Behavioral Biases and Investment Decision-Making of Young Investors in Lalbandi, Sarlahi

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Abstract

The classical concept of the behavioral finance assumes that the empirical study the actual practices of world's investors are often influenced by psychological and cognitive biases. The main purpose of study is to examine the impact of psychological and behavioral biases on investing decision making amongst young adults in Lalbandi, Nepal. Quantitative and explanatory research design has been used. The questionnaire were distributed to 420 respondents among them 384 are valid questionnaire were collected and data were analyzed by the helping of SPSS 27 and Structured Equation model using SmartPls. The study found that behavioral factors significantly influence investment decisions, by loss aversion emerging as the highly dominant factors and similarly with representativeness, overconfidence, risk perception, and herding behavior. The result supports the relevance of Prospect theory and boundary theory in explaining investor behavior in emerging and semi-urban markets. The study found that investment-decisions are not completely rational but are shaped by psychological and social influences. It emphasizes the significance

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of incorporating behavioral finance awareness into higher education organizations and policy makers to improve decision quality and support sustainable investment practices among young adult investors in Lalbandi.

Keywords: behavioral biases, investment decision, loss aversion, overconfidence, young investors

Introduction

The traditional concept of finance which claims that empirical evidence suggests that real practices of investors are often impacted by psychological factors and behavioral biases. (Kahneman and Tversky, 1979) and (Shefrin, 2002). These cognitive and behavioral variable lead to deviation from rationality ultimately influence the investment returns. Furthermore overconfidence is the dominant factors which lead to poor market timing where investors exist either enter into the market at sub-optional moments based on misguided expectation. Therefore instead of maximizing returns, these decisions can expose investors to additional risks and potential losses.

The investors' behavior regularly changes from conventional financial model due to inherent psychological tendencies (Shefrin, 2002). One of the most prominent behavioral biases observed in financial markets is overconfidence. Overconfident investor tends to overemphasize their knowledge, skills, and capability to forecast market movements. This inflated self-belief often leads investors to trade more frequently, underestimate risks, and relay excessively on their own judgment rather than objective analysis (Barber et al., 2024)

The understanding of behavioral biases like overconfidence is essential for both individual investors and financial practitioners. It supports in structuring better investment strategies upholding more disciplined decision-making and ultimately improving financial return in increasingly complex and unpredictable market.

In addition, there are other behavioral and social biases innovatively operative in market dynamics. According to Lee and Park (2024) views mental accounting is an individual attributing various funds into separate 'mental accounts' with potential of making irrational decisions on portfolio modification. Thomas and Brown (2024) states anchoring are an attitude of focusing on some standards of references, including the purchase price of stocks, to influence rational assessment of market performance. Smith and Kumar (2024), conceptualizes herding behavior is an imitation of market

followers rather than doing independent assessment, with influence reproduced by social media platforms with speed due to technological advancements in market operations.

The above dynamic context indicates the high levels of relevance when it comes to making an assessment of the youthful population and college students in particular relative to the initial stages in developing investment mindsets and behavior formation. The investment decision-making among the youthful generation exhibits unique investment smartness apart from depicting their cognitive dispositions. The proposed research also aims to explore other four behavioral constructs that relevant to differences in herding behavior, overconfidence, risk perception, and loss aversion regarding financial leverage, which serves as an independent variable.

Talking particularly about the Nepalese market or the developing semi urban regions such as Lalbandi, Sarlahi the younger population is increasingly engaging with financial markets through banking channels, mutuals, insurance programs, and developing capital market products. Despite this increased engagement, little research has been conducted to address the behavioral bias aspect affecting their investment choices. Not much research has been conducted so far on the Nepalese market to address behavioral bias affecting investors' choices.

Objectives of the Study

The overall objective of this study is to examine the impact of behavioral biases on young adult investment decisions. The specific objectives of the study are:

1. To examine the level of overconfidence, herding, risk perception, representative, loss aversion, and investment decision.
2. To examine the relationship between overconfidence, herding, risk perception, representative, loss aversion and investment decision.
3. To analyze the effect of behavioral biases variable on investment decisions.

Literature Review and Theoretical Foundation

Theoretical Foundation

Behavioral Finance and Prospect Theory

Kahneman and Tversky, (1979) the theory of finance demonstrating that investors are evaluate outcomes relative to a supportive point and exhibit loss aversion.

Losses are psychologically high impactful than equal gains. This asymmetry explains conservative behavior during downturns of the market and excessive caution arises in un-predictable conditions.

Bounded Rationality and Management Decision Theory

Simon (1957) introduced bounded rationality theory which arguing that decision-makers satisfice rather than optimize due to cognitive constraints. Investment decisions, therefore, reflect managerial heuristics rather than perfect optimization.

Overconfidence Bias

Overconfidence refers to investors' tendency to overemphasize their knowledge, forecasting ability, and control over return. Barber and Odean (2001) demonstrate that overconfident investors' trade excessively, often reducing portfolio performance. In emerging markets, limited analytical training highly optimistic investors amplify overconfidence due to reliance on circumstantial success stories of others.

Herding Behavior

Herding occurs when investors imitate others' actions rather than relying own independent analysis. Bikhchandani and Sharma (2001) argue that herding deepens volatility in emerging markets where informational asymmetry prevails. Social influence theory suggests that conformity and signal effect is particularly strong in collectivist societies.

Risk Perception

Risk perception reflects how individuals interpret uncertainty and potential losses. Slovic (1987) conclude that perceived risk often deviates from objective probabilities. Investment decisions are strongly shaped by subjective interpretations of market volatility.

Representativeness Bias

Representativeness bias arises when individuals generalize the situation from recent trends or small samples. Tversky and Kahneman (1974) found the investor's project the recent performance into the future, leading to momentum-driven decisions.

Empirical Evidence in Emerging Markets

Libi et al. (2025) examined the impact of financial literacy and behavioral biases on stock investment decisions among university students in Nepal. The study found that financial literacy, along with prospect bias and heuristic bias, has a significant and positive influence on investment choices, with financial literacy playing a dominant role.

Satria et al. (2025) reported that behavioral biases such as herding, overconfidence, mental accounting, and loss aversion negatively affect investment decision-making. The study further revealed that demographic factors, including age, gender, educational background, and income, act as mediating variables in this relationship.

Sharma et al. (2025) found that behavioral biases significantly and negatively influence investment satisfaction. Additionally, investment decision-making was found to partially mediate this relationship, indicating that biased decisions reduce optimal investment outcomes. The study emphasizes the importance of integrating behavioral finance concepts into investment education to minimize cognitive biases and improve decision quality.

Utari, Hariyanto, and Safitri (2025) examined the impact of financial literacy, financial behavior, self-efficacy, and availability bias on stock investment decisions in Gen Z in Pontianak City. These findings were strong suggestions that the stock market investment decisions were largely influenced by the region, thereby making the need to develop the stock market investment rationality through greater financial capability and investment awareness.

Pallavi and Thantry Dsa (2025) focus on need for targeted financial education programs and structured involvements to strengthen investment practices. By addressing knowledge gaps, young professionals can enhance their financial capability, cultivate disciplined investment behavior, and achieve sustained financial well-being.

Tansuchat and Thaicharooun (2025) explore the importance of financial literacy in mitigating the adverse effects of psychological bias and improving decision quality. It further emphasizes the role of financial advisors in distinguishing and managing behavioral biases among clients. By drawing attention to selected psychological biases, the study also calls for broader investigation into additional

behavioral factors to develop a more comprehensive understanding of the psychological context influencing investor behavior.

Rahmiyati & Somodiharjo (2025) focus on conclusive evidence that both variables significantly contribute to positive investor performance, with financial literacy and decision-making positing stronger effects. The study is an empirical contribution to both behavioral finance and financial education literature, given the emerging market of Indonesia.

Pant and Pant (2025) the study examine in emphasizing the role of social dynamics within investment behavior associated with markets characterized by low financial literacy and poor levels of transparency.

Oktaviani and Mawaddah (2024) explain how, because of higher emotions and a stronger ego, Generation Z investors tend to predominantly display irrational behavior, making rational financial decision-making difficult. This study contributes to behavioral finance, as this topic is covered, discussing how cognitive biases as well as the ego can detract from good investment judgment among inexperienced investors.

Mayora and Lestari (2024) the study highlight that investment behavior among youth is shaped by a complex interaction of psychological factors, underscoring the importance of promoting rational investment awareness among young investors in Indonesia.

Hossain & Siddiqua (2024), finding is that most of the investment choices in the Bangladeshi frontier market are guided through emotions rather than any strict financial theories. Among the emotions, the most prevalent forces are those of risk aversion and perception of risk. These findings verify other studies done where it has been established that real-life investment decisions are often at discrepancy with normative financial models. The authors also highlight a number of limitations. The sample size is relatively small, which limits the generalization effect to the wider population. There is also a threat in the biased responses of some participants, who may not be thoroughly honest or may not reveal their true preferences when describing their behavioral attitudes.

Raja & Messaoudi (2024) adopted a macro perspective from the literature on behavioral finance so as to identify the gaps and the future directions, with a focus on emerging markets. Whereas there have been solid theoretical steps regarding the way people make their investment decisions, comprehensive reviews in the domain of

behavioral finance are still few and far between. The authors followed the PRISMA guidelines; they studied 20 peer-reviewed articles published between 2013 and 2023, sourced from major databases such as Web of Science, Scopus, and JSTOR. Their conclusions demonstrated that studies are heavily inclined toward popular biases, such as overconfidence, herding, and disposition effect, while all other biases receive considerably less attention.

De Oliveira Cardoso et al. (2024) conducted a systematic review aimed at investigating how socio-demographic factors influence behavioral biased among individual investors, at assessing the psychometric soundness of measurement tools regarding behavioral biased, and at identifying the primary biases driving investment decisions. This comprehensive synthesis highlights notable gaps in behavioral finance research, particularly the lack of consistent and rigorous measurement approaches, and calls for the development of more robust and standardized assessment frameworks in the field.

Gahlot et al. (2024) examined whether investor decisions in the stock market are driven purely by rational considerations or shaped by behavioral influences. Grounded in behavioral finance theory, the authors argue that investor irrationality and market-specific anomalies play significant roles in explaining stock price movements. This study focused on three prominent cognitive biases—overconfidence, optimism, and illusion of control—and analyzed their effects on financial decision-making across investments in the IT sector, banking, and academia. The findings indicate a strong and positive relationship between overconfidence and financial decision-making, whereas optimism and the illusion of control showed comparatively weaker or insignificant effects.

Tristiyono, Husni, and Adrianto, (2023) examining the relationship between behavioral bias, cognitive abilities, and self-efficacy on stock investment decisions of young contract workers in the Padang Sumatra V River Basin Office, with financial literacy as a moderator. The relationship between behavioral bias and irrational investment decisions was also found to be unaffected by the moderating function of financial literacy. The publication also points to the concern regarding the susceptibility of young contract workers in attempting to harness the capital markets, based on the prospective risk as well as rewards. There is also no moderating effect of financial literacy.

Armansyah et al. (2023) investigated the influence of behavioral finance anomalies and capital market literacy in investments by Gen Z in Indonesia. The results provide evidence that not just capital market literacy but also overconfidence, confirmation bias, and fear of missing out on superior alternatives influence investments. Mental accounting, in this case, did not make an impact. It is evident that informed young investors alike are not exempt from behavioral flaws that impede sound decision-making.

Sharma, Adhikari, and Khatun (2024) the study further observes that younger and less experienced investors dominate the market with relatively low diversification strategies, thereby intensifying the effects of risk and behavioral biases. The authors emphasize the need for enhanced investor education and formal policy guidelines, particularly in developing economies like Nepal, to reduce behavioral distortions and encourage more rational and informed investment behavior.

Suresh (2024) the fact findings heuristic predispositions have more impact than other behavioral predispositions in stock markets. It is important to note that the increase in all behavioral predispositions in stock markets can be influenced by a special element connected with financial literacy competence.

Research Gap in the Nepalese Context

Despite the growing body of literature on behavioral finance in emerging markets, significant gaps remain in the Nepalese context. Existing studies in Nepal, such as those by Libi et al. (2025) and Pant & Pant (2025), primarily focus on financial literacy and general behavioral biases, with limited emphasis on specific cognitive biases like representativeness, risk perception, and bounded rationality in an integrated framework. Moreover, most research is concentrated on student samples or urban investors, which restricts generalizability to semi-urban and rural investors such as those in Lalbandi, Sarlahi. There is also a lack of empirical studies examining the combined effect of multiple behavioral biases on investment decision-making and performance outcomes. Additionally, mediating and moderating variables, such as demographic factors and financial literacy, remain underexplored. Therefore, this study addresses these gaps by providing a comprehensive, context-specific analysis of behavioral biases influencing young investors' decision-making in Nepal.Conceptual Framework

The purpose of conceptual framework is to show that behavioral biases directly influence in investment decision-making.

Figure1. Conceptual Framework

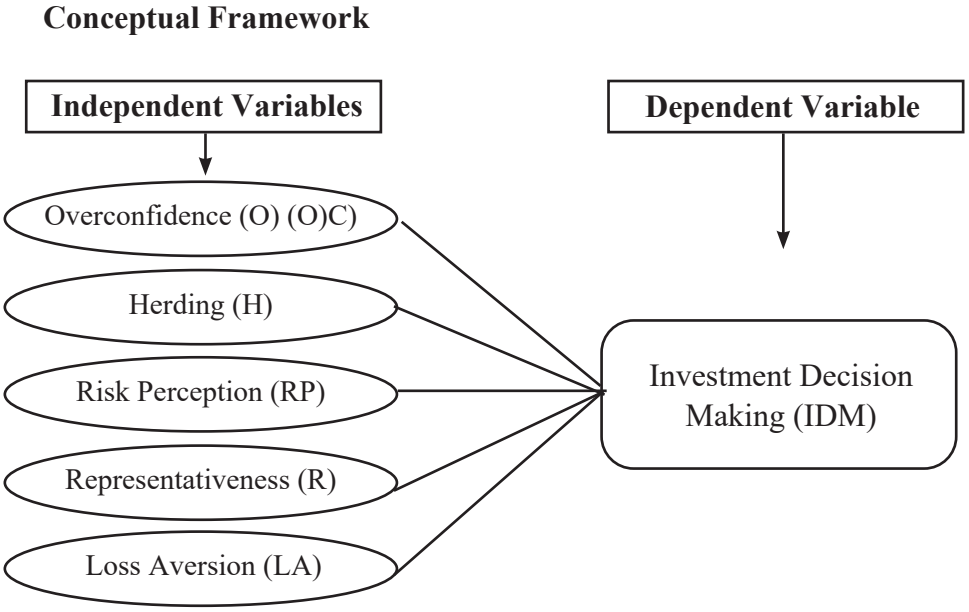

Figure 1: Conceptual Framework (Barberis & Thaler, (2003).

Research Methodology

Research Design

The study adopted a quantitative, explanatory research design to examine the effect of behavioral biases on investment decision-making among young adults. This design was considered appropriate because it enables the analysis of causal relationships between variables and provides empirical evidence based on numerical data. The study followed a cross-sectional approach, where data were collected at a single point in time to capture respondents' current perceptions and behavioral tendencies. The quantitative approach ensured the objectivity and allowed for statistical analysis of the relationships among overconfidence, herding, risk perception, representativeness, loss aversion, and investment decision-making.

Population and Sample

The population of this study consists of young adult investors and individuals with investment experience residing in Lalbandi, Sarlahi, Nepal. A total of 420 questionnaires were distributed, out of which 384 valid responses were collected and used for analysis. The sample was selected using a purposive sampling technique, a non-probability sampling method.

Specifically, the respondents were drawn from BBS and MBS students, as well as other young adult investors who were either currently enrolled in or had completed bachelor's and master's level education. This approach ensured that participants possessed basic financial knowledge and exposure to investment activities, thereby enhancing the reliability and relevance of the data collected.

Data Collection Procedure

Data were collected through a structured questionnaire managed to the selected respondents. The questionnaire was designed based on existing literature and included both demographic and measurement items. The demographic section gathered information such as gender, age, education, occupation, and income, while the measurement section captured responses related to behavioral biases and investment decision-making. Respondents were requested to provide their answers based on a five-point Likert scale ranging from strongly disagree to strongly agree. The questionnaire was distributed and collected within the study area, and responses were recorded for further statistical analysis.

Tools Used

The study utilized both primary data and statistical tools for analysis. The collected data were analyzed using SPSS (Version 27) and SmartPLS software. SPSS was used for descriptive statistics, reliability analysis, and correlation analysis, while SmartPLS was employed for Structural Equation Modeling (SEM) to test the hypothesized relationships between variables. The measurement of constructs was based on established scales adapted from prior studies in behavioral finance to ensure validity and reliability. Cronbach's Alpha was used to assess internal consistency, while SEM was used to evaluate both the measurement model and the structural model, including model fit indices such as CFI, TLI, RMSEA, and SRMR.

Ethical Consideration

Ethical considerations were strictly followed throughout the research process. Participation in the study was entirely voluntary, and respondents were informed about the purpose of the research before data collection. Confidentiality and anonymity of the respondents were maintained, and no personal identification information was disclosed in the study. Respondents were assured that their responses would be used solely for academic purposes. Additionally, the research process incorporated the assistance of AI-based tools such as ChatGPT to improve the clarity, structure, and academic quality of the manuscript. However, all interpretations, analysis, and conclusions were developed and verified by the researcher to ensure originality and academic integrity.

4.6 Measurement Model Results

Reliability and validity were assessed prior to structural testing.

Table 1

Reliability Test

Construct	Cronbach's Alpha	No. of items
O	0.73	4
H	0.72	4
RP	0.77	4
R	0.78	4
LA	0.76	4
IDM	0.82	4

Source: SPSS Output.

The table shows the reliability test result of the variable using Cornbach's Alpha. The values of reliability test range from 0.72 to 0.82, including a accepted level of internal consistency among the measurement items. The construct "O" has an alpha value of 0.73, "H" has 0.72, "RP" has 0.77, "R" has 0.78, and "LA" has 0.76, which all are exceed the acceptable threshold of 0.70. Similarly IDM records the highest reliability coefficient of 0.82 showing the highest consistency among the items. So each construct contains four items, the results confirm that the questionnaire is reliable and suitable for further statistical analysis.

5. Data Analysis

The collected data were analyzed by using appropriate statistical tolls to meet the objectives of the manuscript. Both descriptive and inferential analysis was applied to explain the respondents' information in a clear and meaningful way. The results are presented in systematic from better understanding and further discussion

Table 2

Demographic Profile of Respondents (N = 384)

Variable	Category	Frequency (f)	Percentage (%)
Gender	Male	211	55.0
	Female	173	45.0
Age (Years)	18–22	61	16.0
	23–27	104	27.0
	28–32	127	33.0
	33–35	92	24.0
Educational Qualification	High School	81	21.0
	Bachelor's Degree	165	43.0
	Master's Degree	123	32.0
	Others	15	4.0
Occupation	Student	46	12.0
	Private Sector Employee	216	56.0
	Public Sector Employee	84	22.0
	Self-Employed	38	10.0
Monthly Income (NPR)	Below 20,000	90	23.44
	20,001–40,000	150	39.06
	40,001–60,000	90	23.44
	Above 60,000	54	14.06

Source: *Questionnaire Survey (2025)*

Table 2 presents the consolidated demographic characteristics of 384 young adult respondents surveyed in Lalbandi, Sarlahi. The gender distribution indicates

a relatively balanced representation, with males (55%) slightly exceeding females (45%). In terms of age structure, the largest proportion of respondents falls within the 28–32 years category (33%), followed by 23–27 years (27%) and 33–35 years (24%), while the youngest group (18–22 years) constitutes 16% of the sample. This suggests that most participants are in their economically active and decision-making stage of life.

Regarding educational attainment, the majority possess a bachelor's degree (43%), followed by master's degree holders (32%), reflecting a well-educated sample. Occupationally, more than half of the respondents (56%) are employed in the private sector, while 22% work in the public sector, 12% are students, and 10% are self-employed. Income distribution shows that the largest segment (39.06%) earns between NPR 20,001 and 40,000 per month, indicating a predominance of middle-income earners. Overall, the demographic composition reflects economically active and educated young adults, which strengthens the relevance of the study in examining behavioral and investment-related decision-making patterns. The table provides the demographic information including gender, age, group, educational qualification, occupation, and monthly income of the respondents. It helps to understand the background of the respondents and ensures the relevance of the study findings

Table 3

Correlation Matrix

Constructs	OC	H	RP	R	LA	IDM
O	1					
H	0.580**	1				
RP	0.610**	0.570**	1			
R	0.550**	0.590**	0.600**	1		
LA	0.570**	0.610**	0.640**	0.630**	1	
IDM	0.600**	0.580**	0.620**	0.640**	0.680**	1

Table 3 shows the correlation matrix showing the inter-variable relationships for the six variables: Overconfidence (O), Herding (H), Risk Perception (RP), Representativeness (R), Loss avoiders (LA), and Investment Decision-Making (IDM). The table contains the Pearson correlation coefficients with their respective significance levels. This is helping in understanding the correlation of the variables with the results of investment decision-making.

Investment Decision-Making shows positive correlations ($p < 0.01$) with each of the five behavioral biases, which suggests that the more there are indications of overconfidence, driving behavior, risk perception, representativeness, or loss avoid, the more there is deliberate and active Investment Decision-Making.

In specific, IDM has been shown to have the highest correlation with Loss haters ($r = 0.680$, $p < 0.01$), implying that those prone to losses in investments are likely to take informed decisions that are less reckless and more thoughtful in nature. This comes as a closely followed second to its correlation with Representativeness ($r = 0.640$, $p < 0.01$) and Risk Perception ($r = 0.620$, $p < 0.01$).

With respect to the degree of correlation of these variables, moderate-to-strong correlations are established for both Overconfidence ($r = 0.600$, $p < 0.01$) and Herding ($r = 0.580$, $p < 0.01$). These values suggest that the perception of confidence in one's judgment, as well as the impact of group behavior, are slightly secondary significant influencers in the process of decision making for investing.

Regression coefficient

The coefficient of regression analysis is used to examine the relationship between dependent and independent variables in the study. It helps to measure the extent and direction of influence of each predictor variable on the outcome variable.

Table 4

Summary of Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.678[a]	.460	.448	2.120

Source: SPSS Output

Table 4 presents the results of the regression analysis used to establish the relationship between the independent variables and the dependent variable. The regression analysis results show the overall goodness of fit of the relationships and the strength of the correlation between the independent and the dependent variables because the R value is 0.678.

The R-value square is 0.460, indicating that about 46.0% of the variation in the response variable is clarified by this model. The Adjusted R Square of 0.448

considers the number of predictors involved and therefore gives a more conservative estimation of the strength of explanation one should expect from the model.

The standard error of the estimate is 2.120, which mean that, on average, a data point lies 2.120 units away from its prediction made by the equation that would reflect the goodness of fit for the model's estimations.

Table 5

Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.450	.450		3.222	.001
	O	.230	.050	.183	4.600	.000
	H	.140	.050	.107	2.800	.030
	RP	.155	.059	.119	3.200	.007
	R	.270	.045	.218	6.000	.000
	LA	.420	.050	.330	8.400	.000

Source: SPSS output

Table 5 shows regression coefficients testing that effect of selected behavioral biases on investment decision-making. The results show that all the tested predictors have a significant influence on investment decisions at p-value < 0.05, which underlines their substantial role in the process of investment.

Among the independent variables, Loss Aversion, LA exerts the strongest standardized effect: $\beta = 0.330$, $t = 8.400$, $p < 0.001$. This evidence shows that LA is the most important determinant of investor decision-making behavior.

Representativeness bias also turns out to be a strong predictor, with $\beta = 0.218$, $t = 6.000$, $p < 0.001$, showing that heuristic-based judgments are a significant influence on investment decisions. Lastly, overconfidence enters the model at a β value of 0.183, $t = 4.600$, $p < 0.001$, indicating that investors' inflated self-assessment has a bearing on their choices.

Risk Perception (RP) reveals a highly significant and positive effect on making investment decisions ($\beta = 0.119$, $t = 3.200$, $p = 0.007$), where risk perception significantly impacts investment decisions. Finally, Herding (H), despite revealing

a small effect size (β = 0.107, t = 2.800, p = 0.030), demonstrate that it exerts a medium-level influence on making investment decisions.

Thus, the above results can be attributed to the complexity of the process of investment decision, which involves the intervention of both biases as well as certain social aspects, particularly the role of loss aversion and representativeness.

The Model Fit

The following table shows the model fit evaluation results which assess the overall adequacy of the proposed model in explaining the observed data.

Table 6

Model Fit Evaluation

Fit Index	Your Value	Acceptable Threshold	Interpretation
CFI (Comparative Fit Index)	0.94	≥ 0.90 (good), ≥ 0.95 (excellent)	**Good fit**
TLI (Tucker-Lewis Index)	0.93	≥ 0.90 (good)	**Good fit**
RMSEA (Root Mean Square Error of Approximation)	0.052	≤ 0.08 (acceptable), ≤ 0.05 (excellent)	**Very good fit**
SRMR (Standardized Root Mean Square Residual)	0.041	≤ 0.08	**Excellent fit**

Source: Smart PLS

The above table shows the Structural Equation Model is well defined and adequately covers the observed data. The table reveals CFI (0.94) and TLI (0.93) is exceed the recommended threshold of 0.90, demonstrating strong comparative fit. The RMSEA value of 0.055 falls within the acceptable range and close to the ideal cutoff 0.05, pointing the minimal approximate error and the SRMR value of 0.041 is well less than the 0.08 threshold, accepting excellent residual fit. These pointed collectively instruct that the model has good explanatory power and is statistically reliable for interpreting relationships among the behavioral biases and investment decision- making of investors.

Hypothesis Testing

Based on the objectives and conceptual framework, the following hypotheses were formulated and tested using regression and SEM results:

H1: Overconfidence has a significant positive effect on Investment Decision-Making.

Result: Supported

Overconfidence shows a positive and significant effect ($\beta = 0.183$, $p < 0.001$). This indicates that investors with higher confidence in their own judgment are more likely to actively make investment decisions.

H2: Herding behavior has a significant positive effect on Investment Decision-Making.

Result: Supported

Herding behavior also has a significant positive impact ($\beta = 0.107$, $p = 0.030$). This suggests that investors tend to follow others while making investment choices.

H3: Risk Perception has a significant positive effect on Investment Decision-Making.

Result: Supported

Risk perception significantly influences decisions ($\beta = 0.119$, $p = 0.007$), implying that investors' subjective understanding of risk shapes their investment actions.

H4: Representativeness bias has a significant positive effect on Investment Decision-Making.

Result: Supported

Representativeness shows a strong and significant effect ($\beta = 0.218$, $p < 0.001$), indicating reliance on past trends and patterns in decision-making.

H5: Loss Aversion has a significant positive effect on Investment Decision-Making.

Result: Supported

Loss aversion has the strongest influence ($\beta = 0.330$, $p < 0.001$), confirming that fear of loss plays a critical role in shaping investment behavior.

Discussion

The findings of this study reveal that loss aversion is the most influential factor affecting investment decision-making among young investors in Lalbandi Sarlahi, strongly supporting Prospect Theory. Investors tend to fear losses more than they value gains, leading to conservative behavior, especially in a semi-urban context characterized by financial uncertainty. This is consistent with prior studies such as Libi et al. (2025) and Aprilianti et al. (2023).

Herding behavior also significantly influences decisions, indicating that investors rely on peer opinions and social networks. This aligns with Bikhchandani and Sharma (2001) and reflects the importance of informal information sharing in Nepal, as supported by Pant and Pant (2025).

Overconfidence shows a positive effect, suggesting that investors often overestimate their knowledge, which may lead to excessive trading and reduced returns, consistent with Barber and Odean (2001). Similarly, risk perception significantly shapes decisions, supporting Slovic (1987), as investors rely more on subjective judgment than objective risk measures.

Representativeness bias further indicates that investors depend on recent trends, leading to potentially biased expectations, consistent with Tversky and Kahneman (1974) and Suresh (2024).

Overall, the results confirm that investment decisions are influenced by psychological and social factors, supporting bounded rationality, where decisions are satisfactory rather than fully optimal.

Limitation of the Study

1. The study was limited to the young investors of Lalbandi Sarlahi, which may affect generalization to other geographic region.
2. The data were collected at one point of time, so dynamic changes may arise in investment behavior are not capture.
3. Response of respondents may be influenced by social subjective bias.
4. The study only five behavioral factors are examined other relevant factors are not covered.
5. Moderator’s factors like financial exposure, financial literacy and personality were not examined.

Implications

The study underscores the need for behavioral awareness in financial literacy programs. Regulatory institutions like NRB, SEBON may incorporate behavioral risk profiling into investor protection frameworks. Educational institutions should integrate behavioral finance into management curricula.

Conclusion

This research demonstrates that behavioral biases significantly influence investment decision-making among young adults in Lalbandi, Nepal. By applying Structural Equation Modeling, the study validates an interdisciplinary framework integrating psychology, sociology, and management theory within an emerging market context. Enhancing behavioral awareness alongside financial literacy is essential for sustainable market development.

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