

Behavioral Factors Influencing Investment Decisions among Nepalese Student Investors

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ABSTRACT

This study investigates the impact of heuristics and herding behavior on investment decision-making among 109 Nepalese student investors. While previous studies explored behavioral biases in developed markets, limited research focused on student investors in developing economies like Nepal. Based on prospect theory and dual process theory, it examines whether heuristics and herding affect students' choices regarding buying, selling, and selecting stocks at the Nepal Stock Exchange. Using structured questionnaires, data was collected from a sample of 109 student investors enrolled in management courses at Tribhuvan University's affiliated colleges in Kathmandu. Correlation analysis indicates positive relationships between investment decisions and both heuristics and herding. Regression analysis further demonstrates that heuristics and herding positively influence investment decisions. The findings contribute to behavioral finance understanding in developing economies and among student investors. They highlight the need for financial literacy and investor education initiatives to mitigate behavioral biases' impact on decision-making. Integrating behavioral insights into curricula and policies can foster more rational investment choices among students.

Keywords: Behavioral finance, herding, heuristics, investment decisions, student investors

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Introduction

Markets have been assumed to be efficient by traditional financial theories for a long time. The efficient market hypothesis states that securities and stocks quickly incorporate all relevant information into their values (Rehan & Umer, 2017). The central issue of the efficient markets concept was that information is essential to determining stock prices (Jones, 2016). Before the late 1970s, it was commonly believed that only individuals with strong motives would invest in the stock market (Ritter, 2003). According to traditional theory, investors base their decisions on securities' intrinsic value and are assumed to be rational in their investing behavior (Antony & Joseph, 2017). Traditional finance theory assumes rational investors who base their decisions on all available information. This concept is encapsulated in the Efficient Market Hypothesis (EMH), stating that stock prices accurately reflect all available information (Fama, 1970). However, it has been discovered that investors do not act as logically as economists believe they would, and psychological factors hurt their investment choices.

Despite the existence of EMH, investors do not always perceive the reward and risk associated with an investment as equal (Rehan & Umer, 2017). Studies consistently demonstrate that people display irrationality, consistency, and incompetence while making judgments and carrying out actions in the presence of uncertainty (Waweru et al., 2008). Based on the idea that investors do not always act rationally, behavioral finance studies how people make investment decisions based on emotions.

Behavioral finance studies irrational investor behavior impacting stock market prices and investment decisions (Kim & Nofsinger, 2008), seeking to understand how their emotions and cognitive flaws influence investors' actions (Kengatharan & Kengatharan, 2014). Behavioral finance addresses the psychological and emotional influences on investor behavior and market efficiency (Chaffai & Medhioub, 2014) while explaining why investors may act contrary to expectations outside the limits of reason (Bakar & Yi, 2016).

In recent years, research in behavioral finance has primarily focused on developed markets like Europe and the US; underdeveloped markets like Nepal require further exploration (Waweru et al., 2008). Existing studies suggest that psychological factors significantly influence investor decision-making in emerging markets (Bakar & Yi, 2016; Barker et al., 2018). Nepal has a small capital market; as such, a limited number of investment opportunities are available for investors in Nepal. Investors often lack the skills and knowledge to analyze and evaluate investments, relying on emotions and personal biases (Sapkota, 2023). Also, the Nepal Stock Exchange (NEPSE) trends make it harder to follow the theories that assume rational investors (Silwal & Bajracharya, 2021). Like their global counterparts, investors in Nepal frequently make financial decisions impacted by cognitive biases and behavioral tendencies, which can substantially impact the quality and consequences of their investment decisions.

Several studies conducted in various ASEAN, Middle East, and Western

nations, such as studies by [Kengatharan and Kengatharan \(2014\)](#), [Qadri and Shabbir \(2014\)](#), [Ghelichi et al. \(2016\)](#), and [Nofsingera and Varmab \(2013\)](#), have affirmed the correlation between behavioral factors and their influence on investors' decision-making processes in stock markets. Similarly, research by [Baker and Yi \(2016\)](#) and [Chin \(2012\)](#) delved into the repercussions of psychological biases within the Malaysian stock market. Likewise, investigations by [Qureshi et al. \(2012\)](#), [Farooq et al. \(2015\)](#), and [Lodhi \(2014\)](#) explored psychological aspects impacting investment decision-making in Pakistan. Additionally, studies by [Barker et al. \(2018\)](#) and [Antony and Joseph \(2017\)](#) scrutinized behavioral biases affecting investment decisions in India. Despite the global significance of behavioral finance inquiries, scant attention has been given to understanding the impact of behavioral factors on investment decision-making within the Nepalese context, with only a few studies, including those by [Sapkota \(2023\)](#) and [Siwal and Bajracharya \(2021\)](#), addressing this gap. Furthermore, there is a paucity of research focusing on the impact of psychological biases on investment decisions made by student investors. Consequently, this study aims to investigate the investment behavior of student investors, specifically examining the influence of heuristics and herding on investment decision-making. Moreover, it endeavors to bridge the disparity in geographical and demographic profiles between Nepal and other nations by examining the effects of heuristics and herding on investment decision-making. This research aims to shed light upon the behavior biases that affect investment decision-making, with the paper

also aims to examine the impact of heuristics and herding upon investment decision-making. The specific purpose of the study is to examine the impact of heuristics and herding factors on the investment decisions of individual investors.

The remainder of this study comprises literature review, methods, results, discussion, and conclusions.

Literature Review

One of the theoretical foundations for the study is prospect theory, developed by [Kahneman and Tversky \(1979\)](#), which offers a framework for understanding how behavioral factors affect risk tolerance in investment choices ([Waweru et al., 2008](#)). Prospect theory suggests that because people react more strongly to losses than to matching gains, people interpret information regarding gains and losses irrationally. The value function is used in prospect theory instead of utility ([Ackert & Deaves, 2010](#)). Furthermore, [Filbeck et al. \(2005\)](#) highlighted the contrast between prospect theory and expected utility theory (EUT), with the former emphasizing irrational choices influenced by the investor's value system. The theory's value function replaces the utility concept, emphasizing potential losses' impact on decision-making behavior. As [Chapman and Johnson \(2002\)](#) put it, people are risk lovers of losses; people put more effort into avoiding losses than making gains, and as such, they will hold on to losing stocks, hoping they will increase in value. Individuals tend to weigh potential losses more heavily than equivalent gains. As such, they are more fearful of losses ([Silwal & Bajracharya,](#)

2021). They can lead investors to herd when they perceive that others benefit or avoid losses by following a particular investment strategy or trend.

Likewise, the study looked into the dual process theory of [Wason and Evans \(1975\)](#). Dual process theory proposes that human cognition operates through two distinct systems: a fast, intuitive system (System 1) and a slower, more deliberative system (System 2). Heuristics are often associated with System 1 processing, where decisions are made automatically and unconsciously. Heuristics is a rule of thumb that facilitates decision-making, particularly in complicated and ambiguous situations ([Ritter, 2003](#)). Heuristics are mental shortcuts individuals use to simplify complex decision-making processes, especially in uncertain or time-constrained situations. These shortcuts often lead to cognitive biases and deviations from rational decision-making ([Silwal & Bajracharya, 2021](#)). Heuristics simplify complicated assessments of probabilities and value predictions to simple judgments ([Kahneman & Tversky, 1974](#)). These heuristics are generally quite helpful, especially when time is short ([Waweru et al., 2008](#)). [Kahneman and Tversky \(1974\)](#) examined the heuristics' contributing components and identified key heuristics, including representativeness, availability bias, and anchoring. These elements contribute to bias thinking and can result in poor investment decisions.

Additionally, [Waweru et al. \(2008\)](#) highlighted gambler's fallacy and overconfidence as additional elements in the heuristic theory. [Shanmugasundaram and Balakrishnan \(2010\)](#) emphasized

that decision-making processes involving heuristics are not strictly rational. Instead, decision-makers take mental shortcuts during the process, leading to potentially suboptimal outcomes. However, studies by [Khaneman and Tversky \(1979\)](#), and [Waweru et al. \(2008\)](#) found that investing decisions are influenced by investor behavioral elements such as preferences, ambitions, prejudice, and emotions.

Behavioral finance literature delineates investment decision-making in distinct ways. [Kengatharan and Kengatharan \(2014\)](#), [Siwal and Bajracharya \(2021\)](#), [Sattar et al. \(2020\)](#), and [Qureshi et al. \(2012\)](#) define it as decisions related to buying, selling, and choosing stocks and other financial instruments. Similarly, studies by [Farooq et al. \(2015\)](#), and [Bakar and Yi \(2016\)](#) classified investment decisions as investors' risk tolerance levels. Additionally, investigation Heuristics are mental shortcuts employed to make decisions rather than accurately identifying and carefully examining the facts provided. They simplify complicated assessments of probabilities and value predictions to simple judgments ([Kahneman & Tversky, 1974](#)). By [Rehan and Umer \(2017\)](#), [Lodhi \(2014\)](#), and [Senda et al. \(2020\)](#) further segment investment decisions by considering returns and investment duration. Despite variations in classification, the overarching findings suggest that investors exhibit irrational behavior, influenced significantly by their behaviors, impacting investment decision-making outcomes.

Many studies indicated that heuristics has several components: availability, overconfidence, conservatism, anchoring,

and representativeness. Bakar and Yi (2016) identified that availability bias contributes the most to investment decision-making, followed by overconfidence and conservatism. Silwal and Bajracharya (2021) further identified that heuristic variables anchoring and overconfidence greatly impacted individual decision-making. Likewise, anchoring, representativeness, and overconfidence bias positively influence investment decision-making (Rehan & Umer, 2017; Sapkota, 2023). Similarly, Kengatharan and Kengatharan (2014) identified that overconfidence had a moderate impact, while anchoring had a high impact on individual investment-making.

Qureshi et al. (2012) examined how Pakistani equity fund managers made decisions regarding heretics. Additionally, Farooq et al. (2015) focused on investor psychology, mainly how heuristics affects the ability of equity fund managers of financial institutions investing in stock exchanges and individual investors to make investment decisions, where heuristics has a positive and significant influence. Furthermore, Sattar et al. (2020) found that heuristic behavior—which included representativeness, overconfidence, anchoring, availability bias, and disposition effect—significantly influenced investment decision-making. The impact outweighed that of prospect theory and personality traits. Moreover, Rahayu et al. (2023) found that using heuristics improved investment decisions. Kengatharan and Kengatharan (2014) found that heuristics generally had a significant negative impact on investing decisions, contrary to the findings. Based on the theoretical and empirical findings,

this study proposes the following first hypothesis.

H₁: Higher heuristics has significant effect on the way investors make decisions.

The herding effect in the financial market is identified as the tendency of investors' behavior to follow the actions of others rather than act as per their personal information Kengatharan and Kengatharan (2014). Although herding is prominent in the financial market, Bakar and Yi (2016) identified no significant impact of the herding factor on investors' decision-making. Similarly, Chin (2012) concluded that herding was determined not to affect investor decision-making. Kengatharan and Kengatharan (2014) also identified a moderate impact of herding on individual investment decision-making at the Colombo Stock Exchange. Further, they identified a negative significant impact of herding on investment decisions. On the contrary, Silwal and Bajracharya (2021) identified a high impact of herding behavior where the behavior was present when making investment decisions, primarily related to buying and selling stocks.

Additionally, Javed et al. (2017), studying the Pakistan Stock Exchange, found herding effects to have a favorable and substantial influence on perceived investment success. Similarly, Wamae (2013) found herding to have a positive significant impact on investment decision-making. Furthermore, Dhungana et al. (2022), studying the investors at brokerage businesses in the Pokhara Valley, identified that herding behavior positively and significantly impacted the investment decision. Based

on the theoretical and empirical findings, this study proposes the following second hypothesis.

H₂: Higher herding has apparent effect on the way investors make decisions.

The proposed research model draws upon established theories such as Prospect theory (Kahneman & Tversky, 1979) and Dual process theory (Wason & Evans, 1975). In addition to these theories, the independent variables of heuristics and herding are included due to their recognized influence on investor decision-making capabilities (Qureshi et al., 2012; Farooq

et al., 2015; Sattar et al., 2020; Rahayu et al., 2023; Javed et al., 2017; Wamae, 2013; Dungana et al., 2022; Silwal & Bajracharya, 2021). Investors are subject to behavioral biases, with heuristics and herding factors significantly shaping their investment decisions. The study posits that heuristics and herding influence investor decisions regarding buying, selling, and selecting stocks to a certain extent. The study aims to ascertain the impact of the selected variables, heuristics, and herding on investment decisions within the research framework.

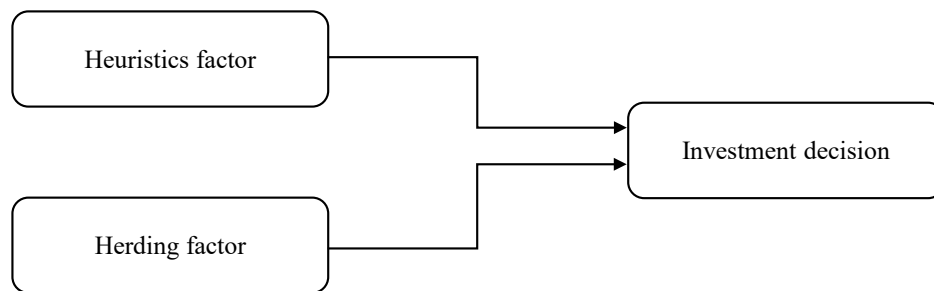


Figure 1. Research framework of the study

Heuristics, described as rules of thumb, simplify decision-making processes, especially within complex and uncertain contexts (Ritter, 2003), streamlining the evaluation of probabilities and the prediction of values into more straightforward judgments (Kahneman & Tversky, 1974). Investors commonly employ mental shortcuts for decision-making instead of objectively analyzing available information (Farooq et al., 2015), although they do not guarantee optimal outcomes (Silwal & Bajracharya, 2021). Nonetheless, these shortcuts prove beneficial when

time constraints are present (Waweru et al., 2008), especially in uncertain and unpredictable environments where trial and error or reliance on a rule of thumb prevails (Sattar et al., 2020). In this study, heuristics are defined as mental shortcuts investors use to simplify judgment associated with their investment choices, frequently resulting in cognitive biases and straying from rational decision-making, thereby affecting investment choices.

Herding behavior refers to individuals' inclination to mimic others' investment decisions, often influenced by social pressures and cognitive biases (Kengatharan & Kengatharan, 2014). It

embodies a “follow the leader” mindset, where individuals tend to conform to the crowd under the assumption that majority decisions are inherently correct (Bakar & Yi, 2016), potentially resulting in collective market behaviors that diverge from rationality (Bikhchandani et al., 1992). Herding behavior impacts stock prices and affects risk and return models (Tan et al., 2008), as individuals rely on public rather than personal information when making investment decisions (Pasewark & Riley, 2010). This reliance on collective information over private insights can lead to price deviations from fundamental value (Kengatharan & Kengatharan, 2014), potentially affecting investment opportunities. In this study, herding is defined as investors’ tendency to emulate the actions of others, basing their investment choices on mass buying or selling decisions, thereby following market trends or the behavior of others without conducting independent analysis and leading to irrational investment decisions.

Investment decision-making encompasses the intricate process by which individuals assess, choose, and oversee various financial assets or opportunities, aiming to allocate their financial resources effectively to achieve specific financial objectives. Scholars like Farooq et al. (2015) and Bakar and Yi (2016) categorize investment decisions based on investors’ risk tolerance levels. Likewise, researchers Kengatharan and Kengatharan (2014), Siwal and Bajracharya (2021), Sattar et al. (2020), and Rehman and Hunjra (2012) define it as decisions regarding the buying, selling, and choosing stocks and other financial instruments. Studies by Rehan and Umer

(2017), Lodhi (2014), and Senda et al. (2020) divide investment decisions by weighing returns and investment length as well. Investment decision-making entails choices related to asset allocation, security selection, market entry and exit points, and investment risk management, all of which are influenced by individual behavioral factors. This study defines investment decision-making as decisions regarding buying, selling, and choosing stocks at NEPSE among individual student investors. The interplay between heuristics and herding factors may result in deviations from rational investment choices.

Methods

The study seeks to assess the impact of behavioral factors, particularly heuristics and herding, on investment decision-making. From the standpoint of research methodology, this study used a quantitative research design to evaluate the information gathered through questionnaires. Additionally, the study employs deductive reasoning, drawing from prospect and dual process theories to guide its analysis. Furthermore, from the perspective of a number of contacts, the research adopts five colleges and a cross-sectional study design involving a single point of contact with the sample is used to collect data. In addition, the study applied descriptive research design to determine and define the characteristics of the variables under investigation. It was chosen for the study to understand the respondents’ profiles, present and describe the data gathered, and identify the variables influencing the choices of individual investors. The relational research design was selected

to investigate the potential relationship between the investment decision, herding, and heuristics. This design involved the measurement of three variables and their relationship to one another.

Explanatory study, often called casual research, was also conducted to determine the nature and extent of the cause-and-effect relationship between the variables. It was carried out to evaluate how specific changes might affect accepted standards and various processes, among others. The research determines how dependent changes to independent variables influence variables. In order to understand the patterns of interactions between variables, causal studies focus on analyzing a situation.

The target population of this study included graduate and undergraduate students in the Sorakhutte and Paknajol area of Kathmandu city who were enrolled in Tribhuvan University's affiliated colleges, offering various management-related courses. Three colleges were chosen conveniently out of the Sorakhutte and Paknajol area ([Edusanjal, 2024](#)), including Modern Nepal College, People's Campus, and Prime College. The study used convenience sampling to select the respondents from the sample colleges. The respondents consisted of undergraduates and graduates enrolled in management-related courses of Tribhuvan University, who were individual student investors who had invested in the secondary market (NEPSE); ages 18 and above were the only ones selected as participants for the study.

The choice of selecting students is consistent with the purpose of the study, along with Students ages 18 and above

who are invested in the secondary market and are in a position to have gained knowledge of the Nepalese stock market and would make conscious decisions in their investments. The required sample size is 97, which is calculated at a 95 percent confidence level with ± 10 percent margin error and 50 percent estimated proportion ([Cochran, 1977](#)). Convenience sampling was conducted to select the respondents because of easy accessibility and proximity.

The questionnaire consists of two main sections: a demographic section aimed at gathering personal information such as gender, age, education level, investing experience, and amount invested, and an empirical inquiry section focused on collecting data relevant to the research objectives. The variable items were adapted from prior research in the field. Specifically, items related to the heuristics factor were sourced from scales developed by [Kengatharan and Kengatharan \(2014\)](#) and [Waweru et al. \(2008\)](#). At the same time, items for the herding factor were derived from [Kengatharan and Kengatharan \(2014\)](#). Additionally, items for evaluating investment decision-making were drawn from the research of [Kengatharan and Kengatharan \(2014\)](#) and [Chin \(2012\)](#). The questionnaire employed a five-point Likert scale, with one indicating "strongly disagree" and five representing "strongly agree." Other question formats included yes/no queries, multiple-choice questions, and rank-in-order inquiries. The questionnaire covered topics related to behavioral factors influencing investment decision-making.

The responses have been arranged, tabulated, and analyzed to facilitate the

various descriptive statistics, correlation, and regression tests. This study used descriptive and inferential statistics tools. Descriptive statistics are used to explore the essential characteristics of predictor and response variables. Correlation analysis was performed to understand the relationship between independent and dependent variables. Multiple regression analysis was performed to examine whether the two predictors, heuristics and herding, significantly affected investment decisions.

The regression model of the study is given as follows:

$$Y = a + b_1X_1 + b_2X_2 + e_i$$

Where, Y= Investment decision, a= intercept, X_1 = heuristics, b_1 = Coefficient of heuristics, X_2 = Herding, b_2 = Coefficient of herding, and e_i = error term

Results and Discussion

Respondents' profile

The findings revealed that out of 109 respondents, 55 were male, and the remaining 54 were female. The results

show that almost an equal number of males and females were in the sample. In terms of percentage, 50.5 percent of respondents were male, and 49.5 percent were female. Similarly, out of 109 respondents, 87 were from the bachelor level, and 22 were from the master level. The highest percentage of participants in terms of education level were represented by bachelor level consisting of 80 percent, and the remaining 20 percent of respondents were from master level. Additionally, out of the total respondents, 13 were between the ages of 18 and 20, 75 were between the ages of 20 and 25, and 21 were older than 25. In terms of percentages, the age group with the smallest percentage was between 18 and 20 years (11.9%), followed by respondents over 25 (19.3%), and the highest were those aged 20 to 25 (68.8%). Likewise, out of the 109 respondents, 89 (81.7 %) had investment experience less than three years, 9 (8.3 %) had investment experience between three and five years, and 11 (10.1 %) had investment experience greater than five years. This suggests that the vast majority of respondents lack prior investment experience. Finally, the finding showed that 68.8 percent of respondents invested less than Rs 50000, with only 5.5 percent investing between Rs.100000 and Rs 300000.

Table 1

Descriptive statistics

Variable/ Statistics	N	Mean	Median	Std. Deviation	Variance
Heuristics factor	109	2.97	3.00	0.75	0.57
Herding factor	109	3.15	3.33	0.80	0.65
Investment decision	109	3.22	3.20	0.95	0.90

Table 1 reveals the descriptive statistics for the whole sample. In the case of

independent variables, the herding factor had the highest mean and median score,

i.e., 3.15 and 3.33, respectively, with a higher mean signifying a higher level of agreement, and the independent variable heuristics had a mean value of 2.97 and a median value of 3, signifying agreement among the sample of influence of these factors. A higher mean value of herding and heuristics factors suggests a greater inclination towards following the crowd and using simplified decision-making strategies, which could influence investment decision tendencies. Standard deviation and variance help to measure the dispersion of the data set as higher the standard deviation

higher or more difference in the agreement of the respondent, here considering the independent variable highest level of difference in terms of the agreement was herding factor with an SD of 0.80 and variance of 0.65. The lowest independent variable was a herding factor, with an SD of 0.75 and a variance of 0.57. The dependent variable had a mean of 3.22 and a median of 3.20; the respondents' answers tended to agree with the statements. A standard deviation of 0.95 and a variance of 0.90 suggest moderate variability in the dataset, meaning the data is centered on the mean.

Table 2

Relationship between variables

Variables		Heuristics factor	Herding factor	Investment decision
Heuristics factor	Pearson Correlation	1		
	Sig. (2-tailed)			
Herding factor	Pearson Correlation	.206*	1	
	Sig. (2-tailed)	(0.032)		
Investment decision	Pearson Correlation	.403**	.346**	1
	Sig. (2-tailed)	(0.001)	(0.001)	

** Correlation is significant at the 0.01 level (2-tailed), * Correlation is significant at the 0.05 level (2-tailed)

Person correlation analysis of the variable is performed for all samples, which is presented in Table 2. As shown in the table, the correlation matrix depicts the level of co-relational significance between dependent and two independent variables. The results in the table depict that at a 1 percent significance level, the investment decision is confidently linked with both heuristics and herding factors. Heuristics is

the most important variable with a positive correlation coefficient of 0.403, and herding also shows a positive relationship with investment decisions with a correlation coefficient of 0.346 at a 99 percent confidence level. Based on the results from the correlation, it can be concluded that the investment decision has a positive and significant relationship with heuristics and herding.

Table 3

Impact of variables

Coefficients ^a	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	F	Sig.	R ²
	B	Std. Error	Beta					
Constant	0.905	0.416		2.175	0.032			
Heuristics factor	0.438	0.11	0.347	3.995	0.001	16.283	0.001	0.221
Herding factor	0.324	0.102	0.275	3.166	0.002			

Table 3 depicts the results of regression analysis for investment decisions. Prior to running the regression model, diagnostic tests such scree plot and VIF were conducted which ensured the validity of the ordinary least square (OLS) regression for verifying the assumptions of the model. Based on the results shown, the model is significant, as the p-value is less than 0.01. The null hypothesis is rejected, so the regression model is efficient for prediction. The R-square is found to be 0.221. This means the dependent variable investment decision can be explained by the

independent variable heuristics and herding by 22.1 percent.

From the regression equation established, if independent factor heuristics and herding are held constant at zero, the investment decision would be 0.905. The heuristics factor positively affects investment decisions with a coefficient of 0.438; in other words, if variables are kept constant, a unit increase in herding will lead to a 0.438 increase in decision-making in buying, selling, and choosing stocks for investment.

Table 4

Results of hypothesis test

Hypothesis	Results
H_1 : Higher heuristics has significant effect on the way investors make decisions.	Supported
H_2 : Higher herding has apparent effect on the way investors make decisions.	Supported

Table 4 depicts the results of hypothesis test. The findings match the results from the study conducted by [Qureshi et al. \(2012\)](#), who observed a positive and significant impact on investment decision-making by Pakistani equity fund managers. Similarly, [Farooq et al. \(2015\)](#) also observed similar results in equity fund managers and individual investors where heuristics had a positive and significant influence.

Additionally, [Sattar et al. \(2020\)](#) and [Rahayu et al. \(2023\)](#) identified a significant influence of heuristics on investment decision-making. On the contrary, the findings do not align with [Kengatharan and Kengatharan \(2014\)](#), as they found that heuristics significantly negatively impacted investing decisions. Similarly, the herding factor positively affects investment decisions with a coefficient of

0.324. As such, a unit increase in herding will lead to a 0.324 increase in decision-making in buying, selling, and choosing stocks for investment. The regression analysis results are also significant at a 99 percent confidence level since the p-value is less than 0.01; thus, the null hypothesis is rejected. A plausible interpretation of this finding is that simplifying difficult investment decisions and enabling investors to operate effectively in dynamic markets helps heuristic behavior lead to faster decision-making. It enables investors to depend more on rules of thumb and real-world experience. Furthermore, heuristics can find trends or possibilities matching intuitive assessments, improving portfolio diversification and risk control.

Finally, the study finds a favorable effect of herding behavior on investment decisions. The results of the present study are parallel with the study (Silwal & Bajracharya, 2021), which showed a high impact of herding behavior when making decisions primarily related to buying and selling stocks. Similarly, other studies like Javed et al. (2017), studying the Pakistan stock exchange, Wamae (2013), studying the Nairobi stock exchange, and Dhungana et al. (2022), studying investors in the brokerage business in Pokhara Valley, also identified the positive and significant impact of herding on investment decision. However, these findings, on the other hand, are not consistent with the findings of Bakar and Yi (2016), who identified no significant impact of the herding factor on investment decision-making, and Chin (2012), who also concluded that herding was determined not to affect investor decision making. The underlying reason for this finding is

that herding behavior can give investors a sense of safety and approval. Hence, this result makes sense, as matching with the majority usually lowers apparent risk and uncertainty. The faster market information distribution will enable investors to make judgments grounded on group insights. Herding can generate momentum in asset values, presenting rewarding prospects for early and savvy exiters.

Conclusion

This study has delved into the behavioral factors influencing investment decisions among Nepalese student investors. The study assesses the influence of heuristics and herding behavior on investment decisions. The result indicates that heuristics is positive and significantly correlated with investment decisions. This implies that investors may base their decisions on simplified strategies or mental shortcuts rather than thorough analysis. Likewise, the herding factor is also positive and significantly correlated with investment decisions; it suggests that the tendency to follow herding behavior increases among student investors. This could mean that student investors who exhibit herding behavior are more inclined to make investment decisions in line with the actions of others in the market. The study highlights the impact of heuristics and herding behavior perceptions on investment decisions among student investors. These findings offer valuable insights for educators, financial advisors, and policymakers seeking to enhance financial literacy and decision-making skills among student investors. By integrating insights from behavioral finance into educational curricula, educators can

equip students with a deeper understanding of the psychological factors influencing investment decisions. Workshops and simulation exercises can provide hands-on experience, helping students recognize and navigate behavioral biases and fostering a more critical and analytical approach to investment choices. Policymakers can leverage these research findings to design targeted investor education campaigns to raise awareness about common behavioral biases and promote informed decision-making among investors. Through these efforts, there is potential to mitigate behavioral biases and enhance overall

financial well-being. Overall, the study sheds light on the role of behavioral factors in shaping investment decisions among Nepalese student investors and emphasizes the need for targeted efforts to promote informed decision-making and financial well-being. This study considers only two predictor variables: heuristics and herding behavior. Hence, future studies can be done by taking a large sample and adding other predictor variables such as overconfidence, loss aversion, anchoring, confirmation bias, framing effect, emotional bias, endowment effect, and others.

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