

## Behavioural Finance in Nepalgunj: Investor's Decisions

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DOI: <https://doi.org/10.3126/academia.v4i2.82950>

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Article History: Received: Jan. 10, 2025 Revised: March 02, 2025

Received: July 10, 2025

### Abstract

The purpose of this study is to investigate the behavioural aspects influencing the investment decisions of personal investors in Nepali Gunj SubMetropolitan City, Nepal. Behavioural finance combines psychological viewpoints to explain how emotions, cognitive biases, and social influences affect financial decisions, while conventional finance assumes investors behave rationally. Using a quantitative research approach, the study investigates how psychological variables, social contacts, information availability, company reputation, and government rules influence investment behaviour. Descriptive statistics, Pearson's correlation, and multiple linear regression were used to evaluate the findings of structured questionnaires with a 5-point Likert scale. According to research, firm reputation and access to trustworthy information, as well as psychological biases like loss aversion and overconfidence, greatly influence investment decisions. Contrary to earlier results on herding behaviour, social contacts had no statistically significant effect, while regulatory policies had a modest impact. The research highlights how crucial investor education, better regulatory openness, and fintech-based solutions are for lessening the negative consequences of cognitive biases. It also suggests more study on demographic differences and long-term market behaviour analysis. This research, which fills a need in the literature on behavioural finance in the Nepalese setting, particularly in smaller cities, provides important implications for investors, financial institutions, and politicians trying to encourage responsible and resilient investing practices.

**Keywords:** Behavioural finance, emotions, cognitive biases, social influences, investment decisions, NEPSE

### Introduction

Investing is giving money a chance to make money for you, even though you know there is a risk. The one place where such financial transactions find expression' A central point for for such, financial transactions is that of the Nepal Stock Exchange (NEPSE) in Nepal. Investor decisions are not always rational; emotions and cognitive biases often influence financial behaviours. This Study aims to investigate how individual investors in Nepalgunj Sub-Metropolitan City make decisions, taking into account social interactions, firm reputation, psychological factors, regulatory influences, and access to information.

Small investors put in less, but collectively, they can have a considerable effect on market trends. Compared to other investments, stocks are generally riskier, so it is essential to thoroughly research everything before, during, and after you invest. When we pick stocks, the secondary market strengthens the process by introducing new options, facilitating more trading, and making it easier to sell stocks.

When people compare their actual investment returns to their expectations, they do not always act logically. People make quick decisions every day, often using mental shortcuts, which can lead to problems. For instance, they might be too confident in their judgment or believe a stock will appreciate when it will not. People also think that old trends will persist. Basing decisions on just one piece of information can give us the wrong idea. All these biases can lead to investment choices that diverge from the norm, potentially hurting our results.

### **Research objectives**

This Study aims to address the existing knowledge gap and deepen the understanding of behavioural finance as it applies to investors, financial institutions, and policymakers in Nepalgunj Sub-Metropolitan City. The research primarily entails an investigation into the role of psychological, social, informational, and regulatory factors in influencing individual investment decisions.

### **Literature Review**

Behavioural finance merges psychology and finance to explore why people often make illogical financial decisions. In contrast to traditional economics, which assumes that everyone acts rationally and has complete information, behavioural finance suggests that emotions, poor habits, and unclear thinking play a significant role in our decision-making process.

A huge thing in this field is Prospect Theory (Kahneman and Tversky). It says we feel losses way harder than gains. So, we avoid risks when winning but take crazy risks when losing. This screwiness leads to all sorts of unusual investment habits. Additionally, Thaler discovered that we categorize money into different mental accounts, which is illogical because money is a homogeneous entity.

Another common problem is overconfidence. People often think they are great at predicting the market, so they trade excessively and lose money. Anchoring, getting stuck on initial information, and herding, or unthinkingly following everyone else, are also extremely common, especially in places that value groups over individuals, such as developing markets. These issues become even more severe when people lack financial knowledge, have access to poor information, and are influenced by social pressure, as seen in Nepal.

Studies show that how people act plays a significant role in their investment decisions, which is especially true in countries that are still in the process of growth. A study in India by Kiruba and Vasantha (2021) found that factors such as age, technical proficiency, and personal risk tolerance significantly influence investment decisions and the level of risk they are willing to accept. So, who people are and what tech they use affects their investing.

In Nepal, Adhikari (2020) noted that the amount of money people earn, whether they have a job, and whether they are male or female, all matter for investment. The Study also said that feelings and what friends say often matter more than real research for small investors. Kunwar (2021) observed that people tend to trust friends, family, and social media more than real information, which can lead them to believe incorrect things.

Around the world, Rau (2021) and Brown (2022) have noted that investor sentiment and behaviour can significantly impact the stock market, as seen when investors are averse to losing money or sell winners too early. These mistakes alter prices and where people invest their money, primarily affecting new investors.

In Nepal, Poudel and Subedi (2019) observed that people do not fully trust the rules, so they seek advice from those they know and trust. That shows that trust is a significant issue, and people often make decisions based on guesswork.

Additionally, Sharma and Khatriwada (2018) examined investor behaviour in Kathmandu and found that investors tend to copy one another and often believe they are always right, which affects the market. Tamang (2020) added that people tend to choose companies they are familiar with from home, even if it is not the most financially savvy decision.

Ranjitkar and Bista (2023) stated that how people perceive a brand changes significantly if they invest in smaller towns in Nepal. People often assume that a famous brand is a safe bet, but that is not always the case.

A study by Chen et al. (2007) on Asian investors found that copying others and a reluctance to lose money are more prevalent in Asia than in the West. That is because companies are not run as efficiently, people lack a strong understanding of finances, and they want to conform to societal norms. Lastly, the Nepal Rastra Bank (2022) stated that people in smaller cities lack sufficient knowledge about investing. That makes them invest based on feelings and guesses.

Studies in the field of behavioural finance have been conducted worldwide; however, very few similar studies have been carried out in Nepal, and even fewer in smaller towns. Research in Nepal has focused mainly on prominent institutional investor groups. This present Study aims to fill that gap by focusing on individual investors in Nepalgunj and incorporating elements that have been mostly disregarded in previous studies, such as corporate image, regulatory issues, and information availability, to enable investors to make truly informed investment decisions.

## **Research Methodology**

### **Research Design**

This Study employed a quantitative research approach, utilizing questionnaires as the primary data collection tool. These questionnaires were distributed online to investors residing in the city of Nepalgunj.

A developed questionnaire utilized a 6-point Likert scale to gather opinions on psychological matters, social life, the information they possess, their views regarding companies, and their opinions on rules.

## Sampling and Data Collection

To achieve representativeness, respondents were selected as investors from diverse segments of the population, encompassing a range of ages, education levels, income levels, and investment knowledge. Investors' perceptions concerning psychological issues, social interaction, information, firm reputation, and regulatory policy were assessed with a 6-point Likert scale questionnaire.

## Data Analysis Techniques

We examined the investor's behaviour via descriptive statistics, Pearson correlation, and multiple linear regression. The investor's behaviour was what we were interested in, as well as what they are feeling, with whom they are discussing it, what the news is, what kind of company it concerns, and what the regulations are.

## Results and Discussion

### Descriptive Statistics

We examined five key factors that influence how people make financial decisions: their emotions, interactions with others, information processing, perceptions of the company, and perceptions of the company.

#### *Psychological Factors*

The data show that investors often base their choices on what they have learned in the past and their gut feelings. People prefer investments that pay off over time (mean = 2.09) and are generally safer with less risk (mean = 2.40). This suggests that they are averse to taking significant risks, which aligns with Prospect Theory (Kahneman & Tversky, 1979).

#### *Social Interaction*

Investors moderately relied on financial advisors (mean = 2.78), stockbrokers (mean = 3.26), and family or friends (mean = 2.65). The inclination to respond to "market noise" (mean = 2.96) reflects investors' susceptibility to herding behaviour.

#### *Information Use*

Investors considered several factors when investing their money. They assessed the company's performance (averaging 2.27), reviewed the financial reports (averaging 2.56), examined the stock performance before the review (averaging 2.20), and evaluated the industry ratings (averaging 2.43). They had some knowledge of what they were doing.

#### *Regulatory Policy*

People did not seem too worried about rules such as industry regulations (mean = 2.21), board ethics (mean = 2.25), and the independence of managers (mean = 2.41). Perhaps they were unfamiliar with these controls or did not fully trust them.

*Firm's Image*

Respondents showed preference for firms with branded products (mean = 2.27), foreign investment (mean = 2.50), Class A NEPSE classification (mean = 2.34), and strong public image (mean = 2.31). These perceptions influence their confidence in investment decisions.

*Investor Behavior*

Investors appeared to place a higher value on returns over more extended periods (mean = 2.15). They also cared about policy changes and were concerned about company perception. This suggests Nepalgunj investors are cautious consumers of information.

**Correlation Analysis****Table 1***Variable and Correlation Coefficient*

Variables	Correlation Coefficient	company's-tailed)
Psychological Factors	0.285	0.000
Social Interaction	0.069	0.090
Information	0.299	0.000
Regulatory Policies	0.172	0.006
Firm Image	0.162	0.002

Source: Survey data, 2025

The results show that emotional factors, information processing styles, and perceptions of companies have a significant influence on investor behaviour, as evidenced by the strong results obtained ( $p < 0.01$ ). While regulation impacts investment decisions, its effect was moderate but still statistically significant ( $p < 0.01$ ). In contrast, social pressure reflected in others' views did not yield a statistically significant result for investment behaviour ( $p = 0.090$ ).

**Table 2***Regression summaries*

Predictor Variables	B	Beta	t	p-value
Psychological Factors	0.288	0.285	5.567	0.000
Social Interaction	0.067	0.069	1.701	0.090
Information	0.309	0.299	4.934	0.000
Regulatory Policies	0.165	0.172	2.753	0.006
Firm Image	0.160	0.162	3.063	0.002
Constant	0.034	—	0.270	0.787

Source: Survey data, 2025

The findings show that how investors think, the kind of information they accept, and the image of a company greatly affect their investment choices. This is supported by strong statistical relationships ( $p < 0.01$ ). Although legislation and policy can influence decision-making, they appear to have a lesser impact on decision-making than cognitive functioning, yet remain statistically significant ( $p < 0.01$ ).

Whereas interpersonal communication, or discussing with others, indicated no statistically significant effect on investment behaviour ( $p > 0.05$ ), which conforms with earlier analysis.

## Discussion

This Study backs up the idea of behavioural finance in Nepal:

### *People's Emotions*

The significant effect of psychological factors corroborates previous findings (Barber & Odean, 2001) that biases such as overconfidence, mental accounting, and familiarity play a crucial role in investment behaviour. Investors in Nepalgunj exhibited reliance on personal heuristics and past experiences.

### *How People Use Information*

Information is essential when making decisions, just as the Rational Expectations Theory suggests. When people have the correct information about money and companies, they feel more confident about making investment decisions.

### *Firm Image*

It is also crucial that people perceive a company as good. As Fombrun and Shanley said, if a company has a solid name and everybody knows it, people will trust it more. In Nepalgunj, people prefer companies and famous brands with good ratings from NEPSE. They trust what they see more than crunching numbers.

### *Regulatory Policies,*

Rules matter, but not as much. This may mean that Nepal's rules are complex to follow, unclear, or that people are unaware of them. Poudel and Subedi said similar things before.

### *Interacting with Others*

Interestingly, social interaction showed no significant effect, which contrasts with the literature on herding behaviour and peer influence (e.g., Waweru & Ngugi, 2008). This may be attributed to:

- i. A growing trend of self-directed investing via online platforms.
- ii. Greater investor scepticism towards informal advice.
- iii. Demographic characteristics of the sample (e.g., educated youth with independent access to information).

## Theoretical Implications and Behavioural Sub-Factor Expansion

Behavioural finance utilizes psychology to explain unusual market events and why, occasionally, investors exhibit irrational behaviour. Prospect Theory, Mental Accounting, and the Heuristic-Driven Bias Model test the theory through research on how individuals are influenced by bias, emotion, and limited thinking when making decisions. Investors often take shortcuts in situations of uncertainty, rather than carefully considering their choices, which diverts them from textbook rationality.

### **Overconfidence and Optimism Bias**

Overcon Nepal is the most decisive influence on our decisions. Barber and Odean (2001) observed this phenomenon in action, noting that excessively confident investors traded excessively and trailed the market.

In the context of Nepalgunj, success in investment among individual investors, as self-reported, may lead to increased trading volume but without accompanying improvement in returns. Likewise, optimism bias, in which investors under-estimate risk and over-estimate future results, was also present in their tendency to lean on individual stocks or sectors with minimal analysis.

### **Familiarity and Representativeness Bias**

Investors tend to invest in firms with which they are familiar or those with established reputations. This is likely because they are relying upon something, in their minds, called the representativeness heuristic. It is that they believe something is to occur if it seems like something they already know. For example, people may want to invest in companies listed as Class A on the NEPSE or those with foreign ties. That is because they feel familiar. Lots of those surveyed chose local companies over foreign ones that could make more money. They picked what felt safe and familiar.

### **Anchoring and Disposition Effect**

Anchoring bias occurs when investors make choices based on factors such as historical stock prices or the initial amount invested. This can mean they do not properly change their minds when fresh info comes out. Additionally, people often sell stocks that are performing well too early, but hold onto losing stocks for an extended period. It was reported in interviews, but the surveys did not capture that.

### **Practical and Policy Implications**

The Study provides real, helpful information for those who create rules, banks, and individuals who invest.

### **Investor Education and Literacy Programs**

Since feelings and info are so important, learning more about money can lower the chance of making bad calls based on how we feel.

Courses should emphasize general thinking errors, the essentials of statistics, the relationship between reward and risk, and hedge funds as a savvy investment choice. This is especially necessary in small



towns, where individuals may not be exposed to investment opportunities as frequently as city residents.

### **Regulatory Frameworks Strengthening**

Although regulatory policies had a lesser numerical influence, this should not be taken to mean that they are less significant. This indicates a lack of investor recognition or knowledge. Therefore, organizations such as the Securities Board of Nepal (SEBON) and the Nepal Rastra Bank (NRB) should establish clear governance rules that outline what must be made public, and the penalties for market manipulation should be more transparent and easily understood. People need to trust that someone is watching over things; otherwise, the financial markets will not do well.

### **The Role of Technology and Fintech Platforms**

Technical innovation—such as trading platforms, AI that analyses our portfolio, and market news-driven notifications—can go a long way toward helping ordinary people make informed investment decisions. These tools must undergo training, however, so individuals know why one investment is being recommended. Fintech platforms must incorporate behavioural nudges into their technologies to avoid impulse or emotion-based trades.

### **Institutional Partnerships**

Business schools, universities, and training institutes must incorporate ideas of behavioural finance into their curricula. This content should be prepared for Nepal's markets, and the examples and practice exercises should be based on NEPSE and investment practices in Nepal. The supplementary schools can continue helping the investors even after the study period.

### **Future Research**

#### ***Longitudinal Analysis***

Research that spans a considerable period could reveal how behaviour evolves, particularly when the market fluctuates, laws change, or societal or political conditions become unstable. Watching behaviour over time helps us understand how people stay the same, adapt, and learn.

#### ***Experimental Studies***

In the future, researchers may conduct experiments to identify specific thinking errors. Mock trading or tests could show how specific errors (like anchoring or loss aversion) change investment choices versus just feelings.

#### ***Gender and Generational Analysis***

Separate studies based on gender or age groups (e.g., Gen Z versus Baby Boomers) may provide more detailed information. Such analysis could reveal how socio-cultural and experiential factors shape decision-making paradigms differently across demographic groups. This Study contributes to the evidence that investors are not always rational. Practically, we are Nepal's improved investor advice that is empathetic to the behaviour of human beings, primarily due to the increasing



number of people in smaller cities and towns investing. In the coming years, there will be a growing need to integrate knowledge from behavioural science with the financial sector, education, and policy related to it. This will enable a stronger, more equitable, and informed investment framework in Nepal.

This empirical results indicate that informational access, psychological predispositions, and firm perception play critical roles in decision-making. Institutional factors, such as social interaction and regulatory schemes, have not been fully internalized as key determinants by the majority of investors to date.

The implications are both academic and applied. This research supports the notion that investors are not always rational. It shows that we need support systems that understand investor behaviour, especially since more people in smaller cities are entering the market. In the future, it will be crucial to integrate an understanding of human behaviour into the way money is handled, taught, and regulated. That will help make the investment world in Nepal stronger, fairer, and brighter for everyone.

### **Research Ethics**

The researchers extend their sincere appreciation to the participants across the Nepalgunj, Banke who generously shared their time and insights. Gratitude is also expressed to field enumerators and local facilitators who supported the data collection process.

### **Funding**

No external funding was received for this Study.

### **Conflict of Interest**

The author declare that have no conflict of interest.

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