

## **Effect of Perceived Behavioral Factors on Investors' Investment Decisions in Stocks: Evidence from Nepal Stock Market**

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### **Abstract**

This study explores whether the perceived behavioral factors impelling specific investors' decision-making to contribute to the Nepal Stock Exchange (NEPSE) performance. Applying structural model analysis of the data, it shows that among the four behavioral variables, market, heuristic, and herding factors have significant effects on investment performance. This study observes more reliance and dependence of investors on market information and sentiments. Research findings suggest that investors consider the fundamentals of the stock and consider the investors' behavior to get a return from the market. The study has been confined to five metropolitan cities with 350 samples randomly obtained in 2018 from different broking firms.

*Keywords:* Behavioral factors, decision-making, performance

### **Introduction**

The financial market is the place where financial instruments are traded. The capital market facilitates the allocation of funds between the savers and borrowers. If the capital market is efficient, it reflects the current share price of the company somewhat based on available information, and share prices under or over will be minimal. The equity market is where buying and selling of equity frequently occur (Zuravicky, 2005, p.6). In an economy, the stock market plays the role of financial investment and performs a signaling mechanism for investment decisions (Samuel, 1996, p.1).

Moreover, it acts as a catalyst for corporate governance. However, the equity market is where most of the company's required funds are raised (Zuravicky, 2005, p.6). Individuals are concerned about equity as the "long-term progress of wealth, dividends, and a hedge beside the inflationary loss of acquiring power" (Teweles & Bradley, 1998, p.8). Another essential feature of the equity market is maintaining the liquidity of an investment (Jaswani, 2008). Most people invest in stocks because they want to be the firm's owners and get benefits either on dividend payments or capital appreciation due to an increase in the stock price. (Croushore, 2006, p.186). Many investors also buy stocks for ultimate control over the firms. To be a stakeholder in a firm, shareholders need to own a specific amount of shares to be on the board of directors, be a part of the strategic decision-making team, and contribute to the firm's growth by setting appropriate directions.

The elementary aim of NEPSE is to serve as an intermediate agency for providing marketability and liquidity to related financial stakeholders. It is generally assumed that investors judiciously make the most of their wealth by following elementary financial guidelines to arrive at investment decisions

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on the basis of risk-return considerations. However, the level of risk acceptance of the investors depends on their characteristics, attributes, and attitudes to risk. It is, therefore, necessary to explore behavioral factors that impact the decision-making process of individual investors. Behavioral finance can be helpful since it is based on psychological factors and influences investors' buying and selling behavior. Many researchers consider that study of behavioral factors is an appropriate area to understand and explain feelings and cognitive errors affecting investment decision-making.

There is generally a positive correlation between the performances of the stock market and the economy. But this may not always hold true. Thus, investors' judgments in the stock market play a critical role in defining the market trend and influencing the economy (Samuel, 1996). To understand and help explain the investors' decisions, it is important to explore which behavioral factors influence individual investors' decisions at the NEPSE and how they impact their investment performance. It will be helpful for investors to understand common behavioral factors that justify their reactions for better returns. Financial analysts may also use this information to understand the investors' perceptions better and thus forecast more accurately by providing suitable recommendations. This research looks at the value level of heuristic, prospect, market, and herding variables on individual investors' investment decisions and performance at the NEPSE.

## **Literature Review and Hypothesis Development**

### *Theoretical Review*

#### *Heuristics Variable*

Heuristics are the basic rules concerned with doing things following the process of correct decision making, especially in complex and uncertain scenarios by minimizing the complexity of a given procedure and by using different probabilities with predicting values. This theory is suitable when time is limited (Waweru et al., 2008) but sometimes creates biases. Heuristics incorporate representativeness, availability bias, Gambler's fallacy overconfidence, and anchoring (Kahneman & Tversky, 1974; Ritter, 2003; Waweru et al., 2008).

#### *Prospect Variable*

Unlike the viewpoints, Expected Utility Theory (EUT) and Prospect Theory are accepted as two decision-making methods in the field. The Prospect Theory emphasizes the internal value system of investors whereas EUT focuses on rational decision-making (Filbeck, Hatfield & Horvath, 2005). EUT performs the decision-making inquiry under peril following the normative model for sound decision-making. This theory is criticized for attracting investors to gambling and insurance. Individuals tend to under-weigh possible results compared with sure ones. Individuals respond differently to similar situations depending on the context of losses or gains in which they are presented (Kahneman & Tversky, 1979). The Prospect Theory deals with the mental aspect of individual's decision-making processes, including regret aversion, loss aversion, and mental accounting.

#### *Market Variable*

De Bondt and Thaler (1995) mention that the investors may have an extreme reaction to price changes or news; misapplication of past trends into the future; unable to focus on fundamentals analysis on underlying stock; prioritizing popular stocks cyclic stock price change. These market factors, in turn, influence investors' decision-making in the stock market. Waweru et al. (2008) identify the factors of

the market that impact investors' decision-making which include price changes, market information, past trends of stocks, customer preference, over-reaction to price changes, and fundamentals of underlying stocks.

#### *Herding Variable*

Herding factors in the financial market are recognized as investors' behaviors to follow others' actions (Luong & Ha, 2011). The investor generally prioritizes the decision made by an enormous group of individuals during investment so that their investment price does not deviate from fundamental market value. Therefore, many opportunities for investment based on existing information can be impacted. Educational researchers also pay their care to herd as its effects on stock price changes can also affect the attributes of risk and return models. This has also impacted the fundamentals of asset pricing theories (Tan, Chiang, Mason, & Nelling, 2008).

#### *Investment Performance*

Investment performance is the return on an investment portfolio. The portfolio is said to be outperformed if it has the highest return at a given level of risk. The conventional finance theory says that rationality increases portfolio performance. However, recent development in financial behavior shows that when it comes to investing, their emotional inclinations, ingrained thought patterns, and psychological biases color how they perceive the world and make decisions (Randall, Andrei & Robert, 1990). We have thus used satisfaction from the current return, the portfolio's excess return compared to the market, and the past trend of return as the observed variable for measuring investment performance. Then the structural model is run by taking investment performance as the dependent variable and other behavioral variables (Heuristics, Prospect, Market, and Herding) as the independent variables.

Waweru *et al.* (2008) suggested that Heuristics, Prospect, Market, and Herding factors significantly impact investment performance and decision-making of investors in a stock exchange. So, the research follows their theoretical concepts to develop the framework and test the hypotheses.

#### *Empirical Literature*

Dangol and Manandhar (2020) explored the impact of heuristics on investment decisions, taking four heuristics, i.e., representativeness, availability, anchoring and adjustment, and overconfidence, on investors' decision-making variables have a significant impact on Nepalese investors' investment decisions. However, the study did not explore the impact of other behavioral factors.

Pandey, Risal, and Chauhan (2020) explored that factors of accounting information, advocate suggestions, and personal financial needs significantly impacted the psychology of investors while investing in the stock market in Nepal. Other factors such as word of mouth, company goodwill, and market analysis also affect the investment decision on the stock market. However, he has not focused on all behavioral factors influencing investment decisions and performance.

Pokharel (2020) examined that the market variables significantly impacted investment decisions, but herding, heuristic, and prospect factors had no considerable effect. However, the research is based on only 120 sample size across the country and has used only descriptive results to infer.

Rosdiana (2020) explored how herd behavior, financial literacy, risk aversion, and risk perception positively impact on investment decisions. The researchers used regression analysis to identify the results.

Rasheed, Rafique, Zahid, and Akhtar (2018) find the influence of two most usually used heuristics, namely, representative bias and availability bias, on investment decision making. The study checks whether the locus of control interacts with the said relations through a theoretical proposal and then verifies through empirical evidence. The study is based on quantitative research, and 227 investors were interviewed. The structural equation modeling was applied while the communication result was examined through simple linear regression. The study shows that heuristics factors significantly affect rational decision-making. But, linear regression as applied here may not be appropriate for studying psychological facts.

Another study conducted by Boda and Sunitha (2018) on factors affecting investment decisions of retail investors measures the association between the investment decision-making process and behavioral biases of the retail investors of Telangana state in India. It also studied the impact of demographics on the retail investors' investment decision-making in the context of developing economies with the potential for stock market development. The research was grounded on a structured questionnaire. A total of 600 plus valid responses were collected from the individual investors of Telangana state from February to May 2017. Statistical techniques like structural equation modeling after using ANOVA and exploratory factor analysis have been used for the inference. It was found that the structural path model in the research strictly fits the sample data; representing investors who follow the heuristics, prospect factors, and herding factors in investment decisions to a significant level.

Pokharel (2018) examines investors' preference in the stock market of Nepal. The reasons for the investment in the stock market are availability of liquidity and a impressive rate of return. The key influencing factors for the venture in NEPSE are information supplied by a stockbroker, daily newspaper, and market sentiments. The most motivating factors prioritized by respondents are capital gain, liquidity, dividend, and bonus shares.

Nouri, Motamedi, and Soltani (2017) revealed an Empirical Investigation of the Financial Behavior of Investors with a Brand Approach. The study uses scheming and investigational testing models to assess the financial behavior in the Tehran Stock Exchange considering all the individual investors. Confirmatory factor analysis was used to test the reliability of the questionnaire, and the research hypotheses were tested using path analysis. To define the sample size, considering an unlimited population, the Cochran formula was used, and hereafter the sample size was firm to be 145. The study found that psychological factors have an influence on perceived risk and returns. Financial factors had an optimistic impact on alleged risk but no impact on alleged return. The impact of social factors on perceived risk and perceived return was not confirmed.

Furthermore, the results showed that brand awareness has a controlling role in the association between social factors and perceived risk and return. Perceived risk had a positive effect on attitude towards the brand. However, the influence of alleged return on attitude towards the brand was not significant. Lastly, the attitude towards the brand had an optimistic effect on shareholders' investment intention.

Dasgupta (2016), in her study "A Study on the Investment Preferences in the Business Capital of Nagaland" finds that majority of the respondents are happy with having bank deposits. It is not that the respondents are illiterate. All are graduates and thus know that the money value of money today will not be the same tomorrow, primarily due to inflation. Still, the inclination towards the financial market is very low. Few or a small fraction of the respondents invested in the insurance sector and mutual funds, and still fewer invested on shares and bonds. Investment in property though was considered to

be very attractive in the financial world, but not a single respondent was found to have invested in the real estate.

Salimian and Iman (2016) examine investigating behavioral factors affecting the decisions of potential investors. This research examined the behavioral factors affecting the decisions of potential investors using structural equation models. The study results indicate that perceived behavioral control of potential investors, attitudes of potential investors, and subjective norms of potential investors have a positive and significant impact on the decisions of potential investors. A sample of 296 investors was selected using a random sampling method. This research investigated 4 hypotheses. A questionnaire was designated that included 5 demographic and 23 specialized questions. All four hypotheses were confirmed. The consequences show that all four variables of behavioral attitude, subjective norm, perceived behavioral control, and risk appetite of potential investors to significantly impact on their investment plans.

A study was conducted by Gilan and Abbasi (2015) on the behavior of financial investors in capital markets using structural equation modeling of the Tehran stock market. The study's objective was to analyze the factors influencing the behavior of financial investors in financial markets. The sample size of 239 was selected randomly. The study's outcome shows a significant relationship between the behavior of financial investors familiar with the company and its performance, financial analysis, psychological factors, quality and efficiency, an expected value of a stock, financial expert opinion, historical price, and performance.

Apan and Ayvali (2015) conducted a study on Determination of Factors Affecting Individual Investor Behaviors: A Study on Bankers. The main aim of the research was to determine the factors that influence individual investor behavior. Both descriptive and factor analysis are used to measure the impact of different factors on investor decision-making. The study found that six factors influenced individual investor behavior. The result shows a statistically significant relationship between the factors affecting individual investors' investment behaviors.

Dhungana (2013) assesses the performance of the stock market and reforms in Nepal. The study concluded that a complete investment environment, political steadiness, steady government, and efficient regulatory framework are the major factors that help to enhance the degree of confidence toward the Nepalese stock market. The regulatory institution should play a critical role in reforming the stock market by developing sound policies and appropriate mechanisms to develop an efficient market in Nepal. The study also emphasized that the capital market should be a sustainable and trustworthy medium for capital deployment through an institutional arrangement for conducting continuous studies, research, investor education, public awareness, and training programs.

From the above review, it is seen that behavioral factors impact the decision-making of the investors. While making an investment decision, investors' cognitive thought processes and emotions affect investment decisions and the performance of their portfolio investment.

### **Theoretical Framework and Hypotheses Development**

In this paper, we aim to identify the impact of behavioral factors such as Heuristic, Prospect, Herding, and Market on investment decisions of Nepalese investors using the Structural Equation Modeling. Based on the above theoretical and empirical literature, the following theoretical framework

has been developed to measure the perceived behavioral factors affecting investment decisions at Nepal Stock Exchange.

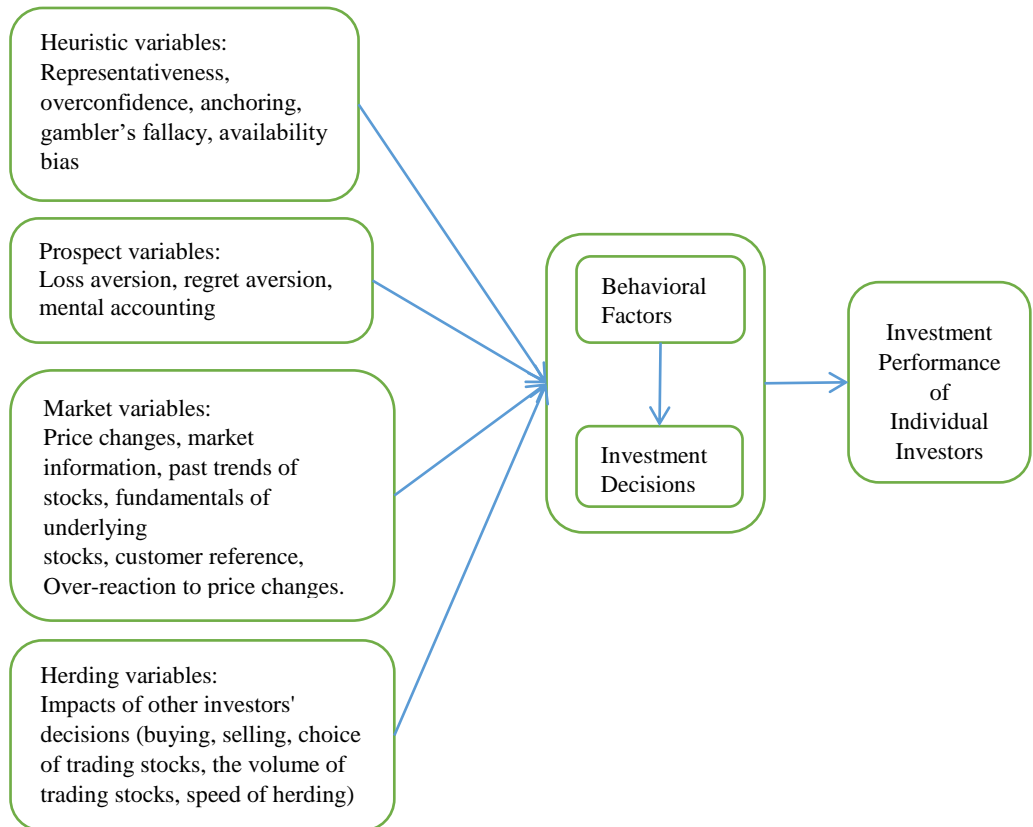


Figure 1: Theoretical Framework of Behavioral Factors Influencing Individual Investor's Decision Making and Performance

(Source: Thesis Luong and Ha (2011) entitled behavioral factor affecting individual investors decision making and performance: A survey at the ho chi Minh stock exchange)

The following hypotheses have been developed based on the above theoretical framework:

*H1: The Heuristics variable has an optimistic effect on investment performance.*

*H2: The prospect variable has an optimistic effect on investment performance.*

*H3: The market variable has an optimistic effect on investment performance.*

*H4: The Herding variable has an optimistic effect on investment performance.*

**Methods**

This study uses a quantitative approach to research, and therefore research design involves a social survey for obtaining the quantitative data. The study area is confined to five metropolitan cities (Pokhara, Birgunj, Kathmandu, Bharatpur, and Lalitpur) of Nepal. The structured questionnaires have been administered to the investors from randomly selected brokerage houses to collect the primary data. The privacy of surveys allows respondents to answer with more truthful and valid answers and avoids the possible selection bias. . The margin of is expected to be less than 5 percent in the used sample size of 384.

The response rate was 90 percent and 350 respondents were selected representing different brokerage houses. The study variables consist of five key aspects of investment decision: Heuristics, Prospect, Market, Herding, and Investment Performance to understand the financial behavior of individual investors in the sample. The questionnaire was developed using various past theories that supported our theoretical model. Besides, the 6-point Likert measurements removed the neutral opinions, which increased the measurements' accuracy. Besides, collected data was processed and analyzed to explore the factors affecting investors' decisions and their correlations with investment performance and satisfaction. Thus, data validity was obtained throughout this study. Internal reliability of the scales was assessed using Cronbach's Alpha to estimate the reliability of participants' responses in the measurement. The statistical techniques used are Descriptive, Confirmatory Factor Analysis, and Structural Equation Modeling (SEM).

*Data Analysis*

This section consists of descriptive analysis, confirmatory factor analysis, structural equation modeling, major finding, and result and discussion.

*Descriptive Analysis*

The descriptive analysis of demographic and socio-economic variables has been presented:

Table 1:

*Descriptive Analysis*

Demographic indicators	Frequency(n)	Percent
Gender		
Male	289	82.57
Female	61	17.43
Marital Status		
Married	259	74.00
Unmarried	91	26.00

Demographic indicators	Frequency(n)	Percent
<b>Age</b>		
18-25 Years	64	18.29
26-35 Years	125	35.71
36-45 Years	86	24.57
46-55 Years	57	16.29
Over 55 Years	18	5.14
<b>Education</b>		
Under SEE	4	1.14
SLC	24	6.86
Plus Two	60	17.14
Bachelor	160	45.71
Master	102	29.14
<b>Working experience</b>		
Below 5 Years	198	56.57
5 to 10 Years	83	23.71
Above 10 Years	69	19.71
<b>Monthly income</b>		
Below Rs 10000	26	7.43
Rs 10001- Rs 20000	98	28.00
Rs 20001- Rs 30000	89	25.43
Rs 30001- Rs 40000	45	12.86
Rs 40001- Rs 50000	46	13.14
Above Rs 50000	46	13.14
<b>Duration of investment</b>		
Below 1 Year	81	23.14
1-3 Years	142	40.57
3-5 Years	53	15.14
5-10 Years	58	16.57
Above 10 Years	16	4.57

Table 1 indicates that majority of the respondents (83 percent) are male, and only 17 percent of the respondents are female. 125 respondents belong to the age group between 26-35 years and only 18 respondents are over 55 years. It indicates that the majority of the young respondents are investing more in the stock market. Table 1 shows that 259 (74 percent) respondents are married and 91 (26 percent) unmarried. This indicates that married respondents have intent to invest in the stock market, also thus the risk appetite.



From Table 1, we can find that 160 (46 percent) respondents have studied bachelor level, followed by 102 (29 percent) respondents had masters' degrees. It indicates that most investors have a higher level of education which is critical as they may be assumed to have better knowledge related to the capital market. It is evident that most of the respondents (56 percent) are investing for less than 5 years, followed by between 5 to 10 years (24 percent) and above 10 years (20 percent). This indicates that most investors have just started their career as investors and are actively involved in the stock market.

Most of the respondents (28 percent) have a monthly income of Rs. 10,000 to 20,000 followed by Rs. 20,000 and 30,000. This indicates that most investors have reasonable income to reinvest in the capital market for additional gains. It is obvious from the table that the maximum duration of investment is 1 to 3 years (40 percent) followed by below 1 year (23 percent). It indicates that most investors have just started investing in the capital market.

*Confirmatory Factor Analysis*

Confirmatory factor analysis (CFA) is a statistical technique used to verify the factor structure of a set of observed variables. CFA allows the researcher to test the hypothesis whether a relationship exists between observed variables and their underlying latent constructs. This study uses knowledge of the theory, empirical research, or both, postulates the relationship pattern a priori, and then tests the hypothesis statistically.

Table 2:  
*Confirmatory Factor Analysis*

Constructing Factor	Measuring Scales	Variable name	Factor Loading	Cronbach's Alpha
Heuristics	You can generally anticipate the end of good or poor market returns at the Nepal Stock Exchange.	X1	0.373***	0.648
	You forecast the changes in stock prices in the future based on the recent stock prices.	X2	0.397***	
	You rely on your previous experiences in the market for your next investment	X3	0.575***	
	You believe that your skills and knowledge of the stock market can help you to outperform the market	X4	0.66***	
	You use trend commentary of some representative stocks to make investment decisions for all stocks you invest in.	X5	0.549***	
	You buy 'hot' stocks and avoid those that have performed poorly in the past.	X6	0.374***	

Constructing Factor	Measuring Scales	Variable name	Factor Loading	Cronbach's Alpha
Prospect	You tend to treat each element of your investment portfolio separately.	X8	0.574***	0.76
	You ignore the connection between different investment possibilities.	X9	0.492***	
	You feel more sorrow about holding losing stocks too long than about selling winning stocks too soon.	X10	0.61***	
	You avoid selling shares that have decreased in value and readily sell shares that have increased in value	X11	0.623***	
	After a prior loss, you become more risk-averse.	X12	0.626***	
	After a prior gain, you are more risk-seeking than usual.	X13	0.605***	
Market	Overreaction to price changes	X14	0.468***	0.388
	Customer preference	X15	0.537***	
	Fundamental of underlying stocks	X16	0.307***	
	Past trends of the stock	X17	0.337***	
	Market information	X18	0.563***	
	Price change	X19	0.475***	
Herding	You usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market.	X20	0.321***	0.619
	Other investors' decisions of buying and selling stocks have an impact on your investment decisions.	X21	0.762***	
	Other investors' decisions of the stock volume have an impact on your investment decisions.	X22	0.577***	
	Other investors' decisions of choosing stock types have an impact on your investment decisions	X23	0.496***	

Note: Chi-square =232.642 (Degrees of freedom =203,  $p = .075$ )

$CMIN/DF=1.146$ ,  $GFI=0.945$ ,  $AGFI=0.931$ ,  $CFI=0.969$ ,  $RMSEA=0.020$ ,  $PCFI=0.852$ ,  $TLI=0.965$  \*\*\* $p<0.001$

From Table 2, it uses the measurement model to identify potential fits among the latent variable. Unless it shows proper fit, we cannot further progress to path analysis showing the relationship between the independent and dependent variables.

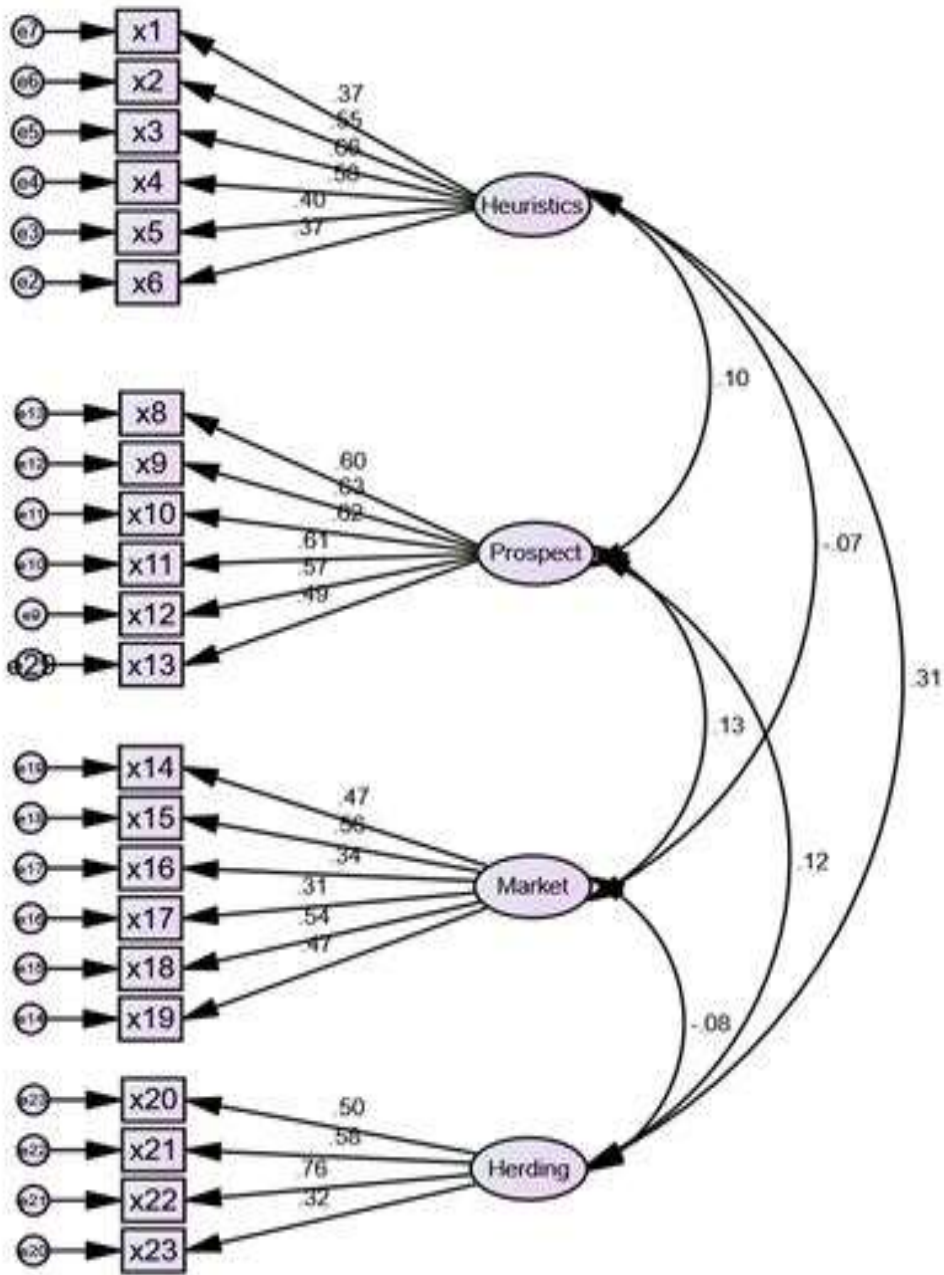


Figure 2: CFA of Behavioral Factors

The study conducts a confirmatory factor analysis (CFA) which shows an acceptable model fit based on absolute fit indices (GFI, AGFI,  $\chi^2$ , and RMSEA). The goodness of fit indices (GFI and AGFI) values are 0.945 and 0.931, respectively, which are above the cut-off value of 0.9, indicating a reasonable fit of a hypothesized model for given sample. However, GFI and AGFI values are affected by sample size and can be larger for models that are poorly specified, and as such, their use as fit indices is rather limited. Hence, the model fit is reexamined by employing additional fit indices. The normal chi-square ( $\chi^2$ ) - ( $\chi^2$  to degrees of freedom,  $\chi^2=232.642$ , d.f. = 203) is 1.146, which is below the acceptable cut-off value of 3.0. However, the chi-square value increases with sample size and some observed variables, introducing bias in the model. Hence, alternative model fit indices have been examined. The root mean square error of approximation (RMSEA) is 0.02, lower than 0.08, indicating a good fit. The incremental fit indices CFI (comparative fit index) and TLI (Tucker Lewis Index) are 0.969 and 0.965, respectively. The values of more than 0.9 are indicators of adequate model fit. To summarize, the results suggest that the measurement model has a good fit.

### *The Structural Model*

The structural model focuses on the relationship between the independent and dependent variables and the magnitude of the relationship as per the theoretical framework used in this study. It is hypothesized that Heuristics, Prospect, Market, and Herding are proportioned to investment performance at NEPSE. The results of the SEM path analysis are shown in Table 2. The study evaluates the hypothesized causal relationship as per the theoretical model. The latent construct investment performance is endogenous as the variable is explained in the model by exogenous variables. The latent constructs of Heuristics, Prospect, Market, and Herding are exogenous constructs as other variables in the model do not explain them. The structural model examines the hypotheses as mentioned in the theoretical framework and hypotheses.

Table 3:  
*SEM Path Analysis*

Structural Path		Estimate	SRW
Investment Performance	← Heuristics	0.552*** (0.160)	0.465
Investment Performance	← Prospect	-0.062 (0.093)	-0.076
Investment Performance	← Market	0.234 (0.072)	0.273
Investment Performance	← Herding	0.576*** (0.175)	0.442

*Note: Squared Multiple Correlation Investment Performance ( $\gamma^2=0.493$ )*

*Model Fit Measures Chi-square = 346.91 (df=271, prob. = 0.001)*

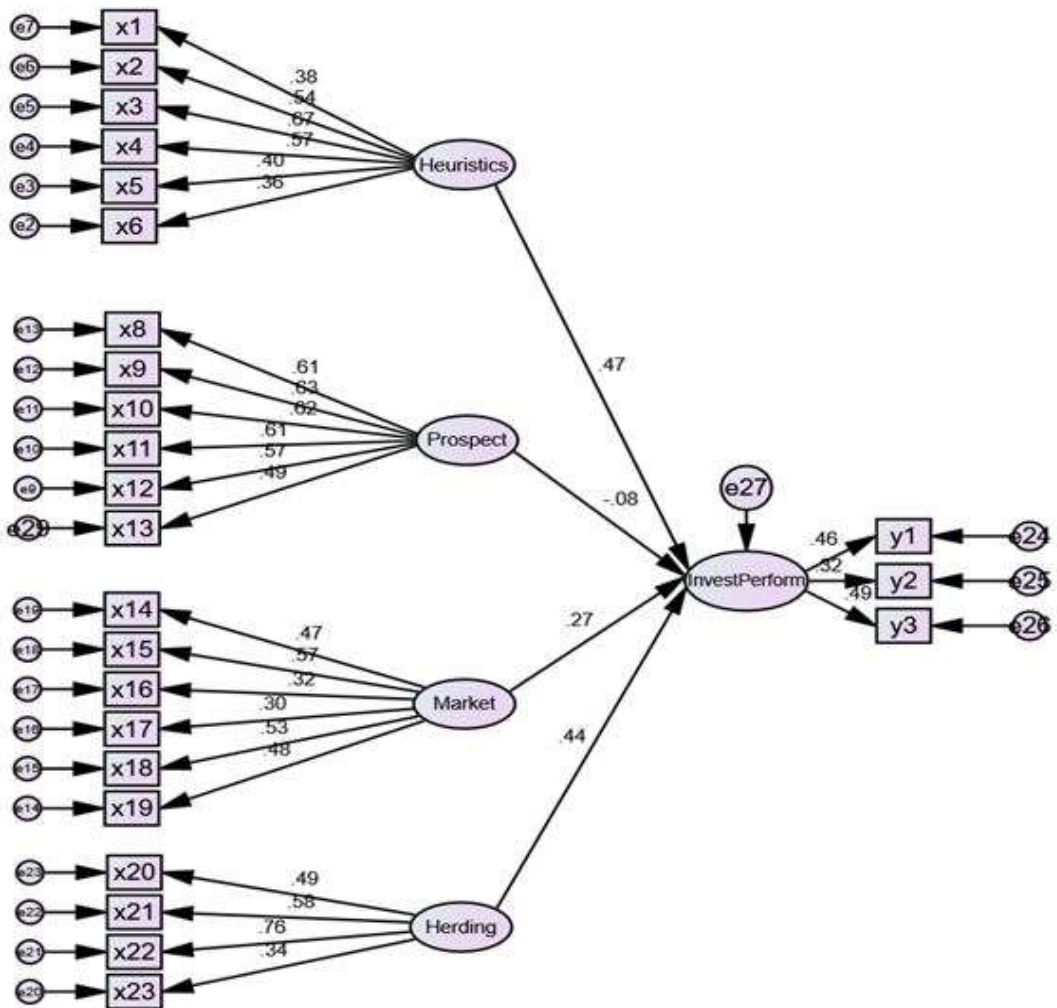


Figure 3: SEM Path Analysis

The path analysis results show the overall fit measures as discussed in the preceding section, which defines how the structural or path model fits the data. Analysis of path model outputs reveal chi-square value [ $\chi^2 (271) = 346.91, p < 0.001$ ], GFI=0.929, AGFI=0.915, CFI=0.93, TLI=0.922, RMSEA=0.028] yielded to some extent a reasonable fit to data. The  $\chi^2$  is significant ( $p < 0.001$ ), indicative of a poor fit. However, the normal chi-square ( $\chi^2 / df$ ) is 1.280, lower than the cut-off value of 3, implying a satisfactory model fit. Additionally, the RMSEA value of 0.028 is close to an acceptable limit of 0.08. Similarly, the incremental fit indices CFI and TLI values are generally cited near the cut-off value of 0.9; hence, the results indicate a mediocre model fit. Therefore, the model is deemed to be fit enough to proceed with inferences and analysis thereof.

## **Results**

The study shows that most investors were male between the ages of 26 and 45. This is likely due to males have more access to share markets and are more risk takers than females. Most of the stock market investors have university-level education and one to three years of experience in the stock market. Hence, investors are educated and have sufficient knowledge required to invest in the capital market. The structural equation model results show that the prospect variable has a negative but insignificant impact on investment performance. This indicates that investors in Nepal do not judge loss and gain differently in making investment decision; and believe in their perception while making their investment decisions. The market variable has a positive and significant impact on investment performance. Thus, it is accepted that Nepalese investor could be depending more on market-related factors while making their investment decision.

Similarly, the herding variable has positive effect on investment decisions. Nepalese investors follow heavily on others' advice and suggestions without proper market analysis while making investment decision. Among the latent constructs' relationship, Heuristics and Investment performance have the highest value followed by Herding and Market variables. The Prospect variable does not have significant impact on investment performance. Only 49.3 percent of variation in investment performance is explained by heuristics, prospect, market, and herding variables.

## **Discussion**

The results are consistent with other previous researches. Researchers, Baker, Kumar, Goyal, and Gaur (2019), Metawa, Hassan, Metawa, and Safa (2019), and Nogc (2014) explored on the behavioral factors that influence individual investors' decision-making. Investor sentiment, overreaction, underreaction, overconfidence, and herd behavior are found to significantly affect investment decisions. The path analysis is used for testing the hypothesized relationship of the constructs as shown in Figure 3. In hypothesis H<sub>1</sub>, heuristics has a positive effect on investment performance, i.e., investors follow the rule of thumbs while investing in shares listed in NEPSE. In H<sub>2</sub>, the hypothesis that the prospect variable has a positive effect on investment performance is rejected, indicating that investors in Nepal are not far-sighted and believe in their perception while making their investment decision. As stated by H<sub>3</sub>, the market variable has positive and significant impact on investment performance. Thus, it may be argued that Nepalese investors still depend on market-related factors in investment decisions. Similarly, H<sub>4</sub> hypothesis that an increase in the herding variable has a positive effect on investment decisions is supported by the estimates. Therefore, Nepalese investors rely heavily on others' advice and suggestions and follow them without proper market analysis in investment decision.

## **Implications**

This study was based on primary survey of stock market investors in NEPSE from five metropolitan cities of Nepal to identify the behavioral factors' impact on investment decision. The results indicate that Heuristic, Herding, and Market factors significantly impact investment performance implying that Nepalese investors follow the rule of thumb for investment decision. Furthermore, herding has a positive effect on investment performance meaning that Nepalese investors invested mostly based on the advise and suggestion of others'. Furthermore, market factors have significant impact on investment performance implying price changes on market, past trend, market information have impact

on investment decision. Further, it has been shown that most of the participants in the stock market are males in the age group of 26-45 years.

The study has some implications. The first one is Nepalese academic institutions mostly use traditional finance concepts in their curriculum. But, the concepts of conventional finance theories are insufficient to understand the stock market's performance. So, it is suggested to incorporate behavioral finance theories into their curriculum. Second, investors in the stock market who understand other investors' behavior may reap a good return from the market.

Furthermore, it is suggested that the regulatory authority should create more awareness among investors in terms of both economic and behavioral aspects to help make a rational investment decision in the stock market.

### **Limitation and Directions for Future Research**

As the respondents were chosen from companies having limited securities, generalization for the whole population would be inaccurate. The research uses a limited sample size of 350. A larger sample size is suggested for future research to reflect on the realistic situation of the Nepalese stock market. Similarly, the study area for this research encompasses only five metropolitan cities; research can be conducted by including major cities of Nepal. Additional behavioral and economic variables can be included in future research to identify the impact of other variables on decision-making. Besides, it would be better to conduct focus group discussions with investors, brokers, and stock market experts to make the study more insightful.

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