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A Conceptual Review on Key Financial Terminologies Influencing Common Stocks Investors in Nepal

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Abstract

This research paper discusses the important terms associated with finance that play a role in the decision-making process and risk evaluation of common stocks by investors in Nepal through the secondary source of empirical information from the internet via the descriptive approach. The findings reveal that being aware of company-related terms, such as Book Value per Share, Earnings per Share, Dividend per Share, and Net Worth is very important for making wise investments. The knowledge of risk-return terms will help make the right choice of portfolio and the impact of market-related terms cannot be underestimated. Yet, despite being financially literate, there may still be certain factors that affect the investor.

Keywords: Company-Related Variables (CRV), decision, investor, Market Related Variables (MRV), Risk Return Related Variables (RRV)

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INTRODUCTION AND STUDY OBJECTIVES

Investment requires strategically allocating your saving or any other financial resources at hand in an anticipation of generating future returns. Therefore, it demands for an essential sacrifice of present consumption taking risk of uncertainty for future returns (B.K., 2025; Shrestha & Subedi, 2022). Capital market is still in an evolving phase in Nepal. But it is as a vital mechanism to mobilize savings into various industries, i.e. to serve as a catalyst for national development by allocating resources in productive sectors.(Sharma; 2025; Shrestha & Subedi, 2022). Despite the growth of the capital market in Nepal, the investors are often considered lacking of comprehensive knowledge of trading procedures and management of risk (Ghemosu, 2025; Karmacharya, 2023). Traditionally, theories have assumed perfect rationality. This assumption is highly challenged with respect to Nepalese investors. The evidence based challenge of Nepalese stock market are awareness of investors at varied level, psychological biases making the investment decision very complex, and socioeconomic factors. (B.K., 2025; Ghemosu, 2025; Poudal & Shakya, 2025).

Based on this challenge, this article has focused on reviewing key financial terminologies that affect the risk-return

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related issues for the investors. According to (B.K., 2025), Investors must analyze some key terminologies that affect safe decision-making. He has recommended that investors must critically assess Market-Related Variables (MRV), Company-Related Variables (CRV), and Risk-Return Related Variables (RRV) before taking an investment decision. author has also made the readers aware that only giving importance to the financial performance of a firm is not sufficient because it is related only with a firm's intrinsic factors. Therefore, market related variables (MRV) is also equally important which shows that stock price trends.

Sapkota (2023) has identified that Nepalese investors are more relied on fundamental analysis whereas technical analysis is also very important for taking good investment decision while investing in the stock market. Fundamental analysis is concerned about intrinsic value of stock. Fundamental analysis seeks information on financial statement of the company, industry analysis, management quality of the firm, and economic indicators. This analysis solely depends on company's potentials and health status.

Technical analysis refers to analyze the market price trends. Therefore, market related variable (MRV) is necessary to assess market efficiencies. According to Karna et al. (2024), market related variables comprises of the awareness levels of the investors, status of information dissemination concerned with maintaining transparency, timely reporting system, effective implementation of rules by the regulatory bodies. Such analysis helps to boost confidence level of investors. In this way, they can be assured for an active participation in the market. Shrestha (2020) has stated that past and future market price trends, past growth rates of dividends, and information dissemination transparency are very important technical aspects to be considered while making investment decision.

Investors must also be aware on expected return, expected risk, risk free rate of return etc. which are called risk-return related variables. Such analysis makes a safe investment decision. Shrestha (2020) has stated that previous return trends and expected stock returns, riskiness of the company, and amount of liquid securities falls under Risk Return Related Variables (RRV). To make your investment safe, analysis of RRV is also of vital importance.

The objectives of this study, therefore, to make investors aware on the fundamental terminologies to be understood while taking investment decision. In an absence of such analysis, the investment decision will be playing blind. A blind play never ensure safety to an investor. Therefore, this study carry a significance role to aware investors to play safe in the stock market by investing keeping their eyes open. This study do not keep in view of the heuristic behaviors from the investors, which is also a limitation of this study. Therefore, behavioral financial aspects are considered harmful to an investor in this study. The study has assumed that knowledge of fundamental and technical aspect will help investors to overcome behavioral mistakes while taking investment decisions.

Theoretical Review

Various theories have explained the influencing variables while making investment decision in the stock market.

Investors are influenced by their psychological factors, which is explained by behavioral financial theories. Emotional endurances, cognitive level and biases, and social learning are related with behavioral factors (Pool & Sewell, 2007). Such factors could lead toward systematic errors to the investors. Systematic errors make an impact on choices of portfolios, which could result in volatility of stock market or crashes. Understanding of behavioral tendencies could help investors better recognize their mistakes while taking comprehensively informed decisions. Therefore, this study has given importance on making investors aware on fundamental terminologies that make the investors safe from the chances of mistakes advocated by behavioral theory.

Risk-return related theories or portfolio theories delves the information on risk and return. Similarly, it explains the need of diversifying your portfolio among various assets. It suggests to focus on both fundamental analysis and technical analysis before taking investment decision. Nepalese investors are found highly relied on fundamental analysis in an absence of technical knowledge on stock market investment (Sapkota, 2023). Fundamental analysis focuses on intrinsic aspects of the company whereas technical analysis focuses on market price trends.

Market efficiency or market related variable theories explains about the better shape-up of level of awareness, transparently disseminated information, timely report, effectiveness of implementation of rules and regulation by regulatory authorities of stock market. These factors enhance the confidence level of an investor as well as actively promote market participation (Karna et al., 2024).

Methodologies of Investment decision-making can broadly be seen categorized into fundamental, technical, and behavioral financial analysis. Earning and Divided Per Share i.e. EPS and DPS, and firms' quality of management are scoped in fundamental analysis. These variables are considered firm's specific metrics. The historical price trends and volume data are helpful in forecasting future price trends which are the focus of technical analysis (B.K., 2025; Karmacharya, 2023; Neupane & Budhathoki, 2024).

Investment decision are often recommended according to the analytical result from Market-Related Variables (MRV), Company-Related Variables (CRV), and Risk-Return Related Variables (RRV) (B.K., 2025). Research have indicated that Nepalese investors have given critical importance to the financial performance of a firm before investing. Financial performance is a firm's intrinsic factors. Similarly, stock price trends are market related variables (MRV) which has also influenced investment decision of Nepalese investors (B.K., 2025).

Management team of a particular company along with company size and performance, Earning Per Share, and Dividend Per Share are elements while analyzing Company Related Variable (CRV). Previous return trends and expected future stock returns, riskiness of the company, and amount of liquid securities are falls under Risk Return Related Variables (RRV). Market information along with Market Price Per Share (MRP), growth trend of dividends etc. are variables included under analyzing of Market Related Variables (Shrestha, 2020).

Behavioral financial analysis is helpful to identify how the choices of investors are affected by cognitive illusions as well as emotional biases (B.K., 2025; Lama et al., 2025). Research have identified major behavioral drivers in Nepalese stock market that include:

Heuristics: Overconfidence is a mental shortcut such as (over confidence in one's skills of forecasting) and anchoring (relying too much on initial stock price points). This can bring simplification while taking complex decisions. But it can lead towards systematic errors (B.K., 2025; Lama et al., 2025; Libi et al., 2025; Poudal & Shakya, 2025).

Herding Behavior: Herding behaviour occurs when individuals are not confident on their own analysis. In this situation, they imitate and follow as other group do. They feel that if they do not follow the crowd which may have concrete and superior information than them, they will take the risk and obtain loss. Their action to follow the mass rather than following their own instinct is caused by a fear of missing out. (B.K., 2025; Lama et al., 2025; Libi et al., 2025; Patiu, 2024).

Prospect Theory: Stock investors are tending to value gains and losses quite differently. They often exhibit loss aversion. In this situation, they felt the distress of loss more acute than the joy of gain comparatively (B.K., 2025; Lama et al., 2025; Libi et al., 2025).

Therefore, behavioral finance indicates that investors' decision making should not be limited by cognitive illusions and emotional biases. This could lead an investor to the financial crisis. Financial literacy is critical to the stock investors since it is regarded as a foundational pillar that helps them to understand and analyze stock market perfectly. Such literacy could protect investors from being affected with illusions and biases. If investors are well equipped with the financial literacy, it will make them capable to interpret market data themselves. In this case they can mitigate these cognitive biases (Ghimire et al., 2025; Poudal & Shakya, 2025). Studies have suggested that, rational decision of investment depends upon the financial knowledge hold by the investors themselves rather than blindly following the mass. (Ghemosu, 2025; Ghimire et al., 2025; Libi et al., 2025). Based on these review a conceptual framework has been prepared to lead this research work.

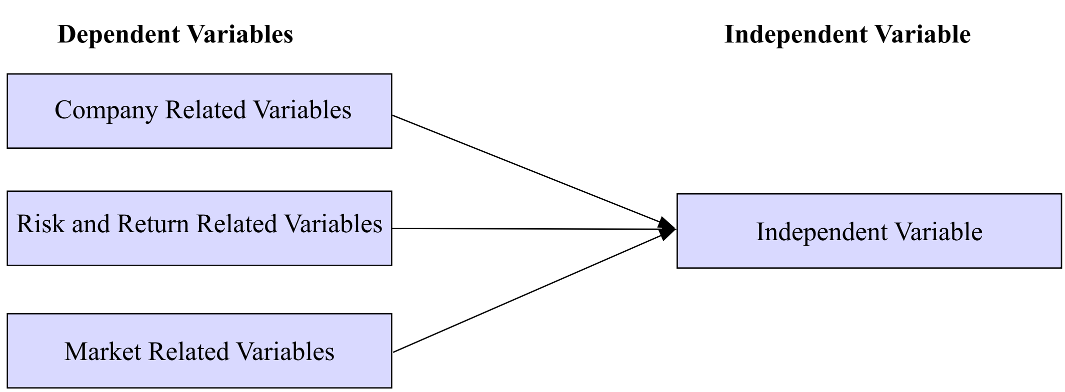

Figure 1. *Conceptual Framework*

METHODS

This is a review based article on the empirical studies on stock market investment decision in Nepal. The research has applied descriptive research design to identify and explore the relationships between various influencing factors that matter to stock investors while making rational decision. This study is based totally on secondary literatures in the form of published articles. Data are therefore based on the empirical findings from those research. More than 25 articles have been collected. Among them, 15 most relevant Articles were considered to prepare this review paper. After many hours of rigorous desk review in about 15 days, and analysis of the collected articles, findings and discussions of this study is finally resulted.

FINDINGS AND DISCUSSIONS

Studies have found that most of the stock market participants are of middle aged people. Similarly, the market consists majority of well-educated male participants. Studies have also indicated a rising attraction of younger adults and students toward stock market business in Nepal. The personal savings as a sources of capital for investment is found dominated by borrowed or inherited funds. Table 1 has presented summary of findings from the empirical studies related with the importance of awareness of fundamental terminologies for the stock investors which will guide them toward safe investment opportunities.

Empirical Data

Since the basis of the study is the review of the findings and identification from such empirical studies, the above study findings have indicated that for the stock investors or future investors, it is very important to be aware on fundamental and technical aspects of stock market. Decisions taken on behalf of such awareness and analysis, their investment will convert into a profitable business. Otherwise, their decisions of investment could be badly affected due to the dominance of behavioral financial erroneous factors and face losses in the business. Detail review from all referenced literatures in this study, the identified and revealed major fundamental terminologies that investors must be aware and analyze before making an investment decision are basically grouped in three categories.

Company Related Variables (CRV): Company related variables are very important related with the profitability, liquidity, and governance of the company. Net profit, return on assists (RoA), and Return on Equity are the factors showing profitability of the company. Similarly, Dividend policy of the company also matters to the investors. Therefore, investors must be aware about earning per share (EPS) and dividend per share (DPS) of the company before investment. Investors also must keep their eye on the growth rate of earnings and dividends, so that they could be assured on future returns. To assess the liquidity of the company, investors must analyze the debt-to-equity ratio which shows the degree of financial risk. Similarly, measurement of liquidity ratios will be helpful to understand that whether the company is capable or not to meet its short-term financial obligations effectively. Market capitalization rate is very important, because it shows company size indicating the stability of the company in the market. Cash flow analysis helps to assess financial health of a company. Beside such quantitative factors, investors also must assess for the transparent and quality

Table 1
Findings from Empirical Studies

Authors/Researchers	Empirical Findings
(B.K. (2025) B.K. (2025)	All the influencing factors fallen under CRV, RRV, and MRV are highly correlated to a wise investment decision making. His research has also indicated that MRV is most impactful while taking decision followed by CRV and RRV respectively.
Ghemosu, (2025)	His research has indicated that financial knowledge and evaluation techniques, dissemination of market information, awareness training program, and risk diversified investment decision to support investors' expected return.
Ghimire et al. (2025)	Their research has identified that financial knowledge, financial awareness, financial experience, financial skills, financial capability, and financial goals all influence decision to invest in stock market which are the elements under CRV, RRV, and MRV as well as necessary to mitigate psychological biases advocated by behavioral financial theories.
Lama et. al (2025)	Their research has identified that financial behavioral patterns impact choices of investors as a matter of cognitive illusions and emotional biases due to heuristic, prospect, and herding factors. Therefore, they have recommended that investors must be aware on fundamental and technical aspects of investment to overcome the challenges of behavioral financial errors.
Libi et al.(2025)	This research has identified that financial literacy and behavioral biases like herding behavior, heuristic and prospect biases has affected the decision making of investment of college students. Financial literacy helps in technical analysis, acquire market knowledge, and reduce mistakes while taking decision regarding the elements of CRV, MRV, and RRV.
Neupane et al. (2024)	Has found that categories like CRV, MRV, and RRV related factors strongly affect investment decision. EDS, DPS, BVS, Market Price Per Share (MPPS), Management quality, size of the company etc. are the elements related with such categories.
Karmacharya (2023)	His research has explored that Fundamental and Technical analysis, Awareness training, Social learning and motives, portfolio analysis, performance of regulatory bodies and state of information dissemination affect the investment security to minimize risk and maximize return. All such factors are also categorically related with CRV, RRV, MRV, and behavioral psychology theories.
Lamichhane (2023)	His research has concluded that knowledge and access to factors related with market related information highly impact investors decision.
Neupane (2020)	Identified that company related variables like EDP, DPS, and Book Value Per Share (BPS) impact the stock market.
Shrestha (2020)	Most of the Investors are interested in investing primary market than secondary. His research has also indicated MRV as most impactful among other variables. Investors are found more concerned toward financial performance of a company before taking investment.

Note. Compiled by the researcher (2026).

governance of the company by the efficient management.

Market related variables (MRV): These variables affects the attractiveness of the overall stock market. Interest rates, inflation rates, growth rate of Gross Domestic Product (GDP), exchange rate fluctuations, stock market policies and rules from governing authorities, political stability, industry analysis for the growth trends, national and global economic conditions all are related with the MRV.

Risk-return related variables (RRV): Stock's beta shows the degree of systematic risk of common stock. Similarly, expected return based on past returns, standard deviation, unsystematic risk, and knowledge on selection of better portfolios to minimize risk and maximize return are very important risk return related factors to the investors of the stock market.

The above findings from empirical studies have highlighted several key concerns which can be discussed as:

- Company Related Variables (CRV) and Risk Return Related Variables (RRV) are important primary influencers while making decision on investing in stock market whereas market-related variables (MRV) and companies' clarity in articulating its financial goal are identified most vital predictors to decide behaviors of the investors.

- Awareness levels of investors on all such influencing variables can be enhanced with financial literacy. This literacy on delivering financial knowledge is very significant to enhance well informed decision making on stock market.

- Apart from such indicators and financial literacy, investors decision making was also been found affected by personal psychological factors y such as cognitive and social biases as well as social psychological factors such as domination of others' decision in personal intuitions and experiences.

CONCLUSION

From the examination of most of the empirical studies on influencers regarding decision to invest in the stock market, it can be conclude that all the variables related with Market (MRV), Company (CRV), and Risk-Return (RRV) are very important while taking investment decision. Therefore, investors must make them well equipped with the knowledge and influence of such variables to their investment. If they neglect such understanding, their decisions could be dominated by financial behavioral errors leading them toward higher risks. Therefore, knowledge and understanding of such terminologies could be achieved through financial literacy training. Empirical studies have identified varied degrees of influences but concluded all variables i.e. CRV, MRV, and RRV are positively correlated with a safe investment decision by minimizing risks and maximizing returns. Apart from having knowledge and understanding of fundamental and technical factors, cognitive and emotional biases have been observed as psychological biases that have somehow dominated the rational decision making in Nepal.

Implications

The findings of this study have a profound implication for individual investors. The fundamental terminologies identified this study are quite helpful to acquire key sensitive information before making investment decision safely. To enhance the participation in capital market and making it safe, SEBON as a major regulatory body could design and implement awareness training based on this study. This will help investors making capable for both fundamental and technical analysis to keep their investment safe by averting risk and maximizing return. Therefore, this study is quite helpful to existing and future investors, regulating bodies, and management students having finance as a major subject.

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