepal's stock market, encompassing NEPSE participants. From this population, 384 investors in Rupandehi were sampled using judgment sampling. Each participant received a questionnaire detailing the study's objectives and filing instructions. The sample size was determined via the Cochran method, ensuring a 5% margin of error and 95% confidence level. Precision in population parameter estimates was a crucial consideration for researchers.

3. Nature and sources of data

The study relied predominantly on primary data collected through a systematic questionnaire method. The questionnaire featured Likert scale items ranging from one (strongly disagree) to five (strongly agree), allowing for ordinal responses. Demographic details such as gender, age, income, occupation, and education were gathered. Respondents were briefed on the study's objectives and asked to complete the questionnaire accordingly.

4. Methods of analysis

Descriptive and causal statistics were pivotal in analyzing the study's main findings. Causal statistics elucidated relationships between dependent and independent variables, while descriptive techniques like mean and standard deviation summarized results. Data presentation in tables aided comprehension. Inferential statistics employed regression and correlation to assess model reliability. SPSS, Microsoft Word, and Excel were utilized to handle, analyze, and interpret the gathered information.

5. Research framework and definition of variables

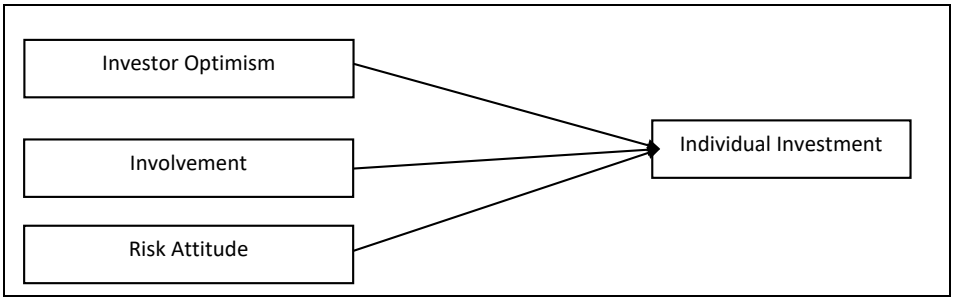

Fig 1: Research frameworks show the relationship of independent variables with dependent variables.

Chapter- IV Data presentation and analysis

1. Data presentation

This chapter describes the analysis results generated from the process of data collection. It deals with the analysis and interpretation of the primary data collected through a questionnaire from 384 respondents. The primary purpose of this chapter is to analyze and interpret the collected data and present the results of the questionnaire survey. The main purpose of this research study was fulfilled with the outcomes derived from the analysis of the data. Therefore, the findings of the study were presented and analyzed in this chapter. In this study regression analysis was also used to test the effect of independent variable on dependent variable. The collected data were presented and analyzed using SPSS software version.

1.1 Demographic background of the respondents

Table 1: General characteristics of the respondents

Classification	Dimension	Frequency	Percent
Age of the Respondents (in years)	Under 20	105	27.3
	20 to 40	146	38
	Above 40	133	34.6
	Total	384	100
Gender of the Respondents	Male	269	70.1
	Female	115	29.9
	Total	384	100
Occupation	Student	46	12
	Retired	81	21.1
	Self-employed	74	19.3
	Un-employed	65	16.9
	Salaried Individual	118	30.7
	Total	384	100
Monthly Income of the Respondents	Below Rs. 20,000	166	43.2
	Rs. 20,000 to Rs. 40,000	130	33.9
	Above Rs. 40,000	88	22.9
	Total	384	100
Qualification of the Respondents	Intermediate	128	33.3
	Bachelors	144	37.5
	Masters	112	29.2
	Total	384	100

Table 1 presents demographic data on respondents' percentages by age, income level, educational attainment, and occupation. Age groups under 20, 20 to 40, and above 40 comprise 27.3%, 38.1%, and 34.6% of the sample respectively. Income categories Rs. 20,000, Rs. 20,000 to Rs. 40,000, and above Rs. 40,000 represent 43.2%, 33.9%, and 22.9% respectively. Educational levels below Intermediate, Bachelors, Masters, and others constitute 38.5%, 29.7%, 24.2%, and 7.6% respectively. Occupation types including student, retired, self-employed, unemployed, and salaried individuals are 12%, 21.1%, 19.3%, 16.9%, and 30.7% respectively.

1.2 Investment motivation

Table 2: Investment objectives of investors

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

Table 2 shows the objectives of investing money in shares. It demonstrates that long-term profit seeking drives the bulk of investors (33.1%). However, just 21.9% of investors intend to use their share market investments to generate short-term profits. It illustrates Nepalese share market investors' frustration.

1.3 Preferences toward types of market

Table 3: Investment objectives of investors

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

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

1.4 Volume of investment

Table 4: Volume of investment

Investment Size	Frequency	Percent
Small Size (0 to 1,00,000)	95	25
Medium Size (1,00,000 to 10,00,000)	185	49
large size (10,00,000 to Above)	104	26
Total	384	100

Table 4 displays the total amount of investments made in three categories: small (0 to 1,00,000), medium (1,00,000 to 10,00,000), and large (10,00,000 and above). Of the investors, 49% invested in medium-sized investments, which were followed by large (26%) and medium-sized (25%) investments, respectively.

1.5 Trading and monitoring investment

Table 5: Observation on investors across investment size

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

Investor preferences and monitoring frequencies are shown in Table 5 for a range of investment sizes. Annually, 36.7% of investors make tiny sums, 32.8% make huge amounts, and 32% make medium amounts, according to Panel A. Twice a year, 31.8% make little, 30.2% medium, and 11.2% major investments. On a quarterly basis, 13.8% invest large, 19.5% medium, and 17.4% modest. It is less customary to make daily and monthly investments. Panel B shows the monitoring frequencies, with annual monitoring of 25.8%, 37.5%, and 27.9%. The varying levels of investor interaction are reflected in the bi-annual, quarterly, weekly, and monthly monitoring that follows.

1.8 Correlation analysis

Table 6: Karl Pearson's correlation coefficient

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

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

Table 6 (N = 384, significant level = 0.01) displays the link between investors' decision behavior and optimism, participation, and risk attitude. Correlation values vary from -1 to 1, with positive values indicating positive relationships and negative values suggesting negative relationships. Investor behavior significantly correlates positively with optimism (r=.886), participation (r=.777), and risk attitude (r=.821), indicating a strong positive correlation with these variables in the Nepalese stock market.

1.9 Regression analysis

Table 7: Regression results of the effect of investor's psychology on trading This table reports the regression results of the effect of investor's psychological dimension such as involvement, optimism, and risk attitude on frequency of trading shares in market. (Equation: TF = α + β1 OPT + β2INVT+ β3 RA + et, where TF is trading frequency of investors).

Model	C	β_1	β_2	β_3	F-Statistics	Sig.
Coefficient	0.65	0.66	-0.13	0.25	463.8600	.000[b]
P-Value	.000	.000	.000	.000		
	R^2=0.779	R^2_{adj}=.793				

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

The model's coefficients (0.66 for optimism, -0.13 for involvement, and 0.25 for risk attitude) with a constant (C) of 0.65 depict outcome variable changes per one-unit shift in predictors, holding others constant. A significant F-statistic (463.8600, p< .000) underscores collective predictor influence. R-squared (0.779) suggests 77.9% variance explanation, adjusted R-squared (0.793) considers model complexity. Optimism and risk attitude positively impact outcomes, while involvement negatively affects them. The model highlights investor sentiment and risk perceptions' pivotal roles in determining outcomes, indicating higher optimism and risk tolerance lead to increased outcomes, contrasting with involvement's dampening effect.

Chapter-V Summary, Conclusion and Recommendation

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

1. Summary

The study aims to explore the impact of behavioral finance on investment decisions in Nepalese stock markets, and to identify key determinants influencing individual investment choices. Employing a causal and descriptive research design, data was gathered through pre-tested questionnaires administered to 384 investors from NEPSE, utilizing judgment sampling. The questionnaire, comprising Likert Scale questions, gathered demographic information and behavioral data. Statistical analyses including correlation and regression were conducted using SPSS.

Results revealed a significant positive correlation between investor behavior and overconfidence, optimism, involvement, and risk attitude (N=384, significant level=0.01). Positive values indicated positive relationships while negative values suggested negative relationships. Notably, investor optimism (r=0.886, sig=0.000), involvement (r=0.777, sig=0.000), and risk attitude (r=0.821, sig=0.000) displayed strong positive correlations with investor behavior. However, involvement did not exhibit a unique contribution to predicting investor decision behavior.

The study underscores the importance of behavioral factors in investment decisions, particularly the significant roles played by optimism and risk attitude. These findings shed light on the nuanced dynamics of investor behavior within the Nepalese stock market context. Moreover, they emphasize the need for investors and market analysts to consider behavioral finance principles when making investment decisions.

Through rigorous statistical analysis, the study offers valuable insights into the complex interplay between psychological factors and investment behavior. By understanding these relationships, investors can make more informed decisions, potentially mitigating risk and optimizing returns. This research contributes to the growing body of literature on behavioral finance and its implications for financial markets, particularly within the Nepalese context.

2. Conclusion

The study investigates how behavioral finance shapes investment decisions in Nepalese stock markets, identifying key determinants impacting individual choices. Using a survey, data is quantitatively analyzed, focusing on investor optimism, involvement, and risk attitude as independent variables and decision behavior as the dependent variable. Results show significant positive relationships between these variables, indicating collective influence on decisions. Regression analysis highlights optimism and risk attitude as significant predictors, while involvement lacks unique contribution. The F-test confirms model significance (p=0.000), emphasizing the importance of psychological factors in investment decisions. The study underscores the need for investors to consider attitudes and perceptions when navigating the stock market.

3. Recommendation

Investors must thoroughly assess investment considerations with their business expertise before deciding. Understanding market and economic indicators' impact on share performance is crucial. The study aimed to enhance behavioral finance theories, targeting professionals, academics, and policymakers. Generalization of findings would require broader research across the country's regions. The small sample size limits representing Nepali stock market investors. Future studies should incorporate additional variables and improved measurements to better understand investors' decision-making processes.

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