Behavioral Factors Influencing Investment Decision of Individual Investor at Nepalese Stock Market

Purna Man Shrestha
Associate Prof., Graduate School of Management (MUSOM)
E-mail: purnamanskt@gmail.com

Abstract

The investment decision of individual investor is influenced by macro/micro economic and behavioral factors. Interest rate, economic growth, inflation, government policy, technological developments, etc., are the macro-economic factors, and firm size, book-to-market equity, cash flow yield, earnings yield, and dividend yield, etc. are the micro-economic factors whereas accounting information, advocate suggestion, personal financial needs, social relevance, self-image/firm-image coincidence, etc. are the behavioral factor. This paper has analyzed the perception of investor on the selected behavioral factors that makes influence on individual investor's investment decisions at Nepalese stock market. Using the structured survey questionnaire, this study concludes that behavioral factors have significant influence on investment decision of individual investor. This study revealed that to get rich quickly, reputation of the firm, feelings for a firm's products and services, and firm status in industry are the major influencing Self–image/Firm-image factor. On the other hand, friend or coworker's recommendations, family member opinion, and broker recommendation are the most significant influencing Advocate Recommendation factors. Similarly, return maximizing, stock marketability, ease of obtaining borrowed funds, and expected dividends are the major Personal Financial Needs factors, and past trends of stock, information of dividend, price level of other stock, and information of the stock market are the major Market Information factors for influencing investment decision of individual investor at Nepalese stock market.

Keywords : *Self–Image/Firm-image, Advocate Recommendation, Personal Financial Needs, Market Information, Investment decision.*

Introduction

The investment decision of individual investor is influenced by so many macro/micro economic as well as behavioral factors. Interest rate, economic growth, inflation, government policy, technological developments are the macro-economic factors and firm size, book-to-market equity, cash flow yield, earnings yield, and dividend yield, etc. are the micro-economic factors. On the other hand, how an individual investor judge, predict, analyze and review the procedures for investment decision can be defined the behavioral factors. Empirical studies have used various set of factors as the behavioral factors which makes influence in investment decision of individual investor. For example: Meriks et al. (2004) used 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 social relevance, self-image/firm-image coincidence, neutral information, classic wealth maximization, accounting information, advocate recommendation, and personal financial needs, Al-Tamimi (2006) used firm-image co-incidence, personal financial needs, neutral information, accounting information, and advocate recommendations. These empirical studies concluded that these behavioral factors have significant impact on the investment decision of investment decision of individual investor.

In the context of UAE, expected corporate earnings, get rich quick, stock marketability, past performance of the firm's stock, government holdings, and the creation of the organized financial markets has been found as the major determinants of investment decision of individual investor (Al- Tamimi, 2006). Similarly, Hussein (2007) found expected corporate earnings, get rich quickly, stock marketability, past performance of the firm's stock, government holdings, and the creation of the organized financial markets are the investors considerations for investment decision. Likewise, Waweru, Munyoki and Uliana (2008) observed the significant influence of behavioral factors such as representativeness, overconfidence, anchoring, gambler's fallacy, availability bias, loss aversion, regret aversion and mental accounting on the investment decision of institutional investors at Nairobi Stock exchange. On the other hand, Hossain and Nasrin (2012) revealed company specific attributes/reputation, net asset value, accounting information, trading opportunity, publicity, ownership structure, influence of people, and personal financial needs as the most important principal factors influencing retail investors of Bangladeshi stock market.

Furthermore, Ali and Tariq (2013) found a strong influence of self-image/firm-image coincidence, neutral information, and advocate recommendation on the investment decision of individual investor of Pakistani stock market. In the context of Bangladeshi stock market, investor's decision has been significantly influenced by firm's image such as business performance, reputation of the firm, firm's status, feelings for a firm's product and services, firm's involvement in solving community problem. Similarly, investor's decision is also significantly influenced by the firm's accounting information like earnings per share, financial statement, dividend per share, expected dividend, past performance, etc. and money market conditions, advice of brokers, friends, and family, etc. (Rahnuma and Sultan, 2013). Similarly, Akhter and Ahmed (2013) found business performance, reputation of the firm, firm's status, feelings for a firm's product and services, and firm's involvement in solving community problem as the most influencing factors for investor's investment decision at Dhaka Stock Exchange. The study also concluded that firm's accounting information like earnings per share, financial statement, dividend per

share, expected dividend, past performance etc. also makes significant impact on investment decision of individual investor.

Jagongo and Mutswenje (2014) found reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firm's stock, price per share, feeling on the economy and expected divided as the most influencing factors for making investment decision of individual investor at Nairobi Stock Exchange. The influence of behavioral factors such as herding, heuristics, prospect and market on the investment decision of individual investor at the Colombo Stock Exchange was also analyzed by Kengatharan and Kengatharan (2014). Furthermore, the effect of behavioral factors such as loss averse, over confidence, and risk perception on stock investment decision of individual investors at Saudi stock market was also verified by Alquraan, Alqisie and Al Shorafa (2016). Kanwal, Alam and Agha (2019) found a significant positive influence of herding bias and market information on the investor's investment decision at Pakistani stock market. On the other hand, the study found no influences of wealth maximization, accounting information and personal financial needs. Likewise, a significant influence of Heuristic, Prospect, Market, Herding variables on investment decision of individual investor of Indian stock market has been revealed by Keswani, Dhingra and Wadhwa (2019).

In the context of Nepalese stock market, Adhikari (2010) analyzed the impact of behavioral factors such as heuristics relating to information, herding behavior and overconfidence on the individual investor's investment decision on Nepalese stock market. The stuey revealed that behavioral factors have a significant influence in Nepalese investor's investment decision making process. Similarly, statement of the government officials, expected capital increase, firm's status in industry, diversification purpose, the attractiveness of non-stock investment, ease of obtaining borrowed funds, opinions of the firm's majority stockholders, family member opinions, recent price movement in a firm's stock, fluctuations in the stock index, rumors, expected corporate earnings, stock marketability, the results of technical analysis, the dividend paid, perceived ethics of firm, the reputation of the firm, and feeling for a firm's product and services has been observed as the most significant factors for individual investment decisions (Adhikari, 2020).

Thus, this paper aims to analyze the perception of investor on the various behavioral factors that makes influence on individual investment decisions at Nepalese stock market. This study has considered mainly four different behavioral variables namely self image, advocate recommendation, personal financial needs, and market information.

Research Methodology

The basic aim of this study is to evaluate the perception of the investor on the behavioral factor that makes significant influence on investment decision of individual investor of Nepalese stock market. For this purpose this study has followed the descriptive research design to describe various issues raised in this study.

This study is solely based on primary data. The data were obtained through the structured questionnaires survey. The questionnaires were divided into three parts. The first part was concerned with the general information of the respondent such as gender, marital status, age, and level of education of the respondents, and the second part was related with the investment strategy of the

investor. In this part respondents were asked to present their views on their preferred market to buy share, analysis of companies before investing shares, types of investor in term of risk, duration of investment, and monitoring the investment portfolio, etc. In the last part of the questionnaires perception of the respondents related to the behavioral variables such as self-image, advocate recommendation, personal financial need, and market information were included. In each behavioral variables five different factors were included and respondents were asked to indicate their perception regarding these factors based on the five point Likert scale of 1 to least influence; 2 to influence; 3 to slightly influence; 4 to significantly influence, and 5 to most significantly influence. Survey was conducted during the period of January to February 2021, at Kathmandu Valley. Among 200 questionnaires distributed to the individual investor 145 investors returned complete and usable questionnaire which produced 73 percent response rate.

Result and Discussion

Personal Profile of the Respondents

This section presents the results of the demographic characteristics such as gender, age, income, education, marital status and investment size.

Table 1 shows the result of demographic characteristics of the respondents. The result shows that 53.10 percent of male and 46.90 percent of female has participated in this survey. Similarly, survey result indicated that majority of the respondents (64.14 percent) were married. The age group shows that 33.79 percent of the respondents fall under the age group below 30 years, 51.72 percent of the respondents falls under the age group of 30 to 55 years and 51.72 percent respondents falls under the age group above 55 years. Similarly, it is observed that very few (10.34 percent) respondents have qualification below +2 level, 40.00 percent respondents have qualification of bachelor level and 49.66 percent respondents have qualification of masters and above level.

Table 1: Respondent Profile

Basis of classification		Frequency	Percentage
Gender	Male	77	53.10
	Female	68	46.90
	Total	145	100.00
Marital status	Unmarried	52	35.86
	Married	93	64.14
	Total	145	100.00
Age	Below 30 years	49	33.79
	30-55 years	75	51.72
	Above 55 years	21	14.48
	Total	145	100.00
Level of education	+2 and below	15	10.34
	Bachelor	58	40.00
	Masters and above	72	49.66
	Total	145	100.00

Source: Field Survey, 2021

Investment Strategy

The approaches used in investing in the financial securities are investment strategy. It simply states the goals, risk tolerance, investment horizon on an investor. This section presents the view of the respondents on their investment strategy such as preferred market to buy shares, analysis of companies before investment, types of investors in terms of risk, duration of investing in shares, and monitoring of investment portfolio, etc. The results are presented in Table 2.

Table 2: Investment Strategy

Basis of Classification		Frequency	Percentage
Preferred market to buy share	Primary market	16	11.03
	Secondary market	49	33.79
	Both market	80	55.17
	Total	145	100.00
Analysis of companies before investment	Yes	121	83.45
	No	14	9.66
	Don't know	10	6.90
	Total	145	100.00
Types of investor in term of risk	Risk averse	118	81.38
	Neutral	20	13.79
	Risk takers	7	4.83
	Total	145	100.00
Duration of investment	Less than 1 years	89	61.38
	1-5 years	26	17.93
	More than 5 years	30	20.69
	Total	145	100.00
Monitoring investment portfolio	Daily	75	51.72
	Monthly	40	27.59
	Occasionally	30	20.69
	Total	145	100.00

Source: Field Survey, 2021

As depicted in Table 2 majority of respondents (55.17percent) indicated that they prefer to by share from both (primary and secondary) markets whereas very few respondents (11.03 percent) prefers to buy share from primary market. Similarly, majority of respondents (83.45) viewed that they analyze the companies before making investment whereas very few respondents (9.66 percent) viewed that they don't know about this issue. Likewise, majority of the respondents (81.38 percent) opined that they are risk averse investor whereas very few respondents (4.83 percent) opined that they are risk taker investor. Furthermore, majority of the respondents (61.38 percent) indicated that their duration of investment is less than 1 year, 17.93 percent respondents indicated that their duration of investment is 1 to 5 years, and 20.69 percent respondents indicated that their duration of investment is more than 5 years. Finally, majority of the respondent (51.72 percent) opined that they monitor their investment portfolio daily, 27.59 percent respondents monitor monthly, and 20.69 percent respondent monitor their investment portfolio occasionally.

Influence of Behavioral Factors on the Individual Investment Decision

In this section the perception of the respondents on the influence of behavioral factors such as such as: self-image, advocate recommendation, personal financial needs and market information are analyzed. In each behavioral variable five different components based on five point Likert scale were included in the questionnaires. Respondents were asked to indicate their perception on each of these statements based on the scale of 1 to least influence; 2 to influence; 3 to slightly influence; 4 to significantly influence, and 5 to most significantly influence.

Influence of Self-image/Firm-image on the Investment Decision

Getting rich quickly, feeling on the economy, the reputation of the firm, feelings for a firm's products and services, the reputation of the firm's shareholders, perceived ethics of firm, firm status in industry and firm's involvement in solving community problems are the major components of the self- image/firm-image (Ali and Tariq (2013). Out of these several components of self-image/firm-image this study has included reputation of the firm, to get rich quickly, Firm's involvement in solving community problems, Feelings for a firm's products and services, firm's status in industry were used. The perceptions of the investors on self-image/firm-image are presented in Table 3.

Table 3: Influence of Self–Image/Firm-image on Individual Investment Decision

Factors	*Rank wise number of responses*					*Total*	*Weighted Value*	*Weighted Mean*	*Overall Rank*
	1	*2*	*3*	*4*	*5*				
Reputation of the firm	2	5	23	83	32	145	573	3.95	2
To get rich quickly	1	5	21	65	53	145	599	4.13	1
Firm's involvement in solving community problems	27	31	70	10	7	145	374	2.58	5
Feelings for a firm's products and services	11	10	19	77	28	145	536	3.70	3
Firms status in industry	4	39	20	54	28	145	498	3.43	4

Source: Field Survey, 2021

Table 3 depicts that majority of the respondents invest in stock to get rich quickly at Nepalese stock market. The component *"To get reach quickly"* has the highest weighted value of 599 with the highest mean value of 4.13, thus it has got the first rank. It can, therefore, be concluded that Nepalese investor invest in stock market to get rich quickly. Similarly, the component *"Reputation of the firm"* has the weighted value of 573 with mean score of 3.95. Thus, it got the second rank. Furthermore, the component *"Feelings for a firm's products and services"* and the component *"Firm status in industry"* have got the third and fourth rank respectively. Since, the mean score of these components are more than 3, it can be concluded that these components have significant influence on the investment decision of individual investors in Nepalese stock market. Finally, the mean value of 2.58 for the component *"Firm's involvement in solving community problems"* is observed. Since, the mean value of this component is less than 3, it can be concluded that Nepalese investors do not consider the involvement of firm for solving community problems while making investment decision.

Influence of Advocate Recommendation on Investment Decision

Generally, investor take advice and recommendation while trading securities. Investor may take advice and recommendation from brokerage houses, individual stock brokers, experts, family members, relatives, and friends or coworkers. In this study family member's opinion, opinions of the firm's majority stockholders, friend or coworker's recommendations, broker's recommendation and financial advisors and analyst's recommendation options were used. The perception of the respondents is presented in Table 4.

Table 4: Influence of Advocate Recommendation on the Investment Decision

Factors	Rank wise number of responses					Total	Weighted Value	Weighted Mean	Overall Rank
	1	*2*	*3*	*4*	*5*				
Family member's opinion	11	8	40	56	30	145	521	3.59	2
Opinions of the firm's majority stockholders	23	26	55	28	13	145	417	2.88	4
Friend or coworker's recommendations.	7	10	46	42	40	145	533	3.68	1
Broker's recommendation	19	30	20	60	16	145	459	3.17	3
Financial advisors and analyst's recommendation	30	40	20	35	20	145	410	2.83	5

Source: Field Survey, 2020

Table 4 depicts that majority of the respondents take friend or coworker's recommendations for investing in securities. The component *"Friend or coworker's recommendations"* has the highest weighted value of 533 with the highest mean value of 6.68, thus it has got the first rank. It can, therefore, be concluded that Nepalese investor invest in stock market on the recommendation of friend or coworker's. Similarly, Nepalese investors take investment decision on the basis of opinion from family member, and broker. The mean value of "*Family member opinion*" and "*Broker recommendation"* are 3.59 and 3.17 respectively. Thus, it can be concluded that the investor's investment decision are highly influenced by the family member opinion and broker recommendation in Nepalese stock market. Finally, Table 3 depicts the mean value of 2.88 for *"Opinions of the firm's majority stockholders"* and 2.83 for *"Financial advisors and analyst's recommendation".* Since, the mean value of these two components are less than 3, it can be concluded that Nepalese investor's investment decision is not influenced by the opinions of the firm's majority stockholders and financial advisors and analyst's recommendation.

Influence of Personal Financial Needs on Investment Decision

Another behavioral factor that makes influence on investment decision of individual investor is personal financial needs. Respondents were asked to state their perception on the statements related to the personal financial needs such as stock marketability, diversification needs, ease of obtaining borrowed funds, expected dividends and maximizing return options were used. Table 5 shows the result of the influence of personal financial needs on investment decision.

Table 5: Influence of Personal Financial Needs on Investment Decision

Factors	Rank wise number of responses					Total	Weighted Value	Weighted Mean	Overall Rank
	1	2	3	4	5				
Stock marketability	3	7	40	55	40	145	557	3.84	2
Diversification needs	28	35	25	48	9	145	410	2.83	5
Ease of obtaining borrowed funds	5	13	28	67	32	145	543	3.74	4
Expected dividends	12	14	13	61	45	145	548	3.78	3
Maximizing the return	10	6	13	65	51	145	576	3.97	1

Source: Field Survey, 2020

Table 5 indicates that return maximizing is the most influencing factor for investment decision of Nepalese individual investor. The factor *"Return maximizing"* has got the first rank with weighted value of 576 and mean score of 3.97. Thus, it can be revealed that the major financial need of Nepalese investor is to maximize the return. Similarly, the investment decision of Nepalese investors is also influenced by *"Stock marketability"*, *"Ease of obtaining borrowed funds"*, and *"Expected dividends"*. The mean values of these factors are 3.84, 3.7, and 3.74 respectively. On the other hand, *"Diversification need"* has no any significant influence on the investment decision of Nepalese investor. It has got weighted value of 410 with mean value of 2.83 and got the last rank. It indicates that Nepalese investor want to maximize the return, selects those stocks for investment which make easy to obtain fund through borrowing and considers the expected dividend too.

Influence of Market Information on Individual Investment Decision

Market information is also another important behavioral factor that makes influence on investment decision. Respondents were asked to show their perception on the market related factors such as financial information of the company, information of the stock market, exchange listing, price level of other stock and information of dividend. Table 6 shows the response on the market information related factors.

Table 6: Influence of Market Information on Individual Investment Decision

Factors	Rank wise number of responses					Total	Weighted Value	Weighted Mean	Overall Rank
	1	2	3	4	5				
Fundamentals of underlying stock	30	32	38	30	15	145	403	2.78	5
Information of the stock market	6	17	19	70	33	145	542	3.74	4
Past trends of stock	2	3	34	55	51	145	585	4.03	1
Price level of other stock	3	9	43	52	38	145	548	3.78	3
Information of dividend	2	2	28	73	40	145	582	4.01	2

Source: Field Survey, 2020

Table 6 indicates that past trends of stock is the most significant factor that makes influence on investment decision of Nepalese investor. The factor *"Past trends of stock"* has got first rank with weighted value of 585 and mean score of 4.03. Similarly, *"Information of dividend", "Price level of other stock",* and *"Information of the stock market"* has got the second, third, and fourth rank respectively. All these factors showed the mean value more than 3 which indicates that there is significant influence of these market information related factors on the investment decision of individual investor in Nepalese stock market. Finally, the factor *"Fundamentals of underlying stock"* has got the last rank with mean value of 2.78. It indicates that fundamentals of underlying stock have no significant influence on the investment decision of Nepalese investor.

Summary and Conclusion

Literature of behavioral finance explored that the investment decision of individual investor is influenced by so many behavioral factors. The common behavioral factors that makes influence on investment decision are accounting information, subjective/personal, neutral information, advocate suggestion, personal financial needs, social relevance, self-image/firm-image coincidence, and classic wealth maximization, etc. (Meriks et al., 2004, Nagy and Obenberger, 1994, Al-Tamimi, 2006). Thus, this paper has analyzed the influence of behavioral factors on the investment decision of individual investor at Nepalese stock market. For this purpose structured questionnaire survey was conducted during the period of January and February, 2021. In the questionnaire, general information of the respondent was included in the first part, investment strategy of the respondent was included in the second part and behavioral variables such as self-image, advocate recommendation, personal financial need, and market information were included in the last part.

The result of the survey indicated that majority of investor's investment decision is influenced by *Self–image/Firm-image*. To get rich quickly, reputation of the firm, feelings for a firm's products and services, and firm status in industry are the major influencing factor of *Self–Image/Firm-image*. Similarly, the survey result also explored that investor's investment decision is influenced by *Advocate Recommendation*. The major factors of *Advocate Recommendation* that makes significant influence are: friend or coworker's recommendations, family member opinion, and broker recommendation. Furthermore, it is also observed that *Personal Financial Needs* have also significant influence in investment decision of individual investor. The major factors of *Personal Financial Needs* that makes significant influence on investment decision are: return maximizing, stock marketability, ease of obtaining borrowed funds, and expected dividends. Finally, the survey result depicted that *Market Information* also makes significant influence on investment decision of individual investor of Nepalese stock market. Past trends of stock, information of dividend, price level of other stock, and information of the stock market are noticed to be major *Market Information* factors that make significant influence on investment decision on individual investor in Nepalese stock market.

References

Adhikari, P. (2010). Investment behavior of Nepalese investors. *PYC Nepal Journal of Management*, *3*(1), 47-58.

Adhikari, P. L. (2020). Factors influencing investment decisions of individual investors at Nepal stock exchange. *Management Dynamics*, *23*(1), 183-198.

Akhter, R., & Ahmed, S. (2013). Behavioral Aspects of Individual Investors for Investment in Bangladesh Stock Market. *International Journal of Ethics in Social Sciences*, 1(1), 57-70.

Ali, I., & Tariq, A. (2013). Factors Affecting Individual Equity Investor's Decision Making in Pakistan. *Journal of International Education in Business*, *1*(1), 18-31.

Alquraan, T., Alqisie, A., & Al Shorafa, A. (2016). Do behavioral finance factors influence stock investment decisions of individual investors? (Evidences from Saudi Stock Market). *American international journal of contemporary research*, *6*(3), 159-169.

Al-Tamimi, H. A. H. (2006). Factors influencing individual investor behavior: an empirical study of the UAE financial markets. *The Business Review*, *5*(2), 225-233.

Hossain, M. F., & Nasrin, S. (2012). Factors affecting selection of equity shares: The case of retail investors in Bangladesh. *European Journal of Business and Management*, *4*(20), 110-124.

Hussein, A. H. (2007). Factors influencing individual investor behaviour in the UAE financial markets. *Journal of Business*, *92*(2), 24-26.

Jagongo, A. & Mutswenje, V. S. (2014). A Survey of the Factors Influencing Investment Decisions: The Case of Individual Investors at the NSE. *International Journal of Humanities and Social Science,4*(4), 92-102.

Kanwal, K., Alam, S., & Agha, H. (2019). Behavioral factors influencing individual; investors' decision making: Study of Pakistan Stock Exchange (PSX). *BUJHSS*, *2*(1), 10-10.

Kengatharan, L., & Kengatharan, N. (2014). The influence of behavioral factors in making investment decisions and performance: Study on investors of Colombo Stock Exchange, Sri Lanka. *Asian Journal of Finance & Accounting*, *6*(1), 1-10.

Keswani, S., Dhingra, V., & Wadhwa, B. (2019). Impact of Behavioral Factors in Making Investment Decisions and Performance: Study on Investors of National Stock Exchange. *International Journal of Economics and Finance*, *11*(8), 1-80.

Merikas, A. A., Merikas, A. G., Vozikis, G. S., & Prasad, D. (2004). Economic factors and individual investor behavior: The case of the Greek stock exchange. *Journal of Applied Business Research (JABR)*, *20*(4).

Nagy, R. A., & Obenberger, R. W. (1994). Factors influencing individual investor behavior. *Financial Analysts Journal*, *50*(4), 63-68.

Rahnuma, A., & Sultan, A. (2013). Behavioral aspects of individual investors for investment in Bangladesh stock market. *International Journal of Ethics in Social Sciences,* 1(1): 57-70.

Waweru, N. M., Munyoki, E., & Uliana, E. (2008). The effects of behavioural factors in investment decision-making: a survey of institutional investors operating at the Nairobi Stock Exchange. *International Journal of Business and Emerging Markets*, *1*(1), 24-41.