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An Investment Strategy of Individual Decision-Making Behavior on the Stock Market in Nepal

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Abstract

This study analyzes key factors influencing individual investors' decision-making in the stock market and examines how changes in subgroup investment affect their choices. Using primary data, the research investigates factors such as investors' product purchasing information, psychology, regulatory policies, subgroup index changes, and investment decisions. To achieve the objectives, tools like tables, percentages, modes, medians, and ordinal logistic regression were applied. Data from 193 respondents, collected via physical and online surveys mainly from Kathmandu Valley, indicate most investors are young (ages 21-40), male, married, and from Bagmati province. Findings show that investors' financial goals and investment horizons influence their behavior; some focus on long-term capital appreciation while others prefer short-term gains or income. The study highlights major determinants of investment decisions and the effects of subgroup index changes on investor behavior. The research concludes that investors' information about stock purchasing, psychological factors, regulatory policies, and economic conditions significantly affect investment decisions, which are also impacted by changes in subgroup index investments.

Keyword: investment decisions, individual investors, stock market, sub-group index, capital appreciation

Introduction

Nepal's stock market has experienced significant growth, creating opportunities for investors to participate in the country's economic development. With increasing investor participation, effective investment strategies have become essential for informed decision-making and risk management. This trend has brought sophistication and professionalism to Nepal's investment landscape, driven by greater investor awareness and education that prioritize well-defined investment plans over speculative decisions based on rumors or market volatility. The growing presence of institutional investors has further boosted market liquidity and influenced the behavior of individual investors (Thapa, 2008). Popular investment strategies such as fundamental analysis, technical analysis, value investing, growth investing, and index investing are shaping this evolving market environment. Theoretical frameworks like Tobin's Q theory offer insight into firm investment decisions by linking market valuation to capital investment incentives, while Modern Portfolio Theory (MPT) provides

a scientific basis for portfolio diversification to optimize risk-return tradeoffs (Yoshikawa, 1980; Mangram, 2013). Additionally, the Efficient Market Hypothesis (EMH) explains that market prices reflect all available information, highlighting forms of market efficiency that influence investor expectations and behavior (Sewell, 2011). Investor decision-making in Nepal is also shaped by diverse internal and external factors—including economic indicators, psychological influences, regulatory conditions, and personal investment goals—making the stock market a complex arena requiring nuanced strategies.

Problem Statement

Despite the expanding Nepalese securities market—characterized by increasing numbers of listed companies, turnover, and market capitalization—the factors influencing individual investor decision-making remain insufficiently understood. In particular, how shifts in subgroup indices, which track specific sectors, affect investor behavior has not been comprehensively studied. Understanding these influences is critical because subgroup index performance can strongly affect investor perceptions, risk appetite, and investment allocation decisions. This lack of clarity impedes the formulation of investment strategies that could help investors optimize profits and manage risks effectively in Nepal's growing but volatile stock market landscape.

Research Objectives

- To analyze the major factors determining individual investors' decision-making behavior in the Nepalese stock market.
- To examine how changes in subgroup investment trends influence investors' investment decisions.

Literature Review

International Review

Stock market decision-making requires a global understanding of human nature, timely access to information, and a deep understanding of human nature to prevent herding, risk aversion, prospecting, and anchoring (Wamae, 2013). Market, hedging, and economic factors have a bigger impact on the decision-making and usage of business annual reports that show how financial ratios affect stock market decision-making by investors (Khan et al., 2015). In addition, Brennan and Torous (1999) discovered that an equally weighted portfolio consisting of no more than five randomly selected small enterprises can yield a higher return on investment than a value-weighted market portfolio.

Sochi (2018) revealed that retail investors' investment decisions are influenced by behavioral factors, revealing the relationship between socio-economic characteristics and investment outcomes, and behavioral finance aims to explain market anomalies. Thus, the socioeconomic characteristics of investors have a statistically significant impact on the investment decisions of individual investors (Kengatharan, 2019).

Moueed et al. (2015) explore psychological and social factors influencing investment decision-making, particularly among female investors. But, Chaitanya et al. (2021), social media might strengthen the effect of psychological factors on investment decision-making, which was found to be insignificant in this study. Similarly, Naseem et al. (2021) found that investor psychology negatively impacted stock market behavior during COVID-19, suggesting policymakers should design resilience-focused strategies to combat crises.

The state of financial statements, the situation of the economy, the outcome of technical analysis, and "insider information" are all necessary components of a "delight" attribute. Industry-specific aspects are taken into account while making investment decisions, which helps in understanding investor behavior by a variety of stakeholders (Patil & Bagodi, 2021).

Similarly, Ogunlusi and Obademi (2021) showed a positive impact of behavioral finance on investment decisions. And, Thaddeus et al. (2022) stock market capitalization negatively impacted economic growth in the short term but had a significant long-term positive effect.

National Review

Vaidya's (2021) used grounded theory and explores Nepalese buyers' financial decisions in the secondary market, revealing conflicting opinions on the relationship between the economy and stock market and the impact of inaccurate information. Panta's (2020) study used an autoregressive distributed lag (ARDL) model to analyze the relationship between stock market prices and macroeconomic variables, finding that long-term changes in the NEPSE Index are closely related.

Bajracharya (2018) explores the link between socioeconomic traits and investment choices, revealing that investors prioritize steady income and long-term profits over short-term gains. Budhathoki (2020) highlights the importance of personal attributes and social interactions in individual investors' investment decisions, contrasting with company profiles, regulatory policies, and firm images. Dhungel (2010) market price is influenced by NRB regulations, and NEPSE should reduce fees for investor welfare.

Similarly, Karmacharya et al. (2022) Investor decision-making influenced by market heuristics and herding behavior. Upadhyaya (2019) agreed with Karmacharya et al. (2022) and added that information leaks and rational decisions are also influenced by investment decisions. Pandey et al.'s (2020) Psychological factors significantly influence investor investment decisions, while herding behavior has no significant impact (Bakar & Yi, 2016).

The capital market in Nepal is trending irregularly and is immature, and investors have no incentive to invest in the companies. The development of the capital market is also clear. Nepalese investors mostly consider companies reputations and performance before investing in any stock. The Nepalese economy is in a fluctuating situation. The stock market has a positive and direct relationship with economic development in Nepal (Subedi, 2020).

Mishra and Aithal (2023) underscore the growing influence of sustainable finance practices like green banking in shaping investor preferences toward ethical and environmentally responsible investments.

Advances in data analytics and artificial intelligence are revolutionizing financial decision-making, enabling more accurate forecasting, risk management, and fraud detection, which contribute to more informed and confident investor behavior (Celestin & Mishra, 2025a;b). These technological advancements resonate with Nepalese investors who are becoming increasingly aware of the importance of evidence-based investment strategies as opposed to speculative decisions driven by rumors or market volatility.

Given this multifaceted context, the need for comprehensive research addressing both behavioral and technical factors is critical to understand individual investor decision-making. Enhancing market transparency through improved fraud detection (Kushwaha et al., 2025) and leveraging technological tools (Celestin et al., 2025) are pivotal to fostering sustainable investment growth. This integrated perspective supports the development of more sophisticated, data-driven investment strategies, aligned with the expectations of Nepal's evolving investor base.

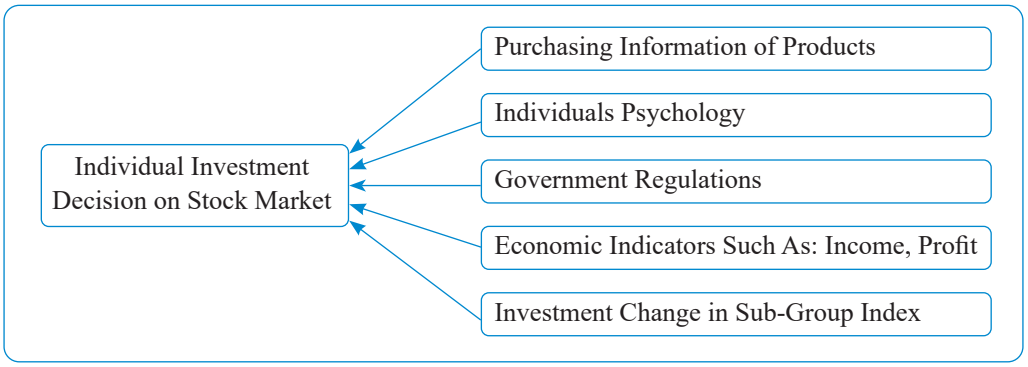
Methodology

This descriptive study focuses on investment strategy in individual decision-making behavior in Nepal. It uses a descriptive research design to collect data for analysis and draw relevant conclusions. The study examines facts and postulates in detail and provides important information on subject matter, major findings, and conclusions. This study adopts both descriptive and statistical analysis for data interpretation.

The conceptual framework of investing strategies for individuals' decision-making in the Nepalese stock market is complex and includes a number of essential elements in my study.

Figure 1

Conceptual Framework



Information of Purchasing Scripts

Individuals' decision-making begins with the collection of relevant information, such as the script's financial statement, reports, past performance, expected return, status, published newspaper article, and price history.

Individual Psychology

This term encompasses various aspects of investment, including short-term and long-term strategies, portfolio diversification, reinvestment from a previous mindset, seeking professional advice, and ensuring safety and security.

Company's Government Regulations

Regulatory rules in the stock market significantly influence decision-making behavior, promoting ethical behavior, accountability, and transparency, ultimately creating a reliable market environment and boosting investor confidence. The MOF taxation policies, NRB and SEBON directives, and preference for government regulations.

Company's Economic Indicators

Are considered, such as income, profit margins, cash flow, debt levels, return on equity, dividend yield, price-to-earnings ratio (PE ratio), etc. These economic indicators assist investors in making well-informed decisions based on a thorough, detailed understanding of a company's financial health and growth potential.

Investment Change in Sub-group Index-wise

Investors increasingly favor sub-group index-wise strategies in the stock market, focusing on specific sectors through exchange-traded funds (ETFs). This trend capitalizes on sector growth opportunities and aligns with thematic investing, enhancing portfolio diversification and risk management.

Individual Investment Decision on Stock Market

The dependent variables of the study are individual investment decisions on the stock market. Investment decisions are dependent on independent variables (such as information, psychological factors, economic indicators, and government regulations). Measurements and careful implementation of dependent variables are significant for the reliability and validity of research findings.

Nature and Source of Data

The study is based on primary data. Quantitative data would be taken for the study of the research. Primary data was gathered from individual investors in the Kathmandu Valley, Nepalgunj and other different places through a questionnaire and interview method. To collect the necessary information, the examiner also discusses it with professionals and uses an observation method that will help in the present report.

Population, Sample, and Sampling Procedure

The study uses a descriptive research design to study investors in Nepal's stock exchange market. A sample of 193 investors was selected from 211 participants through online and physical surveys. The sampling procedure is stratified, dividing respondents by age, gender, qualifications, and investment. The 193 respondents were chosen based on the researcher's discretion, ensuring a sufficient sample size for the study.

Tools and Methods of Primary Data Collection

In this study, first-hand information was gathered through the questionnaire method (online or in-person survey). To fulfill the research objective, various tools such as tables, percentages, mean, correlation and ordinal logistic regression analyses model were used to examine the results. The Cronbach Alpha' technique was used to check the reliability of the data, and SPSS and MS Excel were used for data analysis and organization of the study. The remaining item's Cronbach alpha was 0.845, indicating good internal consistency.

Results and Discussion

The study of 193 investors found that information, psychological factors, economic indicators, and government regulations strongly influence investment decisions in Nepal's stock market. Accurate data, stable policies, and investor confidence together shape effective and informed investment behavior.

Table 1

Demographical Variable

Characteristic	Category	Number	Percentage (%)
Gender	Female	69	35.8
	Male	124	64.2
Age	Below 21 years	15	7.8
	21 to 30 years	58	30.1
	31 to 40 years	57	29.5
	41 to 50 years	33	17.1
	51 to 60 years	22	11.4
	60 above years	8	4.1
Education Level	Under SLC	1	0.5
	SLC	12	6.2
	+2	21	10.9
	Bachelor	82	42.0
	Masters	74	38.3
	Masters above	4	2.1
Monthly Income (NPR)	30,000	52	26.9
	50,000	106	54.9
	100,000	30	15.5
	Above 1 lakh	5	2.6
Marital Status	Married	118	61.1
	Unmarried	75	38.9
Total	—	193	100

Table 1 shows the age, gender, marital status, and education level of respondents. There are 69 female and 124 males' respondents in this survey. The highest participation of male, married respondents then female and unmarried respondent. Most of the respondent are 21 to 30 years and 31 to 40 years old, but lower participation of above 60 years and below 21years age group people. It means young people are attracted to investing in the stock market.

Correlation Matrix of the Variable

The correlation matrix of Table 3 shows that there is a positive correlation between Information, psychology policies, economic-factor, subgroup index investment and Decision making.

Table 2

Correlation Matrix of the Variable

Factors	Information	Individual Psychology	Regulatory Policies	E-Factor	Sub-Group Investment	Decision Making
Information	1.00					
Individual Psychology	.493	1.00				
Regulatory Policies	.374	.363	1.00			
E-Factor	.245	.318	.463	1.00		
Sub-group Investment	.056	.292	.086	.028	1.00	
Decision Making	0.84	.144	.125	.269	.323	1.00

Table 3

Summary Statistics of the Variable

Variable	N	Min	Max	Mean	Std. dev.
Individual purchasing information of stocks,	193	1	5	1.89	0.72
Individual investors Psychology,	193	1	5	2.49	1.06
Company's Regulatory Policies,	193	1	5	2.04	0.70
Company's economic Factors,	193	1	5	1.71	0.59
Investment change in sub-group index-wise,	193	1	5	2.19	0.87
Individual decision	193	1	5	2.04	0.58

Ordinal Logistic Regression

Ordinal Logistic Regression is a method used to predict a dependent variable, given set of independent variables such that the independent variable is ordered like strongly agree, agree, neutral, disagree and strongly disagree. Simply, it is used to convert the independent variable in to an expression of probability order 1,2,3,4,5 with respect to dependent variable.

$$\text{Logit } \{P(Y \leq j)\} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10}$$

Where,

Y = Investment Decisions making

X_1 = Age

X_2 = Gender

X_3 = Marital Status

X_4 = Education level

X_5 = Monthly Income

X_6 = Purchasing Information of Stock

X_7 = Investors Psychology

X_8 = Regulatory policies

X_9 = Economic Factors

X_{10} = Investment change in sub-group index

α = Constant/ Intercept and

$\beta_1 + \beta_2 ... + \beta_5$ = Coefficient of respective variables

Table 4

Model Fitting Information

Model Fit	-2 Log Likelihood	Chi-square	D.f	Sig.
Intercept Only	337.045			
Final	285.981	51.064	24	.001

From the table 4.12 -2LL of the model with only intercept is 337.045 while the -2LL of the final model is 285.981 whereas final model includes predictors and an intercept. The chi square statistics is 51.064. In this case, the OLR model is associated because the p value is less than 0.05 (P<0.005). Which is significant at the 5% level of significance. This indicates that there is significance relationship between the dependent variable and independent variable in the final model.

Table 5

Goodness-of-Fit

	Chi-square	D.f	Sig.
Pearson	628.132	540	0.006
Deviance	284.595	540	1.000

Table 4.21 shows that Goodness of fit. The Pearson's chi square is 628.132 and the deviance residual is 284.595 at 540 degrees of freedom. Both have a p value 0.006 and 1.000, respectively, indicating that they are both statistically significant. An excellent match between the calculated model and the OLR model is indicated by significant p values.

Table 6

Pseudo R-Square

Model Summary (Goodness-of-Fit Measures)	Value
Cox and Snell	.232
Nagelkerke	.281
Mc Fadden	.151

Table shows that Pseudo R- Square measures are Cox and Snell is .232, Nagelkerke's .281 and McFadden is .151. In this case, there has been 15.1 % improvement in the prediction of outcome based on the predictors in comparisons to the null model.

Table 7

Parameter Estimates (Ordinal Regression Model)

Parameter	Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold							
Individual Decisions	38.787	3.037	163.135	1	.000	32.835	44.739
Location							
Age	0.031	0.172	0.320	1	.859	-0.307	0.368

Parameter	Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Gender	0.073	0.373	0.038	1	.845	-0.657	0.803
Marital status	0.168	0.413	0.165	1	.865	-0.642	0.978
Education level	0.022	0.177	0.015	1	.902	-0.325	0.368
Monthly Income	1.291E-6	1.054E-6	1.501	1	.221	-7.743E-7	3.356E-6
Information	18.667	0.856	475.439	1	.000	16.989	20.345
Psychology	0.139	0.950	0.210	1	.884	-1.723	2.001
Regulatory policy	16.619	0.818	412.763	1	.000	15.015	18.222
Economic Factor	3.360	2.742	1.502	1	.220	-2.014	8.734
Subgroup index investment	1.008	0.993	1.032	1	.310	-0.937	2.954

Ordinal logistic regression uses parameters to describe the relationship between predictor variables and an ordinal outcome.

Conclusion

The study is conducted on investment strategies of individual investment decision-making behavior on the stock market in Nepal with the objective to analyze the major factors that determine investment decisions and the impact of investment change in a subgroup-wise manner while the market is growing.

There are different types of investors who invest in the stock market, such as risk-takers and risk-avoiders. They invest short-term, mid-term, and long-term. Most investors prefer to buy a company's stocks by looking at the company's financial details, price, PE ratio, past performance, potential future, and dividend-yielding capacity. Also, individual investors psychology plays a crucial role in their decision-making in the stock market. Lots of investors prefer to invest in the long term. Long-term investors invest in stocks that are more secure, less volatile, and fundamentally strong, but short-term investors invest in more volatile stocks.

More investors prefer to buy shares with the previous mindset, but long-term investors do not want to take risks. Investors love that the stock price and the whole stock market are influenced by interest rates. They prefer portfolio diversification, short-term trading, increased investment, and seeking suggestions in the decision-making process. Individual investors purchasing information on stocks, investors psychology, regulatory policy, and economic factors have a significant and positive relationship with individual investment decisions. Individual investment decision-making behavior is influenced by purchasing information of stocks, investors psychology, economic factors, and regulatory policies. Also, individual investors change their investments while the market is growing sector-wise.

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