

**“Behavioural Biases and Individual Investors' Stock Market Investment Decisions:  
Evidence from Nepal”**

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**Abstract**

*This study explores how behavioral biases affect individual investors' investment decisions in the stock market in Nepal, particularly the overconfidence, representativeness, availability, anchoring and herding biases. The research stems from theories in behavioral finance like Prospect Theory and Heuristics and Biases program, which has identified a lack of knowledge about investor psychology in the developing stock market of Nepal, NEPSE, where conventional rational assumptions are not always applicable. The type of research design used was descriptive and causal-comparative research design. A total of 385 individual investors from the convenience sample of Rupandehi of Nepal were contacted to collect the primary data of this study through a structured questionnaire. Cronbach's alpha ( $> 0.68$  for all constructs) was used to measure reliability. Descriptive statistics, Pearson correlation and multiple regression was used in SPSS for data analysis. The findings show statistically significant positive correlations between all the behavioural biases and investment decisions ( $r = 0.61 - 0.69$ ;  $p < 0.01$ ). The five biases accounted for 62% of the variation in investment decisions ( $R = 0.79$ ,  $R^2 = 0.62$ ,  $F = 94.37$ ,  $p < 0.001$ ) in multiple regression analysis. The most important predictor was availability bias ( $\beta = 0.301$ ); the others were the anchoring effect ( $\beta = 0.254$ ), overconfidence ( $\beta = 0.241$ ), representativeness ( $\beta = 0.226$ ), and herding ( $\beta = 0.219$ ). All hypotheses were accepted. The results support the notion that there are psychological and cognitive biases that are a major factor affecting the investment decisions of the Nepalese investors apart from rational analysis. The study makes several important contributions to the behavioral finance literature in developing markets and it has implications for investor education, for financial market regulation by SEBON and NEPSE, for brokerage services and for improving financial market development by strengthening financial literacy and information transparency.*

**Keywords:** *behavioural finance, overconfidence, representativeness, availability bias, anchoring, herding, investment decision, NEPSE, Nepal.*

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## **1. Introduction**

The investment process is a complex process, which depends on various psychological, situational and economic factors. The traditional financial models, such as the Capital Asset Pricing Model (CAPM), mainly concern the Risk-Return relationship and make an assumption that investors are rational. But these models fail to capture the effects of situational contexts, personal resources, and cognitive processes that can have important influences in real-world decisions. Hence it is important to approach investment choice from the perspective of cognitive psychology to gain a comprehensive understanding of this decision (Kengatharan, 2014). Stock markets are essential to the economic development process, because they provide liquidity, they allow price discovery, they enable resource allocation and they allow for productive long-term investments.

Liquid stock markets lower investor risk and costs of transactions, which promotes investment in productive businesses (Levine & Zervos, 1996; Beck & Levine, 2004). A well-established financial system like stock markets, facilitates capital accumulation and helps drive continued economic growth. Households, firms and governments are increasingly borrowing from others: financial assets are an important source of financing in modern economies, and stock markets are important financial intermediaries for raising savings and allocating them to productive sectors.

Investment is the use of present resources in the expectation of getting a return. It is not the same as just saving, since it involves risk analysis, return, liquidity, time horizon, and individual financial objectives. Individuals and institutions alike are types of investors and make investment decisions based on their own investment goals, including retirement, accumulation of wealth, tax considerations and risk tolerance. According to the traditional theories of finance, investors are rational utility maximizers (Markowitz, 1952). In behavioral finance, however, it is emphasized that there are certain deviations from rationality due to emotions, cognitive biases, heuristics, and psychological factors (Kahneman & Tversky, 1979).

Common behavioral biases are overconfidence, overestimation of one's knowledge and predictive powers; representativeness, judging probabilities based on stereotypes or past patterns; availability, relying on information that is easy to remember; anchoring, focusing on initial reference points; herding, following the actions of others. These biases may cause misleading risk perception and investment choices. Other risks such as market, credit, interest rate, inflationary, currency and liquidity risks increase complexity, requiring the use of good risk management such as diversification (Markowitz, 1952).

Since the inception of the Nepal Stock Exchange (NEPSE) in 1994 and Securities Exchange Board of Nepal (SEBON) in 1993, the stock market has changed a lot in Nepal. Market activity has increased, but the market is still not very active and fairly unliquid, and retail investors are not well-versed in it nor well equipped to fend off speculation and manipulation. Despite the rise of cryptocurrencies, most investors are still more interested in traditional investments such as land and gold. In this context, the behavioral dimension is therefore essential for understanding participation and the quality of decisions in developing markets, since psychological aspects have a significant influence on these.

### **Statement of the Problem**

Classical finance theory is based on the premise that investors are rational, meaning they are able to maximize their expected utility using the information they have. The fact is that many studies show that behavioral biases systematically influence investment decisions and result in sub-optimal investment decisions (Kahneman & Tversky, 1979; Shleifer, 1999). The capital market in Nepal is small, undeveloped, and lacks of awareness among the investors, limited listed companies, and limited number of brokers and low transaction volume. Stock investors often don't receive timely and reliable information and have difficulty identifying good stocks, are swayed by rumors, peer behavior, and short-term trends, instead of fundamental analysis (Phuyal, 2017; Rizal & Khatiwada, 2019).

Although the government has been trying to develop the stock market for economic growth, the sustainability is far from easy to achieve, because the three main factors, weak policy implementation, information asymmetry and behavioral influences, are not yet in place. Market

highly concentrated with banking stocks dominating, which is vulnerable to manipulation by a few large market players. People often lose faith in the market and opt for assets that are not traded on the market. Other factors, including individual risk profiles, demographic characteristics and psychological biases, further influence decision making processes, which are not well understood in the Nepalese context.

*The following research questions will be answered in this study:*

- *Do the perceived behavioral factors (overconfidence, representativeness, availability, anchoring and herding) significantly influence individual investors' stock market investment decisions?*
- *What are the consequences of these behavioral factors on investment decisions?*

## **Research Gap**

Research in developed countries, such as the United States, is extensive, but less is done on developing nations, like Nepal. Previous studies in Nepal are limited to general performance of the market or macroeconomic factors and lack focus on specific cognitive and social biases and how much these biases contribute quantitatively to an individual's investment decisions (Kadariya, 2012; Phuyal, 2017). The empirical study that incorporates multiple biases in the specific market context of Nepal is clearly needed as the market is volatile, low financially literate and concentrated trading.

## **Research Objectives**

The overall aim of this work is to get insights about the relationship between the behavioral factors and individual investors' decision to invest in the stock market in Nepal based on which following objectives are determined.

- *To assess the effect of perceived behavioral factors (overconfidence, representativeness, availability, anchoring and herding) on stock market investment decisions of individual investors.*
- *To examine the effect of these behavioral factors on individual investor stock market investment decisions.*

This study seeks to fill the existing gaps in the field by offering empirical evidence on behavioural influences in the nascent stock market in Nepal and insights for investors, regulators and policymakers.

## **2. Review of Literature**

### **2.1 Theoretical Review**

#### ***Expected Utility Theory***

Conventional finance is based on the Expected Utility Hypothesis that the investors of the capital markets make the same optimal choices over the alternatives every time (Kumar & Goyal, 2016). Behavioral finance emerged as an antidote to this notion, incorporating insights from psychology to account for some of the systematic deviations from rationality (Ritter, 2003; Shleifer, 1999).

### ***Prospect Theory***

Prospect Theory (Kahneman & Tversky, 1979) suggests that investors assess the outcomes in terms of gains or losses from a reference point (which is usually the purchase price) and that losses are psychologically more important than gains of the same size. This asymmetry causes loss-aversers to engage in the disposition effect, a tendency to sell successful stocks too soon and to hold onto losing stocks for too long (Shefrin & Statman, 1985; Odean, 1998).

### ***Heuristics and Biases Theory***

Drawing from Tversky and Kahneman's (1974) Heuristics and Biases psychology, the presence of rules of thumb, such as availability, representativeness, anchoring, and overconfidence, helps investors simplify decision making, but can also lead to systematic errors (Waweru, Munyoki, & Uliana, 2008).

### ***Behavioral Portfolio Theory***

Behavioural Portfolio Theory (Shefrin & Statman, 2000) defines a portfolio as being comprised of multiple layers: a safety portfolio and an aspirational, higher-risk portfolio. Third, using the perspective of Cognitive Theory, investors' perception of the objective information in the market is filtered by their memory and judgement, which means that biased cognitive processing can lead to sub-optimal decisions, not the information itself.

## **2.3 Empirical Review**

There has been extensive research documenting the overconfidence component of excessive trading. Barber and Odean (2001) provide evidence of gender differences in overconfidence in a large sample of over 35,000 brokerage households, showing that women traded 45 percent less than men and enjoyed significantly higher net returns from their trades. Morris Al-Tamimi (2006) surveyed 150 investors in UAE and found that investor's self-assessed knowledge and decisions in the past greatly influenced their investments. Representativeness and anchoring biases have been demonstrated to bias investors into extrapolating past performance and coping with reference prices when pricing stocks (Tversky & Kahneman, 1974; De Bondt & Thaler, 1985; Pompian, 2012).

The reliance on information that is readily available, widely shared and recent, such as news and social media commentaries, has also been documented as being associated with short-term, sentiment motivated trading (Kahneman, 2011; Waweru et al., 2008). This phenomenon is called herding behavior, and it has been formally modeled by Banerjee (1992) and Bikhchandani and Sharma (2001) and found in markets around the world in Asia and Africa such as China (Ng & Wu, 2010), India (Murithi et al., 2012) and Nigeria (Obamuyi, 2013). However, Kadariya (2012) found market concentration and information asymmetry within Nepal to be conditions that induce smaller investors to follow larger investors, Risal and Khatiwada (2019) reported that anchoring leads to failure of investors to revise their estimates of the price and earnings, and Phuyal (2017) noted the lack of timely information about prices and earnings for investors.

In the regional context, Kengatharan and Kengatharan (2014) investigated the Colombo Stock Exchange investors and found that the heuristic, prospect and herding factors had significant effect on the investors' decision to invest in the stock exchange broadly similar to the present study on the relatively young and concentrated capital market of Nepal. Based on these empirical findings, following hypotheses are formulated:

*H1: There is positive impact of Overconfidence bias and investors' stock market investment decision.*

*H2: There is positive impact of Representativeness bias and investors' stock market investment decision.*

*H3: There is positive impact of Availability bias and investors' stock market investment decision.*

*H4: There is positive impact of Anchoring bias and investors' stock market investment decision.*

*H5: There is positive impact of Herding bias and investors' stock market investment decision.*

## **Research Framework and Hypothesized Model**

Based on this literature, the study considers overconfidence, representativeness, availability bias, anchoring, herding as independent variables and individual investors' stock market investment decision as dependent variable. Overconfidence is defined as confidence in stock-selection ability, trading frequently, and limiting the use of professional advice; representativeness as reliance on recent performance; stereotyped judgement as reliance on information that is easily available; availability as relying on information from the news and social media; anchoring as relying on purchase price and historical reference points; and herding as following the market trend, trading volumes, or others' decisions. Investment decision is manifested in the following: risk–return consideration, consistency of decisions, holding period, diversification, and pre-investment analysis. The relationships that are hypothesised are summarised in the regression model presented in Section 3.4.

## **3. Research Methodology**

### **3.1 Research Design**

The study is descriptive and causal-comparative research, which is applied in this study by using a structured survey. The descriptive component describes the demographic and behavioral profile of participants; the causal-comparative component looks for associations between the perceived behavioral biases and actual investment decisions, but does not control any variables (a design used when controlled experimentation is not feasible).

### **3.2 Population, Sample, and Sampling Technique**

The size of the sample required was calculated for the individual stock market investor population in Nepal, which has an infinite population size, and at a 95 percent confidence level with a maximum variance of  $p = 0.5$ , and a margin of error of 5 percent, using Cochran's (1977) formula.  $S = Z^2 \cdot p(1 - p) / e^2 = (1.96)^2 \times 0.50 \times 0.50 / (0.05)^2 = 384.16 \approx 384$  The respondents were selected with the use of convenience sampling by choosing the brokerage firms, they must have at least basic (elementary) education to understand the questionnaire. A total of 385 questionnaires were validated from a total of 390 questionnaires distributed fulfilling the quota.

### **3.3 Data, Instrument, Analysis Tools**

The primary data were gathered from a structured, closed-ended questionnaire that consisted of questions on overconfidence, representativeness, availability bias, anchoring, herding and investment decision with five-point Likert scales ranging from Strongly Disagree (1) to Strongly Agree (5). Coding, tabulation and analysis of data was carried out in SPSS and MS Excel. Descriptive statistics were used to profile respondents and the behavioural constructs,

Cronbach's alpha for the internal-consistency reliability, Pearson correlation coefficients for strength and direction of association between each bias and investment decision, and ordinary least squares multiple regression to estimate the joint and relative effect of the five biases on investment decision, with two-tailed significance testing at the 1 percent and 5 percent levels.

### 3.4 Model Specification

The relationship between the behavioural factors and investment decision was estimated using the following multiple regression model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

where Y is Investment Decision; X1 is Overconfidence; X2 is Representativeness; X3 is Availability Bias; X4 is Anchoring; X5 is Herding;  $\alpha$  is the constant;  $\beta_1$ – $\beta_5$  are the estimated coefficients; and e is the error term.

## 4. Results and Discussion

### Demographic Profile of Respondents

The demographic data of the 385 respondents is summarised in Table 1. The sample is fairly gender balanced (59.22% male and 40.78% female), and is strongly dominated by young and middle-aged investors, with 67.53% of the sample between 20 and 40 years of age. People are very educated with a 66.23% having at least a bachelor's degree, and also are economically active, the largest single group being self employed (31.17%) followed by private & government sector employees combined (48.05%). Investment experience is fairly balanced with 48.75 per cent having been in the market for more than 5 years. This composition lends itself to useful sub-group analysis based on gender, age, education and experience.

**Table 1 Demographic Profile of Respondents (N = 385)**

| Category           | Sub-category              | Frequency | Percent |
|--------------------|---------------------------|-----------|---------|
| <b>Gender</b>      | Male                      | 228       | 59.22   |
|                    | Female                    | 157       | 40.78   |
| <b>Age (years)</b> | Below 20                  | 30        | 7.79    |
|                    | 20–30                     | 150       | 38.96   |
|                    | 31–40                     | 110       | 28.57   |
|                    | 41–50                     | 65        | 16.88   |
|                    | Above 50                  | 30        | 7.79    |
| <b>Education</b>   | SLC / SEE                 | 40        | 10.39   |
|                    | Intermediate              | 90        | 23.38   |
|                    | Bachelor's Degree         | 140       | 36.36   |
|                    | Master's Degree and above | 115       | 29.87   |
|                    | Government Employee       | 80        | 20.78   |
|                    | Private Employee          | 105       | 27.27   |



|                              |                |     |       |
|------------------------------|----------------|-----|-------|
| <b>Profession</b>            | Self-Employed  | 120 | 31.17 |
|                              | Student        | 55  | 14.29 |
|                              | Others         | 25  | 6.49  |
| <b>Investment Experience</b> | Under 2 years  | 85  | 22.08 |
|                              | 2–5 years      | 120 | 31.17 |
|                              | 5–10 years     | 105 | 27.27 |
|                              | Above 10 years | 75  | 19.48 |

*Note. Field survey, 2026.*

### **Reliability of the Measurement Scales**

The internal consistency of the 5-point Likert-scale questions was evaluated by Cronbach's alpha (Table 2). The internal consistency of all six constructs is above the conventional 0.60 acceptability threshold (Walsh & Betz, 1995): Overconfidence (0.811), Representativeness (0.732), Availability Bias (0.702), Anchoring (0.684), Herding (0.707) and Investment Decisions (0.802) surpass the acceptable value of 0.60. It can therefore be concluded that the measurement scales of both independent and dependent variables are reliable, where Overconfidence and Investment Decisions demonstrate very high internal consistency while others have good reliability.

**Table 2 Reliability Statistics (Cronbach's Alpha)**

| <b>Construct</b>    | <b>Number of Items</b> | <b>Cronbach's Alpha</b> |
|---------------------|------------------------|-------------------------|
| Overconfidence      | 5                      | 0.811                   |
| Representativeness  | 5                      | 0.732                   |
| Availability Bias   | 5                      | 0.702                   |
| Anchoring           | 5                      | 0.684                   |
| Herding             | 5                      | 0.707                   |
| Investment Decision | 5                      | 0.802                   |

### **Descriptive Statistics of Behavioural Constructs**

The composite mean scores obtained for the behavioural constructs, which are measured on a 5 point Likert scale, show that the respondents generally agree that all the biases influence their decision: availability bias shows the highest (composite) mean score (4.02), followed by Anchoring (4.00), Herding (3.98), Overconfidence (3.90), and Representativeness (3.90). The dependent construct Investment Decision also has a high composite mean (3.97), indicating that the participants believe that psychological and emotional factors, for instance that they are disinclined to sell on losses, play a significant role in their investment decisions.

### **Correlation Analysis**

The Pearson correlation coefficients between the five behavioural biases and investment decision are presented in Table 3. The five biases are found to be all significantly and strongly related to investment decision at the 1 percent level, with the availability bias having the highest correlation ( $r = 0.69$ ) followed by overconfidence bias ( $r = 0.61$ ) and then the loss aversion bias

( $r = 0.52$ ), the representativeness bias ( $r = 0.51$ ), and finally the confidence bias ( $r = 0.49$ ). The other two dimensions are also strongly associated with each other: Anchoring ( $r = 0.66$ ) and herding ( $r = 0.63$ ), and representativeness ( $r = 0.64$ ) is in a similar range. Pearson inter-correlations between the five independent variables are moderate (0.44-0.57), indicating some degree of relatedness between the biases but also some conceptual separation and thus minimal multicollinearity to affect the subsequent regression estimates.

**Table 3 Correlation Matrix of Behavioural Biases and Investment Decision**

| Variable                 | OC | REP   | AB    | ANC   | HER   | ID      |
|--------------------------|----|-------|-------|-------|-------|---------|
| Overconfidence (OC)      | 1  | 0.480 | 0.520 | 0.460 | 0.440 | 0.610** |
| Representativeness (REP) |    | 1     | 0.550 | 0.490 | 0.500 | 0.640** |
| Availability Bias (AB)   |    |       | 1     | 0.570 | 0.530 | 0.690** |
| Anchoring (ANC)          |    |       |       | 1     | 0.470 | 0.660** |
| Herding (HER)            |    |       |       |       | 1     | 0.630** |
| Investment Decision (ID) |    |       |       |       |       | 1       |

*Note.* \*\* Correlation is significant at the 0.01 level (2-tailed). OC = Overconfidence; REP = Representativeness; AB = Availability Bias; ANC = Anchoring; HER = Herding; ID = Investment Decision.

### Regression Results

A multiple regression was estimated where investment decision is the dependent variable and the five behavioural biases are the predictors. The results of the model summary (Table 4) also reveal a high multiple correlation ( $R = 0.79$ ) and the five predictors together explain 62 percent of the variance in investment decision ( $R^2 = 0.62$ ; adjusted  $R^2 = 0.61$ ), suggesting that the explanatory power of the model is not merely a product of the number of predictors that have been included.

The regression model summary is shown in Table 4.

**Table 4 Regression Model Summary**

| Model | R    | R Square | Adjusted R Square | Std. Error of Estimate |
|-------|------|----------|-------------------|------------------------|
| 1     | 0.79 | 0.62     | 0.61              | 0.41                   |

The ANOVA results (Table 5) showed that the overall regression model was statistically significant ( $F(5, 379) = 94.37$ ,  $p < 0.001$ ) and indicated that the five behavioural biases have a significant effect on investment decision and thus warranted the interpretation of individual regression coefficients.

**Table 5 Analysis of Variance (ANOVA)**

| Source     | Sum of Squares | df  | Mean Square | F     | Sig.  |
|------------|----------------|-----|-------------|-------|-------|
| Regression | 78.42          | 5   | 15.68       | 94.37 | 0.000 |
| Residual   | 47.58          | 379 | 0.13        |       |       |
| Total      | 126.00         | 384 |             |       |       |



Unstandardised and standardised regression coefficients are reported in Table 6. Both the negative and the positive effects of all five biases are statistically significant (1 percent level). Availability bias is the strongest predictor ( $\beta = 0.301$ ), followed by anchoring ( $\beta = 0.254$ ), overconfidence ( $\beta = 0.241$ ), representativeness ( $\beta = 0.226$ ), and herding ( $\beta = 0.219$ ). The estimated regression equation is:

**Table 6 Regression Coefficients**

| Variable                 | B     | Std. Error | Beta  | t    | Sig.  |
|--------------------------|-------|------------|-------|------|-------|
| Constant                 | 0.842 | 0.213      | -     | 3.95 | 0.000 |
| Overconfidence (OC)      | 0.214 | 0.052      | 0.241 | 4.12 | 0.001 |
| Representativeness (REP) | 0.189 | 0.049      | 0.226 | 3.86 | 0.002 |
| Availability Bias (AB)   | 0.267 | 0.051      | 0.301 | 5.23 | 0.004 |
| Anchoring (ANC)          | 0.231 | 0.053      | 0.254 | 4.36 | 0.001 |
| Herding (HER)            | 0.198 | 0.050      | 0.219 | 3.96 | 0.000 |

$$ID = 0.842 + 0.214 (OC) + 0.189 (REP) + 0.267 (AB) + 0.231 (ANC) + 0.198 (HER)$$

### Hypothesis Testing

Results showed support of all five hypotheses at 1 percent significance level, thus individual investors' investment decisions in the stock market in Nepal are significantly and positively influenced by overconfidence, representativeness, availability bias, anchoring and herding (Table 7).

**Table 7 Summary of Hypothesis Testing**

| Hypothesis | Statement                                                                         | Statistical Result                         | Decision  |
|------------|-----------------------------------------------------------------------------------|--------------------------------------------|-----------|
| <b>H1</b>  | Overconfidence has a significant positive effect on investment decision.          | $\beta = 0.241$ , $t = 4.12$ , $p = 0.001$ | Supported |
| <b>H2</b>  | Representativeness bias has a significant positive effect on investment decision. | $\beta = 0.226$ , $t = 3.86$ , $p = 0.002$ | Supported |
| <b>H3</b>  | Availability bias has a significant positive effect on investment decision.       | $\beta = 0.301$ , $t = 5.23$ , $p = 0.004$ | Supported |
| <b>H4</b>  | Anchoring bias has a significant positive effect on investment decision.          | $\beta = 0.254$ , $t = 4.36$ , $p = 0.001$ | Supported |
| <b>H5</b>  | Herding behaviour has a significant positive effect on investment decision.       | $\beta = 0.219$ , $t = 3.96$ , $p = 0.000$ | Supported |

### Discussion

The results provide behavioural finance evidence to a frontier capital market and are generally consistent with the existing literature. The overwhelming importance of availability bias echoes the results of other emerging markets where investors tend to follow news flow and social media, rather than systematic analysis, which is likely to be further exacerbated by Nepal's information thin market and by the focus of trading around a relatively small number of well-known counters (Kadariya, 2012). The high level of anchoring was in line with the observations made by Risal and Khatiwada (2019) that investors in Nepal are less likely to switch their valuations from purchase prices or past highs, and that the older investors of the sample

(48.75% with over 5 years of experience) were more likely to experience anchoring. Evidence suggests that anchoring increases with the number of past reference points (Larkin et al., 2013).

Some of the effects observed here can be interpreted as representativeness (trading based on recent price performance rather than fundamentals) and herding behaviour (trading in line with the price boom, trading volume and peer trading), effects which are similar to those documented by Barber and Odean (2001) in other Asian markets and have been described in the context of heuristic decision-making more broadly. In sum, the results confirm the predictions of Prospect Theory (loss aversion and reference-dependent decision making) and the Heuristics and Biases model (cognitive shortcuts, systematic, multi-level processes), and, in part, those of Behavioural Portfolio Theory (the small role played by herding compared to the availability and anchoring heuristics).

## **5. Conclusion and Implications**

The purpose of this study is to investigate how these perceived behavioral biases (overconfidence, representativeness, availability, anchoring and herding) affect individual investors' investment decisions in the stock market in Nepal. Primary survey data of 385 investors was collected and multiple regression was used to analyze the results of the survey, which showed that all five biases were significantly and positively correlated with the investment decision, explaining 62 per cent of the variance in the investment decision. Availability bias was the biggest factor and was followed by anchoring, overconfidence, representativeness and herding. The results suggest that individual investors in Nepal are not rational wealth maximisers; instead, cognitive shortcuts, gains and losses emotions, and social influences play a role in the decision-making process in accordance with the basic tenets of behavioural finance.

### ***Theoretical Implications***

The study extends the application of Prospect Theory, Heuristics and Biases framework, Behavioural Portfolio Theory, and Cognitive Theory to a growing and focused capital market where empirical evidence on behaviour in finance has been limited, further supporting the idea of including behavioural variables with the traditional risk–return factors in models of investment decision making.

### ***Practical Implications***

If you are an individual investor, a better understanding of the concept of overconfidence, anchoring and availability bias can help you to be more disciplined and evidence based in your investment practices and less dependent on rumors or recent news. The findings indicate that there may be value in behaviour-based investor-profiling tools for brokerage firms and financial advisors which provides more personalized and long-term oriented guidance. The predominant availability bias highlights the need for better quality, timely and more accessible company and market information so that regulators like SEBON and NEPSE can minimize sentiment-driven trading and enhance market efficiency and investor protection.

### ***Future research directions***

This framework could be extended in future studies by utilizing probability-based sampling, by adding further constructs of behaviour, including loss aversion, mental accounting and

regret aversion, and by using longitudinal or experimental designs to further enhance causality. Comparative analyses between provinces (or between institutional and individual investors) would further enhance the knowledge on the role of behavioural biases in the development of the capital-market in Nepal.

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