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Sentimental Effects on Stock Prices in the Nepalese Stock Market

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Abstract

In Nepal's developing stock market, stock prices are not always determined by a company's actual performance or economic indicators. Instead, investor emotions, market rumors, and collective behavior often have a stronger influence. This study explores the influence of psychological and emotional factors, including herd behavior, overconfidence bias, loss aversion, and overreaction or underreaction to news, as well as overall market sentiment and speculation, on stock price movements. The main objective is to examine the short-term relationship between investor sentiment and daily stock price changes. Unlike previous studies in Nepal that focused mainly on technical and financial data, this research highlights real-time emotional influences using 15 days of daily data from the Nepal Stock Exchange (NEPSE), covering one listed company from each of 11 different sectors. Descriptive statistics, correlation, regression analysis, and ANOVA were used to assess the data. The results showed that herd behavior is weakly positively correlated with stock prices, while overreaction and loss aversion have a moderate effect. Overconfidence and market sentiment had relatively weaker impacts. The regression analysis finds a multiple R value of 0.3946, showing a weak positive relationship. The R-squared value indicates that only 15.57% of the variation in stock prices can be explained by these sentiment factors. The adjusted R-squared is even lower at 0.0978. The F-value was 0.3319, with a significance level of 0.8814, which is far above the standard 0.05 threshold. This means the model as a whole is not statistically significant. These findings suggest that while emotional and psychological factors may influence investor behavior, they did not have a strong or consistent impact on stock price changes during the short period studied. Still, recognizing these behavioral patterns is important for investors and policymakers, as emotional trading can lead to unexpected market movements. This study encourages further research with longer timeframes and broader data to better understand the role of investor sentiment in Nepal's financial market.

Keywords: Behavioral finance, herd behavior, investor sentiment, market rumours, overconfidence bias, stock price volatility

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Introduction

Investor psychology, market rumours, and speculative trading significantly influence stock price movements, particularly in emerging markets like Nepal. Traditional finance theories assume that markets are efficient and that investors behave rationally. However, behavioral

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and sentimental factors often cause stock prices to move in ways that do not reflect a company's actual performance or economic fundamentals (Sharma, 2020).

In Nepal's stock market, investor behavior is often shaped by psychological biases such as herd behavior, overconfidence, loss aversion, and emotional responses to news. These behaviors contribute to market inefficiencies and unpredictable price movements.

Herd behavior (HB) occurs when investors follow the majority without conducting independent analysis. This can result in price bubbles or crashes. For example, Shrestha (2020) observed that during the 2016–2017 bull market in Nepal, retail investors followed popular trends, causing stock prices to rise sharply despite weak fundamentals. When the bubble burst in 2017, the NEPSE index dropped by 20%.

Overconfidence bias (OB or OC) leads investors to overestimate their knowledge and decision-making abilities. In Nepal, Koirala (2018) found that 38% of investors reported high confidence in their decisions even without proper research, contributing to excessive risk-taking and price volatility, especially during IPOs and rallies.

Loss aversion (LA**)** is another common behavior where investors prefer avoiding losses over making gains. This bias causes them to hold onto underperforming stocks for too long and sell profitable ones too early. Pandey and Sharma (2021) reported that such behavior contributed to price stagnation in sectors like banking and hydropower.

Overreaction and underreaction to news (OR/UR) also play a significant role in Nepal's market. Koirala (2019) documented that after the 2015 earthquake, investors reacted sharply to negative news, leading to a 10% drop in stock prices. However, as the economy began to recover, investors were slow to adjust their expectations, causing a delayed price recovery.

Market sentiment and speculation (MSS) are powerful drivers of price movements. Positive sentiment, especially during bull markets, leads to overvaluation of stocks, while negative sentiment results in sharp declines. Acharya (2018) highlighted that speculative sentiment during the 2016–2017 boom led to a 25% rise in stock prices, despite weak fundamentals. Similarly, Sharma (2020) noted that positive discussions on social media contributed to a 12% rise in hydropower stocks, while negative sentiment in 2018 triggered a 17% market drop.

Events in recent months of Baishakh and Jestha 2082, there is also illustrate this pattern. On Baishak 28th and Jestha 7th, the market rose briefly after news that the Governor Selection Committee was meeting. On Jestha 14th, rumors about a final budget meeting caused another wave of speculation. In both cases, emotional reactions to news, not company performance, drove price changes (NEPSE, 2025; OnlineKhabar, 2025).

Despite the growing number of investors in Nepal, there is limited research on how emotional and psychological factors affect the market. To explore this, the current study collected 15 days of data from Baisakh 24th to Jestha 14th, analyzing the average stock prices of one company from each of 11 sectors listed on the NEPSE index. This research focuses on emotional and psychological factors such as herd behavior (HB), overconfidence (OC), loss aversion (LA), overreaction/underreaction (OR/UR), and market sentiment and speculation (MSS) to examine how they influence stock price movements.

These examples show that investor sentiment, shaped by emotions, perceptions, and external events, plays a crucial role in the Nepalese stock market. Behavioral finance, which studies how psychology influences financial decisions, provides a useful framework to

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understand these patterns. Understanding these behaviors is essential for investors, policymakers, and financial analysts who want to build a more informed and stable market. This study seeks to highlight the importance of investor sentiment in stock market dynamics and provide insights for better decision-making in Nepal's financial sector.

Statement of the Problem

In an ideal financial market, stock prices should change based on a company's real performance and information. However, in Nepal, the stock market often fluctuates due to people's emotions, news, and rumors, rather than facts. Many investors follow others, become easily excited or scared, and make quick decisions without thorough analysis. This causes stock prices to go up or down in ways that don't always make sense. For example, on Jestha 7 (Wednesday), there was a short rise in the market after people heard that the Governor Selection Committee was meeting. But it didn't last long. Later, around Jestha 14 (Wednesday), rumors about a final budget meeting spread, and again, investors reacted quickly. These examples show how news and expectations can strongly affect investor behavior.

Even though more people are getting involved in the Nepalese stock market, there is still not enough research on how emotions and investor sentiment affect stock prices. To study this, this research collected data for 15 days from Baisakh 24 (Wednesday) to Jestha 14 (Wednesday), using the average price of one company from each of 11 different sectors listed on NEPSE. This research looks at emotional factors like herd behavior (HB), overconfidence (OC), loss aversion (LA), overreaction (OR), underreaction (UR), and the overall market sentiment score (MSS). The goal is to understand how these feelings and behaviors move the market and how we can use this knowledge to make better decisions and build a more stable stock market in Nepal.

Research Questions

I. How does investor sentiment affect stock price movements in the Nepalese stock market?
II. What emotional and psychological factors (like herd behavior, overconfidence, and fear of loss) influence investor decisions in Nepal?
III. Is there a significant relationship between media sentiment and fluctuations in the NEPSE index?

Objectives of the Study

To analyze the impact of investor sentiment on stock price movements in the Nepalese stock market, the following are the main objectives of the study.

I. To analyze the impact of investor sentiment on stock price movements in the Nepalese stock market.
II. To identify and examine the emotional and psychological factors, such as herd behavior, overconfidence, and loss aversion, that influence investor decisions in Nepal.
III. To investigate whether media sentiment and market rumors significantly affect fluctuations in the NEPSE index.

Hypotheses of the Study

Alternative Hypothesis (H_1): Investor sentiment has a significant impact on stock price movements in the Nepalese stock market.

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The hypothesis is tested using a 5% level of significance ($p < 0.05$), and the findings are evaluated to assess the magnitude and direction of the relationships.

Significance of the Study

This study is important because it shows how investor emotions and market rumors can strongly influence stock prices in Nepal. While most past research focused only on company performance or financial data, this research brings in the human side, how fear, excitement, and crowd behavior affect market trends. By analyzing 15 days of data from 11 different sectors in NEPSE, the study helps investors understand the risks of emotional decision-making. It also provides useful insights for regulators and policymakers to create awareness, improve transparency, and reduce the impact of rumors.

Overall, this research helps everyone involved in the market, investors, researchers, and authorities, make smarter, more informed decisions by understanding the emotional forces that drive price changes.

Review of Literature

Empirical Studies

Several studies have examined how investor sentiment and behavioral biases affect stock markets in both developed and emerging economies. In Nepal, although research is limited compared to global literature, some important findings help explain how sentiment-driven decisions impact stock price movements.

Shrestha (2020) conducted an empirical analysis of the Nepalese stock market during the 2016–2017 bull run. The study found that herd behavior among retail investors caused stock prices to rise rapidly, despite weak fundamentals. When the market corrected in 2017, stock prices fell sharply, showing how sentiment can cause short-term distortions in valuation.

Koirala (2018) used a questionnaire-based survey to study the behavioral patterns of Nepalese investors and found a strong presence of overconfidence bias. Many investors claimed confidence in their investment decisions without proper research or financial literacy, which led to speculative trades and price volatility.

Pandey and Sharma (2021) analyzed investor behavior through a combination of survey and market data. Their results indicated that loss aversion played a major role in the decision-making process. Investors were more sensitive to losses than to gains, leading to irrational holding of losing stocks and early selling of winning ones.

Baker and Wurgler (2006) developed a sentiment index for the U.S. market and found that investor sentiment significantly influenced stock prices, particularly for speculative stocks. Similarly, Kumar and Lee (2006) provided evidence that retail investor sentiment, measured through trading activity and volume, strongly impacted returns of high-volatility stocks.

Although Nepal lacks a formal sentiment index, Sharma (2020) conducted sentiment analysis using media reports and investor discussions on social platforms. The findings showed that during both bullish and bearish periods, stock prices in Nepal reacted to mood and tone in the market, often ignoring financial fundamentals.

These empirical studies suggest that sentiment-driven behavior is a common feature in the Nepalese stock market and deserves deeper exploration to improve market efficiency and investor education

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Theoretical Framework

This study is based on Behavioral Finance Theory (BFT), which explains that psychological factors, like emotions, biases, and social influences, affect investor decisions and market outcomes. Unlike traditional finance theories, which assume investors are rational and markets are efficient, behavioral finance acknowledges that humans often act irrationally due to mental shortcuts or emotional responses (Tversky & Kahneman, 1974).

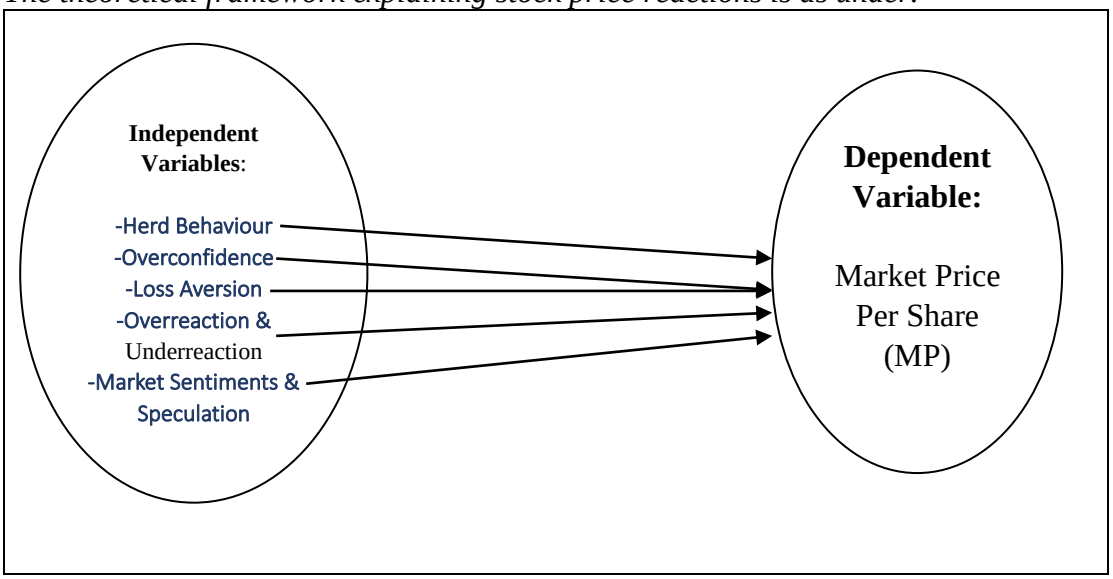
Key concepts in this framework include:

- Herd Behavior: Investors follow others rather than making independent decisions (Banerjee, 1992).
- Overconfidence Bias: Investors overestimate their knowledge or prediction skills (Odean, 1998).
- Loss Aversion: Investors fear losses more than they value gains (Kahneman & Tversky, 1979).
- Overreaction/Underreaction**:** Investors may respond too strongly or weakly to new information (Barberis et al., 1998).

In the context of Nepal, where the market is dominated by retail investors with limited financial literacy, these behaviors are especially visible (Sharma, 2020; Ghimire, 2019). The theoretical framework helps to explain how sentiment and psychology, not just economic data, drive market dynamics (Koirala, 2021; Thapa & Joshi, 2020).

Figure 1

The theoretical framework explaining stock price reactions is as under.



Research Gap

In many developed countries, stock market behavior has been deeply studied using behavioral finance theories such as herd behavior, overconfidence, and loss aversion (Barberis et al., 1998). However, in the context of Nepal, there is limited research on how these emotional and psychological factors influence investor decisions. Most earlier studies have focused on financial indicators, technical analysis, or basic trading patterns (Sharma, 2020). While a few have examined behavioral aspects like herd behavior or investor reactions during initial public offerings (Shrestha, 2020), these works are often limited in scope, rely on small-

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scale surveys, and lack real-time market data. More importantly, very few studies have analyzed how rumors or emotional responses to news impact short-term price movements in Nepal's stock market.

Events like the governor selection meeting on Jestha 7 (Wednesday) or rumors about the final budget on Jestha 14 (Wednesday) clearly showed how quickly the market reacts, not based on facts, but on expectations and hearsay. These kinds of emotional reactions create price swings that don't always match the real value of companies. What's still missing is a clear study that combines behavioral theories with actual market data in Nepal. No research has yet brought together factors like herd behavior, overconfidence, loss aversion, and market sentiment using real trading data across different sectors.

This study tries to fill that gap. It uses 15 days of market data from 11 different sectors listed in NEPSE. It connects this data with emotional factors like herd behavior, overconfidence, and loss aversion to see how investor sentiment affects stock prices. By focusing on the psychological side of investing, the study helps investors, researchers, and policymakers understand how emotions and rumors move the market. This can lead to better decision-making and reduce emotional trading in Nepal's stock market.

Materials and Methods

The materials and methods used to conduct the study detail the data sources, tools for analysis, and techniques used to assess the relationship between market price, herd behavior, overconfidence bias, loss aversion, overreaction/underreaction, and market sentiments and speculations of 11 different companies listed in NEPSE.

Research Design

This study uses a quantitative descriptive and analytical research design to examine how behavioral and sentimental factors influence stock prices in the Nepalese stock market. The approach combines both primary and secondary data sources and applies statistical models to test relationships between variables.

Variables

Dependent Variable (Market Price Per Share (MPPS): Daily 15-day closing stock prices of one selected listed company out of 11 sectors listed in NEPSE in Nepal.

Independent Variables (Behavioral and sentimental factors of the investor): These variables are taken from the structured questionnaire.

HB = Herd behavior

OB or OC = Overconfidence bias

LA = Loss aversion

OR/UR = Overreaction and underreaction

MSS = Market Sentiment and Speculation (Media sentiment and rumors)

Sample Selection

The study focuses on one sample company from the 11 different sectors out of 271 companies listed on the NEPSE. Companies are selected using purposive and convenience sampling based on trading volume, sector representation (e.g., Commercial Banks, Development Banks, Hydro Power Companies, Life Insurance Companies, Non-life Insurance Companies, Finance Companies, Hotels, Manufacturing and Processing, Microfinance Companies, Investment Companies, and Trading Companies), and data availability. For the

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behavioral data, investors participating in NEPSE activities are surveyed using a structured questionnaire.

Data Collection

Dependent Variable (MPPS): Data collected from secondary sources such as the Securities Board of Nepal (SEBON), NEPSE official reports, Sharesansar.com, and other financial databases.

Independent Variables: Behavioral factors are collected through primary data using a structured survey questionnaire targeted at active investors in Nepal. Sentimental factors such as media sentiment and rumors are collected from financial news articles, social media platforms, and investor forums, using text mining techniques for sentiment scoring.

Research Model

A multiple linear regression model is used to examine the relationship between the independent variables (behavioral and sentimental factors) and the dependent variable (MPPS). The model is expressed as:

$$MPPS = a + b_1(HB) + b_2(OC) + b_3(LA) + b_4\ (OR/UR) + b_5\ (MSS)$$

Where

α = represents the intercept of the regression equation.

b_1, b_2, b_3, b_4, and b_5 = Beta are the regression coefficients of HB, OC, LA, OR/UR, and MSS, respectively.

Analytical Tools and Techniques

- Excel: It is used for statistical analysis.
- Descriptive statistics: It is used to describe investor behavior and sentiment levels.
- Correlation analysis: It is used to assess the strength of relationships between variables.
- Multiple regression analysis: It is used to test the significance of behavioral and sentimental effects on MPPS.

Limitations

- The study focuses only on listed companies in NEPSE, so findings may not apply to unlisted or informal markets.
- Behavioral responses are influenced by biases in self-reporting of different respondents.
- Sentiment analysis may not fully capture the complexity of investor emotions from textual data.
- Market rumors are difficult to quantify and may not always be verifiable.

Result and Discussion

These insights support the objectives of this study is to explore how behavioral and emotional factors influence stock price movements in Nepal. The results of this research are presented in tabulation form, and the discussions are as under.

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Table 1

Average MPPS, HB, OC, LA, OR, UR, and MSS of 15 days of Data

May	Bai/Jestha	MP	HB	OC	LA	OR/UR	MSS
7	24	2157	25	22	24	21	20
8	25	2140	24	21	20	24	21
11	28	2150	20	20	15	12	16
13	30	2132	17	17	13	15	17
14	31	2143	19	15	20	12	9
15	1	2118	21	16	23	29	8
18	4	2108	15	17	13	18	18
19	5	2112	27	22	22	19	23
20	6	2142	14	23	12	20	22
21	7	2143	19	21	8	21	23
22	8	2132	11	18	12	16	16
25	11	2126	17	8	20	9	10
26	12	2131	7	7	16	20	21
27	13	2131	10	12	18	6	8
28	14	2135	4	11	14	8	18
Total			250	250	250	250	250

Note: Appendix

Table 1 shows the 15-day market price of stock, focusing on average market closing price per share (MP) and behavioral factors like HB, OC, LA, OR/UR, and MSS for selected companies across 11 sectors listed in NEPSE. Throughout this short period, the MPPS stayed within a narrow range, from Rs 2108 to Rs 2157, but the behavioral indicators shifted frequently. On Jestha 7 (May 21), for instance, when there was talk about the governor selection committee meeting, HB and OC were quite high. This suggests that many investors were following others and felt confident based on expectations, even without confirmed news.

On Jestha 1 and 5, loss aversion values were also high, showing that fear of losing money influenced decisions more than actual company performance. Such emotional reactions often led to cautious behavior or hesitation in trading.

Interestingly, OR/UR showed significant variation across the days, reflecting how investors sometimes overreacted to minor news or underreacted to real changes. These behaviors often did not align with the steady MPPS values, which indicates that sentiment, not price logic, was driving decisions.

MSS scores also fluctuated, especially around Jestha 7 and 13, aligning with widespread rumors about the final governor selection committee meeting and final budget meeting. This shows that even unconfirmed reports had a noticeable impact on investor mood and actions.

Overall, this table supports the idea that in Nepal's stock market, emotional and psychological factors heavily influence price movements. Even when prices remain stable, investor reactions driven by news, rumors, and personal biases cause noticeable shifts in

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behavior. This analysis highlights the importance of understanding investor sentiment to better manage market decisions and stability.

Table 2

Descriptive Statistics

Tools	MP	HB	OB	LA	OR/UR	MSS
Average	2133.33	16.67	16.67	16.67	16.67	16.67
SD	3.48	1.71	1.33	1.22	1.64	1.41
CV	0.1631	10.26	7.98	7.32	9.84	8.46
Correlation		0.0807	0.2714	-0.069	-0.093	0.1513
Coefficient of Determination (R^2)		0.0065	0.0737	0.0048	0.0086	0.0229

Note: Appendix

Table 2 presents the basic statistical features of the data, helping us understand how investor sentiment and behavior relate to stock price movements in Nepal. The average market price (MP) during the study period was 2133.33. The other variables, HB, OB, LA, OR/UR, and MSS, all had similar average scores (16.67), as they were measured using a standard scale.

The standard deviation (SD) shows how much the values moved away from the average. The market price had very low variation (SD = 3.48), meaning it was quite stable during the 15 days. Among the behavioral factors, herd behavior had the highest variation (SD = 1.71), suggesting that investor actions changed more in that area.

The coefficient of variation (CV) helps compare variability in percentage terms. The CV for the market price was extremely low (0.16%), showing that prices did not change much. In contrast, CVs for investor behaviors were higher, HB had the highest (10.26%), followed by OR/UR (9.84%) and MSS (8.46%), indicating that these emotions and reactions were more unstable and inconsistent.

Looking at the correlation values, all investor behaviors had weak relationships with stock prices. The highest correlation was with overconfidence (0.2714), while loss aversion and overreaction/underreaction had negative correlations. This suggests that some behaviors slightly influenced prices, but not very strongly.

The coefficient of determination (R^2) values were also very low, meaning only a small percentage of price movements could be explained by each behavior individually. For example, only 7.37% of the price changes could be explained by overconfidence, while herd behavior explained just 0.65%.

In short, the descriptive statistics show that investor sentiment varies more than the stock prices themselves. Although individual behaviors don't have a strong direct influence on prices, their combined effect might still be significant, which is further explored in the regression and hypothesis testing sections.

Table 3 shows the correlation between MP and various investor behavior factors: HB, OC, LA, OR/UR, and MSS. Correlation values range from -1 to +1. A value closer to +1 shows a strong positive relationship, while a value closer to -1 indicates a strong negative relationship.

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Table 3

Correlation Analysis

	MP	HB	OC	LA	OR/UR	MSS
MP	1					
HB	0.0807	1				
OC	0.2714	0.658	1			
LA	-0.069	0.517	-0.0663	1		
OR/UR	-0.093	0.491	0.4853	0.1692	1	
MSS	0.1513	0.132	0.4986	-0.3594	0.3839	1

Note: Appendix

The correlation between MP and HB is very low (0.0807), suggesting that herd behavior does not strongly influence stock prices directly during the observed period. However, it may still affect market trends in the long run.

The correlation between OC and MP is a weak positive correlation (0.2714), meaning that as investor confidence increases, prices may rise slightly, though the relationship is not strong. Loss aversion (LA) has a slight negative correlation with MP (-0.069), indicating that fear of losses may cause prices to fall slightly, but the impact is minimal.

Overreaction and underreaction (OR/UR) show a weak negative correlation with MP (-0.093), suggesting that inconsistent reactions to news and events may slightly reduce price stability. Market sentiment and speculation (MSS) have a low positive correlation with MP (0.1513), meaning that media influence and market mood may push prices up, but not significantly.

Among all variables, overconfidence (OC) shows the strongest positive correlation with other psychological factors like HB (0.658), OR/UR (0.4853), and MSS (0.4986), suggesting that when investors are overly confident, they are also more likely to follow trends, react emotionally to news, and be influenced by media.

Overall, the correlation analysis shows that individual behavioral factors do not strongly move prices alone, but together they create a psychological environment that can influence the market. This supports the study's view that understanding investor sentiment is important for predicting and managing stock market behavior in Nepal.

Table 4

Regression Statistics

Regression Statistics	
Multiple R	0.3946
R Square	0.1557
Adjusted R Square	0.0978
Standard Error	15.459
Observations	15

Note: Appendix

Table 4 presents the regression analysis results, which shows how well investor behavior and sentiment factors explain stock price movements in Nepal. The multiple R value is 0.3946. This indicates a weak positive relationship between the dependent variable MP and the independent variables HB, OC, LA, OR/UR, and MSS.

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The R-squared value is 0.1557, meaning that only about 15.57% of the variation in stock prices can be explained by the behavioral and emotional factors for this 15-day period included in the model, but it may highly affect in the long run period. This suggests that while these factors do have some influence, other variables not included in the model may also play a significant role.

The adjusted R square is 0.0978, which means that approximately 9.78% of the variability in the dependent variable is explained by the regression model, after accounting for the 5 number of predictors. It means there is a slightly significant role of HB, OC, LA, OR/UR, and MSS on MP.

The standard error is 15.459, showing how much the actual stock prices differ from the predicted values. A smaller value would suggest more accurate predictions, so this indicates a moderate level of error in the predictions. There are 15 observations, which means the regression is based on 15 days of data.

At last, the regression results suggest that while investor sentiment and behavioral biases do have a simple effect on stock prices in Nepal, the relationship is not very strong in this short-term 15-day sample. More data or additional factors may be needed to better understand the full impact of investor psychology on market movements.

Table 5

Hypothesis Testing (ANOVA)

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	396.6	79.31363	0.3319	0.8814
Residual	9	2151	238.9739		
Total	14	2547			

Note: Appendix

Table 5 shows the results of hypothesis testing using ANOVA (Analysis of Variance), which helps us determine whether the investor behavior and sentiment factors have a meaningful effect on stock price movements in Nepal.

The regression part of the table shows 5 degrees of freedom, with a sum of squares (SS) of 396.6. This represents the portion of variation in stock prices that is explained by factors like HB, OC, LA, OR/UR, and MSS. The mean square (MS) is 79.31, calculated by dividing the SS by the degrees of freedom.

The F-value is 0.3319, which checks the overall effectiveness of the model. A higher F-value generally means the model explains the dependent variable well. However, in this case, the F-value is low. The significance of F is 0.8814, which is much higher than the 0.05 threshold. This means the model is not statistically significant, and there is no strong evidence that the behavioral and sentiment factors in this model explain changes in stock prices.

The residual row shows the part of the variation that the model could not explain, with a sum of squares of 2151 and a mean square of 238.97. This is based on 9 degrees of freedom. The total variation in stock prices is 2547, which includes both the explained and unexplained variations.

In summary, the ANOVA results suggest that, based on this 15-day sample, the selected behavioral and sentimental factors do not significantly impact stock prices in the Nepalese market. A larger dataset or more variables might be needed to find stronger relationships.

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Summary and Major Findings

Summary

This study explored how investor sentiment affects stock price movements in Nepal using 15 days of recent market data. In Nepal, where most investors are individuals with limited access to financial education, emotions like excitement, fear, and market rumors can influence buying and selling decisions. This study focused on key emotional and psychological behaviors: herd behavior, overconfidence, loss aversion, overreaction/underreaction, and market sentiment and speculation.

The study used data from one company in each of the 11 sectors listed on the Nepal Stock Exchange (NEPSE), covering 15 trading days (from Baisakh 24 to Jestha 14). Statistical tools like descriptive statistics, correlation, regression analysis, and ANOVA were used to analyze the data.

Main Results

- The average stock price during the 15 days was Rs. 2133.33.
- The behavioral factors had average scores of 16.67, but with some variation.
- Herd behavior showed the highest variation (CV = 10.26), meaning it changed more often than other factors.
- Correlation results showed weak relationships between individual sentiment factors and stock prices. Overconfidence had the highest positive correlation (0.27), while loss aversion and overreaction had negative or weak effects.
- The regression model explained 15.57% of the stock price movements ($R^2 = 0.1557$), suggesting a weak relationship overall, possibly due to the short time frame.
- The ANOVA test showed that the model was not statistically significant ($p = 0.8814$), meaning the sentiment factors did not strongly influence prices during this short period.

Key Findings

- Although some behaviors (like overconfidence) showed mild influence, the overall effect of sentiment on short-term price changes was weak.
- The low R^2 and high p-value suggest that price changes in the 15 days were not strongly driven by sentiment factors alone.
- However, high variation in behaviors like herd behavior indicates that emotions were unstable and may influence prices more over a longer time.
- Short-term price changes in Nepal are often affected by rumours and news rather than deep financial analysis.

In the short term, investor sentiment showed a weak influence on price changes. But the changing behaviors and emotional reactions observed during the 15 days hint at a larger impact over time. This supports the need for longer studies and better investor awareness. Improving financial literacy and reducing emotional trading can help create a more stable and rational market in Nepal.

Conclusion

This study aimed to understand how investor sentiment, such as herd behavior, overconfidence, loss aversion, overreaction/underreaction, and market speculation, affects stock price movements in Nepal's stock market over a short 15-day period. The main objective was to test whether emotional and psychological factors have a significant impact on stock prices.

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Correlation analysis showed weak relationships between stock prices and individual sentiment factors. Herd behavior had a very low positive correlation (0.08), while loss aversion and overreaction had slight negative correlations. This means no single sentiment factor had a strong link to price changes during this short time.

Regression results showed that only about 15.5% ($R^2 = 0.1557$) of stock price changes could be explained by investor sentiment, and the adjusted R^2 is 9.78%, suggesting the model is not strong. The standard error is high, indicating less accurate predictions. Hypothesis testing using ANOVA gives a high significance value ($p = 0.88$), which means the model was not statistically significant at the 5% level. In other words, the data did not support the hypothesis that investor sentiment significantly affects stock prices over this short period.

Despite these weak short-term findings, some sentiment patterns, like herd behavior and media-driven speculation, still showed signs of influencing investor decisions. However, the impact may be more visible over a longer time frame.

This study suggests that short-term stock market behavior in Nepal may not always be driven by psychological factors alone, but these should still be considered, especially for longer-term planning, investor education, and building a more stable and informed market.

Recommendations

Based on the findings of this study, the following recommendations can help improve investment practices and market stability in Nepal.

I. Conduct longer-term studies: This research used data from only 15 days. Future studies should use a longer time frame, such as several months or years, to get a clearer picture of how investor sentiment affects stock prices.

II. For investors: Investors should try to recognize their emotional biases, like herd behavior and overconfidence. Making decisions based on facts, financial analysis, and long-term goals rather than following the crowd or reacting to rumors can lead to better outcomes.

III. For regulators: Regulators should monitor how news, rumors, and media affect investor sentiment. Stricter control on misinformation and timely updates from official sources can reduce panic and improve trust in the market.

IV. For policymakers: More awareness programs and training on behavioral finance should be introduced. Teaching investors about how emotions impact decisions can help them become more informed and responsible participants in the market.

V. For media and influencers: News outlets and social media influencers should share accurate, balanced, and responsible content. Avoiding sensational headlines or unverified information can reduce unnecessary market reactions.

VI. For academic and financial institutions: Institutions should promote more research on behavioral finance in Nepal. Understanding how emotions influence investment decisions can lead to better tools, policies, and education for future investors.

These recommendations aim to create a more informed, stable, and resilient stock market environment by reducing emotional decision-making and promoting data-driven investing in Nepal.

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Appendix I

15 days Closing Market Price in the Market Rumor from Bishakh 24 to Jestha 14 2082 (in Rs)

Bai/Jes	May	NABIL	API	SAPDBL	STC	NIFRA	NLIC	DDBL	BNT	OHL	GFCL	SICL	Avg. MP
24	7	483	311	876	5188	288	764	782	12750	852	654	777	2157
25	8	483	318	848	5180	288	760	795	12581	852	676	762	2140
28	11	486	313	813	5206	284	753	788	12693	902	655	759	2150
30	13	487	306	799	5239	280	759	785	12502	883	656	757	2132
31	14	484	296	795	5214	276	754	778	12700	867	648	760	2143
1	15	482	295	753	5124	276	753	772	12560	891	640	756	2118
4	18	480	287	715	5076	274	751	783	12467	945	651	754	2108
5	19	483	292	787	5061	276	753	784	12450	960	648	743	2112
6	20	488	304	866	5083	286	762	796	12583	987	657	753	2142
7	21	494	299	907	5033	283	764	786	12616	991	649	755	2143
8	22	500	295	888	5004	283	762	821	12551	948	647	756	2132
11	25	497	292	843	5005	279	760	832	12560	921	641	755	2126
12	26	498	291	842	5005	280	759	819	12648	907	646	743	2131
13	27	496	291	906	4998	278	757	812	12622	901	637	745	2131
14	28	500	296	942	5014	280	758	807	12600	907	636	750	2135

Note: Sharesansar.com

Appendix II

Questionnaire for Research on Behavioral and Sentimental Factors Affecting Stock Prices in Nepal.

Namaskar, me Chandra Prasad Adhikari, a researcher. Welcome to this survey. The purpose of this research is to explore how investor behavior and sentiment affect stock price movements in the Nepalese stock market. Your responses will remain anonymous and will be used only for academic purposes.

Section A: Demographic Information

1. Age:
   ☐ Below 25 ☐ 25–35 ☐ 36–45 ☐ 46–60 ☐ Above 60
2. Gender:
   ☐ Male ☐ Female ☐ Other
3. Education Level:
   ☐ Intermediate (+2) ☐ Bachelor's ☐ Master's ☐ Above
4. Occupation:
   ☐ Student ☐ Job Holder ☐ Business ☐ Retired ☐ Other …….
5. Investment Experience in the Stock Market:
   ☐ Less than 1 year ☐ 1–3 years ☐ 4–6 years ☐ More than 6 years
6. Investor Type:
   ☐ Individual/Retail Investor ☐ Institutional Investor

Section B: Behavioral and Sentimental Factors (Likert Scale Questions)

Rate each statement on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree).

1 ☐ Strongly Disagree 2 ☐ Disagree 3 ☐ Neutral 4 ☐ Agree 5 ☐ Strongly Agree

Herd Behavior (HB):

7. I often follow what most other investors are doing.
   ☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree
8. I buy or sell stocks based on market trends rather than my analysis.

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☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

9. I feel more confident when investing in stocks popular among others.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

Overconfidence Bias (OB or OC):

10. I believe my knowledge of the stock market is better than most investors.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

11. I rarely seek advice from others before making investment decisions.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

12. I am confident that my predictions about stock prices are usually correct.

Loss Aversion (LA):

13. I feel worse about losing money than I feel good about making profits.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

14. I hold on to losing stocks too long, hoping they will rebound.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

15. I quickly sell winning stocks to lock in gains.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

Overreaction and Underreaction to News (OR/UR):

16. I make investment decisions quickly after hearing news or rumors.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

17. I sometimes ignore new information and stick to my original decisions.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

18. I have sold or bought stocks immediately after a major political or economic event.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

Market Sentiment and Speculation (MSS):

19. I follow social media and news sentiment before making investment decisions.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

20. I invest based on market mood even if fundamentals are unclear.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

21. I have participated in speculative trading based on anticipated trends.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

Section C: Stock Price Movements (Perceived Impact)

22. I believe investor sentiment significantly affects stock prices in Nepal.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

23. I have seen stock prices move based on news or rumors alone.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

24. Sentiment often causes stock prices to deviate from their actual value.

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

Section D: Final Question

25. Do you have any suggestions or experiences related to how sentiment affects stock prices? *(Open-ended)*