

Influence of Psychological Factors and Emotional Intelligence on Investment Decisions in the Stock Market in Kathmandu Valley

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Abstract

This study investigates the impact of emotional intelligence (EI) and psychological biases on investment decisions (ID) in Nepalese stock markets, including primary and secondary markets. It aims to explore how these psychological factors influence individuals' investment behavior and to identify strategies for improving investment decision-making. An explanatory research design examined the relationship between emotional intelligence, psychological biases, and investment decisions. Data were collected through self-administered surveys distributed online and in person, utilizing convenience sampling techniques. A total of 231 responses were gathered for analysis. Quantitative analysis was conducted using statistical software (SPSS and PLS-SEM), incorporating descriptive and inferential statistics to assess the relationships among variables. The study found that emotional intelligence (EI) and overconfidence bias (OCB) positively and significantly impact investment decisions. In contrast, factors such as risk aversion and representative bias play a crucial role. The findings provide valuable insights for investors and financial educators, emphasizing the importance of emotional intelligence and awareness of psychological biases. This leads to improved investment decision-making and more significant financial literacy among investors in Nepal.

Keywords: Behavioural finance, emotional intelligence, investment decision, stock market

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INTRODUCTION AND STUDY OBJECTIVES

Investment decision-making has traditionally been explained through classical finance theory, which assumes that investors are rational, possess complete information, and make decisions that maximize their expected

utility. This perspective is largely founded on the Efficient Market Hypothesis (EMH) proposed by Fama (1965, 1970), which argues that security prices fully and immediately reflect all available information, leaving little opportunity for investors to consistently earn abnormal returns. Under this assumption, investment decisions are expected to be

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based solely on economic fundamentals and market information. However, evidence from numerous empirical studies has revealed persistent market anomalies, including excess volatility, momentum effects, and investor overreaction, suggesting that investment decisions are not always entirely rational (Barberis & Thaler, 2003; Shiller, 2003). These limitations of classical finance have led to the emergence of behavioural finance, which integrates psychological insights into financial decision-making to better explain actual investor behaviour.

Behavioural finance challenges the assumptions of classical finance by arguing that investors are influenced by cognitive limitations, emotions, and systematic psychological biases when making investment decisions. Rather than behaving as perfectly rational agents, investors frequently rely on heuristics that result in predictable deviations from rationality (Kahneman & Tversky, 1979; Thaler, 1985). Behavioural finance is therefore regarded as an extension of traditional finance that incorporates psychological factors into investment analysis (Burton & Shah, 2013). The theory comprises two fundamental components: the existence of irrational investor behaviour and market inefficiencies arising from behavioural biases. Consequently, phenomena such as long-term reversals, short-term momentum, size effects, value-growth anomalies, dividend yield effects, political events, seasonal effects, and investor sentiment cannot always be adequately explained by classical finance theory alone (El Gayar, 2021). These observations highlight the importance of understanding the behavioural dimensions of investment decisions.

Among the various psychological factors influencing investor behaviour, Emotional

Intelligence (EI) has recently attracted considerable scholarly attention. Emotional intelligence refers to an individual's ability to recognise, understand, regulate, and effectively manage emotions in oneself and others (Boyatzis et al., 2000). Investors possessing higher levels of emotional intelligence are generally better equipped to manage uncertainty, control impulsive reactions, and minimise the influence of behavioural biases such as overconfidence, regret aversion, and emotional decision-making. Consequently, emotionally intelligent investors are more likely to evaluate investment opportunities objectively, make rational financial decisions, and achieve superior investment performance, thereby contributing to improved investment strategies and greater market efficiency (Aydemir & Aren, 2017).

The importance of psychological factors became even more evident during the COVID-19 pandemic, which created unprecedented uncertainty across global financial markets, including Nepal. The pandemic significantly altered investor sentiment, risk perception, and portfolio management strategies, leading many investors to make decisions driven by fear, uncertainty, and emotional reactions rather than objective financial analysis (Sohail et al., 2020). Under such uncertain market conditions, investors with higher emotional intelligence were found to make more balanced and informed investment decisions (Aydemir & Aren, 2017), whereas behavioural biases such as overconfidence frequently caused investors to underestimate risks, overestimate their knowledge, and adopt inefficient portfolio diversification strategies (Barber & Odean, 2001). These findings reinforce the importance of integrating psychological variables into investment decision-making models.

Similar to many emerging economies, investment decisions in Nepal are influenced not only by market fundamentals and risk-return considerations but also by investors' psychological characteristics and behavioural biases (Dhungana et al., 2022). Although Nepal's capital market has experienced remarkable growth through the expansion of DEMAT accounts, Mero Share users, online trading platforms, and retail investor participation, the market continues to be dominated by individual investors who often possess varying levels of financial knowledge and investment experience. Existing evidence suggests that many Nepalese investors continue to rely on mental shortcuts and intuitive judgments rather than comprehensive financial analysis when selecting investment opportunities (Dhungana et al., 2022). Such behavioural tendencies may contribute to inefficient capital allocation, increased market volatility, and suboptimal portfolio performance, ultimately affecting both individual investors and the broader financial system (Hashmi et al., 2022; Raheja & Dhiman, 2020; Raut, 2020).

Although behavioural finance has been widely investigated in developed economies and several emerging markets, empirical evidence from Nepal remains relatively limited and fragmented. Existing Nepalese studies have primarily focused on isolated behavioural factors such as financial literacy, herd behaviour, or individual psychological biases (Dhungana et al., 2022; Raut, 2020), while limited attention has been given to examining the combined influence of emotional intelligence, representative bias, overconfidence bias, and regret aversion bias on investment decisions within a single empirical framework. Furthermore, Nepal possesses distinct socio-economic, institutional, and cultural characteristics,

including a retail investor-dominated market, relatively limited institutional participation, evolving digital trading infrastructure, and varying levels of financial literacy, which may influence investor behaviour differently from developed markets. Therefore, findings from Western economies cannot be directly generalised to the Nepalese context, highlighting the need for context-specific empirical evidence.

Against this background, the novelty of this study lies in integrating emotional intelligence with three major psychological biases, representative bias, overconfidence bias, and regret aversion bias, to explain investment decisions among Nepalese stock market investors using a unified behavioural finance framework. Unlike previous studies conducted in Nepal, which have generally examined these factors independently, this study simultaneously evaluates their relative influence within a single structural model using Partial Least Squares Structural Equation Modelling (PLS-SEM). Moreover, by providing empirical evidence from Nepal as a frontier emerging market, the study contributes to extending behavioural finance literature beyond developed economies while offering practical implications for investors, policymakers, financial educators, and market regulators. Ultimately, the findings are expected to enhance understanding of investor behaviour, improve financial decision-making, promote financial literacy, and support the development of a more resilient and efficient Nepalese capital market.

Literature Review and Hypotheses Development

Emotional Intelligence (EI): Emotional intelligence (EI) refers to an individual's ability to perceive, understand, regulate, and utilize emotions in oneself and others

to facilitate effective decision-making (Salovey & Mayer, 1990). The theoretical foundation of EI in this study is primarily based on Salovey and Mayer's Ability Model of Emotional Intelligence and Goleman's Five-Domain Emotional Intelligence Framework (Goleman, 1995, 1998). According to Goleman (1998), emotionally intelligent individuals possess self-awareness, self-regulation, motivation, empathy, and social skills that enable them to make rational decisions even under uncertain circumstances. Within the context of investment decision-making, emotional intelligence helps investors regulate emotional reactions, evaluate risks objectively, and reduce irrational investment behaviour caused by psychological biases. Empirical evidence also suggests that investors with higher emotional intelligence demonstrate superior investment judgement and are less susceptible to behavioural biases (Di Fabio & Saklofske, 2021; Raheja & Dhiman, 2020).

Representative Bias (RB): Representative bias originates from the Heuristics and Biases Theory developed by Tversky and Kahneman (1974). According to this theory, individuals simplify complex decisions by relying on mental shortcuts (heuristics) rather than objective statistical reasoning. Investors exhibiting representative bias tend to evaluate investment opportunities based on recent performance or superficial similarities instead of fundamental financial information. Consequently, investors often overreact to recent market trends while ignoring objective probabilities, leading to irrational investment decisions. Empirical evidence confirms that representative bias significantly influences investment decisions in emerging markets. Representative bias influences investors to rely excessively on past performance and recent

trends when making investment decisions, often assuming that historical success will continue in the future. Such heuristic-based judgments may result in irrational investment choices and biased evaluations of future market performance (Koech et al., 2020).

Overconfidence Bias (OB): Overconfidence bias refers to investors' tendency to overestimate their knowledge, forecasting ability, and investment skills. The theoretical basis of overconfidence is grounded in Behavioral Finance Theory (Thaler, 1980) and the Heuristics and Biases Framework (Tversky & Kahneman, 1974). Behavioural finance argues that investors frequently depart from rational decision-making because of cognitive limitations and psychological biases. Overconfident investors underestimate investment risks, trade excessively, and believe they possess superior market knowledge, resulting in inefficient investment decisions (Barber & Odean, 2001). Recent empirical studies continue to identify overconfidence as one of the strongest determinants of irrational investment behaviour (Aydemir et al., 2017; Berthet, 2022).

Regret Aversion Bias (RAB): Regret aversion bias is theoretically supported by Prospect Theory (Kahneman & Tversky, 1979) and Regret Theory (Loomes & Sugden, 1982). Prospect Theory explains that investors evaluate outcomes relative to gains and losses rather than absolute wealth, while Regret Theory argues that anticipated regret influences future decision-making. Consequently, investors avoid decisions that may later produce regret, even when alternative investments offer better expected returns. This behavioural tendency often causes investors to retain losing investments or avoid profitable opportunities. Previous empirical studies confirm that regret aversion

significantly affects investment behaviour across emerging financial markets (Nurdinda et al., 2020; Prihadini et al., 2023).

Investment Decisions (ID): This study is primarily grounded in Behavioral Finance Theory, which argues that investment decisions are influenced by psychological and emotional factors rather than complete rationality (Thaler, 1980). Specifically, four complementary theories provide the theoretical foundation for this study:

Goleman's Emotional Intelligence Theory, explaining how emotional competencies improve investment decision-making;

Heuristics and Biases Theory (Tversky & Kahneman, 1974), explaining representative and overconfidence biases;

Prospect Theory (Kahneman & Tversky 1979), explaining investor behaviour under gains and losses;

Theory of Planned Behavior (Ajzen, 1991), explaining how attitudes, behavioural control, and subjective norms influence investment intentions.

Together, these theories explain why Nepalese investors may deviate from rational investment decisions due to emotional intelligence and psychological biases. Therefore, Behavioral Finance Theory serves as the overarching theoretical framework of the present study

Investment Decisions and Emotional Intelligence

According to the assumption, investment decisions are significantly and positively impacted by emotional intelligence (EI). Research conducted over the past ten years

have demonstrated that investors with higher emotional intelligence (EI) achieve better financial outcomes by managing their emotions well and avoiding common mistakes like overconfidence, regret aversion, and herd mentality (Barber & Odean, 2001; Raheja & Dhiman, 2020). Emotional intelligence (EI) supports logical decision-making by assisting in the identification and mitigation of emotional states (Raheja & Dhiman, 2020b; Sellappan & Shanmugam, 2020). Imran et al. (2016), King'ong'o (2022), and Kaushal et al. (2022) all note that it improves risk assessment and market trend interpretation, lowering bias susceptibility and increasing returns. Despite market volatility, emotionally smart investors persist in their objectives and set reasonable goals, which fosters long-term success (Byrne & Utkus, 2013). To foster a successful long-term investing mindset, Khalaf (2023) highlights the need for emotional intelligence (EI) to preserve equilibrium and prevent rash choices. As a result, research demonstrates how emotional intelligence (EI) improves emotional control and strategic decision-making, which in turn influences investment decisions.

H₁: Emotional Intelligence has a positive and significant influence on investment decisions.

Investment Decisions and Representative bias

Cognitive judgment and decision-making are influenced by cognitive biases, which frequently result in illogical behavior. In the world of finance, such biases greatly influence the decisions made about investments. When investors believe that past performance indicates future results, they are committing representative bias. This results in an overconfidence in trends and patterns, which leads to bad investment

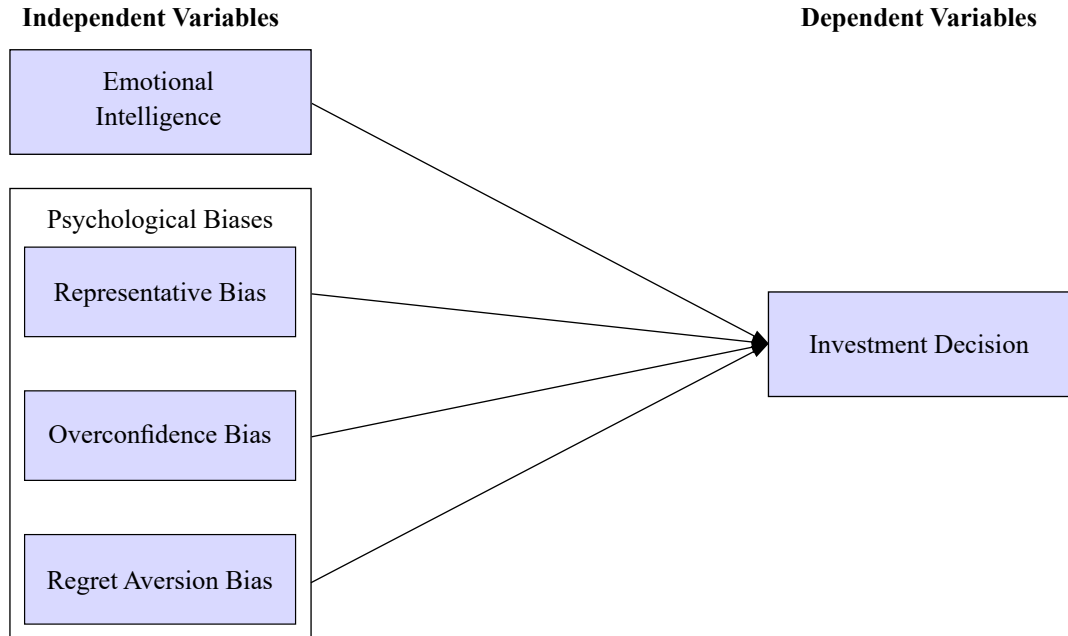


Figure 1. *Conceptual Framework*

Note. Compiled and Modified form (Aydemir et al., 2017; Dhungana et al., 2022; Nizar, 2024; Raut, 2020; Raheja & Dhiman, 2020)

decisions made more based on superficial similarities than on sound reasoning. Research shows that rather than making decisions based on objective analysis, investors are influenced by this cognitive bias, which can result in errors such as overestimating the likelihood of familiar trends continuing and underestimating new information (Barber & Odean, 2001; Hackethal et al., 2012; Raheja & Dhiman, 2020). Due to herd mentality brought on by this bias, investors may follow market trends without doing their research, which increases market volatility (Glaser & Weber, 2007; Malmendier & Nagel, 2011). Therefore, depending too much on representative bias may impede the process of evaluating risk and result in below-average investment outcomes (Corrêa et al., 2022; Kaushal et al., 2022). Making more logical, educated investment decisions requires an awareness

of and mitigation of this prejudice (Imran et al., 2016; King'ong'o, 2022). According to research, investors must implement tactics to mitigate the impact of representational bias to improve financial outcomes (Byrne & Utkus, 2013; Khalaf, 2023).

H₂: Representative bias has a positive and significant influence on investment decisions.

Investment Decisions and Overconfidence bias

Cognitive biases majorly influence human decision-making and frequently result in illogical and unsatisfactory decisions. Investment plans in the financial sector can be significantly impacted by these biases (Pompian, 2012). Investors who overestimate their knowledge or ability to anticipate the future tend to take unnecessary risks in their financial decisions, a phenomenon known

as overconfidence bias (Dervishaj, 2021). This might lead to undervalued uncertainties and disregarded potential hazards, which can produce bad investment outcomes.

Excessive faith in one's capacity to forecast market moves and make profitable investments is known as overconfidence bias, and it frequently results in unfavorable financial outcomes. According to studies (Barber & Odean, 2001; Hackethal et al., 2012; Raheja & Dhiman, 2020), overconfident investors often trade more frequently, underestimate risks, and overestimate their expertise and forecasting abilities. These behaviors lead to lower returns and higher transaction costs. Due to this tendency, investors may overlook important information and underdivide their portfolios, increasing the risk of suffering large losses (Glaser & Weber, 2007; Malmendier & Nagel, 2011). Moreover, overconfidence is associated with increased vulnerability to fluctuations in the market and inferior decision-making at times of stress (Corrêa et al., 2022; Kaushal et al., 2022). Research highlights the necessity for investors to identify and address overconfidence to enhance their investment performance and make more logical, well-informed choices (Imran et al., 2016; King'ong'o, 2022). Ultimately, attaining superior financial results and upholding disciplined investment habits require ways to address overconfidence bias (Byrne & Utkus, 2013; Khalaf, 2023).

H₃: Overconfidence bias has a positive and significant influence on investment decisions.

Investment Decisions and Regret aversion bias

Regret Aversion Bias is considered to have a significant impact on investment decisions. Inadequate financial practice results from regret aversion bias, which is the desire

of investors to escape the emotional pain of making bad investment decisions. According to Zellenberg and Beattie (1997) and Serna et al. (2017), this bias frequently leads investors to stick with well-known investments or refrain from taking necessary risks, which results in lost possibilities for higher returns. Extensive research suggests that regret-averse individuals tend to hang onto failing investments for extended periods or sell winning investments prematurely to secure profits and prevent regret in the future (Imran et al., 2016 ; Raheja & Dhiman, 2020). According to Kaushal et al. (2022) and Corrêa et al. (2022), such activities hamper portfolio growth and diversification and worsen overall investment performance. Furthermore, this bias supports a conservative approach to investing, where logical decision-making becomes secondary to the anxiety of future regret (Medhioub, 2014; Prihadini et al., 2023). Research highlights how crucial it is to identify and control regret aversion to improve investment results and encourage a more impartial and balanced approach to making investment decisions (Nurdinda et al., 2020; Thaler, 1980).

H₄: Regret bias has a positive and significant influence on investment decisions.

Theoretical Foundation of the Study

This study is anchored in Behavioral Finance Theory (Thaler, 1980), which argues that investors are not always rational because psychological biases influence financial decision-making. The study further integrates Goleman's Emotional Intelligence Theory, Heuristics and Biases Theory (Tversky & Kahneman, 1974) Prospect Theory (Kahneman & Tversky, 1979), and the Theory of Planned Behavior (Ajzen, 1991) to explain how emotional intelligence, representative bias, overconfidence bias,

and regret aversion collectively influence investment decisions among Nepalese investors. These theories jointly provide the conceptual basis for the proposed research framework and hypotheses.

Conceptual Framework

The study aims to examine the “Influence of Psychological Biases in Shaping Investment Decisions among Nepalese Investors” through a multifaceted method that integrates theories from cultural studies, psychology, and behavioral finance. In light of Nepal’s distinct socioeconomic and cultural setting, it investigated the impact of psychological biases, such as cognitive biases and emotional biases as well as behavioral biases on investment decisions. To give a thorough knowledge of how psychological biases influence investment behavior among Nepalese investors, the framework also took into consideration variables like emotional intelligence, representative bias, overconfidence attitude, and regret bias.

RESEARCH METHODS

Research Design

This research used an explanatory design to quantify the causal linkages among several components, with a focus on how changes in one variable impact another. The goal of the explanatory approach was to justify the existence of previously established events. The purpose of the research is to justify an established event to occur. This demonstrates the cause-and-effect link between variables, which is why causal research is frequently used to describe it. Given the complicated nature of this research, an explanatory research methodology is suitable for developing a solid understanding of the various aspects of investment decision-making aspects,

psychological biases as well as emotional intelligence of investment sectors.

Scope of Variables / Justification for Excluding Mediators

Although previous studies have identified variables such as financial literacy, risk tolerance, and risk perception as potential mediating or moderating variables influencing investment decisions, the present study focuses exclusively on examining the direct effects of emotional intelligence, representative bias, overconfidence bias, and regret aversion bias on investment decisions. The exclusion of mediating variables was intentional to maintain parsimony in the proposed model and to directly evaluate the predictive influence of the selected psychological factors within the Nepalese investment context. Future studies may extend the proposed framework by incorporating mediating or moderating variables to provide a more comprehensive explanation of investor behaviour.

Study Area and Population

The study focused on Nepalese individuals and institutional investors who are based in Kathmandu Valley and are participating in the financial markets. About 384 investors made up the target audience to represent a range of psychographic traits, investment inclinations, and degrees of financial industry expertise. The study intended to offer insights unique to the local market dynamics and investor behavior by concentrating on Nepalese investors.

The study region was chosen based on several important considerations. First of all, the Kathmandu Valley, a major center for finance, was home to a large number of educated people with a deep comprehension of investment methods and market trends (Adhikari et al., 2025). As a result, a wide

range of investor preferences and behaviors were anticipated in this area. A thorough investigation of investment behaviors were well-suited for the Kathmandu Valley because of its prominence as the financial hub of Nepal and the large number of institutional and retail investors that it attracts. This increment of users of mero share and demat holders highlighted the need to comprehend the characteristics, tendencies, and preferences of these investors to enhance financial services and regulations. It was fueled by the dematerialization of shares and computer-based trading. Furthermore, as these investors played a major role in Nepal's financial sector, concentrating on them increases the study's usefulness and possible relevance to the country as a whole (Jha et al., 2012). The knowledge acquired from this research helped comprehend regional market dynamics, which can influence national financial planning, investment plans, and policy decisions.

Nature and Source of Data

Primary data was collected through structured questionnaires distributed to the selected sample of Nepalese investors. The questionnaire was designed to gather information on investor's psychological biases, investment decision-making processes, past learning experiences, emotional intelligence, and other relevant variables. The data collected has provided valuable insights into how psychological factors influence investment choices in the Nepalese market.

Sampling Technique and Sample Size Determination

The study employed a non-probability sampling technique, specifically convenience sampling, due to the absence of a comprehensive sampling frame of Nepalese

stock market investors and the geographical dispersion of the target population. This approach enabled the researcher to collect data from respondents who were readily accessible and willing to participate in the study. Convenience sampling is widely adopted in behavioral finance research where access to the complete population is limited and respondents are selected based on availability (Hair et al., 2019). Although non-probability sampling limits the generalizability of the findings, it is considered appropriate for explanatory studies focusing on theory testing using PLS-SEM (Hair et al., 2022).

Because the exact population of active individual investors in Kathmandu Valley is unknown and geographically dispersed, probability sampling was not feasible. Therefore, this study employed a non-probability convenience sampling technique, where respondents were selected based on accessibility and willingness to participate.

The minimum required sample size was determined using Cochran (1977) sample size formula for an unknown population:

$$n = \frac{z^2 pq}{e^2}$$

$$n = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} = 384.16$$

Following the recommendation of Hair et al. (2017), who suggested that a minimum sample size of 200 is adequate for Structural Equation Modeling (SEM), the researcher distributed 250 structured questionnaires to individual investors in the Kathmandu Valley through both online and offline modes. A total of 231 questionnaires

were returned and found to be complete and usable for analysis, resulting in a response rate of 92.4%. The final sample size exceeded the minimum threshold recommended for PLS-SEM, providing sufficient statistical power to estimate the proposed structural model reliably.

Questionnaire Formulation

The questionnaire was developed following an extensive review of the behavioural finance and emotional intelligence literature and was adapted from previously validated measurement scales used in empirical studies. The questionnaire consisted of two sections. Section A collected demographic and investment-related information, while Section B measured the study constructs using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

The measurement items were adopted from established studies to ensure content validity. Emotional Intelligence items were adapted from [Aydemir et al. \(2017\)](#). Representative Bias items were adapted from [Cooper \(2012\)](#). Overconfidence Bias items were adapted from [Nizar \(2024\)](#). Regret Aversion Bias items were adapted from [Metawa et al. \(2019\)](#) and [Abdin et al. \(2017\)](#). Investment Decision items were adapted from [Aydemir et al. \(2017\)](#), [Nizar \(2024\)](#), and [Raut \(2020\)](#). Minor wording modifications were made to suit the Nepalese investment context without altering the original meaning of the constructs.

Before the final survey, the questionnaire underwent face validity assessment by seven academic and industry experts, followed by pilot testing to ensure clarity, reliability, and applicability.

Research Instrument and Data Collection Procedures

Primary data were collected using a structured questionnaire developed from previously validated measurement scales and measured on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. Before the main survey, the questionnaire underwent face validation by seven experts and was pilot-tested with 30 respondents to establish its validity and reliability. Data collection was conducted over four weeks using a combination of online (70%) and offline (30%) survey administration. Of the 250 questionnaires distributed, 231 valid responses were received and included in the final analysis after screening for completeness and consistency. The respondent profile consisted of 136 male (58.87%) and 95 female (41.13%) investors, with the majority aged 20–30 years, reflecting the active participation of young investors in Nepal's stock market. The collected data were coded, cleaned, and analysed using IBM SPSS for descriptive analysis and SmartPLS 4 for measurement and structural model assessment.

Data Management

Data were collected using Kobo Toolbox and exported to Microsoft Excel for editing, coding, cleaning, tabulation, and categorization. The cleaned dataset was then analyzed using SPSS Version 23 and SmartPLS 4. Descriptive statistics were generated using Excel and SPSS to summarize respondents' demographic characteristics and Likert-scale responses ([Sahi, 2013](#)). For inferential analysis, Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed because it is suitable for prediction-oriented research, handling complex models, non-normal data,

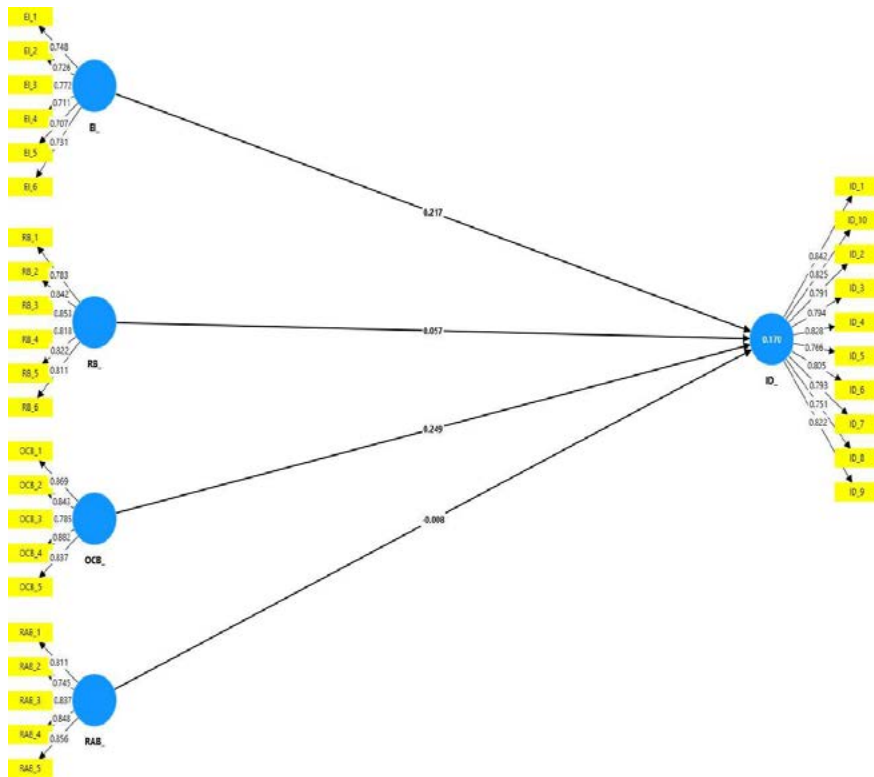


Figure 2. Path Analysis with their path coefficient

and relatively small sample sizes (Hair et al., 2017; Rigdon et al., 2017). Variables were coded using abbreviations, including Investment Decision (ID), Emotional Intelligence (EI), Representative Bias (RB), Overconfidence Bias (OB), and Regret Aversion Bias (RAB). Responses on the five-point Likert scale were coded from 1 = Strongly Disagree to 5 = Strongly Agree to facilitate systematic data analysis and interpretation.

DATA ANALYSIS

This part of the paper covers the analysis of the data collected from the sampled respondents. The proposed conceptual model contains multiple latent constructs measured through several observed indicators and aims

to examine predictive relationships among psychological variables and investment decisions. Therefore, Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed because it is prediction-oriented, robust for complex models, suitable for non-normal data, and performs well with relatively moderate sample sizes (Hair et al., 2017; Rigdon et al., 2017). SmartPLS 4 was used to assess both the measurement model (reliability and validity) and the structural model (path coefficients, coefficient of determination, predictive relevance, and hypothesis testing). SPSS was used for descriptive statistics and preliminary analyses.

Respondents' Profile

Table 1 illustrates the respondents' profile.

Table 1
Respondents' Profile

Variables	Category	Frequency	Percentage
Gender	Male	136	58.87
	Female	95	41.13
Age	15- 20	9	3.9
	20-30	163	70.56
	31-40	37	16.04
	41-50	14	6.06
	51 and Above	8	3.46
Current Position	Junior Level	57	24.68
	Middle Level	99	42.86
	Senior Level	39	16.88
	Others	36	15.58
Education Level	SEE/SLC or Under	7	3.03
	10+2/A-Level	15	6.49
	Graduate	109	47.10
	Post Graduate or Above	106	48.4
Years of experience investing in Share Market	Less than a year	37	15.15
	1-5	146	63.2
	6-10	35	15.15
	More than 10	13	5.63

Note. From the author's survey

Structural Equation Modelling (SEM)

Multivariate analysis, particularly Structural Equation Modeling (SEM), offered researchers a clear-cut statistical method by integrating factor analysis and multiple regression to evaluate and elucidate the structural relationships between latent constructs and observed items, facilitating accurate and realistic conclusions. Due to its comparative advantage (i.e., suitability for exploratory research, target prediction, flexibility in managing non-normal distribution, and small sizes), the conceptual model of this study was examined using PLS-SEM rather than CB-SEM (Rigdon et al., 2017). As this study aimed at predicting and explaining the key association (i.e. direct,

indirect, and moderating), the PLS-SEM technique was highly suitable. Additionally, the PLS-SEM approach offered superior statistical power for any sample size and/or distributed data (Hair et al., 2017). Thus, inferential analysis was conducted using SPSS version 23 and SMART-PLS 4.

Path Diagram

Table 1 shows the socio-demographic profile of the 231 respondents reveals that 58.87% are male and 70.56% are aged 20-30. Most (42.86%) hold middle-level management positions, with 47.19% having a bachelor's degree and 43.29% having a postgraduate degree. Most (63.2%) have 1-5 years of investment experience, and 44.16% earn

Table 2
Validity Result

Construct	Indicators	Factor Loading	AVE	Composite Reliability	Cronbach Alpha
Emotional Intelligence	EI_1	0.748	0.537	0.833	0.828
	EI_2	0.726			
	EI_3	0.772			
	EI_4	0.711			
	EI_5	0.707			
	EI_6	0.731			
Representative Biases	RB_1	0.78	0.675	0.944	0.907
	RB_2	0.842			
	RB_3	0.853			
	RB_4	0.818			
	RB_5	0.822			
	RB_6	0.811			
Overconfidence Biases	OCB_1	0.869	0.712	0.914	0.900
	OCB_2	0.843			
	OCB_3	0.785			
	OCB_4	0.882			
Regret Aversion Biases	OCB_5	0.837	0.673	0.923	0.883
	RAB_1	0.811			
	RAB_2	0.745			
	RAB_3	0.837			
	RAB_4	0.848			
Investment Decisions	RAB_5	0.856	0.644	0.945	0.939
	ID_1	0.842			
	ID_2	0.791			
	ID_3	0.794			
	ID_4	0.828			
	ID_5	0.766			
	ID_6	0.805			
	ID_7	0.793			
	ID_8	0.751			
	ID_9	0.822			
	ID_10	0.825			

Note. Author's Survey data (2024)

between NPR 30,000–60,000 monthly. Over half (54.98%) have not taken investment-related courses. In terms of strategy, 68.4% invest in both IPO and secondary markets, with 31.17% aiming for long-term capital gains and 30.3% for short-term gains.

Common Method Bias (Full Collinearity Test)

Since data for all the variables (independent, and dependent) have been taken from the same person in the same measurement context, a test for common method bias is conducted to test if self-reporting bias exists (Podsakoff et al., 2016). For this, a full collinearity test by creating a dummy variable was conducted as it was regarded as one of the best methods for testing such bias (Kock, 2015). In this method, all the latent variables in the model were regressed into a dummy random variable.

According to statistical analysis, no one factor could account for the bulk of covariance (27.344%) of variance falling below the generally recognized 50% criterion, indicating that CMB is not a substantial worry in the model. The comprehensive collinearity test validated this finding, as the

variance inflation factor (VIF) was found to be less than 3.33.

Measurement Model

To establish the validity and reliability of constructs, this write-up has implemented a few basic measurement model criteria including discriminant validity, comprising reliability, and convergent validity.

Pilot Testing and Reliability Analysis

Kilpela et al. (2016) state that 30 responses were sufficient for reliability analysis because drawing firm conclusions from the pilot study's results is not its main goal. Table 2 demonstrates the reliability and validity of all the variables under study. Factor loading scores of all the observed variables were found in between 0.882 to 0.707 signifying that all the factors had satisfactory reliability. Similarly, the average variance explained ranges from 0.537 to 0.712, indicating a strong relationship between the items and their respective constructs, and the composite reliability and Cronbach's alpha for all constructs exceed 0.70, signifying the reliability of our study.

Table 3
Construct Reliability

Construct	Cronbach's Alpha	Interpretation	Sources
Emotional Intelligence	>0.70	Reliable	4 items adopted from (Aydemir, 2017), 2 items adopted from (Cooper, 2010)
Representative Bias	>0.70	Reliable	6 items adopted from (Nizar, 2024)
Overconfidence Bias	>0.70	Reliable	7 items adopted from (Metawa et al. (2019), (Abdin et al. (2017)
Regret Aversion Bias	>0.70	Reliable	6 items adopted from (Aydemir, 2017)
Investment Decision	>0.70	Reliable	6 items adopted from (Aydemir, 2017), 3 items adopted from (Nizar, 2024), 2 items adopted from (Raut, 2020).

Note. Pilot Test Reliability Results and Variables Measurement

Before the main survey, a pilot study involving 30 respondents was conducted to evaluate the clarity, consistency, and reliability of the questionnaire. According to Kilpela et al. (2016), a pilot sample of approximately 30 respondents is adequate for assessing the reliability of research instruments. The pilot data were analysed using IBM SPSS Version 23. Internal consistency was assessed using Cronbach's Alpha, while multicollinearity among the indicators was evaluated using Variance Inflation Factor (VIF).

The reliability analysis showed that all constructs exceeded the recommended Cronbach's Alpha threshold of 0.70, indicating satisfactory internal consistency. Similarly, all VIF values were below the recommended cut-off value of 5, indicating that multicollinearity was not a concern. Based on these results, only minor wording revisions were made to improve question clarity before administering the final questionnaire.

Discriminant Validity

The discriminant validity of the constructs was conducted utilizing three well-established methods. These methods are the Fornell-Larcker Criterion, HTMT, and Cross Loading.

Fornell and Larcker Criterion

Table 4 presents the AVE's square root for each construct, which appeared in the highlighted form and has greater values than the correlations with other latent constructs that satisfied the condition. The square root of AVE values for EI (0.733), ID (0.802), OCB (0.844), RAB (0.821), and RB (0.822) was higher than their correlations with other latent variables in the model (i.e., below the square root of AVE values), reveals that each construct has a strong level of distinctiveness.

Table 4

Discriminant Validity- Fornell and Larcker Criterion

	EI	ID	OCB	RAB	RB
EI	0.733				
ID	0.337	0.802			
OCB	0.374	0.341	0.844		
RAB	0.166	0.06	0.096	0.821	
RB	0.493	0.213	0.204	0.148	0.822

Note. Author's Survey data (2024)

HTMT

The findings shown in Table 5 make it evident that all the calculated HTMT ratios fall below the established threshold value of 0.85 which substantiated the discriminant validity of the study, indicating a clear understanding by respondents that all five constructs: Emotional Intelligence, Representative Bias, Overconfidence Bias, Regret Aversion Bias, and Investment Decision were distinct and separate entities.

Table 5

Discriminant Validity- HTMT

	EI	ID	OCB	RAB	RB
EI					
ID	0.367				
OCB	0.419	0.357			
RAB	0.198	0.086	0.095		
RB	0.567	0.206	0.208	0.168	

Note. Author's Survey data (2024)

Assessment of Structural Model Analysis

A comprehensive structural equation analysis further investigated the complex structural relationship between exogenous and endogenous factors. In this work, the collinearity between the constructs of the

structural model was first examined. After the analysis of the measurement model, the structural model is computed. The analysis of this model was primarily conducted to test the hypotheses. First, the Coefficient of Determination, PLS-Predict, and Collinearity Analysis were tested. Ultimately, the hypotheses were put to the test.

Assessment of Structural Model Analysis

Collinearity Assessment : Prior to hypothesis testing, multicollinearity among the predictor constructs was assessed using the Variance Inflation Factor (VIF). According to Kock (2015), VIF values below 3.3 indicate that multicollinearity is not a concern. As presented in Table 6, the VIF values ranged from 1.036 to 1.485, which are well below the recommended threshold. These results confirm that multicollinearity was absent and that the structural model was suitable for hypothesis testing.

Table 6
Variance Inflation Factor

	ID
EI	1.485
ID OCB	1.165
RAB	1.036
RB	1.329

Predictive Relevance of the Model: The predictive validity and overall goodness-of-fit of the structural model were evaluated using R^2 , Q^2 , f^2 , SRMR, and PLS Predict. The coefficient of determination ($R^2 = 0.17$) indicates that the independent variables explained 17% of the variance in investment decisions, representing moderate explanatory power. The Stone-Geisser predictive relevance value ($Q^2 = 0.116$) was greater than zero, confirming that the model possessed predictive relevance. The effect size (f^2) results revealed that Overconfidence

Bias ($f^2 = 0.064$) and Emotional Intelligence ($f^2 = 0.038$) had small effects on Investment Decision, whereas Representative Bias and Regret Aversion Bias showed negligible effects. Furthermore, the standardized root mean square residual (SRMR = 0.055) was below the recommended threshold of 0.08, indicating a satisfactory model fit. The PLS Predict results further demonstrated medium predictive power, supporting the predictive capability of the proposed model.

Table 7
Predictive Relevance

Predictors (S)	Outcomes (S)	R-square	Q-square	F-square
EI				0.038
OCB	ID	0.17	0.116	0.064
RAB				0.00
RB				0.003

MV Prediction Summary

Table 8
Prediction Summary

PLS-SEM_MAE				
	Q^2 predict	(a)	LM_MAE (b)	Difference (a-b)
ID_1	0.127	0.543	0.545	-0.002
ID_2	0.069	0.548	0.549	-0.001
ID_3	0.041	0.527	0.505	0.022
ID_4	0.123	0.512	0.53	-0.018
ID_5	0.07	0.511	0.506	0.005
ID_6	0.091	0.477	0.498	-0.021
ID_7	0.065	0.484	0.513	-0.029
ID_8	0.02	0.519	0.543	-0.024
ID_9	0.057	0.567	0.591	-0.024
ID_10	0.048	0.577	0.616	-0.039

Model Fit: To assess the model fit, the sample was rotated 10,000 times using the bootstrap testing method. While 0.90 or above was the NFI for an acceptable fit, 0.08 was the threshold value for SRMR (the lower the better). Table 9 indicated that while the SRMR value was 0.055 which was within the threshold, the NFI value was somewhat below the satisfactory fit value. Likewise, a lower d_ULS had shown a better fit. A lower chi-square value typically indicated a better fit, but it's important to note that chi-square was sensitive to sample size and was influenced by large sample sizes. The values for Chi-square, d_ULS, and d_G were not very significant.

Table 9
Model Fit

	Saturated model	Estimated model
SRMR	0.055	0.055
d_ULS	1.59	1.59
d_G	0.597	0.597
Chi-square	758.965	758.965
NFI	0.839	0.839

Hypotheses Testing

To test the structural path, the study computed the t-value and p-value. If the t-value is greater than 1.96 and the p-value is

less than 0.005, the intended hypothesis is supported, and vice versa. The findings of the bootstrapping approach were illustrated by the path analysis figure and hypotheses table.

Following H₁'s findings, Emotional Intelligence and Investment Decision-making exhibited a statistically significant relationship ($\beta = 0.217$, $t = 2.196$, $p\text{-value} = 0.028$), which means that H1 was accepted. Analyzing the expected relationship, it was clear that Overconfidence Bias significantly enhanced Investment Decision-making ($\beta = 0.249$, $t = 3.403$, $p\text{-value} = 0.001$), hence confirming H3. However, the data didn't validate hypotheses 3 & 4 by showing that Representative Bias and Regret Aversion Bias had a statistically insignificant influence on Investment Decision-making ($\beta = -0.008$, $t = 0.11$, $p\text{-value} = 0.913$) and ($\beta = 0.057$, $t = 1.152$, $p\text{-value} = 0.249$) respectively.

Discussion

This study examined the influence of Emotional Intelligence (EI) and Psychological Biases on Investment Decisions among Nepalese Investors, specifically in the Kathmandu Valley. The region was notable for its significant growth in investment opportunities and a population of well-trained and educated policymakers,

Table 10
Hypotheses Testing

Structural Path	B	(M)	STDEV	t-value	p-value	Empirical Decision
Direct Effect						
EI_ -> ID	0.217	0.225	0.099	2.196	0.028	Supported
RB_ -> ID	0.057	0.074	0.049	1.152	0.249	Not Supported
OCB_ -> ID	0.249	0.244	0.073	3.403	0.001	Supported
RAB_ -> ID	-0.008	0.007	0.077	0.11	0.913	Not Supported

Note. Author's Survey data (2024)

investors, and stock market participants. The study focused on four key factors: emotional intelligence, representative bias (RB), overconfidence bias (OCB), and regret aversion bias (RAB), aiming to understand how these factors shape investment decisions (ID).

The findings revealed that emotional intelligence (EI) significantly influences investment decisions. This supports the hypothesis (H_1) that higher emotional intelligence leads to better investment outcomes, particularly under stressful conditions. Previous research, such as that by [Goleman \(1995\)](#) and [Salovey and Mayer \(1990\)](#), has similarly indicated that individuals with high emotional intelligence were better equipped to manage the emotional challenges associated with investment decision-making. In contrast, Representative Bias (RB) did not have a statistically significant influence on investment decisions, leading to the rejection of H_2 . This finding contradicts previous studies that reported a significant relationship between representative bias and investment behaviour ([Kourtidis et al., 2011](#)). A possible explanation is that Nepalese investors increasingly rely on company fundamentals, official disclosures, market information, and investment training rather than solely on past stock performance or historical trends when making investment decisions. Furthermore, the increasing availability of digital trading platforms, financial information, and investor awareness programs may have reduced investors' reliance on representative heuristics. Therefore, representative bias may not be a dominant behavioural factor in the Nepalese stock market compared to more developed markets. The impact of overconfidence bias (OCB) on investment decisions was significant, supporting

hypothesis H_3 . This finding aligns with existing literature, such as the studies by [Odean \(1999\)](#) and [Barber & Odean \(2001\)](#), which demonstrate that overconfidence can lead to excessive trading and often suboptimal investment performance. The persistence of overconfidence bias among investors, as observed in this study, underscores the importance of addressing this issue through investor education and awareness programs.

Regret Aversion Bias (RAB) did not significantly influence investment decisions, resulting in the rejection of H_4 . This finding contradicts previous studies that reported regret aversion as an important determinant of investment behaviour ([Kaushal et al., 2022](#) ; [Raheja & Dhiman, 2020](#); [Zeelenberg & Pieters, 2004](#)). A possible explanation is that the majority of respondents had between one and five years of investment experience and were actively involved in both IPO and secondary market investments, indicating relatively greater market familiarity and confidence. Moreover, many respondents reported emphasizing fundamental analysis, personal analysis, risk management, and investment training while making investment decisions, suggesting that rational evaluation may have reduced the emotional influence of anticipated regret. Consequently, regret aversion was not a significant predictor of investment decisions in the Nepalese context, indicating that behavioural biases may vary across different cultural, economic, and market environments.

In conclusion, this study provided valuable insights into the psychological factors influencing investment decisions among Nepalese investors. While emotional intelligence and overconfidence bias were found to have a significant impact,

representative bias and regret aversion bias did not show the same effect. These findings highlight the importance of considering cultural and market-specific factors in behavioral finance research. The study suggested that investment education in Nepal should focus on mitigating the effects of these biases and promoting emotional intelligence to improve decision-making processes. Further research is needed to explore these dynamics more deeply, particularly in the context of developing economies. The research highlighted a notable gap in the existing literature, particularly concerning the unique market dynamics and cultural factors influencing investment decisions in Nepal. This study contributed to filling the gap by providing insights into how emotional intelligence and psychological biases impact investment decisions in a developing economy. The findings suggested that to improve investment decision-making, there is a need for targeted educational programs that address these biases and enhance emotional intelligence among investors. The study also revealed that respondents emphasized the importance of fundamental analysis, training, risk management, personal analysis, and mindfulness in investing. These findings highlighted the need for informed, disciplined, and self-reliant investment practices.

CONCLUSION AND IMPLICATIONS

This study concludes that not all psychological factors equally influence investment decisions among Nepalese investors. Among the variables examined, Emotional Intelligence and Overconfidence Bias were found to be significant predictors of investment decisions, whereas Representative Bias and Regret

Aversion Bias did not exhibit statistically significant effects. These findings indicate that investors' emotional competencies and confidence levels play a greater role in shaping investment behaviour than heuristic-based judgments or anticipated regret within the Nepalese stock market.

The findings further suggest that behavioural finance theories cannot always be generalized across different countries and market environments. The insignificant influence of Representative Bias and Regret Aversion Bias implies that investor behaviour in Nepal may be shaped by market-specific characteristics, increasing financial awareness, investment experience, and greater reliance on rational analysis rather than emotional reactions or cognitive shortcuts. Therefore, behavioural models should be interpreted within their specific cultural and economic contexts rather than assuming universal applicability.

Overall, the study contributes empirical evidence from an emerging market by demonstrating that psychological factors influence investment decisions differently across contexts. The findings emphasize the importance of strengthening investors' emotional intelligence while minimizing excessive overconfidence through investor education, financial literacy programs, and behavioural awareness initiatives. These results provide useful implications for investors, financial advisors, policymakers, and researchers seeking to improve investment decision-making and further advance behavioural finance research in developing economies.

Theoretical Implications

This study contributed significantly to the understanding of the psychological aspects of investment behavior, particularly in

the context of the Nepalese stock market. By examining the impact of Emotional Intelligence (EI) and specific psychological biases, namely Overconfidence Bias, Representative Bias, and Regret Aversion Bias on investment decisions, the research enriched the existing body of knowledge in behavioral finance. It highlighted the role of EI in enhancing decision-making under stress, suggesting that higher EI leads to more rational investment choices. This study also provided new insights into the varying effects of psychological biases across different cultural and economic contexts, challenging the universality of these biases observed in other markets. The findings suggested that cultural and market-specific factors significantly influence the manifestation and impact of these biases, calling for more localized studies in behavioral finance. Additionally, the research underscored the importance of integrating psychological and emotional factors into financial theories, enhancing the theoretical framework of behavioral finance, and contributing to a more exact understanding of investor behavior in developing economies like Nepal.

Managerial Implication

The findings of this study have important practical implications for investors, financial advisors, and policymakers in Nepal, particularly within the Kathmandu Valley. For individual investors, the research emphasizes the value of enhancing Emotional Intelligence to improve decision-making processes and reduce the influence of stress and emotions on investment choices. This insight is crucial for developing more informed and rational investment behaviors. Financial advisors leverage these findings to better tailor

their advice, helping clients recognize and mitigate overconfidence and other biases that lead to suboptimal investment outcomes. Also, the lack of significant influence of Representative Bias and Regret Aversion Bias suggests a need for advisors to consider cultural and market-specific factors when providing guidance. For policymakers and educational institutions, the study highlighted the necessity of implementing targeted educational programs that focus on building emotional intelligence and awareness of psychological biases. Such initiatives play a vital role in enhancing financial literacy and improving market stability by fostering more rational investment behavior. As the Nepalese stock market continues to grow and attract new participants, these educational efforts will be crucial in supporting the development of a more robust and resilient financial market. Overall, this study advocated for a more holistic approach to investor education and financial advisory services, incorporating psychological and emotional factors to better meet the needs of the Nepalese market.

Limitations and Areas for Further Studies

Areas for further study on the impact of psychological variables and biases on investment decisions in Nepal's investment sector include expanding the geographical scope beyond the Kathmandu Valley to achieve a more representative national analysis. Future research should also explore other investment sectors, such as real estate and gold, to determine whether similar psychological dynamics are present across different asset classes. Additionally, examining the long-term effects of psychological factors on investment behavior is crucial, as the current study's short timeframe may not capture evolving

patterns. Incorporating a broader range of psychological and behavioral variables, including potential moderating factors, could provide a more comprehensive understanding of their influence. Finally, employing longitudinal data and alternative

data collection methods, such as behavioral experiments, could mitigate the limitations of self-report bias and offer more accurate insights into the complex relationship between psychology and investment decisions.

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