Emotional Intelligence and Investment Decision of Investors in Nepalese Stock Market

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Abstract

The primary of objective of this study is to investigate the relationship between emotional intelligence and investment decision. The present study employed survey research methodology using primary data collected using structured questionnaires from 172 respondents of investors in stock market from Kathmandu valley of Nepal. The linear relationship between the emotional intelligence dimensions and investment decision was examined using multiple linear regression was used. The emotional intelligence dimensions considered for the study were self-awareness, self-management, social awareness and relationship management. The study provided empirical evidence that all the dimensions of emotional intelligence i.e. self-awareness, social awareness, and relationship management except self-management have a significant positive effect on the investment decision of investors in Nepal. This study suggested that investors should focus on improving their emotional intelligence, particularly self-awareness, social awareness, and relationship management to achieve success in investment decision.

Keywords: Investment decision, Emotional intelligence, Self-awareness, Self-management, Social awareness, Relationship management

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Introduction

Investment decision-making has traditionally been viewed as rational choice theory, which assumes that individuals make decisions based on logical evaluation of information to maximize utility as suggested by Fama (1970), Lintner (1965) and Sharpe (1964). However, real-world financial markets often demonstrate that investors are not entirely rational. Behavioral finance has revealed that emotions and cognitive biases significantly influence investment behaviors. Emotions such as fear, greed, and overconfidence can lead to poor investment decisions, such as panic selling, chasing returns, or holding onto losing positions for too long (Kahneman & Tversky, 1979). To improve decision-making outcomes, Turner, Barling and Zacharatos (2002) suggested that decision-makers should concentrate their efforts not only physically but also emotionally, psychologically, and mentally.

Emotional intelligence (EI) termed as the ability of individual to identify, comprehend, regulate, and utilize emotions effectively. It refers to the capacity to perceive, understand, use, and manage emotions effectively (Salovey & Mayer 1990; Mellers, Schwartz, & Ritov, 1999). It helps individuals to understand their own judgments and emotions which lead to an improved understanding of their requirements and values and enable them to make better decisions and to develop skills to cope stress and challenges effectively (Nag et al 2023). It is simply being conscious of one's own thoughts, transforming emotions into valuable information and using them in decision making or problem solving (Tanvir et al, 2016). Studies suggested that individuals with higher EI are better equipped to manage emotional triggers, make objective decisions, and remain disciplined during volatile market conditions (Goleman, 1995). Those investors who can identify and understand their emotions will make informed decisions and understanding their emotions facilitates them lessen the discrepancy associated with the decision making process (Hess & Bacigalupo, 2011). Investors having ability to control his/her own emotions will be able make effective decision making. Ability to understand and use emotions is considered a device to resolve issues in decision making since they influence decisions (de Laar & de Neubourg, 2006; Lucey & Dowling, 2005). Emotionally self aware individuals can make effective decisions than others (Hess & Bacigalupo, 2011).

Despite its importance, the role of EI in investment decisions has received limited attention in financial and psychological research. This lack of understanding creates a gap in identifying how EI can mitigate behavioral biases and enhance investment performance. As financial markets become increasingly complex and uncertain, the need for emotionally intelligent investors becomes more evident. Without this competence, investors may continue to make suboptimal decisions, leading to financial losses and undermining long-term financial goals. Although behavioral finance has highlighted the role of emotions in financial decision-making, it has not adequately explored how emotional intelligence can help mitigate these biases. The lack of integration of EI into investment decision-making frameworks leaves a gap in understanding how investors can develop emotional resilience and make more informed financial decisions. The present the study aims to address this gap by examining the relationship between emotional intelligence and investment decision-making, providing insights into how EI can be leveraged to improve financial outcomes and mitigate the adverse effects of emotional biases. Thus, the primary objective of the present study is to analyze the relationship between emotional intelligence and investment decision.

Literature Review

Mayer and Salovey (1990) coined the term emotional intelligence as the ability to identify, understand, handle, and utilize emotions effectively. The concept was popularized later by Daniel Goleman in the mid-1990s. Goleman (1995) expanded the concept into a framework of competencies, including self-awareness, self-regulation, motivation, empathy, and social skills. According to Boyatzis and Goleman (2007), EI consists of four main domains: self-awareness, self-management, social awareness, and relationship management. These competencies are crucial for managing the emotional complexities of life, which often includes balancing academic demands with social responsibilities and personal growth. These components enable individuals to manage their emotions effectively and navigate complex interpersonal and intrapersonal challenges.

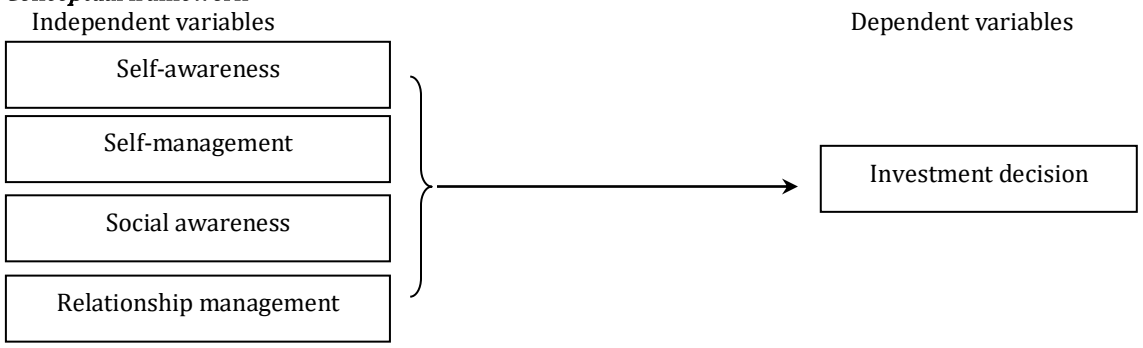
Studies have shown that emotionally intelligent investors tend to achieve superior portfolio performance due to their ability to manage emotions and make rational decisions. For instance, a study by Sultana and Pardhasaradhi (2012) revealed that Indian investors with higher EI achieved better portfolio diversification and risk-adjusted returns compared to their counterparts with lower EI. The study attributed these outcomes to the investors' ability to remain disciplined and avoid impulsive trading. Mayer & Salovey (1993) argued that emotional intelligence is a characteristic which play a crucial role in investment decision makings. According to Goleman (2006), investors with high level of emotional intelligence have better decision making. Tariq and Hassan (2017); Chen et al. (2022) provided empirical evidence that emotional intelligence has significant influence on the investment decision of investors. It plays a pivotal role in securities selection decision of investors (Tanvir et al, 2016; Deshmukh & Joseph, 2016). The findings of Sharma (2024) confirmed a clear and significant relationship between emotional intelligence and investment decisions, underscoring the substantial impact emotional intelligence has on shaping investment choices. Similarly, Naqvi et al. (2016) showed that investors having high emotional regulation skills outperformed others during periods of market volatility. Despite market turbulence, resilience and aptitude of investors with high emotional regulation skills to stick to long-term investment plans contributed significantly to their portfolio performance**.**

The study conducted by Ameriks, Wranik, and Salovey (2009) showed that investors having a high level of emotional intelligence are more probable to invest wisely using low-cost fund options. Seo and Barrett (2007) conducted an investigation into the emotional sentiments associated with decision-making processes, subsequently correlating these findings with the experiential effectiveness of investors. The studies deduced that investors who allow their emotions to predominate during investment activities tend to experience negative outcomes; conversely, those investors who possess the awareness and capability to regulate their emotional responses are likely to make superior decisions. Dergiades (2012) examined the correlation between investor sentiment and the profitability of the United States equity market, demonstrating that investor sentiments exert a markedly positive and statistically significant influence on stock returns. Although there is variability in how emotional feedback is managed, Rubaltelli & Agnoli (2015) argued that emotions may keep investors from taking risk and making rational investments. The study also found that individuals having high emotional intelligence are more willing to accept risks in investment decisions. Similarly, Dissanayake et al (2024) concluded that individual investors in the stock market can enhance their decision-making processes by taking their emotional intelligence into account.

Conceptual Framework

Figure 1 presents the conceptual model comprising dimensions of EI as the antecedent factors of investment decision of investors. Independent variables under study are dimensions of emotional intelligence measured by Self-Awareness, Social Awareness, Self-Management, Relationship Management and dependent variable is investor's investment decision as measured by investment performance.

Figure 1
Conceptual framework



Research Methods

The study examined how different dimensions of EI impact investment outcomes such as investment performance of retail investors in stock market of Nepal. The population for this study comprises of retail investors in Nepal who actively engage in the stock market.

To ensure the inclusion investors from different age groups, income levels, and experience in the market, the study concluded the sample size of 172 respondents through judgmental sampling technique following Roscoe (1975). The study was based on primary data collected through structured questionnaires, which are designed to measure both emotional intelligence and investment performance. The online survey method was used for collecting data from Kathmandu valley in Nepal.

Descriptive and inferential statistics were to analyze the data and identify any significant associations between emotional intelligence and demographic variables. The relationship of Emotional Intelligence with investment performance was studied using Pearson correlation coefficients and multiple regression analyses. Emotional Intelligence was measured using the Emotional and Social Competence Inventory developed Boyatzis and Goleman (2007) whereas Likert scale–based questionnaire was administered to measure investment performance using scale developed by Oberlechner and Osler (2008). Multiple regression analysis was employed to investigate the effect of emotional intelligence on investment performance while controlling for the influence of demographic variables (age, income, investment experience).

Econometric Model

$$ID = \alpha + \beta_1 SA + \beta_2 SM + \beta_3 SOA + \beta_4 RM + + \varepsilon$$

Where α is a constant term, β is beta coefficient, SA represents Self-Awareness. SM stands for Self-Management, SOA represents Social Awareness, RM is measure of Relationship Management, ID stands for Investment Decision and ε is an error term

Results and Analysis

Demographic Profile of Respondents

The demographic profile of the respondents from whom data is collected is presented in Table 1 . The analysis of demographic analysis of the respondents aims at understanding type and nature of respondents. The figures in Table 1 revealed that maximum respondents was female which accounts for 70.3 percent and majority of respondents i.e. 54.7 percent belonged to the age group of 20 to 25 years. Likewise, academic qualification of majority of respondents was

school level. Besides, 79.1 percent of respondents are married private employees whereas majority of respondents are private employee.

Table 1
Demographic Profile of Respondents

Basis		N	Percent
Sex	Male	51	70.3
	female	121	29.7
Age group	Below 20 years	22	12.8
	20 years to 25 years	94	54.7
	25 years to 35 years	50	29.1
	35 and above	6	3.5
Academic qualification	School level	94	54.7
	Bachelor level	10	5.8
	master level and Above	68	39.5
Marital status	Married	36	20.9
	Single	136	79.1
Occupation	Entrepreneur	20	11.6
	Government employee	31	18.0
	Private employee	91	52.9
	Other	30	17.4

Test of Reliability

The inter-item consistency of items was evaluated using Cronbach's alpha coefficient. The results shown in table 2 depicted that Cronbach's alpha for Self-Awareness (α= 0.724), Self-Management (α= 0.803), Social Awareness (α = 0.606), Relationship Management (α= 0.865) and investment performance factor (α= 0.838). Cronbach's alpha of higher 0.70 represent a level of internal consistency is satisfactory.

Table 2
Reliability Test

Variables	No of Items	Cronbach's Alpha
SA	3	0.724
SM	5	0.803
SOA	5	0.606
RM	5	0.865
IP	3	0.838

Correlation Analysis

To examine the relationship of emotional intelligence with investment decisions of individual investors, correlation analysis was used. The results presented in Table 3 revealed that all the dimensions of emotional intelligence i.e. Self-Awareness (r = 0.699), Self-Management (r = 0.669), Social Awareness (r= 0.340), Relationship Management (r = 0.616), were found to have positive relationship with the investment decision of investors. The results showed that all of the relationships are statistically significant at 5 percent level of significance.

Table 3
Correlation Coefficient

	SA	SM	SOA	RM	IP
SA	1				
SM	0.689	1			
	0.000				
SOA	0.304	0.319	1		
	0.000	0.000			
RM	0.630	0.654	0.438	1	
	0.000	0.000	0.000		
IP	0.699	0.669	0.340	0.616	1
	0.000	0.000	0.000	0.000	

Note. The table presents correlation coefficient of demission of emotional intelligence with investment performance. SA stands for Self-Awareness. SM represents Self-Management. SOA stands for Social Awareness. RM represents

Relationship Management. IP represents the investment performance. In each cell, the figure first row presents correlation coefficient while the second row presents p-value.

Regression Analysis

Table 4 exhibits that all the dimensions of emotional intelligence i.e. Self-Awareness (β = 0.486), Self-Management (β = 0.379), Social Awareness (β = 0.105), Relationship Management (β = 0.215) have a positive effect on investment decision. The results are statistically significant at 5% level of significance except with that of Social Awareness. The table shows that the relationship of Social Awareness is statistically insignificant. Further, the table also shows that R-square is 0.578, which indicates that 57.8% variation in the dependent variable, i.e. investment performance is caused due to the independent variables, i.e. emotional intelligence. Likewise, F-Statistic (p-value = 0.000) indicates that the overall model used in the study is statistically significant, and the emotional intelligence dimensions collectively explain a considerable proportion of the variance in investment performance.

Table 4
Regression results

Variables	Constant	SA	SM	SOA	RM	R^2	F-Stat
β	-0.192	0.486	0.379	0.105	0.215	0.578	57.084
P-value		0.000	0.000	0.268	0.026		0.000

Note. The table presents regression coefficient of emotional intelligence on investment performance. SA stands for Self-Awareness. SM represents Self-Management. SOA stands for Social Awareness. RM represents Relationship Management. IP represents the investment performance. Value in the first row represents regression coefficient and the second row represents p-value in each cell.

Multi-collinearity Test

One of the fundamental assumption of Multiple regression analysis is multi-collinearity does not exists among the explanatory variables. High degree of correlation between the variables can cause problems to fit the model and interpret the results (Gujarati & Porter, 2009). By observing the correlation matrix in table 2 all correlation coefficients are less than 0.8 and can be concluded that multi-collinearity does not exist. Further, variance inflation factor (VIF) values less than 10 presented in table 5 confirm the non-existence of multi-colliniearity problem among independent variables.

Table 5
Multi-collinearity Test

variable	Collinearity Statistics	
	Tolerance	VIF
SA	0.468	2.136
SM	0.445	2.249
SOA	0.806	1.241
RM	0.465	2.149

Discussion

The findings of the study presented the preceding section reveals that all the dimension of emotional intelligence have positive effect on investment decision. The positive relationship indicates that investment performance gets better with higher emotional intelligence level of investors. Self-awareness enables investors to recognize their emotions (Goleman, 1995). The significant positive relationship between self-awareness and investment performance is in line with Sajjanar and Kadakol (2023); Tanvir, Sufyan and Ahsan, (2016); Dhiman and Raheja (2018) which suggests that emotionally self-aware investors are better equipped to avoid impulsive decisions (Salovey & Mayer, 1990). Social awareness also known as empathy involves understanding others' emotions and perspectives (Goleman, 1995). This finding is in consistent with with Sajjanar and Kadakol (2023); Tanvir, Sufyan and Ahsan, (2016); and behavioral finance studies, indicating that socially aware investors may better anticipate market sentiment and trends, leading to more informed decisions (Lo & Repin, 2002).

Relationship management emerged as the most influential dimension of EI in this study. The result is in consistence with Sajjanar and Kadakol (2023). This result emphasizes the importance of interpersonal skills. Investors with strong relationship management skills may benefit from better access to information and support systems, resulting in superior investment outcomes (Goleman, 1995). The lack of a significant relationship between self-management and investment performance is surprising, as self-regulation is often linked to disciplined decision-making. The insignificant relationship is in contrary with Tanvir, Sufyan and Ahsan, (2016) and Chung et al. (2012).

Conclusion

The study offers empirical evidence about the relationship between emotional intelligence dimension and the investment decision of investors. The results of the study reveal that emotional intelligence significantly influences investment performance. Among various dimensions of emotional intelligence, the relationship of self-awareness, social awareness, and relationship management with investment performance is statistically significant. The relationship management dimension is found to be the most influential factor, indicating the importance of interpersonal skills in success in investment decision. The findings also highlight the importance of emotional regulation and interpersonal skills in achieving better investment outcomes. However, self-management was not found to have a significant effect suggesting the need for further investigation. To enhance decision-making capabilities, investors should focus on understanding own emotions utilize them, particularly self-awareness, social awareness, and relationship management.

Implications

The findings of the current study provides an evidence that emotional intelligence, particularly self-awareness, self-management, and relationship management, significantly influences investment decisions. Emphasizing these dimensions, investors can improve their decision-making processes that lead to better financial decision. Furthermore, the study highlights the importance of integrating emotional intelligence into financial education, advisory services, and policy frameworks to promote better and improved investment behaviors.

Critiques and Further Studies

The current study aims at providing empirical insights into the relationship between emotional intelligence and investment performance. While interpreting the results, it is essential to take the study's limitations into consideration. Firstly, although the sample size is designed to be representative, it may still be limited by accessibility, particularly in a specific geographic area (Nepal). Secondly, the reliance on self-reported data for measuring emotional intelligence and investment performance may introduce biases, as participants may overestimate or underestimate their abilities. Finally, the study focuses on retail investors in Nepal, which may limit the generalizability of the findings to other regions or investor groups.

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