International Journal of Finance and Commerce
www.commercejournals.com
Online ISSN: 2664-715X, Print ISSN: 2664-7141
Received: 04-04-2024, Accepted: 27-04-2024, Published: 21-05-2024
Volume 6, Issue 2, 2024, Page No. 45-50

Factors affecting investment decision making of individual investor in Nepal

Tulsa Bhandari
Department of Business Administration, Tribhuvan University, Lumbini Banijya Campus, Nepal

Abstract
Traditional finance theories presume that investors operate rationally in the stock market, whereas behavioral finance contends that investors behave irrationally when making investment decisions. Behavioral finance describes the impact of investor psychology on investing decisions. The core objective of this article is to measure the relationship between behavioral factors (Heuristics, Risk aversion, use of financial tool The level of corporate governance) and investment decision making and to examine the effect of behavioral factors ((Heuristics, Risk aversion, use of financial tool The level of corporate governance) on investment decision making. The questionnaire approach was used to obtain primary data from individual investors who invested in Nepalese commercial banks, insurance firms, and stock exchanges. The study collected 400 responses from individual investors for the survey. We apply correlation analysis and regression analysis methodologies to achieve our goal. This study concludes that the sample responses, all behavioral aspects and firm-level corporate governance have an impact on and contribute to the decision-making process of investors. Therefore, it can be concluded from the findings that investor's investment decision is influenced from heuristic and risk aversion behavior. Therefore, to influence investor for investment decision making heuristic, risk aversion factors should be considered.

Keywords: Behavioral factors, investment decision making, Nepal stock exchange, firm, individual investors.

Introduction

Individual investors' investment decisions in Nepal are influenced by a complex combination of economic conditions, personal variables, market knowledge, and behavioral biases. Recognizing and comprehending these aspects may help investors make educated decisions, optimize their portfolios, and strive towards their financial goals. Financial literacy and awareness campaigns are critical in enabling investors to efficiently navigate the volatile world of investing.

Making investment decisions is a difficult task for investors, especially in today's dynamic economy with multifaceted possibilities. Personal resources and complicated models cannot be used to make investment decisions in a vacuum. To reach their objectives, investors must be diligent and up to date. Behavioral finance is a new topic that can assist investors choose better financial instruments and avoid making the same mistakes in the future. Behavioral finance describes the impact of investor psychology on investing decisions. Behavioral finance focuses on irrational investor behavior that influences investment decisions and market pricing. It Shows how an investor behaves and how his behavior affects the financial markets. Market players are rational, according to standard financial market ideas. Numerous studies, however, show that investor behavior is not always reasonable, and is sometimes consistently illogical. The stock market is becoming increasingly volatile. The volatility of the stock market raises the risk of investment.

Finance theory assumes that investors are rational and make decisions based on profit maximization. The heart of traditional finance is the Efficient Markets Hypothesis (EMH) that assumes that all of the information is provided to all investors without cost. Therefore, the price of stocks always reflects their intrinsic value and is reasonable. However, the reality shows that investors in the markets are not necessarily always rational in their decisions and that other factors might affect them when they are making their investment decisions Therefore, this phenomenon encourages researchers to investigate the factors that may provoke irrationality among investors. Irrationality causes several problems in the market and drives the price of stocks away from its fair value. This phenomenon of investor behavior has been studied during the last few decades under the name of "behavioral finance". This field of modern finance has made remarkable progress in the last two decades.

The individual should start by specifying investment goals. Once these goals are established, the individual should be aware of the mechanics of investing and the environment in which investment decisions are made. These include the process by which securities are issued and subsequently bought and sold, the regulations and tax laws that have been enacted by various levels of government, and the sources of information concerning investment that are available to the individual.

Many individuals find investments to be fascinating because they can participate in the decision-making process and see the results of their choices. Not all investments will be profitable, as investor wills not always make the correct investment decisions over the period of years. A well-diversified portfolio, on the other hand, should provide a positive return. Investing is not a game, but rather a serious issue that may have a significant influence on an investor's future well-being. Almost everyone invests. Even if the individual does not choose specific assets such as stock, investments are still made through participation in pension plans and employee saving programs, or through the purchase of life insurance or a home, or through some other mode of investment such as investing in Real Estate (Property) or in Banks, or in post office saving schemes. Each of these investments has some elements in common, such as the possible return and the risk you must face. The future is unpredictable, and you must decide how much risk

you are ready to take risk, since higher return is associated with accepting more risk.

The core objective of this article is to investigate the effect of behavioral factors such as heuristics, risk aversion, use of financial tools and firm level corporate governance on investment decision making. Moreover, the specific objectives of this article are:

- To measure the relationship between behavioral factors (Heuristics, Risk aversion, use of financial tool The level of corporate governance) and investment decision making.
- To examine the effect of behavioral factors ((Heuristics, Risk aversion, use of financial tool The level of corporate governance) on investment decision making.

This article will assist in recognizing the usage of financial instruments for investment decision making, as well as explaining and comprehending how emotional and behavioral aspects impact investors' decision making.

Literature Review

The purpose of the study is to investigate the impact of behavioral factors such as heuristics, risk aversion, use of financial tools and firm-level corporate governance on investment decision making. Design. The study used primary technique using. Questionnaire from 50 respondents. To accomplish the objective, we use correlation analysis and regression analysis technique. The study concludes that Heuristics, use of financial tools and Firm level corporate governance have positive and significant Impact on investment decision making, whereas Risk aversion has negative and significant impact on investment decision making. Moreover, all behavioral factors, firm level corporate and investment decision making have positive and significant relationship with each other. Stock exchanges and regulatory authorities may use these results to educate investors about behavioral factors.

This study aims to gain knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision-making process among men and women and among different age groups. The individuals may be equal in all aspects, may even be living next door, but their financial planning needs are very different. It is by using different age groups along with Gender that synergism between investors can be generated. In this context, demographics alone no longer suffice as the basis of segmentation of individual investors. Hence keeping this in mind, the present study is an attempt to find out Factors which affects individual investment decision and Differences in the perception of Investors in the decision of investing on basis of Age and on the basis of Gender. The study concludes that investors' age and gender predominantly decide the risk-taking capacity of investors. Keywords: Risk Coverage, Perceptual factors, Perception of Investors, Security, Opinion Leadership, Awareness of Investment options, Time Duration.

This research examines the influence of many aspects on investor decision-making, such as heuristics, risk aversion, financial tools and procedures, firm's corporate governance, and day-to-day experience. The sample consisted of 701 individual investors who traded on the Pakistan Stock Exchange. The Ordinary Least Square (OLS) method is used to estimate research models. The findings demonstrated that heuristics, risk aversion, financial instruments, and tactics had a considerable favorable influence on investors' investing decisions. Day-to-day experience and corporate governance (CG) play an essential part in the financial sector's investment decision-making in Pakistan. This study will help to raise investor awareness and trust in the equities market.

This paper's objective is to study the behavioral factors that influencing the decision and performance of individual investor in Pakistan stock exchange. Overconfidence, representativeness, anchoring, mental accounting, loss aversion, and regret aversion are all behavioral characteristics that might influence an individual investor's investing decision and performance. A study was undertaken to determine which behavioral characteristics have the most influence in the Pakistan stock exchange and their impact on investors who trade in the Pakistan stock exchange. The two theories explored in this study were heuristic and prospect theory. Prospect theory includes loss aversion, regret aversion, and mental accounting, whereas heurist theory includes representativeness, overconfidence, anchoring, gambler fallacy, and availability bias. This study is based on primary data. The sample size of the research is consisting of 150 samples of individual investors in Pakistan Stock exchange. Preliminary findings reveal that heuristics have the most beneficial effect on investment success, whereas prospects have little effect. The findings were produced using regression analysis and statistical SPSS. We found that there is a strong link between behavioral characteristics and investing performance.

awareness by educating investors about the importance of behavioral factor and firm-level corporate governance. It may help to increase investors' confidence.

The aim of this study is to look at the influence of psychological parameters on investor behavior with respect to the Kuwait Stock Exchange (KSE). These psychological features are: extreme optimism vs pessimism, herd behavior, and tolerance for risks. The information for this study obtained from the KSE and a poll of 398 individual investors. The study findings, based on qualitative analysis and behavioral finance theory, reveal that herd behavior, optimism, and psychological risk have an influence on individual investors' actions. However, we found little evidence of overconfidence's influence on investment decisions. To the best of our knowledge, the KSE has been studied by various researchers without taking into account the influence of psychological aspects on individual investment decisions. According to the findings of this study, psychological variables have a considerable effect in individual investors' decisions about the KSE. This work may have a favorable impact on the advancement of this field of research in (KSE). However, the limitations of this research are that the sample is based only on individual investors and does not include institutional firms. It would be helpful to conduct further research that employed a larger sample and included all types of investors. Moreover, the analysis in this research done by using a percentage analysis of the questioner's answers, however, this analysis can be more fruitful if it included advanced tools such as probability and non-probability methods, rigorous analysis, and empirical tools such as correlation and regression analysis between the factors.

Conceptual Framework

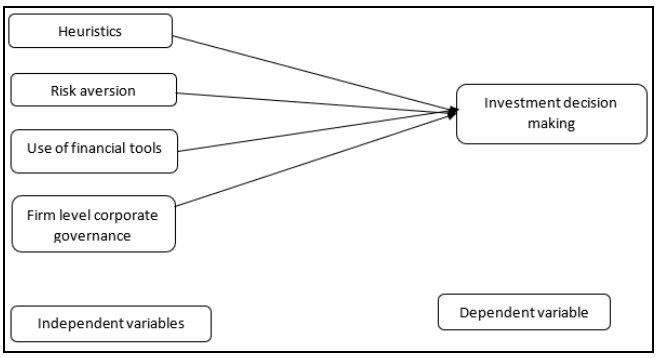

Fig 1: Conceptual framework

This figure 1 represents the conceptual framework. In the above figure the dependent variable is investment decision making, whereas the independent variables are heuristics, risk aversion, use of financial tools, Decision making is affected by all these factors. According to different studies these behavioral factors have positive and significant relation with investment decision making.

Hypothesis of the Study

H_1: There is significant relationship between heuristics factor of individuals and investment decision making.
H_2: There is significant relationship between risk aversion behavior of individuals and investment decision making.
H_3: There is significant relationship between use of financial tools and investment decision making.
H_4: There is significant relationship between level of corporate governance with investment decision making.
H_5: There is significant effect of heuristics factor of individuals on investment decision making.
H_6: There is significant effect of risk aversion factor of individuals on investment decision making.
H_7: There is significant effect of use of financial tool on investment decision making.
H_8: There is significant effect of level of corporate governance on investment decision making.

Research Methodology

Research methodology includes the following structure: the research design, sample size, sampling technique, source of data collection, data collection methods, tools used for data analysis. The study utilizes a quantitative approach to investigate the impact of factors affecting investment decision making of individual investor of Nepal. The quantitative aspect of the study involves questionnaires with different individual investor to examine the relationship between To measure behavioral factors (Heuristics, Risk aversion, use of financial tool The level of corporate governance) and investment decision making.

Research Design

Research design refers to the overall plan or strategy that a researcher uses to guide their study and answer their research questions or test their hypotheses. It outlines the methods, procedures, and techniques that will be used to collect and analyze data. This study uses Causal comparative research design to examine the relationship of factor affecting investment decision making of individual investor in Nepal.

Population and Sample

Individual investors of Butwal city are the population of the study. Only 400 investors who actively involved in investment has been taken as the sample of the study. Convenience Sampling Technique was used to select the respondents.

Data collection instrument

The study was collected from primary sources using a structured questionnaire. The questionnaire included 26 items on a 5-point Likert scale and ranged from (strongly Disagree to (strongly agree. The questionnaire was divided into 3 sections i.e., Demographic profile, dependent variables and independent variables. The questionnaire was distributed electronically using a google form. The reliability of the questionnaire, as measured by Cronbach's alpha and was 0.6 and above.

Analysis of Demographic Profile of Respondent

The overall profile provides a concise overview of the demographic characteristics of the respondents based on gender, age, occupation, education qualification, marital status, and monthly income

Table 1: Demographic profile of the respondent

		N	%
Gender	Male	168	42
	Female	232	58
	Total	400	100
Age	15-25	192	48
	26-35	152	38
	35-above	56	14
	total	400	100
Occupation	student	288	72
	employee	56	14
	business man	48	12
	others	8	2
	total	400	100
education qualification	primary level	16	4
	secondary level	80	20
	masters	272	68
	post graduates	32	8
	total	400	100
marital status	married	176	44
	unmarried	224	56
	total	400	98
monthly income	15000	192	48
	15000-30000	88	22
	30000-45000	32	8
	more than 45000	68	22
	total	400	100

Overall, this demographic profile provides insights into the group's gender distribution, age range, occupation, education, marital status, and income levels.

Reliability Test

The SPSS programmed was used to analyses the data in this study. Table 2 displays the Cronbach's Alpha, which indicates the reliability (alpha) of the variable-related data that was collected. Multi-item scales' internal consistency was examined using Cronbach's Alpha. Cronbach’s alpha (N=50)

Table 2: Cronbach alpha test

Variables	Cronbach's alpha value	N of items
Heuristics	0.883	5
Level of corporate governance	0.757	5
Risk aversion	0.777	6
Use of financial tools	0.802	5
Investment decision	0.701	5

1. Heuristics: The variable "Heuristics" has a Cronbach's alpha value of 0.883, which is quite high (close to 1. It suggests that the scale used to measure heuristics in the study demonstrates strong internal consistency and reliability. The scale consists of 5 items.
2. Level of corporate governance: The variable "Level of corporate governance" has a Cronbach's alpha of 0.757. While this value is decent and indicates an acceptable level of reliability, it is not as high as the "Heuristics" variable. The scale contains 5 items.
3. 3.Risk aversion: The variable "Risk aversion" has a Cronbach's alpha of 0.777, indicating acceptable reliability. The scale consists of 5 items.
4. 4.Use of financial tools: The variable "Use of financial tools" has a Cronbach's alpha of 0.802, suggesting a high level of internal consistency and reliability. The scale contains 5 items.
5. 5.Investment decision: The variable "Investment decision" has the lowest Cronbach's alpha value in the table, which is 0.701. Although this value is still above 0.7 (a common threshold for acceptable reliability), it is the least reliable among the variables tested. The scale consists of 5 items.
6. Overall, the results indicate that the scales used to measure most of the variables have acceptable to high reliability, with "Heuristics," "Use of financial tools," and "Risk aversion" showing the highest reliability among the variables listed. However, the "Investment decision" variable has relatively lower reliability compared to the others and may need further examination or refinement. Researchers often aim for Cronbach's alpha values of 0.7 or higher to ensure a reliable measurement instrument.

Descriptive Analysis

Descriptive statistics provide quantitative synopsis of all independent or dependent variables. Table 3 shows the values of measures of variability (minimum, maximum, and standard deviation), measure of central tendency (mean), show the data normality.

Table 3: Descriptive statistics

	Financial tools	Risk aversion	Firm level corporate governance	Heuristics	Inv. Decision
Minimum	1.800	1.400	1.200	1	1.800
Maximum	5	5	5	4.40	4.800
Mean	3.524	3.2040	3.3840	2.7320	3.4080
SD	0.772	0.753	0.721	0.970	0.639

Descriptive statistics of dependent and independent variables

Table 3 summarizes descriptive data for five variables: financial tools, risk aversion, company level corporate governance, heuristics, and investment choice. For each variable, the table shows the lowest and maximum values, as well as the mean and standard deviation. Financial tools, for example, have a minimum of 1.8, a maximum of 5, a mean of 3.524, and a standard deviation of 0.772. Similarly, statistics for the other factors are presented. These descriptive statistics provide a succinct picture of the variables' core trends and variabilities, allowing for a rapid comparison of their values and distributions throughout the dataset.

Correlation Analysis

Correlation analysis is a technique used to find the relationship between two variables. Table no 4 (Correlation Test) shows the correlation matrix of use of financial tools, risk aversion, firm level corporate governance and heuristics, with investment decision making. where the sample size was four hundred (400). This correlation matrix describes the relationship among all the variables. This correlation matrix signifies that all variables are significant at sig value 0.01 and 005, but heuristics is positive but insignificant with dependent variables.

Table 4: Correlation analysis

Variables	Use of Financial tools	Risk aversion	firm level corporate Governance	Heuristics	Inv. decision
Use of Financial tools	1	.471**	.306*	-0.234**	0.435**
Risk aversion		1	.623**	0.193**	0.436**
firm level corporate governance			1	.397**	0.614**
heuristics				1	0.205**
Inv. decision					1

Note. ** Correlation is significant at the 0.01 level (2-tailed), * Correlation is significant at the 0.05 level (2-tailed). Number of observations is 400.

Table 4 shows the result of correlation among the dependent and independent variables. The correlation between the independent variables is lower than 0.70, which indicate multicollinearity is not an issue. There is a positive and significant correlation between "Use of Financial tools" and "Investment decision" ($r = 0.435$, $p < 0.01$). This means that individuals or firms that tend to use more financial tools are also more active in making investment decisions. Likewise, there is a positive and significant correlation between "Risk aversion" and "Investment decision" ($r = 0.436$, $p < 0.01$). There is a positive and significant correlation between "firm level corporate governance" and "Investment decision" ($r = 0.614$, $p < 0.01$). This indicates that firms with stronger corporate governance practices are more active in making investment decisions. There is a positive but not statistically significant correlation between "Heuristics" and "Investment decision" ($r = 0.205$, $p > 0.05$). This suggests that individuals or firms with a higher tendency to use financial

tools, lower risk aversion, and better corporate governance are more likely to engage in investment activities. However, the relationship with "Heuristics" is not statistically significant, indicating that the use of heuristics might not strongly influence investment decisions in this dataset.

Regression analysis

for the purpose of analyzing the effect of explanatory variables on employee performance effectiveness multiple regression analysis has been performed and the result of analysis is summarized in the table 5.

Table 5: Summary of Result of Multiple Regression Analysis

Model	Constant	HEU	CG	RA	FT	R^2	F	Sig
Coefficient	0.913	0.057	0.454*	-0.044	0.267*	0.450	80.842	0.000**
Sig.	(.000)	(.000)	(.319)	(.000)	(.052)			
VIF		(1.434)	(1.939)	(1.919)	(1.543)			

Note: Figure in the parentheses indicates p values and VIF respectively. * Indicates results are significant at 5% level and ** indicates results are significant at 1% level of significance.

Table 5 depicts the result of regression analysis. The dependent variable is investment decision and explanatory variables are heuristics, corporate governance, risk aversion and use of financial tools. The result presented in table 5 shows that sig. value of F statistics (F=80.842, sig=0.000) which implies that model is significant at 1 percent level of significant. Similarly, the value of R^2 is 0.450 it means that independent variables heuristics, corporate governance, risk aversion and use of financial tools explain 45 % of variation in the dependent variable which is investment decision and other variation is explain by another factor

Heuristics and Risk Aversion are statistically significant at 99% confidence level as their P – values are less than 0.01. Similarly corporate governance has insignificant relation with dependent variable. Additionally, use of financial tools has positive relationship with investment decision. Similarly risk aversion has negative relation with dependent variable.

The heuristics have positive Beta coefficient of 0.057 it means each 1 unit increase in heuristics would lead to increase Investment decision by 0.057 unit. The level of corporate governance has also positive Beta coefficient of 0.454 it means each 1 unit increase in corporate governance would lead to increase in investment decision by 0.454 unit. Similarly, Beta coefficient of risk aversion is negative which is -0.044 unit, it indicates that 1 unit increase in risk aversion would leads to decrease in investment decision by 0.044 unit. Use of financial tools has positive Beta coefficient of 0.267 which indicates that 1 unit increase in use of financial tools would lead to increase in investment decision by 0.267

Table 6: Summary Hypothesis Test

Hypothesis	Statement	P-value	Remarks
H_1	There is significant relationship between heuristics factor of individuals and investment decision making.	0.005	Accept
H_2	There is significant relationship between risk aversion behavior of individuals and investment decision making.	0.005	Accept
H_3	There is significant relationship between use of financial tools and investment decision making.	0.000	Accept
H_4	There is significant relationship between level of corporate governance with investment decision making.	0.173	Reject
H_5	There is significant effect of heuristics factor of individuals on investment decision making.	0.024	Accept
H_6	There is significant effect of risk aversion factor of individuals on investment decision making.	0.590	Reject
H_7	There is significant effect of use of financial tool on investment decision making.	0.009	Accept
H_8	There is significant effect of level of corporate governance on investment decision making.	0.321	Reject

Model Diagnostic Test

Normality Test

For the purpose of testing normality of residuals KS test and SW test has been performed and the result of analysis has been reported that the sig value of KS and SW test is more than 0.05. So, the residuals are normally distributed.

Conclusion

This research study finds that various behavioral aspects influence investor decision making. These behavioral characteristics have varying degrees of influence on decision making. The current study additionally investigates the link between investment decision making and behavioral characteristics (heuristics, risk aversion, and the use of financial instruments) as well as firm-level corporate governance. According to the sample responses, all behavioral aspects and firm-level corporate governance have an impact on and contribute to the decision-making process of investors. Therefore, it can be concluded from the findings that investor's investment decision is influenced from heuristic and risk aversion behavior. Therefore, to influence investor for investment decision making heuristic, risk aversion factors should be considered.

Reference

1. Dash KM. Factors Influencing Investment Decision of. Int J Buss,2010:1(2229-6247):15-26.
2. Dhungana BR, Bhandari S, Ojha D, Sharma LK. Effect of Cognitive Biases on Investment Decision Making: A Case of Pokhara Valley, Nepal. Quest Journal of Management and Social Sciences,2022:4(1):69-82.
3. Abul S. Factors influencing Individual Investor Behaviour: Evidence from the Kuwait Stock Exchange. Asian Social Science,2019:15(3):27-39.
4. Aziz D, Khan MA. Behavioral factors influencing individual investor's investment decision and. International Journal of Research in Finance and Marketing (IJRFM),2006:6(7):74-86.
5. Farooq A, Afzal AM, Sohail P, Sajid M. Factors Affecting Investment Decision Making: Evidence from Equity Fund. Journal of Basic and Applied,2015:5:2222-1697.

6. Farooq A, Afzal MA, Sohail P, Sajid M. Factors Affecting Investment Decision Making: Evidence from Equity Fund. Journal of Basic and Applied,2015:5(2090-4304):2222-1697.
7. Hunjra AI, Rehman KU, Qureshi SA. Factors Affecting Investment Decision Making of Equity Fund Managers. Wulfenia Journal,2012:19(10):12.
8. Mumtaz A, Saeed T, Ramzan M. Factor Affecting Investment Decision Making in Pakistan Stock Exchange. International Journal of Financial Engineering, 2018, 05(04).
9. Mumtaz A, Saeed T, Ramzan M. Factors affecting investment decision-making in Pakistan stock exchange. International Journal of Financial Engineering, 2018, 1850033.
10. Praba, Suyam. Investors' Decision Making Process and Pattern of Investments- A Study of Individual Investors in Coimbatore. SIES Journal of Management,2011:7(2):1-12.