

Behavioural Biases and Investment Decisions of Individual Investors: Evidence from the Nepalese Stock Market

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Abstract

The aim of the study is to analyze the impact of behavioral biases on the investment decision of individual investors in the Nepalese stock market. The research has followed descriptive and causal comparative research design. Primary data were collected using a convenience sampling technique through a structured questionnaire which was examined by the researcher. The questionnaire items represented four categories: overconfidence bias, disposition effect bias, anchoring bias, and herding bias. To assess the relationship between behavioral biases and investment decisions, the statistical correlation analysis and regression technique were used. The analysis performed on the data collected appears to give a fairly accurate view of the average equity investor in the NEPSE. Experienced and knowledgeable investors would readily admit that the structure and relative weights of the chosen categories reflect on the average, a

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still unsophisticated and immature investor profile. The study concluded that two, namely overconfidence and herding, have a strong influence on the investment decisions of individuals. The current research also emphasized that participants in financial markets are not rational in their decision-making process, and even their choices are limited. This study has provided evidence that investors have overconfident biases due to positive coefficient in the model tested. This overconfidence bias influences the decisions with respect to investor's investments. Overconfident investors believe that they are better investors than both their peers and a stock market index.

Keywords: stock investment decision, overconfidence bias, anchoring bias, effect bias, herding bias

Introduction

Background of the Study

In conventional financial theory, investors are assumed to be rational wealth maximiser following basic financial rules and basing their investment strategies purely on the risk–return consideration without including psychological factors. As a result, behavioral finance is taken as a new approach to explain individual's behavior in the market. Behavioral finance recognizes human being from a practical lens accordingly individuals in the market are human hence are either partly or fully influenced by psychological factors (Thaler, 2005). Accordingly, investor's decision making is not always based on rational factors but also influence by psychological ones (Sehgal & Singh, 2012; Murgea, 2008).

Behavioral finance investigates the decision-making process that deals in buying or selling of financial assets and provides a rational behind decision making process. Its main focus is on psychological principals used by investor to make investment decision. Theory which defines behavioral finance is given by Kahneman and Tversky (1979); Kahneman (1982). Kahneman and Tversky (1979) states that investor may not always appear as rational for investment as supposed. These Behaviorists are of the opinion that investor may behave irrationally while making investment decisions. Shefrin (1999) defined behavioral finance as "a rapidly developing area that contracts with the influence of psychology on the behavior of financial professionals". Number of studies in behavioral finance has examined the factors that influence stock selection process of individual investor. For instance, Merikas et al. (2004) used five categories namely: accounting information, subjective/personal, neutral information, advocate suggestion, and personal monetary needs to explain the factors that influence individual investor behavior. Nagy and Obenberger (1994) used seven classifications: social relevance, self-image/firm-image coincidence, neutral information, classic wealth maximization, accounting information, advocate recommendation, and personal financial

needs. Whereas Al-Tamimi (2005) used five categories including: self and firm-image coincidence, personal financial needs, neutral information, accounting information, and advocate recommendations to analyzed the individual investor behavior in UAE financial markets. However, inadequate research attempts have been endured so far in the field of investor's behavior focusing on the stock market of developing countries.

The traditional economic theory assumes that investors behave rationally while making various kinds of decisions (Muhammad &Maheran, 2009). Standard financial practice consists of various concepts and theories, e.g. the expected utility theory. Markowitz portfolio principles (Markowitz, 1952), the capital asset pricing model (Treyner, 1961) etc., to explain the efficiency of the market that contains all the available information while taking financial decisions; investors are assumed to be rational (Zahera&Bansal, 2018; Kumar &Goyal, 2015). Although all of the above theories are widely accepted by researchers, they have failed to provide answers to some questions, such as the causes of market bubbles and crashes and which variables are to blame for unpredictable situations (Sharma and Kumar, 2019; Zahera and Bansal, 2018). After analyzing the results, they found that the role of behavioral finance that contradicts all the standard theories of concepts and assumptions of rational investors always leads to an optimal financial decision. Human emotions, attitudes and psychological biases that influence investors' decisions tend to be inefficient and irrational (Kahneman &Tversky, 1982; Kapoor &Prosad, 2017). Thus, in the 1980s, a new perspective on finance, i.e. behavioral finance, emerged from psychology, finance and sociology; this deals with the psyche of investors and also attempts to describe the impact of psychological errors on their decision-making process. Behavioral finance examines the puzzling behavioral aspects of individuals operating in financial markets while considering their emotions, psychology, sociology and other related factors.

This study aimed at analyzing the factors affecting the investment decision of individual investors in stock market of Nepal. The research also seeks to explore the influence of individual's behaviors and how each factor affects their investment behaviors. Further, the study also investigated the influence of investor's general investment behavior on each factor. By combining all these aspects of investor's behavior, this research crafts exceptional appeal to the existing literature of behavioral finance in developing countries, especially in the context of Nepal.

Statement of the Problems

Traditional financial theories assume that investors are rational decision-makers who evaluate investment alternatives solely on the basis of risk and return, supported by complete and accurate information. Models like expected utility theory, modern portfolio theory, and the capital asset pricing model rest on the premises that investors behave logically and consistently

to maximize wealth. However, empirical evidence from financial markets across the world reveals persistent anomalies such as excessive trading, speculative bubbles, market crashes, and mispricing of securities, which cannot be adequately explained by conventional finance theories.

Behavioral finance emerged as a response to these limitations by incorporating psychological and cognitive factors into the analysis of investment decision-making. It argues that individual investors are often influenced by behavioral biases that lead to systematic deviations from rationality. Among the most prominent biases identified in the literature are overconfidence bias, anchoring bias, disposition effect bias, and herding bias, which significantly affect investors' perceptions, judgments, and choices in the stock market.

Although numerous studies conducted in developed and emerging economies have documented the influence of these behavioral biases on investment decisions, empirical research focusing on developing countries, particularly Nepal, remains limited. The Nepalese stock market is characterized by a dominance of individual investors, limited market depth, information asymmetry, and varying levels of financial literacy. These characteristics make investors more prone to behavioral biases, thereby influencing their investment decisions and overall market outcomes.

Despite the growing relevance of behavioral finance, there is a lack of comprehensive empirical evidence examining how specific behavioral biases namely overconfidence bias, anchoring bias, disposition effect bias, and herding bias affect the investment decisions of individual investors in the Nepalese stock market. Moreover, the relationship between these behavioral biases and overall investment decision-making behavior has not been sufficiently explored in the Nepalese context. Addressing this gap is essential for enhancing investor awareness, improving market efficiency, and assisting policymakers and regulators in designing effective investor protection and education strategies. Therefore, this study seeks to examine the influence of selected behavioral biases on the investment decisions of individual investors in Nepal's stock market.

Research Objectives

The main objective of the study is to examine the impact of behavioral biases on the investment decisions of individual investors in the Nepalese stock market. Following are the specific objectives of the study:

- To analyse the effect of overconfidence bias on the investment decisions of individual investors.
- To examine the influence of anchoring bias on individual investors' stock market investment decisions.

- To assess the impact of the disposition effect bias on the buying and selling behavior of individual investors.
- To evaluate the role of herding bias in shaping the investment decisions of individual investors.
- To determine the overall relationship between selected behavioral biases and the investment decision-making behavior of individual investors in the Nepalese stock market.

Literature Review

Regret Theory

Regret refers to people's emotional reaction on making mistake Plous (1993). According to DeBondt and Thaler (1987) regret avoidance is consistent with both the size and book-to-market effect. Higher book-to-market firm tend to have depressed stock prices. These firms are "out of favor" and more likely to be in a financially precarious position. Investors consistently engage in behavior that they regret later (Evans, 2002). They avoid selling shares that have decreased in value, and readily sell shares that have increased in value (Shiller, 1998; Lebaron, 1999).

Mental Accounting Theory

Mental accounting affects not only the personal finances but is common phenomenon in the complex world of investment. When an investor buys a new stock, it starts maintaining a new virtual account for this stock in his mind. So has each investment of its own. Once an outcome is assigned a mental account it is difficult to view that outcome in another way. When interaction among assets indifferent accounts is overlooked, this mental process can adversely affect investment wealth (Chandra, 2008).

Prospect/Loss-Aversion Theory

This theory was developed psychologists, Daniel Kahneman and Amos Tversky in 1979 in explaining investors' behavior in situations involving risks. According to these scholars, people view choices by evaluating the potential gains and losses from them, in relation to a particular reference point, mostly the purchase price of the investment, or the related history and expectations of the decision maker. The way people frame an issue or outcome influences the expected utility.

Under/Over Reacting Theory

Much of recent research has dealt with two important phenomena that occur in financial markets on a regular basis: under-reaction and overreaction. The under-reaction can be defined as the phenomenon in which the prices of securities "under-react" to the new information in short term or move slowly and poorly in reaction to the announcement of the

news concerning them. Generally, it occurs that the title under-reacts to the good news at the time of its publication of bad news. This may mean that the title under-reacts to the good news at the time of its publication, but corrects this error by offering higher returns in a period immediately which generally one year (Barberis, Shleifer & Vishny, 1998).

Over Confidence Theory

Overconfidence According to Ritter (2003) manifests itself when there is little diversification because of a tendency to invest too much in what one is familiar with. Selecting common stocks that will outperform the market is a difficult task. Predictability is low; feedback is noisy. Thus, stock selection is the type of task for which people are most overconfident (Barber & Odean, 2001).

Empirical Review

Ranaweera and Hirindu (2022) analyzed the influence of overconfidence bias and herding bias on investment decision making and the moderating role of financial literacy and risk attitudes on overconfidence bias and herding bias on investment decision making in the Colombo Stock Market. The findings of this paper would be of help to understand the influence of behavioral bias on investment decisions of individual Investors in Colombo Stock Market.

Similarly, Pandit (2023) investigated that behavioral finance studies the psychological and sociological factors that influence the financial decision making process of individuals, groups, and entities. Small investors, portfolio manager and board of trustee member are included in individual, portfolio investors (Mutual fund) and a group of shareholders are included in the group and financial institutions and non-profit organizations are included in entities.

Likewise, Rawat (2023) explored the impact of behavioral biases such as market factors, herding behavior and awareness factors on investors' decision-making on the Nepal Stock Exchange and also investigates the mediating role of investors' sentiment in the relationship among the variables. The result showed that the most notable factors that affect investors' sentiment were herding factors.

Shunmugasundaram and Sinha (2024) investigated the impact of behavioral biases on investment decisions through a serial mediation of overconfidence and disposition effects. The results of this study revealed that behavioral biases influence the investment decisions of life insurance policyholders. The results also support the serial mediation model, where behavioral biases influence the investment decisions of life insurance policyholders via overconfidence and disposition effects. This study makes a theoretical contribution to the field of behavioral finance by exploring the influences of behavioral biases on investment decisions.

Mahmood et al. (2024) offers empirical insights into investor behavior and its correlation with various behavioral biases in the context of investment decisions in the Pakistan Stock Exchange (PSX). The study employs hierarchical regression analysis to test the hypothesis. The results underscore the unique investment behaviors in emerging markets, contrasting with established norms in well-developed financial markets. These findings can inform policymakers and stock market authorities about investor decision-making in emerging economies.

Research Methods and Materials

The research has followed descriptive and causal research design. This design is suitable for this kind of study because the researcher intended to collect data meant to ascertain facts investment decisions in Nepal. This kind of research methodology makes use of surveys to solicit investors' informed opinion. Data were collected through five-point Likert scale structured questionnaire. Since, this study has adopted a descriptive approach to analyze the causal relationship between the study variables; the data are helpful for generalization.

As for this present study, since the population size of the individual investors of NEPSE was unknown, a convenience sampling technique was chosen and 474 investors were taken as sample, as it is deemed to be the preferable technique to receive the highest rate of response the respondents are highly scattered and largely unknown. The sampling data was collected from people investing in the stock market. Analysis and presentation of the data is the core of each research work. In order to get correct result from this research, data were analyzed by using different types of descriptive and analytical tools. The theoretical model for the relationship is formulated as equation below:

$$Y = \alpha + \beta x_1 + \beta x_2 + \beta x_3 + \beta x_4 + e_i$$

α = Intercept

β = Coefficient

$$SID = \alpha + \beta OCB + \beta AB + \beta DEB + \beta HB + e_i$$

SID = Stock Investment Decision

OCB = Overconfidence Bias

AB = Anchoring Bias

DEB = Disposition Effect Bias

HB = Herding Bias

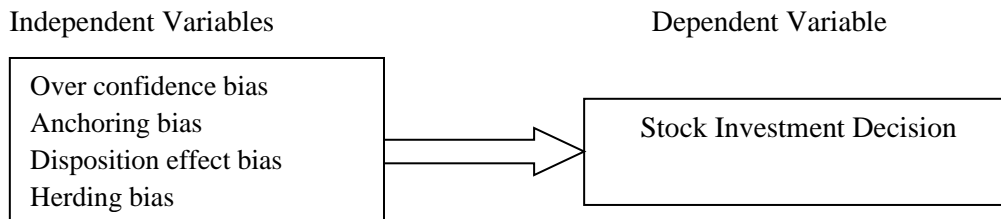
e_i = error terms E

Research Framework

This section briefly discusses the theoretical framework of this study by identifying the study variables. In this study, the independent variables included four components:

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overconfidence bias, anchoring bias, disposition effect bias and herding bias and the dependent variable includes stock investment decision.



Note. Rawat, 2023, Shunmugasundaram & Sinha, 2024.

Results and Discussion

Demographic Characteristics

The table 1 displays the respondent’s profile from those participated in the questionnaire survey on the strata of age, gender, level of education, profession and experience.

Table 1

Respondents' Profile

Age	Frequency	Percentage
18-25	170	35.8
25-30	136	28.4
30-35	40	7.5
Above 35	128	26.8
Total	474	100.0
Gender		
Male	407	85.9
Female	67	13.13
Total	474	100.0
Level of Education		
Undergraduate	122	25.8
Graduate	164	34.5
Postgraduate	179	37.7
Other	10	2.1
Total	474	100.0
Profession		
Business	250	52.8
Salaried	224	49.2
Total	474	100.0

Age	Frequency	Percentage
Experience		
Under 5 years	181	38.2
6-7 years	62	13.1
8-10 years	84	17.8
11-15 years	79	16.7
Above 15 years	67	13.2
Total	474	100.0

Note. Field Survey, 2025.

Table 1 depicts those 18-25 years age group has dominant which consists of 35.8 percent and least participation from 30-35 age group which is 7.5 percent only. Similarly, 85.9 percent respondents are male. Highest participation was from post graduate level which occupies 37.7 percent and least from other groups which is 2.1 percent. However, 34.5 percent are graduate respondents in this study. Most of the respondents are found businessman which is 52.8 percent remaining from salaried employees. Likewise, 38.2 percent respondents are taken from under 5 years' experience and more than 15 years experienced respondents are found only 13.2 percent.

Behavioural Biases on Investment Decisions

The recent behavioural finance literature has proposed a number of behavioural factors. However, some previous studies typically focus on only one behavioural factor. One of our contributions is to examine different behavioural factors jointly, and measure how they relate to each other and to other investor characteristics.

Table 2

Overconfidence Biases

Indicators	Mean	S.D.	C.V
Stock market value	3.6224	0.7011	0.1935
Expected dividend	3.9375	0.6433	0.1634
On the basis of liquidity	3.3542	1.0933	0.3260
Volatile stock	3.3229	0.8850	0.2663

The behaviour base is mainly based on the four categories they are stock value, expected dividend, on the basis of liquidity and the volatile stock. As per the result calculated in the table stock value mean, standard deviation (SD) and coefficient of variation (CV) are respectively 3.6224, 0.7011 and 0.1935. Whereas the expected dividend mean, standard deviation and coefficient of variation are respectively 3.9375, 0.6433 and 0.16338. As per the on the basis of liquidity mean, standard deviation and coefficient of variation are respectively

3.3542, 1.0933 and 0.3289. And as per the last category volatile stock mean, standard deviation and coefficient of variation are respectively 3.3229, 0.8849 and 0.2663. Expected dividend have highest level of mean and volatile stock have lowest level of mean. On the basis of liquidity highest level of standard deviation and the stock value have the lowest level of the standard deviation. On the basis of coefficient of variation on the basis of liquidity has the highest level of coefficient of variation and expected dividend has the minimum level of CV.

Table 3*Anchoring Bias*

Indicators	Mean	SD	C.V
Current economic indicators e.g. inflation rate	3.3307	0.5893	0.1769
Information obtained from internet and existing shareholders	3.5104	0.6381	0.1818
General and financial press coverage of the firms' stock	3.7292	0.5355	0.1436
Fluctuation/developments in the stock index	3.5651	0.6140	0.1722
Government holdings	3.9297	0.5434	0.1382
Recent price movement of a firm's stock	4.6875	0.5515	0.1177
Firms' commitment towards corporate social responsibility	2.0703	0.6445	0.3113

From the above table 3, it was inferred that most of the respondent's investment decision is highly impacted by recent price movement of firm's stock and government holdings on firm. As per the table on the anchoring bias there are mainly seven base where the results are interpreted they are inflation rate, information obtained from internet and existing shareholders, general and financial press coverage of the firm's stock, development in the stock index. Government holdings, recent price movement of a firm's stock and firms commitment towards corporate social responsibility. As per the analysis of mean recent price movement have highest level & Firm's commitment toward corporate social responsibility have the lowest level of mean. Like as the analysis of standard deviation development in the stock index have maximum level and general and financial press coverage of the firm's stock have minimum level of standard deviation. Finally, analysis as per the coefficient of variation firm's commitment towards corporate social responsibility have the maximum level and recent price movement of firm's stock have the minimum level of standard deviation.

Table 4*Disposition Effect Bias*

Indicators	Mean	S.D.	C.V.
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Expected corporate earnings	3.7005	0.6515	0.1761
Dividend paid	1.1797	0.5226	0.4430
Regular financial statement condition	3.0964	0.6288	0.2031

As per the above-mentioned table there are three disposition effects bias they are the expected corporate earnings. Dividend paid and Regular financial statement condition. Whereas the expected corporate earnings have mean standard deviation and coefficient of variance respectively 3.7005, 0.6515 and 0.1761. Whereas the Dividend paid have mean standard deviation and coefficient of variance respectively 1.1797, 0.5226 and 0.4430 respectively. And finally, the financial statement condition has mean standard deviation and coefficient of variance respectively 3.0964, 0.6288 and 0.2031. As per the mean analysis expected corporate have maximum level and dividend paid have minimum level of mean. On the analysis of standard deviation expected corporate earnings have maximum level and dividend paid have minimum level of standard deviation. And final on the analysis of coefficient of variation dividend paid have maximum level and expected corporate earnings have minimum level of coefficient of variation.

Table 5*Herding Bias*

Indicators	Mean	S.D.	CV
Ease of obtaining borrowed funds	3.0833	0.9873	0.3202
Expected losses in national and international financial markets	3.1224	1.0261	0.3286
Diversifications needs	2.6589	1.1566	0.4350
Attractiveness of non-stock investment	2.5078	0.8791	0.3505

As per the table there are mainly four base where the results are calculated and interpreted. They are Ease of obtaining borrowed funds, expected losses in national and international financial markets, diversification needs and Attractiveness of non-stock investment. Whereas the mean of ease of obtaining borrowed funds, expected losses in national and international financial markets, diversification needs and Attractiveness of non-stock investment are respectively 3.0833, 3.1244, 2.6589 & 2.5078. As per the analysis of mean expected losses in national and international financial markets has higher level & attractiveness of non-stock investment has the minimum level of mean. Like as the analysis of standard deviation diversification needs have higher level & attractiveness of non-stock investment have minimum level of Standard deviation. And finally as per the analysis of coefficient of variance diversification needs has higher level and ease of obtaining borrowed funds have minimum level of coefficient of variation.

Table 6*Ranks of Behavioural Biases in Influencing the Share Investment Decisions*

Indicators	Mean	Ranks
Herding bias	3.5461	1
Overconfidence bias	3.5508	2
Disposition effect bias	2.6589	3
Anchoring bias	2.8431	4

As per the table 6, the mean of the four bias herding bias, overconfidence bias, anchoring bias and disposition effect are shown are ranked on the basis of mean. The mean of herding bias, overconfidence bias, disposition effect bias and anchoring bias are respectively 3.5461, 3.5508, 2.6589 & 2.8431. And rank is given on the basis of rank the respectively as per herding bias, overconfidence bias, Disposition Effect Bias and Anchoring Bias 1, 2, 3 & 4. Higher the mean initial rank and vice versa.

Correlation Matrix

The table 7 depicts the correlation analysis of the major variables under study. In our study, the correlation analysis is conducted to find out the impact of the independent variables (Overconfidence bias, anchoring bias, disposition effect bias and herding bias) on dependent variables (Stock investment decisions).

Table 7*Correlation Matrix*

Variables	Overconfidence bias	Anchoring bias	Disposition effect bias	Herding bias
Overconfidence bias	1			
Anchoring bias	0.370**	1		
Disposition effect bias	0.457**	0.502**	1	
Herding bias	0.445**	0.465**	0.530**	1

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

As per the table 7, correlation of different variables are shown they are overconfidence bias, anchoring bias, deposition effect bias and herding bias shown the correlation with each other. The correlation of overconfidence bias, anchoring bias, disposition effect bias and herding bias with overconfidence are respectively are 1, 0.370, 0.457 & 0.445. Like as the correlation of overconfidence bias, disposition effect bias and herding bias with anchoring bias are respectively (0.001), 1, 0.520 & 0.465. Whereas the correlation of correlation of overconfidence bias, anchoring bias, disposition effect bias and herding bias with anchoring bias are respectively (0.001), (0.001), 1 & 0.530 & Finally the correlation with correlation of

overconfidence bias, anchoring bias, disposition effect bias and herding bias with deposit effects are respectively (0.001), (0.001), (0.001) & 1.

Regression Analysis

The values in parentheses are p-value. A p-value less than 0.05 (typically ≤ 0.05) is statistically significant. It indicates strong evidence against the null hypothesis, as there is less than a 5% probability the null is correct (and the results are random). Therefore, we reject the null hypothesis, and accept the alternative hypothesis.

Table 8

Regression Analysis of Variables Under Study

$SID = \alpha + \beta OCB + \beta AB + \beta DEB + \beta HB + e_i$	
Coefficients (Constant)	1.006** (0.008)
Overconfidence Bias (OCB)	0.253 (0.006)
Anchoring Bias (AB)	0.251 (0.003)
Disposition Effect Bias (DEB)	0.329 (0.001)
Herding Bias (HB)	0.329 (0.001)
F-value	28.198* (0.000)
R-square (R^2)	0.235
Adjusted R-square (R^2)	0.218

Significant at the 0.01 level (2-tailed). * <0.01 , ** $p<0.05$.

Note. Figure within the parenthesis indicate p-values.

As per the table 8, the regression of overconfidence Bias, Anchoring Bias, Herding Bias and Deposit effect are calculated any analysed shown the face value 28.198. Whereas the Coefficient and constant of overconfidence Bias, Anchoring Bias, Herding Bias & Deposit effect are respectively 1.066 and (0.008), 0.253 and (0.006), 0.251 and (0.003), 0.329 and (0.001). Like as face value is 28.198. Where the R^2 and adjusted R^2 are respectively 0.235 & 0.218. As per the result Since the value of F is greater than 5, the given regression model is fit and significant at the 0.01 level (2-tailed).

Discussion

People are considered partly rational and irrational in their investment behaviour. Behavioural finance studied the irrational aspect of human as an investor in their investment decision process. Similar to this result, Aduda et al. (2017) also found to be irrational in decision making, and they often made losses in their investment as result of herding and irrationality. This branch of discipline indicated that cognitive biases prevent investors from realizing a complete sense of rationality at the time of investment decision-making. Aduda, Oduor and Onwonga (2017) found to be irrational in decision making, and they often made losses in their investment as result of herding and irrationality.

For the present research, four biases have considered for a study that is overconfidence, anchoring, disposition effect, and herding bias. Similar to this, Mahmood et al. (2024) considered several behavioral biases, and statistically, anchoring and adjustment, overconfidence, and herding show a significant impact. Moreover, the study can also further be elaborated to investigate the impact on a group or corporate investment decision making as well. Likewise, Shunmugasundaram and Sinha (2024) introduced overconfidence and disposition effects as serial mediators between behavioral biases and investment decisions.

A new era of understanding of human emotions, behaviour and sentiments has been started which was earlier dominated by the study of financial markets. Zulfikar (2022) identified several factors that have influenced the stock market's response to the pandemic, including government policy, economic fundamentals, and investor sentiment. The study is more inclined toward the study of individual and institutional investors and financial advisors' investors but the behaviour of intermediaries through which some of them invest should be focused upon, narrowing down population into various variables, targeting the expanding economies to reap some unexplained theories. Mahmood et al. (2024) also informed policymakers and stock market authorities about investor decision-making in emerging economies.

In the 1960s, Kahneman and Tversky concentrated on different fields of research. After the energy crisis of the 1970s, they came together and conducted research and found inconsistent results with the Efficient Market Hypothesis and Expected Utility theory (Daniel Kahneman & Amos Tversky, 1979). Scientific work on the normative theory by Tversky and Kahneman's 'psychophysical emphasis on the difference between objective stimulus and subjective sensation' combined precisely to suffice the motive (Heukelom, 2007). Behavioural finance helps the academicians, economists, and researchers to study financial markets in complex and uncertain circumstances (Shleifer, 2000).

Conclusion

Mainly four behavioural biases are taken into current research for identification of impact, namely, Overconfidence, Anchoring, disposition effect, and Herding. The study

concluded that two, namely overconfidence and herding, have a strong influence on the investment decisions of individuals. The current research also emphasized that participants in financial markets are not rational in their decision-making process, and even their choices are limited. The results revealed by our sample of 474 respondents confirm that there seems to be a certain degree of correlation between the factors that behavioural finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behaviour of active investors in the NEPSE influenced by the overall trends prevailing at the time of the survey in the NEPSE. The implications of the study are as under:

- The researcher recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market.
- They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns.

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