Navigating the Mind of Young Investors: Behavioral Drivers of Investment Choices in Nepal

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Abstract

This thesis explores how psychological traits influence investment decisions among Generation Z and millennials in Nepal's commercial banking sector. Focusing on trait anger, trait anxiety, overconfidence, herding, and self-monitoring, the study surveyed 388 respondents using a quantitative approach. Findings reveal that overconfidence, trait anger, and anxiety significantly shape young investors' risk perception and financial choices, while herding and self-monitoring had minimal impact. The research underscores the need for financial education tailored to address behavioral biases, helping young investors make informed decisions. Despite its contributions, the study is limited by its cross-sectional design and narrow focus on bank employees. In the future, more research is needed on diverse populations using ongoing research to uncover changing investment habits. In general, the study shows important information about the psychology related to financial decision-making in Nepal.

***Keywords*:** overconfidence, trait anger, trait anxiety, herding effect, psychological traits, investment decisions

Introduction

People generally don't make investing decisions the same way they process logic or reason. Studies show that how individuals act or their behavioral biases, can influence their investment decisions (Rasool & Ullah, 2020; Masini & Menichetti, 2012; Rehman et al., 2023; Kumar & Goyal, 2015). According to traditional financial theory, investors are able to think clearly and make best use of all the details at hand to increase returns and lower risk (Hertwig & Herzog, 2009). According to the efficient market hypothesis, market prices fully reflect all relevant information. However, this assumption often fails to account for the cognitive and emotional limitations of real-world investors.

Behavioral finance challenges the rational agent model by emphasizing the role of psychological biases in investment decision-making. These biases—such as herd behavior, anchoring, mental accounting, and overconfidence—distort judgment and frequently lead to suboptimal investment outcomes (Ullah et al., 2025). Behavioral finance incorporates insights from psychology to explain deviations from rational behavior and market efficiency. Classical economists such as Adam Smith, David Ricardo, and John Stuart Mill also advocated for integrating human psychology into the analysis of economic behavior (Andrikopoulos, 2006).

Muradoglu and Harvey (2012), Thaler (1999), and Rasool and Ullah, (2020) assert that behavioral finance is shaped by two key elements: social influences and human perception. Although the behavioral and traditional finance paradigms are often positioned as oppositional, most researchers agree that both rational and irrational behavior coexist in financial markets, highlighting the complex interplay between psychological and economic factors that influence investment behavior globally.

Investor decision-making in equity markets generally involves both personal and technical factors. Personal characteristics—including age, education, income level, and investment portfolio structure—significantly shape risk tolerance and strategic preferences. Similarly, developments in the market, possible financial outcomes and statistical resources guide what is expected in terms of returns and

risk. Supporting investors in matching their strategies with the market trends and their personal financial plans is what these components do (Aspara, 2009).

Even though we have access to modern information and tools, behavioral biases often stop us from making good decisions. Due to herding bias, some investors copy others' steps without really analyzing each action. Anchoring bias leads individuals to depend heavily on their first bit of information, but mental accounting does the opposite by causing people to allocate their money in unusual and sometimes inefficient ways. Feeling too confident makes many investors overestimate their powers and sometimes take on greater risk than they should. They make it clear that standard investment models are not enough and that behavioral information is vital when making financial choices.

Literature Review and Hypothesis Development

Trait Anger on Investment Decisions

Trait anger is a consistent characteristic in a person's personality that leads to feeling anger quickly, even over small things. Those who score high on trait anger are commonly thought to reach irritation or anger rapidly (Foley et al., 2002). According to Foley et al. (2020), anger means experiencing feelings from slight upset to fierce rage. It is also commonly known that anger leads to greater excitement and can cause someone to act aggressively or confrontationally, resulting in attack or invasion.

According to research in affective psychology, anger may alter ways people judge risks and how they decide on courses of action. Keltner (2001) reported that anger boosts an individual's tendency to make positive assessments about risk. From their research, the authors found that being angry sometimes causes individuals to think that good things are more likely in the future, without noticing possible dangers. This overturns thinking that all negative emotions always cause a negative judgment; rather, different kinds of emotions can shape judgment in different, sometimes surprising ways.

It has also become clear that emotions as a general category play a part in changing attitudes, judgments and goals. According to Forgas (2000), emotions can alter both a person's mental assessment of facts and their opinions of others which then influences their reactions to what happens around them. Accordingly, Slovic et

al. (2013) argue that emotions deeply affect how people make decisions, relying on the belief that emotions are key tools for understanding what happens around them, not just something that appears after the thoughts.

H_1: There is a significant impact of Trait Anger on Investment Decisions among Generation millennials and Z.

Trait Anxiety on Investment Decisions

Trait anxiety describes individual differences in the propensity to be anxious in anticipation of threatened dangers or uncertain outcomes. The measurement is usually taken to reflect a stable personality trait that affects how individuals react to stressful situations in time contexts. Lazarus (1991) contends that chronic exposure to uncertainty is an adaptive precursor to anxiety and stress. Elaborating on this perception, Caplin and Leahy (2001) argue that uncertainty related to future consumption causes apprehension, which in turn diminishes the perceived attractiveness of certain financial instruments, particularly investment products.

Anxiety is commonly caused by an excessive concern with particular tasks or goals, particularly where the results are uncertain or involve financial risk. It is ironic that more information can cause anxiety to be even more intense, resulting in more cautious positions or paralysis in decision-making for investors. For example, individuals who have elevated levels of trait anxiety rigidly adhere to current portfolio strategies and are resistant to altering them as market circumstances change. This behavioral rigidity, or financial inertia, can be due to the psychological requirement to prevent further stress and maintain emotional equilibrium.

Jacobsen et al. (2011) add that dispositional anxiety lowers one's perception of safety and diminishes the prospect of active seeking of investment information. Therefore, people who are more anxious are likely to shun investment opportunities altogether, thus undermining their long-term financial advancements. Empirical research corroborates such an association between trait anxiety and investment behavior. For instance, Gambetti and Giusberti (2012) identified that trait anxiety had an inverse relation with the inclination to invest. Likewise, Nicol (2007) articulates that anxiety develops a capital preservation behavior orientation because anxious people postpone investment decision-making in a bid to minimize perceived uncertainty.

Cumulatively, these results imply that trait anxiety plays a significant role in financial decision-making in the form of conservative investment behavior and under-participation in financial markets. Hence, the removal of such psychological impediments as anxiety could be key to stimulating better investment initiatives and increased financial participation.

H_2: There is a significant impact of Trait Anxiety on Investment Decisions among Generation millennials and Z.

Overconfidence on Investment Decisions

Having overconfidence occurs when someone thinks they know or can do more than they can actually do. A person may feel they are right more often and know more finances than they truly do, especially when things are complex or unclear such as with trading. Because of this type of distortion, people may believe the information they have is more precise and success will be more likely than it really is.

Bondt and Thaler (1995) believe that overconfidence affects investor decision-making by encouraging people to rely too much on their predictions and think risk is less likely to happen. Investors having this bias tend to trade more often than needed, use imperfect information and wrongly judge what an asset is worth which leads them to take less good investment decisions. Overconfidence can cause someone to disregard findings that contradict their beliefs and believe they can control things they cannot really predict in the markets.

Overconfidence has been shown to hurt the way financial markets operate. As an example, Boussaidi (2022) looked at how overconfidence bias affects the levels of trading and how volatile financial markets are. The authors indicate that those who are overconfident are drawn to high-frequency trading and this increases instability and weakens the stability of the markets. These investors see vague pieces of information as useful tips for trading which brings about exaggerated trade orders and can lead to shifts in the value of assets.

H_3: There is a significant impact of overconfidence on Investment Decisions among Generation millennials and Z.

Herding Effect on Investment Decisions

When markets are unclear, some people tend to repeat the same actions as larger groups. Many academics and finance experts are interested because of its possible effect on how markets function and how decisions are made by investors. Many times, herding happens when investors rely on the actions or beliefs of a group, often neglecting their own analysis and it leads to decisions that may not fit with the fundamentals.

According to Tan et al. (2008), herding may cause errors in stock pricing and result in inefficient prices. Such effects trouble traditional asset pricing theories which expect prices to reflect everything known and sensible beliefs. As a consequence, herding affects how correct and useful risk and return models are which can reduce their ability to predict well.

Additionally, Caparrelli et al. (2004) note that most financial professionals continue to avoid using herding for speculative purposes since they are aware of the major risks involved. Even though herding often leads to price swings and speculative markets, it can reveal useful statements about investors' preferences. When we are careful with the data, the actions of large groups of investors can show which markets are gaining popularity and reveal what investors are currently thinking, making our decisions more informed.

H_4: There is a significant impact of the Herding Effect on Investment Decisions among Generation millennials and Z.

Self-monitoring on Investment Decisions

Observing, controlling and changing one's behavior to match social norms and expectations is called self-monitoring. In 1974, Snyder first described self-monitoring as being the person's skill at changing their behavior to match what is expected in social groups. Because of this trait, making decisions in situations like financial markets can be very important.

According to Turner and Weninger (2005), people who self-monitor tend to act differently based on the people around them and can therefore interpret and respond differently to things happening in the economy. If investors monitor themselves carefully, they may let social expectations, the general sentiment of

crowds or the conduct of others direct their investment decisions. In this case, people who self-monitor less often make judgments based on their own principles.

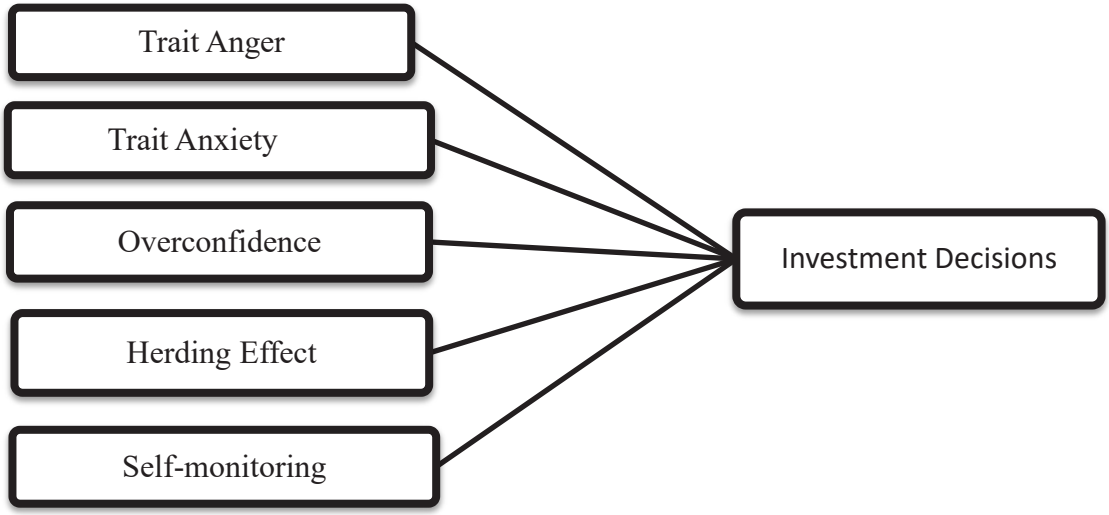
Research by Fares and Khamis (2011) found that how much someone self-monitors, is influenced socially and is comfortable with risk all play a role in their investment behavior. They explain that individuals who score low on self-monitoring tend to decide on investments fast, influenced less by others, as opposed to high self-monitors, who are more likely to think before deciding. It points out that personality influences investment behavior, so these differences should be included in models of behavioral finance.

Empirical research often uses Snyder's (1974) scale for self-monitoring to classify people in the financial industry by their adaptability and level of sensitivity to social situations.

H_5: There is a significant impact of Self-monitoring on Investment Decisions among Generation millennials and Z.

Based on the above literature, the following research framework has been given:

Figure I: Conceptual Framework



Research Methodology

This research follows a causal-comparative design to determine the impact of behavioral factors on investment decision-making among Generation Y and Z investors aged 18-44 years who are active in trading in the capital market. The data was gathered using a systematic electronic survey sent through Google Forms, which provided easy accessibility and convenience to the respondents. There were 388 valid responses gathered, which gave a big set of data for analysis. These respondents were selected due to their active trading activities, and so they represented a good sample for the objectives of the study.

The study focused on employees from some of the reputable Nepalese banks, such as Global IME Bank, Kumari Bank, NIC Asia Bank, NMB Bank, Prime Commercial Bank, Sanima Bank, and Siddhartha Bank. For logistical constraints, a non-probability convenience sampling technique was employed in obtaining data from these participants. As much as this method enabled data collection efficiently, it restricts the generalizability of the study, given the fact that the sample population may not be representative of the larger investor population (Etikan et al., 2016).

The survey included some tried-and-tested scales from previous studies to quantify fundamental behavioral constructs. Trait anxiety and trait anger were quantified with 19 items each, as adopted from Gambetti and Giusberti (2012). Overconfidence was quantified with seven items, as adopted from Athur (2014), and the herding effect with four items, as taken from Kengatharan and Kengatharan (2014). Self-monitoring was measured using ten items adapted from Biais et al. (2005) and Snyder and Gangestad (1986). Finally, investment decisions were gauged using five items adapted from Fares and Khamis (2011). All responses were measured on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Before the administration of the main survey, a pilot test involving 58 respondents was carried out with the aim of refining the questionnaire. From the feedback provided by the respondents as well as suggestions from the instructing tutors, certain items were rephrased or removed in a bid to improve clarity and relevance. This made the final version of the questionnaire more accurate and favorable for collecting accurate data.

Data analysis was done with the SPSS program. The analysis entailed descriptive statistics including means, standard deviations, and frequency distributions, and inferential procedures such as correlation and regression analyses. The reliability of each scale was determined by the use of Cronbach's Alpha. A coefficient above 0.8 was deemed sufficient, those ranging from 0.6 to 0.8 were acceptable, whereas those that fell below 0.6 were not satisfactory, and hence reflecting the internal consistency of the constructs (George & Mallery, 2003) .The research instrument was developed based on validated measures from existing literature and underwent expert review to ensure content validity. Following minor revisions, the questionnaire was deemed suitable for final distribution. The integration of established scales and rigorous pre-testing procedures supports the methodological soundness of the study.

Analysis and Results

Table 1

Correlations between Dependent and Independent Variables

		ID	TA	TANX	OC	HE	SM
ID	Pearson Correlation	1					
	Sig. (2-tailed)						
	Pearson Correlation	-.354**	1				
	Sig. (2-tailed)	.000					
TANX	Pearson Correlation	-.304**	.799**	1			
	Sig. (2-tailed)	.000	.000				
OC	Pearson Correlation	-.036	.367**	.469**	1		
	Sig. (2-tailed)	.479	.000	.000			
HE	Pearson Correlation	.342**	-.307**	-.289**	-.193**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
SM	Pearson Correlation	-.239**	522**	.550**	.419**	-.294**	1
	Sig. (2-tailed)	.000	.000	.000	.000		.000

The correlation analysis between the independent variables—Trait Anger (TA), Trait Anxiety (TANX), Overconfidence (OC), Herding Effect

(HE), and Self-Monitoring (SM)—and the dependent variable, Investment Decision (ID), sheds light on the ways in which these variables affect investment decisions. There is a statistically significant negative correlation (-0.354, $p < 0.01$) between ID and Trait Anger (TA). It would seem from this that people are less likely to make wise investing decisions the more enraged they become. The connection implies that increased anger could obstruct reasoned decision-making, which could have negative effects on investment results.

Similar to ID, Trait Anxiety (TANX) exhibits a significant negative correlation (-0.304, $p < 0.01$). This suggests that anxiety increases have a detrimental effect on investing decision-making, with anxious people probably feeling less confident in their decisions. In situations involving investments, this may lead to lost opportunities or unduly cautious behavior.

Overconfidence (OC), on the other hand, shows a negligible correlation with ID (-0.036, $p = 0.479$), indicating that overconfidence does not significantly impact investment decisions in this dataset. This suggests that there may be a mismatch between a person's perceived level of confidence and their actual capacity for making sound decisions.

There is a strong positive correlation between ID and the Herding Effect (HE) (0.342, $p < 0.01$). This research shows that people who tend to imitate what other people do in the market are more likely to make wise investment choices. Social dynamics have a significant impact on investment behavior, and positive outcomes can be fostered by collective behavior.

Lastly, a significant negative correlation (-0.239, $p < 0.01$) has been found between Self-Monitoring (SM) and ID. This implies that greater degrees of self-monitoring might discourage people from taking risks with their investments, maybe because they are apprehensive about how others would see them or about the effects of their decisions.

In conclusion, there is a positive correlation between the Herding Effect and investment decisions, and a negative correlation between trait anxiety and anger and trait anger. Overconfidence has no effect on trading, while self-monitoring does not encourage trading. Bundled or null Gaining a deeper understanding of these dynamics will help investors and financial advisors

create strategies that reduce unfavorable headwinds and maximize advantageous tailwinds when it comes to investing.

Table 2

Multiple Regression Analysis

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.485	.260		13.388	.000
	TA	-.174	.057	-.235	-3.033	.003
	TANX	-.076	.072	-.086	-1.056	.292
	OC	.136	.043	.167	3.145	.002
	HE	.227	.043	.259	5.319	.000
	SM	-.052	.047	-.063	-1.092	.275

a. Dependent Variable: ID

Trait Anger (TA) has a major impact on ID. A significant relationship is revealed by the analysis, with a coefficient of $\beta = -0.174$, $t = -3.033$, and $p = 0.003$. As a result, H1 is accepted, indicating that bad investment decisions are correlated with higher levels of trait anger.

The impact of Trait Anxiety (TANX) on Investment Decision (ID) is examined in Hypothesis 2 (H2). The results show no significant effect, with $\beta = -0.076$, $t = -1.056$, and $p = 0.292$. As a result, H2 is rejected, indicating that trait anxiety has little effect on the choice of investments.

The impact of Overconfidence (OC) on ID is examined in Hypothesis 3 (H3), and the findings show that $\beta = 0.136$, $t = 3.145$, and $p = 0.002$ are significant. The acceptance of H3 is prompted by this strong positive relationship, suggesting that increased overconfidence improves investment decisions.

The Herding Effect (HE) on Investment Decision (ID) is examined in Hypothesis 4 (H4). A significant positive correlation is found, with a β of 0.227, $t = 5.319$, and $p < 0.001$ according to the analysis. As a result, H4 is validated, indicating that the Herding Effect has a beneficial impact on investment decision-making.

In Hypothesis 5, (H5), the impact of Self-Monitoring (SM) on Investment Decision (ID) is examined. The results indicate no significant impact (β = -0.052, t = -1.092, and p = 0.275). As such, H5 is not accepted.

In conclusion, the Herding Effect, Overconfidence, and Trait Anger are the only factors that significantly affect investment decisions. Strong correlations between these variables indicate how important a role they play in influencing people's investment behavior and decision-making processes.

Table 3
Hypothesis Testing

S.N.	Hypothesis	Remarks
H1	There is a significant impact of Trait Anger on Investment Decisions.	Accepted
H2	There is a significant impact of Trait Anxiety on Investment Decisions.	Rejected
H3	There is a significant impact of Overconfidence on Investment Decisions.	Accepted
H4	There is a significant impact of the Herding Effect on Investment Decisions.	Accepted
H5	There is a significant impact of self-monitoring on Investment Decisions.	Rejected

Discussion and Conclusion

The study's conclusions shed important light on how behavioral biases affect Nepalese Generation millennials and Z's investment choices. It was found that traits such as anger and anxiety have a notable negative correlation with investment decisions, suggesting that emotional states can impair rational financial behavior. Anger often results in rash decisions, whereas anxiety can make people excessively cautious or hesitant, which can hinder their ability to take advantage of advantageous opportunities. The herding effect demonstrated a strong positive correlation, suggesting that social influences have a significant impact on young investors' investment decisions and frequently result in trend-following behavior.

The lack of a significant impact of overconfidence in this dataset may indicate that investors in Generation millennials and Z are not as overconfident as previously thought, or that the effect is mitigated by other moderating factors. Contrarily, self-monitoring had a detrimental effect on investment choices, indicating that people who modify their behavior in response to social cues may minimize risks and thus limit their involvement in lucrative ventures.

These findings highlight the need for targeted financial literacy programs that address the emotional aspects of decision-making and the influence of social dynamics. Financial education should focus on helping young investors recognize and manage these biases to improve their investment outcomes and make rational decisions. Additionally, financial advisors should consider these behavioral traits when guiding young clients, as personalized advice that accounts for emotional and social influences could lead to better investment decisions.

The results of the analysis show that among Generation millennials and Z, Trait Anger has a significant negative impact on investment decisions ($\beta = -0.174$, $t = -3.011$, $p = 0.003 < 0.05$). Higher anger levels are associated with less advantageous investment decisions, which suggests that emotions can obstruct reasoned thought processes and cause impulsive behavior. This demonstrates how crucial emotional control is in financial situations. In order to avoid anger influencing their decisions, investors must learn to control their anger. This will lead to more thoughtful and objective investment strategies that are in line with long-term financial objectives rather than impulsive emotional responses.

The findings indicate that trait anxiety has no appreciable impact on the investment decisions made by Generations millennials and Z ($\beta = -0.076$, $t = -1.056$, $p = 0.292 > 0.05$). This suggests that although anxiety may have an impact on other aspects of behavior, it does not substantially affect the investment decisions made by this particular group of people. It's possible that investors who feel more anxious than others do not necessarily take on more risk. The possibility that anxiety is less significant than other psychological traits and that other influencing variables may have a greater impact arises from the lack of a significant correlation.

Investment decisions are positively impacted by overconfidence ($\beta = 0.136$, $t = -3.145$, $p = 0.002 < 0.05$). Investors with an overconfident attitude are more

likely to believe strongly in their judgment, leading them to take risks and make bold investment choices. Both good and bad things can come from this; when confidence is well-founded, it can occasionally lead to success, but when overestimation takes place, it can also lead to poor decisions. Understanding the impact of overconfidence can help people become more aware of their own limitations and make more informed decisions. This can lead to a more balanced approach to investing activities by encouraging people to be optimistic while also taking realistic risks into account.

The results of the study demonstrate that investment decisions are significantly influenced positively by the Herding Effect ($\beta = 0.227$, $t = -5.319$, $p = 0.000 < 0.05$). Investors frequently follow market trends and their peers' decisions because they are influenced by the actions and behaviors of others. Collective actions resulting from this herding behavior may not be in line with the best course of action or personal financial objectives. Speculative bubbles or heightened risk-taking during market upswings may result from it. It's critical for investors to comprehend the herding effect in order to avoid mindlessly following the herd and instead concentrate on independent financial research.

As per the findings, there is no significant influence of self-monitoring on the investment decisions made by Generation millennials and Z ($\beta = -0.053$, $t = -1.092$, $p = 0.275 > 0.05$). This suggests that people's decision-making regarding investments is not significantly influenced by the behavior they regulate to fit in with their social environment. It suggests that self-monitoring traits, which often determine social adaptability, are not always correlated with financial decision-making. Consequently, it appears that investors give greater weight to other psychological factors or in-depth personal analysis when making investment decisions than they do to social environment expectations.

Implications

Institutions should design financial education programs that specifically address the psychological factors that influence investing decisions. The concepts of behavioral finance, in particular the traits found in the study—such as trait anger, trait anxiety, and overconfidence—should be the main focus of these programs. Institutions can improve the performance of their young investors by teaching them

about the psychological characteristics that affect their decision-making and enabling them to identify and control their biases more effectively.

Furthermore, young investors can have a much better financial experience when banking services incorporate behavioral insights. Commercial banks ought to think about creating goods and services that take into account the unique psychological characteristics of each of their clients and staff. In the end, personalized financial advisory services can encourage better financial behaviors among young investors by assisting clients in making well-informed investment decisions that are in line with their risk tolerance and financial objectives.

Apart from educational programs, hosting seminars and workshops with financial experts as presenters can offer beneficial forums for interaction. Open dialogue about investing experiences ought to be promoted at these gatherings so that attendees can impart knowledge and gain from one another. These kinds of projects can help young investors become less nervous and overconfident by encouraging a culture of knowledge sharing, which will lead to more logical decision-making.

Creating supportive communities where new investors can share strategies and experiences is another way to mitigate the herding effect. These communities, both online and off, can foster a feeling of community and peer support, which can reduce the fearsome nature of investing decisions and increase knowledge.

Lastly, it's important to support this field's research and development. Scholars and financial institutions ought to work together to carry out additional research on how Generation millennials and Z invest. Ongoing research can reveal changing patterns and inclinations in investing choices, enabling flexible approaches that address the distinct financial environments of these generations.

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