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Investment Behavior of College Students: Implications for Kathmandu's Share Market

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Abstract

This study investigates the influence of behavioral biases on the investment decision-making of college students in Nepal, with a particular focus on the Nepal Stock Exchange. Recognizing that psychological factors significantly shape portfolio management and financial choices, the research examines four key biases: herding, risk perception, overconfidence, and loss aversion. A quantitative approach was employed, using a structured questionnaire administered to 430 students in Kathmandu, yielding 385 valid responses (an 89.53% response rate). Statistical tools, including mean, standard deviation, correlation, and regression analyses, were applied, and reliability testing confirmed acceptable internal consistency (Cronbach's alpha > 0.74). The results reveal that all four biases exert a significant positive impact on investment decisions ($p < 0.05$). Herding emerged as the strongest predictor ($\beta = 0.439$), followed by overconfidence ($\beta = 0.209$), loss aversion ($\beta = 0.116$), and risk perception ($\beta = 0.009$). Correlation analysis further substantiated a moderate association between herding and investment choices ($r = 0.518$). The findings indicate that student investors deviate from rational decision-making models, with herding behavior playing a dominant role. These insights reinforce the relevance of behavioral finance theory in emerging markets. Practically, the study underscores the need for financial literacy initiatives and investor awareness programs by regulatory bodies such as the Securities Board of Nepal, while also offering guidance for young investors to cultivate more rational and informed investment strategies.

Keywords: behavioral finance, loss aversion, overconfidence, herding, risk perception

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Introduction

Scholars and researchers in the field of finance have conducted extensive research over the past few decades to develop various theories that consider the financial market environment while assuming that investors behave as rational actors (Barberis et al., 2021; Giglio et al., 2016). Through an investigation of share prices in the market, Fama (1991) argued that a market is efficient when all relevant information required

for investment decision-making is fully reflected and available to market participants. However, Kahneman and Tversky (1979), as well as Raiffa and Raiffa (1968), observed that the actual behavior of individual investors often deviates from theoretical assumptions. Standard financial models are therefore unable to fully explain or predict every financial decision or account for specific circumstances influencing an investor's stock selection. Investor decision-making is frequently influenced by emotional and psychological factors, indicating inefficient or irrational market behavior. In this context, the importance of behavioral finance becomes evident. Behavioral finance suggests that individuals are not always rational; rather, investors, as human beings, are prone to cognitive biases and psychological influences that may lead them to make illogical investment decisions (Fanto, 2008).

A wide range of empirical studies conducted across different financial markets demonstrates that investment decisions are not always grounded in traditional finance theories (Baker & Wurgler, 2007; Banerjee, 1992; Caparrelli et al., 2004; Chaudhary, 2013; Fama, 1965; Fogel & Berry, 2006; Jokar & Daneshi, 2018; Olsen, 1998; Shleifer, 2000; De Bondt & Thaler, 1985). However, to assess the prevalence and effectiveness of behavioral finance, testable models and reliable empirical data are required (Sent, 2004).

Investors' irrational behavior is particularly evident in the Nepali stock market, where significant structural changes have remained limited. Such irrational behavior may exert profound and long-lasting effects on the overall Nepali financial market. The primary objective of this research is to examine how investor psychology reveals inefficiencies in Nepal's capital market. Although the stock market has been widely studied, this research specifically investigates how the investment decisions of 430 individual Nepali investors in the Nepal Stock Exchange (NEPSE) are influenced by five well-known behavioral biases: loss aversion, overconfidence, herding, risk perception, and financial leverage.

The research is expected to benefit both current and potential investors by providing a framework for optimizing risk-adjusted performance through the integration of psychological and technical factors into investment decision-making. The study will assist the Securities and Exchange Board of Nepal (SEBON) and the Nepal Stock Exchange (NEPSE) in formulating rules and regulations that consider errors arising from psychological factors influencing investors' choices. Since limited research has been published on emerging markets such as Nepal, the findings will serve as a foundation for future studies in this area. This research also aims to provide investors with guidance for selecting effective stock investment strategies by incorporating identifiable behavioral components.

Recently, scholars have increasingly attempted to examine how investor attitudes influence the efficiency of financial markets. Studies by Hilbert (2012) and Chaudhary (2013) confirmed the impact of behavioral factors on investment outcomes, including heuristics, mental accounting, greed, fear, and anchoring in investors' thinking. While Chaudhary (2013) argued that behavioral finance explains why investors make irrational financial decisions, Hilbert (2012) demonstrated that behavioral biases—such as herding, overconfidence, and reinforcement bias—exert a stronger influence on individual investors than on institutional

investors. These behaviors include anchoring, overconfidence, herd behavior, overreaction and underreaction, and loss aversion. Various financial characteristics and behavioral biases, including loss aversion, risk perception, overconfidence, and herding, can influence individual investors' financial decision-making. Figure 1 presents the proposed conceptual framework based on the study's hypotheses.

Despite the traditional financial assumption that investors are rational actors who maximize utility, stock markets consistently display volatility and seemingly irrational fluctuations. In practice, individual investors are often guided by cognitive biases and psychological heuristics rather than by fundamental analysis. Specifically, investors frequently experience loss aversion, which leads them to hold losing stocks for too long; risk perception errors that distort their understanding of market reality; overconfidence that results in excessive trading; and herding behavior that contributes to artificial market bubbles. If left unaddressed, these psychological factors can lead to suboptimal portfolio performance and increased market instability. Therefore, there is a critical need to quantify how these behavioral biases influence decision-making processes in order to help investors and policymakers mitigate financial risks.

Research Questions

- How does the tendency to prefer avoiding losses over acquiring equivalent gains (loss aversion) affect an investor's decision to exit or maintain a stock position?
- In what ways does an individual's subjective risk perception deviate from objective market risk, and how does this deviation influence investment choices?
- What is the relationship between an investor's overestimation of their own knowledge or abilities and the frequency or volume of their stock market transactions?
- To what extent does the tendency to follow the actions of a larger group (herding) override individual analysis when making buy or sell decisions in the stock market?

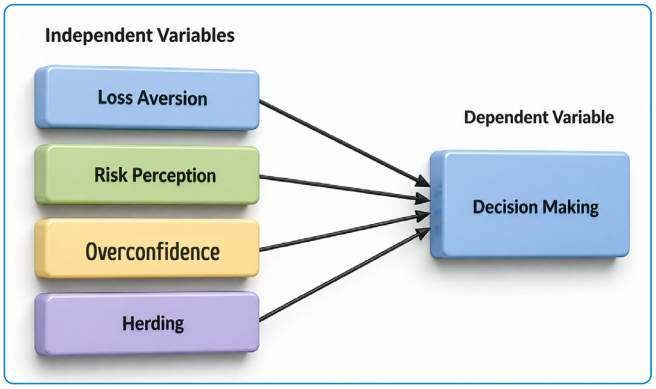
The primary objective of this research is to investigate and analyze the influence of behavioral biases—specifically loss aversion, risk perception, overconfidence, and herding—on the investment decision-making processes of Nepali individual investors (students) in the stock market. To achieve this general objective, the study focuses on the following specific goals:

- To examine how investors' tendency to avoid losses rather than seek gains affects their decision to sell or hold declining stocks.
- To analyze the difference between investors' perceived risk and actual market risk, and how this mismatch influences investment decisions.
- To explore how investors' overestimation of their financial knowledge affects the number and frequency of their trades.
- To measure the extent to which investors follow group trends rather than rely on their own analysis when making buy or sell decisions.

The framework of this study is grounded in behavioral finance theory, which argues that psychological biases and social influences significantly shape investor behavior, often causing deviations from the rational decision-making predicted by classical finance models.

Figure 1

Conceptual Framework



Note. Areiqat et al. (2019)

The hypotheses of the research are as follows:

H1: Loss aversion has a significant impact on stock market investment decisions.

H2: Risk perception has a significant impact on stock investment decision-making.

H3: Overconfidence has a significant impact on stock investment decision-making.

H4: Herding has a significant impact on stock investment decision-making.

Methodology

Various studies were reviewed to further develop the scope of knowledge (Andrade, 2005; Bouwman, 2014; Choi & Skiba, 2015; De Bondt & Thaler, 1985, 1995; Dickinson & Muragu, 1994; Durham, 2002; Fama, 1965, 1991; Ritter, 2003). Based on the deductive approach and exploratory factor analysis (EFA), it was identified that four psychological characteristics significantly influence the investment decisions of NEPSE investors. Approximately 430 questionnaires were distributed using a well-structured closed-ended survey. Out of these, only 385 responses were usable; therefore, 89.53% of the questionnaires were included in the subsequent statistical analysis. After elimination, refinement, and rephrasing, the survey employed a five-point Likert scale, where 1 represented strongly disagree and 5 represented strongly agree. The questionnaire consisted of 16 items organized into four dimensions. The statements related to each factor are presented in Table 1 of the questionnaire.

To assess the loss aversion of individual investors, four items adapted from Chun and Ming (2009) were used. Risk perception was measured using four items adapted from Areiqat et al. (2019). Overconfidence was evaluated using four items adopted from Ngoc (2014), which provided valuable insights into this behavioral bias. Similarly, four items measuring herding behavior were adapted from Tan et al. (2008).

The survey consisted of two sections. The first section collected demographic information about the respondents, while the second section asked investors to evaluate statements based on their opinions and perceptions, focusing on psychological factors affecting investment decision-making. Investment decision outcomes

were recorded through questionnaire responses. Using the measurement scale presented in Table 2, the mean values of these responses were used to examine the influence of behavioral dimensions on investment decisions. Cronbach's alpha was employed to assess the internal reliability of the multi-item scales. The four hypotheses (H1, H2, H3, and H4) were tested using descriptive statistics, correlation analysis, and regression analysis to determine the influence, relationships, and relative importance of behavioral factors in investment decision-making.

Table 1

Statements for Each Factor in the Questionnaire

Variables	Author(s)
Loss Aversion o A large loss in my investment is more important to me than missing a substantial gain (profit). o Large price drops in my invested stocks make me nervous. o I will avoid increasing my investment when the market performs poorly. o I will not sell shares that have observed a decline in value, but will sell shares that have a rise in value.	Areiqat et al. (2019)
Risk Perception o I generally do not have a fear of capitalizing on stocks with a certain gain. o I am careful about stocks that show unexpected fluctuations in price or transaction. o I generally have concerns about investing in stocks with a historical adverse performance in trading. o I don't consider the idea of trading in the stock market attractive.	Areiqat et al. (2019)
Overconfidence o I sense more assurance in my own investment views over others. o I don't look up to others when making investment decisions. o I am certain of my expertise and experience in outpacing the stock market. o I am successful in an environment where others fail.	Ngoc (2014)
Herding o My investment choices are affected by the choices of choosing stocks of other investors. o My investment choices are affected by the choices of the stock volume of other investors. o My investment decisions are affected by the decisions of buying and selling stocks of other investors. o I generally respond fast to the fluctuations of other investors' choices and track their responses to the stock market.	Tan et al. (2008)

Table 2

Measurement Scale

Mean Values	Impacts
<2.00	Very low
2.00–2.80	Low
2.81–3.60	Moderate
3.61–4.40	High
>4.41	Very high

Note. Hossain and Siddiqua (2022).

Results and Discussion

Demographic Background

Every individual possesses distinct characteristics shaped by various demographic traits, including age, ethnicity, gender, education level, and socioeconomic background. Similar conditions apply when an individual investor makes investment decisions, as emotional biases may vary according to demographic characteristics. The demographic profile of the study's respondents is presented in Table 3.

Gender-related data were collected and analyzed to examine possible gender differences. The results indicate a relatively lower proportion of male investors compared to female investors. Female investors appear to be more active and may exhibit overconfidence, leading to excessive trading and higher risk-taking behavior. Male participation in share trading is reflected in the finding that only 42.08% of respondents were male. However, limitations in data collection may not fully represent the actual situation, as male investors may also participate more actively in online share trading.

Regarding age distribution, the study shows that only 18.19% of sample investors are above 30 years of age, while 30.91% fall within the 27–30 age group. Similarly, 38.96% of respondents are between 23 and 26 years old, and 11.94% are below 22 years of age.

The findings suggest that the majority of individual investors are relatively young. Considering that the NEPSE is still developing, the results may closely reflect the investment behavior of these young investors. The data also indicate that most NEPSE investors are highly educated: 43.12% of respondents were postgraduates, 36.36% were graduates, and 20.52% held M.Phil./PhD degrees.

Survey results further show that 59.22% of investors had received specialized stock trading training, whereas 40.78% had no formal investment training. In terms of investment experience, 47.27% of respondents had less than three years of market experience, suggesting that most individual investors are relatively new to stock trading. This higher proportion of novice investors may contribute to stronger behavioral biases. Only 23.12% of investors reported having more than seven years of investment experience.

Table 3

Demographic Data

Area	Grouping	Occurrence	Percentage
Gender	Male	162	42.08
	Female	223	57.92
Age	Below 22 years	46	11.94
	23–26 years	150	38.96
	27-30 years	119	30.91
	Above 30 years	70	18.19
Academic qualification	Bachelor's or equivalent	140	36.36
	Master's or equivalent	166	43.12
	M.Phils./PHD.	79	20.52
Stock investment training	Yes	228	59.22
	No	157	40.78
Experience in the stock market	Below 3 years	182	47.27
	4-5 years	114	29.61
	Over 5 years	89	23.12

Note. Field survey 2025

Descriptive Statistics

Loss aversion theory is closely associated with prospect theory. According to prospect theory, investors tend to evaluate potential gains and losses differently when making investment decisions, often assigning greater psychological weight to potential losses than to equivalent gains. Prospect theory is a behavioral model that explains how individuals choose between alternatives involving risk and uncertainty (e.g., the probability of gains or losses). It suggests that people evaluate outcomes relative to a reference point—such as their current level of wealth—rather than in absolute terms (Hirshleifer, 2001). Investors' tendency toward loss aversion may contribute to excessive fluctuations in stock prices (Barberis, 2001). Furthermore, momentum effects observed in stock market trading are sometimes attributed to investors' loss-aversion psychology (Grinblatt & Bing, 2005).

Table 4 presents the results related to loss aversion, indicating that NEPSE student investors tend to become more risk-averse after experiencing a loss, while they display more risk-seeking behavior following gains. This pattern is understandable, as investment success tends to strongly motivate investors, whereas losses significantly reduce their willingness to take further risks.

Table 4

Descriptive Statistics of Loss Aversion

Statement	Min.	Max.	Mean	SD
A large loss in my investment is more important to me than missing a substantial gain (profits).	1	5	3.5	1.2
Large price drops in my invested stocks make me nervous.	1	5	3.3	1.3
I will avoid increasing my investment when the market performs poorly.	1	5	2.6	1.3
I will not sell shares that have observed a decline in value, but will sell shares that have a rise in value.	1	5	3.0	1.3
Average	1	5	3.1	1.3

Note. Valid N (list-wise)

Moreover, investor behavior in the stock market can be understood through the concept of risk perception. Researchers have assessed investors' perceptions of risk in stock market trading using various indicators. In this study, four items were included to measure individual investors' perceptions of risk, and the results are presented in Table 5 for NEPSE investors.

Considering the financial principle that "higher risk is associated with higher return," investment strategies driven by excessive loss aversion and negative risk perception are generally not recommended. Poor investment decisions influenced by loss aversion may ultimately harm an investor's wealth (Odean, 1999).

Table 5

Descriptive Statistics of Risk Perception

Statement	Min.	Max.	Mean	SD
I generally do not have a fear of capitalizing on stocks with a certain gain.	1	5	3.1	1.2
I am careful about stocks that show unexpected fluctuations in price or transaction.	1	5	3.3	1.2
I generally have concerns about investing in stocks with a historical adverse performance in trading.	1	5	3.4	1.3
I do not consider the idea of trading in the stock market attractive.	1	5	2.9	1.4
Average	1	5	3.0	1.3

Note. Valid N (list-wise)

Overconfidence bias refers to an incorrect and often irrational belief held by investors regarding their ability to predict market movements. Investors may believe that they possess superior knowledge or intelligence compared to others in the market (Nevins, 2004). This tendency can lead to imprudent attempts to time market fluctuations or to increase holdings in risky stocks that investors mistakenly perceive as safe.

In this study, students were asked four questions to assess their level of overconfidence. Table 6 shows that the confidence level of individual NEPSE investors is moderate. The Nepali share market is considered a frontier market, where stock prices tend to fluctuate significantly regardless of the actual performance of listed companies. As a result, investors may lose confidence when they are unable to accurately predict market movements.

Table 6

Descriptive Statistics of Overconfidence

Statement	Min.	Max.	Mean	SD
I sense more assurance in my own investment views over others.	1	5	3.0	1.4
I don't look up to others when making investment decisions.	1	5	3.0	1.3
I am certain of my expertise and experience in outpacing the stock market.	1	5	3.1	1.3
I am successful in an environment where others fail.	1	5	3.0	1.4
Average	1	5	3.02	1.4

Note. Valid N (list-wise)

In general, individuals tend to trust their friends, family members, and relatives and often consult them when making investment decisions. This reflects herd behavior commonly observed among people. Such a herding tendency is also evident in the stock market, where individual investors frequently follow the actions of others without fully understanding the fundamental performance of the companies involved. Several studies have shown that stock market traders often display a herd mentality (Hilbert, 2012).

Table 7 clearly demonstrates the significant level of herding behavior identified in this study among individual student investors in the Nepali share market. Investors who lack experience, maturity, or expertise may rely heavily on information obtained from various informal sources when making investment decisions. Consequently, the findings indicate that herding tendency has a significant influence on individual investment decisions.

Table 7

Descriptive Statistics of Herding

Statement	Min.	Max.	Mean	SD
My investment choices are affected by the choices of choosing stocks of other investors.	1	5	3.2	1.3
My investment choices are affected by the choices of the stock volume of other investors.	1	5	3.3	1.2
My investment decisions are affected by the decisions of buying and selling stocks of other investors.	1	5	3.5	1.2
I generally respond fast to the fluctuations of other investors' choices and track their responses to the stock market.	1	5	3.2	1.2
Average	1	5	3.3	1.2

Correlation Analysis

Generally, correlation analysis is a statistical method used to assess the degree of association between two continuous variables (Galton, 1886). The purpose of this analysis was to determine whether stock investment decisions and investor behavioral attributes are related. At the 5% significance level ($p < 0.05$), the results indicate a significant relationship between the four behavioral factors and the NEPSE stock investment decision-making process.

The correlation coefficients of LA, RP, OC, and H with IDM are presented in Table 8. There is a significant association between LA and IDM, as indicated by the correlation coefficient between the two variables, (r) =.241, which is positively correlated, and the significance value, or P-Value = 0.00<.05. The positive correlation coefficient (r) =.371 between RP and IDM and the significant link (Sig. value, or P-Value = 0.01<.05) between the two indicate that there is a significant relationship between these two variables.

Similarly, there is a significant association between OC and IDM, as shown by the correlation coefficient (r) =.364 between the two variables, which is also positively correlated, and the significance value (P-Value = 0.01<.05). Finally, there is a moderately significant association between H and IDM, as indicated by the correlation coefficient (r) =.518 between H and IDM, which is moderately positively correlated, and the significance value (P-Value = .000<.05).

Table 8

Correlation Analysis

Variables	Statistics	LA	RP	OC	H	IDM
LA	Pearson CorrelationSig. (2tailed)	1				
RP	Pearson CorrelationSig. (2tailed)	.286*	1			
OC	Pearson CorrelationSig. (2tailed)	.260*	.570**	1		
H	Pearson CorrelationSig. (2tailed)	.155	.478**	.273*	1	
IDM	Pearson CorrelationSig. (2tailed)	.241*	.371**	.364**	.518**	1
	Sig. 2tailed	.000	.001	.001	.000	

Note. *. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
LA= Loss aversion, RP = Risk perception, OC= Overconfidence, H = Herding, IDM = Investement Decision Making

Regression Analysis

Regression analysis is a statistical technique used to determine the expected change in one variable for a given change in another. This implies that the known value of one variable can be used to estimate the value of an unknown variable. It can be applied to evaluate the relationship between one or more independent variables and a dependent variable (Galton, 1886). In this study, regression analysis is used to test hypotheses involving the dependent and independent variables using SPSS software. The results indicate that the four independent variables have an impact on investors' (students') investment decisions.

The individual importance and degree of influence are presented in Table 9. The beta value primarily indicates how each predictor

variable affects students' investment decisions. This section mainly discusses regression results from various model specifications to examine the estimated relationships between investment decision-making and risk perception, loss aversion, overconfidence, and herding.

Table 9

Regression Analysis

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
	Beta		Beta		
(Constant)	0.287	0.136		2.114	0.035
LA	0.217	0.042	0.116	5.216	0.000
RP	0.141	0.044	0.009	3.230	0.001
OC	0.106	0.038	0.209	2.772	0.006
H	0.427	0.037	0.439	11.592	0.000

Note. Dependent Variable: IDM; Predictors: (Constant), LA, RP, OC, H

The researchers of this study assessed the relationships between the constructs based on the results of the hypothesis tests (Table 10). Loss aversion, risk perception, overconfidence, and herding were found to be psychological biases that lead investors to make irrational judgments, as identified through descriptive analysis (mean and standard deviation) and inferential analysis (correlation and regression). According to the findings, when investors (students) receive positive social influence and observe an increase in NEPSE, they are more likely to engage in herding behavior when making investment decisions; similarly, when they receive negative social influence and observe a decline in NEPSE, they also tend to follow herd behavior.

Herding is shown to have the greatest influence on the decision-making of individual investors, finding is contrary to the results of Hossain and Siddiqua (2022), where loss aversion and risk perception were found to have the highest impact on individual investment decisions. The differences in findings may be attributed to variations in context and sample size.

According to the table, herding has a greater impact on investor decision-making than the other variables, as shown by its relatively high beta value of 0.439 and P-value is less than 0.001.

Bhandari and Deaves (2006) provide contemporary evidence that overconfidence significantly affects investment decisions. Their study finds that overconfident investors often overestimate their knowledge and abilities, leading to excessive trading and suboptimal returns. This supports the argument that psychological biases such as overconfidence have a considerable impact on investment behavior, sometimes even more than traditional risk factors.

Bikhchandani and Sharma (2001) further explore the continued relevance of herding behavior in financial markets. Their research shows that investors often follow the actions of others, especially during periods of market uncertainty, leading to herding behavior that can amplify market trends. This highlights the strong influence of social and psychological factors on investment decisions.

Zafar et al. (2024) emphasize that risk perception continues to play a pivotal role in investment decisions. Their research shows that contemporary investors' sensitivity to market volatility and economic uncertainty strongly influences their portfolio choices. This underscores the enduring importance of risk perception in shaping investment behavior.

Mahina et al. (2017) highlight the strong influence of loss aversion on investor behavior. Their findings suggest that even in modern financial markets, investors exhibit a pronounced tendency to avoid losses, which often results in more conservative investment strategies. This indicates that loss aversion remains a significant factor in investment decisions.

The findings align with those of Tversky and Kahneman (1974) and Shleifer (2000), who observed that risk perception and loss aversion have a limited effect on investment decisions. However, the results contrast with those of Shiller (1981) and Barber and Odean (2001), who emphasized the significant importance of these factors in influencing investor behavior, while also supporting the strong influence of herding and overconfidence on investment decisions. The impacts of risk perception and loss aversion are evident, although they are not as strong as might be expected.

This finding suggests that, in making investment decisions, investors (students) often overlook their own abilities and place considerable reliance on other investors who are perceived as knowledgeable about the market. Generally, investors (students) are more likely to follow the actions taken by others. This behavior may be driven by insufficient knowledge and a lack of expertise in investment analysis.

Table 10

Hypothesis Test

Hypothesis	Description	P-value	Remarks
H1	There is a significant positive impact of loss aversion on investment decisions.	0	Accepted
H2	There is a significant positive impact of risk perception on investment decisions.	0.001	Accepted
H3	There is a significant positive impact of overconfidence on investment decisions.	0.001	Accepted
H4	There is a significant positive impact of herding on investment decisions.	0	Accepted

In sociological and behavioral studies, Cronbach's alpha is commonly used to assess internal consistency (Liu et al., 2010). This method examines the internal uniformity of all items to determine how well the measurement captures the underlying constructs. According to Cortina (1993), a higher Cronbach's alpha value indicates a greater level of data reliability.

Because the questionnaire is based on a five-point Likert scale, Cronbach's alpha is used in this study to measure the reliability of the components included as variables. According to Nunnally (1978), measurements with a Cronbach's alpha of at least 0.7 are considered reliable. However, other scholars suggest that Cronbach's alpha should be greater than 0.6 and

that corrected item-total correlations should be at least 0.3 for the scale to be considered acceptable (Shelby, 2011).

The rating scale demonstrates a satisfactory level of internal reliability, as indicated by the Cronbach's alpha value of 0.778 obtained from the survey. The corrected item-total correlations for each factor also exceed acceptable thresholds, with Cronbach's alpha values above 0.7 for all items.

Table 11

Reliability Results of Study Variables

Overall Cronbach's Alpha (Greater Than .70 or 70 Percent)	**N of Items**	**N**
Variables	**Cronbach's Alpha**	
Loss Aversion	0.79	4
Risk Perception	0.76	4
Overconfidence	0.82	4
Herding	0.74	4
Investment Decision-Making	0.79	4

Conclusion

Extensive research in behavioral finance has increasingly led to the acceptance that certain factors can have a psychological impact on financial decision-making. Human, social, cognitive, and emotional biases significantly influence investment decisions and, ultimately, market prices. It is important to develop an understanding of security markets that integrates psychology with finance before making any investment decisions to maximize wealth. Such a broad-based understanding enables investors to navigate market complexities more effectively. Based on findings from behavioral finance studies, it may also be necessary for investors to manage their emotional reactions when making financial decisions.

A deeper understanding of behavioral psychology would help investors develop better investment strategies, as it enables them to distinguish the relative importance of different biases that influence their decisions. By recognizing and addressing the effects of these biases, investors can make more informed choices and potentially improve their financial outcomes. Within this broader theoretical perspective, this research contributes to behavioral finance theory through its findings on psychological processes.

This study is conducted to provide empirical evidence on appropriate investment strategy selection and the psychological characteristics responsible for market anomalies. The findings help highlight the role of psychological factors in investment decision-making, thereby strengthening the practical implications of behavioral finance theories. However, these conclusions are limited, as the study was conducted among a selected group of NEPSE (Nepal Stock Exchange) investors over a limited time period of two days and therefore may not capture the full range of factors influencing their decision-making. This is partly because some respondents were hesitant to disclose their behavioral traits, while others appeared uncertain about their own biases. As a result, the true nature of behavioral responses in decision-making may have been partially constrained.

Therefore, further research is needed to address these limitations. Future studies should include a more diverse and representative sample of investors, along with a longer and more comprehensive observation period covering a wider range of behaviors. The use of more advanced methodologies that encourage honest and reflective responses would also help produce more accurate results regarding the influence of psychological factors on financial decisions. Addressing these challenges would improve the reliability of findings and provide a more comprehensive understanding of the role of behavioral biases in investment decision-making.

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