

# Investor's Performance on Stock Selection Decision of Nepal Stock Exchange

Rudra Pd. Ghimire<sup>1</sup>

## Abstract

*This research aims to investigate the factor that influences the Nepalese individual retail investor's behavior. Twenty-five factors under the five categories of variables have been taken as independent factor that influences the individual investment decision making behavior that belongs to self-image/firm image, accounting information, neutral information, advocate recommendations and personal financial needs. The researcher collected primary data from 400 investors during the period between May, June and July, 2016 through a structured questionnaire. In order to analyze the data mean, standard deviation, frequency distribution table, chi-square test and Kruskal Wallis test were used. According to the sample investors of NEPSE, the average value of the top five highly influential factors was 'Reputation of the firm in terms of performance in stock market' with a mean value of 4.40, 'Reputation of the firm in terms of business performance' with a mean value of 4.34, 'Information obtained from internet' with a mean value of 4.33, Coverage in the press (4.29) and Expected corporate earnings (4.27). Likewise, the five least influential factors with the lowest priority or which has low influence on stock selection decisions were get rich quick (3.31), Attractiveness of non-stock investment (3.20), Family and friends recommendation (3.11), Broker recommendation (2.85) and Market trend (2.72).*

**Key words:** Nepal Stock Exchange, Investors performance, Stock selection decision

## Background

Behavioral finance is a field of study that combines psychology, economics, and finance to offer an explanation for why investors make irrational financial decisions. Human emotions are powerful forces that often override logical conclusions, and this struggle typically leads to suboptimal results. Traditional finance theory assumes all investors to be rational, a highly unrealistic scenario, so, it's critical for an investor to have a basic understanding of the emotional traps that exist in market. Investment behaviors of investor are defined as how the investors judge, predict, analyze and review the procedures for decision making, which includes investment psychology, information gathering, defining and understanding, research and analysis (Alfredo and Vicente, 2010). Behavioral finance defined as rapidly growing area that deals with the influence of psychology on the behavior

---

<sup>1</sup> Mr. Ghimire is a Ph. D scholar at Central Department of Economics, Tribhuvan University, Nepal. Email: rudraprasad\_ghimire@yahoo.com

of financial practitioners (Shefrin, 2000). Behavioral finance mainly concentrates on how investors undertake and proceed on micro and macro information for investment decision. The most common behavior that most investors do when making investment decision are 1) Investors often do not participate in all asset and security categories, 2) Individual investors exhibit loss-averse behavior, 3) Investors use past performance as an indicator of future performance in stock purchase decisions, 4) Investors trade too aggressively, 5) Investors behave on status quo, 6) Investors do not always form efficient portfolios, 7) Investors behave parallel to each other, and 8) Investors are influenced by historical high or low trading stocks. The proposition that has dominated finance is Efficient Market Hypothesis (EMH). There are three basic theoretical arguments that form the basis of the EMH. The first and most significant is that investors are rational. Secondly, it is based on the idea that everyone takes careful account of all available information before making investment decisions. It is related to internal consistency; the third principle is that the decision maker always pursues self-interest (Kent and Siew, 2001).

Factors influencing investor behavior, suggested that classical wealth – maximization criteria are important to investors, even though investors employ diverse criteria when choosing stocks (Nagy and Obenberger, 1994). When the historical development of the theories on investment activities is examined, it is discovered that the traditional portfolio approach was the dominant approach in the market until the 1950s. Although this approach lacked a scientific base, it is seen that it was the dominant view in the market for a long time due to the fact that its feasibility was relatively easy (Civan, 2007). In the traditional investment conception, the investors think that they can decrease the risk just by increasing the number of investment instruments they have without considering the relations between the yields of investment instruments (Demirats and Gungor, 2004). The study carried out by Markowitz in 1952 named “Portfolio selection” pioneered the development of new theories in this field (Cihangir, et al., 2008). The mean-variance model and optimal portfolio selection model defined by Markowitz formed the basis of the most of the studies done in the field of investment (Kardiyen, 2008). With the help of the theory developed by Markowitz, it was suggested that the risk cannot be reduced by just increasing the number of financial instruments and the decision for investment should be made by taking into consideration the direction and degree of the relations among the investment instruments. Thus, the traditional portfolio approach lost ground (Demirats and Gungor, 2004). According to the modern portfolio theory of Markowitz, it was predicted that the overall risk of portfolio could be lower than that of each of the financial asserts and even in some cases, that the non-systematic risk of portfolio could be reduced to zero. Nevertheless, it was pointed out that investors could prefer some portfolios for being less risky although they produce same amount of yield and again they could prefer others for higher yields even though they have the same level of risk (Markowitz, 1952). In Harry Markowitz’s opinion, the risk can be reduced considerably with reverse correlations among the investment instruments as well as by diversifying the investment instruments available in the investors’ portfolio (Cetin, 2007).

Theories of Investors’ behavior are developed such as regret theory, theory of mental accounting, prospect/loss-aversion-theory, over/under reacting theory, theory of overconfidence, the natural information, the accounting information, the advocate-recommendation, the self-image/firm-image coincidence and the personal financial needs. Regret theory can also hold true for investors who find a stock they have considered buying but did not went up in value. Some investors avoid the possibility of feeling this regret by following the conventional wisdom and buying only stocks that everyone else is buying, rationalizing their decision with “everyone else is doing it” (Pareto, 1971). It states that

humans have a tendency to place particular events into mental compartments, and the difference between these compartments sometimes impacts our behavior more than the events themselves. An investing example of mental accounting is best illustrated by the hesitation to sell an investment that once and monstrous gains and now has a modest gain. During an economic boom and bull market, people get accustomed to healthy, albeit paper, gains. When the market correction deflates investor's net worth, they're more hesitant to sell at the smaller profit margin. They create mental compartments for the gains they once had, causing them to wait for the return of that gainful period (Thaler, 2001). There are six most influencing factors affect the behavior of individual investor. The factors in order of importance were: expected corporate earnings, get rich quick, stock marketability, past performance of the firm's stock, government holdings and the creation of the organized financial markets. He also found five least influencing factors in order of importance were: expected losses in order local investments, minimizing risk, expected losses in international financial markets, family member opinion and gut feeling on the economy. Two factors had unexpectedly least influence in the behavior of the UAE investors' behavior, namely the religious beliefs and the factors of family member opinions (Al-Tamimi, 2005). Various factors such as expected corporate earnings, firm status in industry, condition of financial statements, protection of the investor, recent price movements, get rich quick, ethics of the firm significantly influence investor decisions (Merikas et al., 2008).

Study on 'Factors Influencing Retail Investors' Attitude towards Investing in Equity Stocks: A Study in Tamil Nadu' and it was found out that five factors had very high influence over the retail investor's attitude towards investing in equity stocks. They are namely investors' tolerance for risk, strength of the economy, media focus on the stock market, political stability and finally government policy towards business (Bennet and Selvam, 2011). The investor's age, his/her use of the internet and his/her formal level of education were statistically significant (at 1 percent or 5 percent level) with positive signs. The broker variable was highly significant (1 percent level) (Fares and Khamis, 2011). The most important principal factors influencing retail investors are company specific attributes/reputation, net asset value, accounting information, trading opportunity, publicity, ownership structure, influence of people, and personal financial needs respectively. Findings also suggest that extent of importance given to each of the factors excluding ownership structure significantly differs with at least one demographic characteristics of sample respondents like gender, age, occupation, income, education and experience (Hossain and Nasrin, 2012). The tangible and intangible information are essential to succeed in Nepalese capital market. The major findings of the study are: the capital structure and average pricing method is one factor that influence the investment decisions, the next is political and media coverage, the third factor is belief on luck and the financial education, and finally the forth component for stock market movement is trend analysis (Kadariya, 2012). Increase in the size of investment leads to decrease in the confidence level of investors. Size of investment shows significantly positive impact on the level of involvement and negative effect on investors' optimism; higher professional experience of investors tends to increase risk taking capacity while investors with large investment have lower tendency to take risk. Similarly, investors having higher level of confidence, involvement optimism and risk taking attitude tend to trade more frequently in the stock market. Thus, investment behavior of investors is highly influenced by their personal characteristics and psychology (Thapa, 2013).

The research in behavioral finance is comparatively less in Nepal, when compared to other developed countries. Within Behavioral Finance, it is assumed that information

structure and the characteristics of market participants systematically influence individual's investment decisions as well as market outcomes. The globalization of financial markets has been increasing the number of retail investors over the past two decades by providing a wide variety of market and investment options. However, it makes the investment decisions process much more complex. The investor generally considers their investment needs, goals, objectives and constraints while making investment decisions. But it is not possible for them to make a successful investment decision at all times. Their attitude is influenced by a variety of factors such as a dividend, get rich quickly strategy, stories of successful investors, investor awareness program, etc.

This area of study was the different findings that researchers came up with. For example, contended that dividends, expected returns and the firm's financial stability are critical investment considerations for individual investors (Baker and Haslem, 1973). Identifies six factors are: dividends, rapid growth, and investment for saving purposes, quick profits through trading, professional investment management and long-term growth that affect individual investors' attitudes towards their investment decisions. Investment decisions need to undergo a thorough analysis of the situations prevailing based on a number of factors, however regardless of the varied information available that justifies rationality and irrationality; investors are keen to avoid uncertainties associated with the ultimate decisions they engage in (Potter, 1971). Further a study of this nature should be conducted at periodical interval as the attitude of investor's keep changing. Hence this study attempts to find out the factors influencing the stock selection decision of investor of Nepalese and to study the attitude and perception of investors of Nepalese Stock Exchange.

### **Data and Methodology**

The research method used in the study and the detailed framework for the research. The focus is on research design, sampling procedure and techniques, data generation, data collection and the statistical techniques that were used to analyze the data collected. Descriptive and casual comparative research design was carried out. The study was conducted in Kathmandu Valley, the capital city of Nepal. The research used both quantitative and qualitative questionnaire to gather information regarding respondents. The population of this study was all the investors drawn from Nepal Stock Exchange who has DMAT account for the stock investment. According to CDS and Clearing Ltd. have 1,270,325 number of DMAT accounts were opened till May 31<sup>st</sup>, 2016. Sample size therefore using Yamane's formula is:  $e = \text{confidence level} = 0.05$  i.e. 95% confidence. This study was carried out in Nepalese based investors and the tentative population of investors was 1,270,325 based on CDS and Clearing Limited's registered DMAT account holders. From the representing population the sample size is 400.

A Convenience sampling method was used to draw sample. The selection of respondents was in a convenient approach because of convenience sampling methods. Well-constructed questionnaire was given to the respondents through email and printed form. An email questionnaire was sent across to the sample population requesting them to fill it and send it across. Some face to face interview were also being conducted to the share brokers, investors and regulatory authorities. Primary data were collected through the structured questionnaire through email and printed form as like survey. The data collected during June and July, 2016. The secondary data were collected from various references which has already exists in published form as articles, internet, websites, newspaper, journals, magazines, government publications, nongovernmental publications etc.

Investors were requested to respond to a total of 31 statements comprises 6 personal questions to know the demographic characteristics and 25 Likert items with 1 to 5 scales from Most Likely to Most Unlikely questionnaire were given to the respondents through email and printed form. While collecting the data this research took great care to omit biases. It offers some assurance that the sample does not bias itself. If a sample is biased, the data obtained may not reflect the reality of population as a whole. The content of variables in stated questionnaire was identified through review of literature and consultation with supervisors and related subject experts. Valid questionnaire was developed keeping in mind that the objectives of the study.

For reliability and validity are the most prominent criteria for the evaluation of business and management research. The validity of the questionnaire was tested by showing the questionnaire to the experts and get permission to use the final data collection process. Cronbach's Alpha was used to measure the reliability of instrumentation. Reliabilities of the overall scales were calculated together for all the variables of the factors. As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of construct reliability (Nunnally, 1978). The overall Cronbach's Alpha value is 0.850 which represents the good internal consistency of measuring scale when all variable of five factors were taken together. The Cronbach's Alpha for the five categories, namely, self-image/firm-image, accounting information, neutral information, advocates recommendation and personal financial needs is 0.707, 0.819, 0.761, 0.529 and 0.633 respectively. This study used both descriptive as well as inferential statistics. Under descriptive statistics frequency distribution Percentages, Central tendency and dispersion were used to obtained different result and interpret to give appropriate meaning.

Similarly, the inferential statistics such as Chi-square test has been used to analyze the relationship between variables. Different tool such as Cronbach's alpha which is a measure of internal consistency that gives evidence how closely a set of items related are grouped. It is used to measure the scale reliability. An alpha values greater than 0.5 is considered as acceptable and give more consistency of the measures. In this research the overall Cronbach's Alpha value is 0.850 which represents the good internal consistency of measuring scale when all variable of five factors were taken together.

Likewise, Chi-square test is a statistical test applied two set of categorical data evaluate likelihood of any observed difference between the sets arose by chance. It is designed to work with nominal data. It is a mathematical process looking for a significant difference between the observed and expected frequencies. It provides a mathematical way of examining a classification table to see whether the arrangement of values within a table is unusual in some way. It involves comparison of frequency of two or more responding groups.

And the Kruskal Wallis H test is also known as one-way ANOVA on ranks. It ranks based on non-parametric test that can be used to determine if there are statistically significant differences between two or more groups of an independent variable on a continuous or ordinal dependent variable. It is important to realize that the Kruskal Wallis H test is an omnibus test static and cannot show which specific groups of independent variable are statistically significantly different from each other.

### **Observation and Analysis**

This study focuses on the observation and analysis of the data that have been collected



during the study and presentation of the results based on questionnaire survey. The objectives of this research were expected to be fulfilled with the outcomes derived from the analysis of the data that has been collected during the survey.

The first part deals with the respondent's profile through demographics information such as gender, age, marital status, academic qualification, occupation and annual income. The second part analyzes and interprets the collected data through descriptive analysis through the use of IBM SPSS software, version 23. And final part presented and analysis the relationship between demographics variables, independent variables and dependent variables.

This study presents with the demographic profiles of the respondents who were participated in the data collection process. This will help to get insight into the demographic characteristics of the respondents under the study. The profile includes gender, age, marital, status, academics qualification, occupation and annual income of the respondents.

The rules and regulations imposed by the regulators are highly concerned for investors. Taxation, fines, levies, rebates are the important factors which influence in investment decision. Most of the investors are rely on internet based information. Due to availability of easy excess of data and information investment decision is easier than previous. Investors are highly concerned on the development on stock market. Newly develop tools and technologies make an investment reliable and easy. All most investors are concerned about the economic condition of a nation. Investors are indifferent in market rumors.

Most of the investor made their investment decision based on the reputation of the company in business performance that's why Nepali stock market is dominated by the banking industry. Banks were very good in growth than any other sectors. Most of the investors attracted towards banking sector stocks according to the business performance and stock market performance. Investors are not conformed to become quick rich from stock investment. Investors entered stock market by watching close ones earning but by entering they know the reality is totally different. Reputed stocks are highly priced in NEPSE.

Table 1 presents most of the respondents are male representing 79 percent i.e. 316 in number in overall sample. Female participations are just 84 numbers representing 21 percent in 100. The questionnaire was distributed randomly by not discriminating whether it was male or female. The age group of 26 to 30 years old respondents represents 44 percent of overall sample. The age groups of 36 to 40 years old investors are less than other category. Only 36 number i.e. 9 percent investor participant in this age. In this age most of the people are concerned about their career setup and permanent solution for the ongoing career, so they might not give attention to the stock market.

But above 40 years old respondents are slightly more than previous age category. About 44 numbers i.e. 11 percent participants are fall under 41 and above age category. Married respondents are more in number than single. Married investors consist of 56 percent while unmarried/single respondents were 44 percent in overall 100 percent. Most of the respondents are post graduate consisting 46 percent i.e. 224 numbers in overall participants. Bachelor's degree holders are 124 number covering 31 percent of overall participation.

Secondary level graduate respondents are 19 percent i.e. 76 in numbers. Only 4 percent i.e. 16 investors have above master's degree education. Service sector occupant covers 49 percent i.e. 196 number of respondents are earning from that sector. Likewise, Businessperson represent 20 percent i.e. 80 number, students are 15 percent i.e. 60 numbers and others 12 percent i.e. 48 numbers. There was none of the investor working in agricultural

sector for earning. Most of the respondents earn between 2 Lakhs to 5 Lakhs annually, i.e. 148 numbers and 37 percent in overall sample. Respondents earning more than 5 Lakhs were 30 percent i.e. 119 in numbers. Likewise, 18 percent i.e. 72 investors earn between 1 Lakhs to 2 Lakhs annually and 15 percent i.e. 61 investors earn below 1 Lakhs annually.

**Table 1: Frequency Distributions and Percentage of Socio-Demographic Factors**

Gender	Frequency	Percent
Male	316	79
Female	84	21
Other	0	0
Total	400	100
<b>Age</b>		
Below 25	48	12
26-30	176	44
31-35	96	24
36-40	36	9
41 and above	44	11
Total	400	100
<b>Marital Status</b>		
Single	176	44
Married	224	56
Divorced	0	0
Total	400	100
<b>Educational Qualification</b>		
+2	76	19
Bachelor's Degree	124	31
Master's Degree	184	46
And Above	16	4
Total	400	100
<b>Occupation</b>		
Service	196	49
Businessperson	80	20
Retired	12	3
Housewife	4	1
Student	60	15
Others	48	12
Total	400	100
<b>Annual Income</b>		
Up to Rs. 1,00,000	61	15
Rs. 1,00,001 – 2,00,000	72	18
Rs. 2,00,001 – 5,00,000	148	37
Rs. 5,00,001 and above	119	30
Total	400	100

Source: Researcher's calculation based on survey, 2016

Either they distribute any dividend or not. Investors go steadily for the company reputation before investment. Investors were concerned about the company/firm's product and services they are provided and the companies involvement in corporate social responsibility. Ethical norms and values of companies are low priority for the investors. The earnings made by the firm is highly important for the investors, because they purchase the shares of the company on belief of raise in corporate earnings for the better repayment made by the company as dividends. Net Profit, EPS, NAV, P/E ratios etc are the basic accounting

information disclosed by the firm which helps in investment decision for investors. Stock availability measures the flow of stock in market for buying and selling.

Generally little number of stocks is highly demand and high in prices and low in supply. Investors are very much influenced on their decision on past record of the firm. The Kaiser-Meyer-Olkin is the measure of sampling adequacy, which varies between 0 and 1. The value closer to 1 is better and the value of 0.6 is the suggested minimum. The Bartlett's Test of Sphericity is the test for null hypothesis that the correlation matrix has an identity matrix. Taking this into consideration, these tests provide the minimum standard to proceed for factor analysis with the following hypothesis.

Null Hypothesis  $H_0$ : There is no statistically significant interrelationship between variables affecting the investment decisions.

Alternate Hypothesis  $H_1$ : there may be a statistically significant interrelationship between variables affecting investment decisions.

**Table 2: KMO&Bartlett's Test (Reliability Test)**

Variable	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity			Result
		Approx. Chi-Square	Df.	Sig.	
Factors influencing stock selection decision	0.704	592.063	10	0.000	Significant

Note: Normally,  $0 < \text{KMO} < 1$

Source: Researcher's Calculation Based on Survey, 2016

Table 2 shows that If KMO is greater than 0.5, the sample is adequate. Here, KMO = 0.704 which indicates that the sample is adequate and we may proceed with the factor analysis.

### **Bartlett's Test of Sphericity**

Taking a 95 % level of significance,  $\alpha = 0.05$ . The p-value (Sig.) of .000 < 0.05, therefore the Factor Analysis is Valid.

As  $p < \alpha$ , we therefore reject the null hypothesis  $H_0$  and accept the alternate hypothesis ( $H_1$ ) that there may be statistically significant interrelationship between variables & It is to be noted that factor loading for each item exceeded the minimum thresholds level of 0.40 (Norusis, 1985).

Table 3 presents the results of factor analysis of influencing stock selection decision of sample investors in NEPSE. The Cronbach's Alpha value for the five categories, namely, self-image/firm-image, accounting information, neutral information, advocates recommendation and personal financial needs is 0.707, 0.819, 0.761, 0.529 and 0.633 respectively, greater than or equal to 0.5 is considered acceptable and good indication of reliability. The five most influencing factors are reputation of the firm's in terms of performance in stock market (mean 4.40) being the one, second reputation of firm in terms of business performance (mean 4.34), third information obtained from internet (mean 4.33), fourth Coverage in the press (newspaper, articles, online etc.) (mean 4.29) and the fifth factor is Expected corporate earnings (mean 4.27). The five least influencing factors are get rich quick (mean 3.31) as fifth, fourth is attractiveness of non-stock investment (mean 3.20), family and friends recommendation (mean 3.11) as third, second is broker recommendation



(mean 2.85) and market trend/rumor (mean 2.72) being the first least influencing factor for affecting stock investment decision.

**Table 3: Factor Analysis for Factor Influencing Stock Selection Decision**

<b>Factor 1: Firm's Image / Self Image</b>	<b>Loading</b>
Reputation of the firm in terms of business performance	0.740
Reputation of the firm in terms of performance in stock market	0.730
Investment made to become quick rich	0.602
Firm reputation in the industry	0.599
Feelings for the firm's product and services	0.713
Firm's involvement in solving community problems	0.700
Perceived ethics of the firm	0.552
Variance Explained (percent)	14.613
Eigen Value	6.252
Cronbach's Alpha	0.707
<b>Factor 2: Accounting Information</b>	
Expected corporate earnings	0.729
Current conditions of financial statements	0.753
Stock marketability	0.638
Expected dividend	0.749
Past performance of firm's stock	0.946
Variance Explained (percent)	10.584
Eigen Value	2.879
Cronbach's Alpha	0.819
<b>Factor 3: Neutral Information</b>	
Statement from government officials	0.946
Information obtained from Internet	0.575
Fluctuation/development in the stock market	0.597
Coverage in the press (newspaper, articles, online etc )	0.675
Current economic indicator	0.524
Market rumor	0.675
Variance Explained (percent)	7.267
Eigen Value	2.012
Cronbach's Alpha	0.705
<b>Factor 4: Advocate Recommendation</b>	
Broker recommendation	0.652
Family and Friends recommendation	0.556
Market trend (rumor)	0.677
Variance Explained (percent)	5.431
Eigen Value	1.674
Cronbach's Alpha	0.529
<b>Factor 5: Personal Financial Needs</b>	
Portfolio diversification	0.728
Ease of obtaining borrowed funds	0.533
Attractiveness of non-stock investment	0.598
As much as minimizing risks by using different tools and technique	0.496
Variance Explained (percent)	8.162
Eigen Value	1.419
Cronbach's Alpha	0.633

Sources: Researcher's calculation based on survey, 2016

**Table 4: Descriptive Statistical Analysis of Various Factors Affecting Stock Investment**

Factors	Mean	SD
Reputation of the firm in terms of performance in stock market	4.40	0.79
Reputation of the firm in terms of business performance	4.34	0.80
Information obtained from Internet	4.33	0.71
Coverage in the press (newspaper, articles, online etc )	4.29	0.84
Expected corporate earnings	4.27	0.84
Current conditions of financial statements	4.12	0.90
Past performance of firm's stock	4.09	0.80
Statement from government officials	4.06	0.87
Current economic indicator	4.04	0.76
Firm reputation in the industry	4.02	0.81
Fluctuation/development in the stock market	3.94	0.93
Expected dividend	3.86	0.84
Portfolio diversification	3.83	0.93
Stock marketability	3.77	0.89
Feelings for the firm's product and services	3.76	0.91
Perceived ethics of the firm	3.74	0.89
As much as minimizing risks by using different tools and technique	3.68	1.10
Market rumor	3.57	0.77
Firm's involvement in solving community problems	3.49	1.05
Ease of obtaining borrowed funds	3.38	0.94
Get rich quick	3.31	1.05
Attractiveness of non-stock investment	3.20	1.15
Family and Friends recommendation	3.11	1.07
Broker recommendation	2.85	1.12
Market trend	2.72	1.06

Sources: Researcher's calculation based on survey, 2016

Table 4 shows descriptive statistical analysis of various factors affecting stock investment. Descriptive statistics has been used to identify the most influencing variables and the least influencing variables. About 25 attributes taken for the study are presented in the form of higher mean value to lower mean value in table 4.4.1 and it is found that the first five most influencing factors are reputation of the firm's in terms of performance in stock market (mean 4.40) being the one, second reputation of firm in terms of business performance (mean 4.34), third information obtained from internet (mean 4.33), fourth Coverage in the press (newspaper, articles, online etc.) (mean 4.29) and the fifth factor is Expected corporate earnings (mean 4.27). Likewise, the last five least influencing factors are get rich quick (mean 3.31) as fifth, fourth is attractiveness of non-stock investment (mean 3.20), family and friends recommendation (mean 3.11) as third, second is broker recommendation (mean 2.85) and market trend/rumor (mean 2.72) being the first least influencing factor for affecting stock investment decision.

**Table 5: Descriptive Statistics and Raking of Principal Factors**

Principal factors	N	Mean	SD	Rank
Firm's image/Self image	400	3.87	0.5461	III
Accounting Information	400	4.02	0.6507	II
Neutral Information	400	4.04	0.5629	I
Advocate Recommendation	400	2.89	0.7768	V
Personal financial needs	400	3.52	0.7142	IV

Sources: Researcher's calculation based on survey, 2016

Table 5 specifies the ranking of principal factors based on the mean value. Neutral information is ranked first with mean value of 4.04 whereas advocate recommendation factors have been ranked as fifth with mean value of 2.89. From this table it can be inferred that respondents consider neutral information factors such as statement from government officials, interned based information, market fluctuations and development, news coverage in the press, economic indicators and market rumors as important scaling and advocate factors as brokerage firm's advice, family and friends' opinion and advices and market trend ranked fifths under the scaling of somewhat less important. Investors won't run after broker information randomly. Investors do their own calculations before they run after broker information. Rely on family and friends' information is also not acceptable for maximum investors. Only investment made on single stock is not good for the better earnings and returns. So, investors need to diversify among different sectors available in stock markets. Diversification balance risk and return and always makes in safe side. Easily available fund is good for investment opportunity. Investors are also attracting towards money market and other investment sector beyond the capital market investment. Fundamental analysis, technical analysis and trend analysis are the different tools and techniques used by the investors to minimize the risks of investment made in stock market.

**Table 6: Gender of Sample Respondents and Influence on Stock Selection Decision**

Variable	Gender	Mean	SD	T-Value	Df.	Sig. (2- tailed)	Decision
Firm's Image/Self Image	Male	3.8552	0.5278	0.209	398	0.834	Insignificant
	Female	3.8405	0.7256				
Accounting Information	Male	4.0949	0.6069	4.824	398	0.000	Significant
	Female	3.7071	0.8140				
Neutral Information	Male	4.1207	0.5411	6.394	398	0.000	Significant
	Female	3.6751	0.6590				
Advocate Recommendation	Male	2.8209	0.7866	-2.643	398	0.009	Significant
	Female	3.0769	0.7994				
Personal Financial Needs	Male	3.6210	0.6731	6.116	398	0.000	Significant
	Female	3.0893	0.8266				

Sources: Researcher's calculation based on survey, 2016

Table 6 shows Gender of sample respondents and influence on stock selection decision. The result of Descriptive statistics on gender of sample respondents and their influence on stock selection decision are given in table 4.5.1. According to the mean score of Male perception towards, firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs, these factors influence stock selection decision of investors with the value of 3.8552, 4.0949, 4.1207, 2.8209, and 3.6210 respectively. The mean score for the female perception towards firm's image/self-image, accounting information, neutral information and advocate recommendation that influence stock selection decision of the investors were 3.8405, 3.7071, 3.6751, 3.0769 and 3.0893 respectively. In order to identify the significant difference between the mean score of male and female, independent T-test was administered. According to T statistics, the values of all independent variables were significant except the firm's image/self-image. This clearly indicates that there was significant difference between the gender with regards to the consideration of factors such as accounting information, neutral information, advocate recommendation and personal financial needs which do not influenced stock selection decision. But the firm's image/self-image alone had insignificant difference between genders that influenced on stock selection decision.

**Table 7: Marital Statuses of Sample Respondents and Influence on Stock Selection Decision**

	Marital Status	Mean	SD	T-Value	Df.	Sig. (2-tailed)	Decision
Firm's Image/Self Image	Single	3.8630	0.62609	0.336	398	0.737	Insignificant
	Married	3.8436	0.53003				
Accounting Information	Single	3.9955	.72315	-0.475	398	0.635	Insignificant
	Married	4.0277	.63199				
Neutral Information	single	3.9936	.61878	-0.997	398	0.319	Insignificant
	Married	4.0534	.57637				
Advocate Recommendation	single	2.9287	.86112	1.205	398	0.229	Insignificant
	Married	2.8322	.73812				
Personal Financial Needs	single	3.5156	.82295	0.150	398	0.881	Insignificant
	Married	3.5045	.66922				

Sources: Researcher's calculation based on survey, 2016

Table 7 presents marital status of sample respondents and influence on stock selection decision. The results of descriptive statistics on marital status of sample respondents and their influence on stock selection decision are shown in table 4.5.2. It is understood that the mean scores for sample investors' (Single) perception towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs which influenced the stock selection decision are 3.8630, 3.9955, 3.9936, 2.9287 and 3.5156 respectively. The mean scores for the sample investors' (Married) perception towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs which influenced the stock selection decision were 3.8436, 4.0277, 4.0534, 2.8322 and 3.5045 respectively. Independent T-test was administered in order to identify the significant difference between the mean score (Single and Married). According to T statistics, the values of all independent variables were insignificant. This clearly indicates that there was no significant difference between the marital statuses with regards to all factors which influenced stock selection decision.

**Table 8: One Way ANOVA with Regard to Age of Sample Respondents and Influence on Stock Selection Decision**

Variables		Sum of Squares	df	Mean Square	F	Sig.	Decision
Firm's Image/Self Image	Between Groups	4.911	4	1.228	3.837	0.005	Significant
	Within Groups	126.373	395	.320			
	Total	131.283	399				
Accounting Information	Between Groups	4.423	4	1.106	2.478	0.044	Significant
	Within Groups	176.264	395	.446			
	Total	180.687	399				
Neutral Information	Between Groups	2.523	4	.631	1.793	0.129	Insignificant
	Within Groups	138.917	395	.352			
	Total	141.440	399				
Advocate Recommendation	Between Groups	1.664	4	.416	.656	0.623	Insignificant
	Within Groups	250.516	395	.634			
	Total	252.180	399				
Personal Financial Needs	Between Groups	11.648	4	2.912	5.564	0.000	Significant
	Within Groups	206.754	395	.523			
	Total	218.402	399				

Source: Researcher's calculation based on survey, 2016

Table 8 exhibits the results of one-way ANOVA with regards to age of sample investors and factors influencing the stock selection decisions. It is understood that the mean square score of the respondents' age between the groups towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs were 4.911, 4.423, 2.523, 1.664 and 11.648 respectively. The result shows that there was no significant difference in neutral information and advocate recommendation between different age groups of sample investors in stock selection decision. But there was significant difference between the age groups in the cases of firm's image/self-image, accounting information and personal financial needs.

**Table 9: One-way ANOVA with Regard to Education of Sample Respondents and Influence on Stock Selection Decision**

Variables		Sum of Squares	df	Mean Square	F	Sig.	Decision
Firm's Image/Self Image	Between Groups	7.547	3	2.516	8.051	0.000	Significant
	Within Groups	123.737	396	.312			
	Total	131.283	399				
Accounting Information	Between Groups	4.565	3	1.522	3.421	0.017	Significant
	Within Groups	176.122	396	.445			
	Total	180.687	399				
Neutral Information	Between Groups	5.060	3	1.687	4.897	0.002	Significant
	Within Groups	136.380	396	.344			
	Total	141.440	399				
Advocate Recommendation	Between Groups	1.494	3	.498	.787	0.502	Insignificant
	Within Groups	250.686	396	.633			
	Total	252.180	399				
Personal Financial Needs	Between Groups	17.245	3	5.748	11.316	0.000	Significant
	Within Groups	201.157	396	.508			
	Total	218.402	399				

Source: Researcher's calculation based on survey, 2016

Table 9 exhibits the results of one-way ANOVA with regards to educational qualification of sample investors and factors influencing the stock selection decisions. It is understood that the mean square score of the respondents' educational qualification between the groups towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs were 7.547, 4.565, 5.060, 1.494 and 17.245 respectively. The result shows that there was no significant difference in advocate recommendation between educational qualifications of sample investors in stock selection decision. But there was significant difference between the educational qualification in the cases of firm's image/self-image, accounting information, neutral information and personal financial needs.



**Table 10: One Way ANOVA with Regard to Occupation of Sample Respondents and Influence on Stock Selection Decision**

Variables		Sum of Squares	df	Mean Square	F	Sig.	Decision
Firm's Image/Self Image	Between Groups	11.029	5	2.206	7.227	0.000	Significant
	Within Groups	120.255	394	.305			
	Total	131.283	399				
Accounting Information	Between Groups	6.557	5	1.311	2.967	0.012	Significant
	Within Groups	174.131	394	.442			
	Total	180.687	399				
Neutral Information	Between Groups	4.251	5	.850	2.442	0.034	Significant
	Within Groups	137.189	394	.348			
	Total	141.440	399				
Advocate Recommendation	Between Groups	27.919	5	5.584	9.810	0.000	Significant
	Within Groups	224.261	394	.569			
	Total	252.180	399				
Personal Financial Needs	Between Groups	15.771	5	3.154	6.133	0.000	Significant
	Within Groups	202.632	394	.514			
	Total	218.402	399				

Source: Researcher's Calculation Based on Survey, 2016

Tables 10 express the results of one-way ANOVA with regard to occupation of sample investors and factors influencing the stock selection decisions. It is understood that the mean square score of the respondents' occupation between the groups towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs were 11.029, 6.557, 4.251, 27.919 and 15.771 respectively. The result shows that there was significant difference in firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs between different occupation sample investors in stock selection decision.

**Table 11: One Way ANOVA with Regard to Income of Sample Respondents and Influence on Stock Selection Decision**

Variables		Sum of Squares	df	Mean Square	F	Sig.	Decision
Firm's Image/Self Image	Between Groups	10.057	3	3.352	10.950	0.000	Significant
	Within Groups	121.227	396	.306			
	Total	131.283	399				
Accounting Information	Between Groups	18.648	3	6.216	15.191	0.000	Significant
	Within Groups	162.039	396	.409			
	Total	180.687	399				
Neutral Information	Between Groups	14.426	3	4.809	14.992	0.000	Significant
	Within Groups	127.014	396	.321			
	Total	141.440	399				
Advocate Recommendation	Between Groups	8.593	3	2.864	4.656	0.003	Significant
	Within Groups	243.588	396	.615			
	Total	252.180	399				
Personal Financial Needs	Between Groups	28.610	3	9.537	19.898	0.000	Significant
	Within Groups	189.793	396	.479			
	Total	218.402	399				

Source: Researcher's calculation based on survey, 2016

Table 11 reveals the results of one-way ANOVA with regard to income of sample investors and factors influencing the stock selection decisions. It is understood that the mean square score of the respondents' income between the groups towards firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs were 10.057, 18.648, 14.426, 8.593 and 28.610 respectively. The result of one-way ANOVA between the income label of the sample respondents with regard to consideration of firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs were analyzed. The results revealed that there was significant difference in firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs between their incomes status in the stock selection decision.

### Findings

It was found that 79 percent of total sample sizes were male whereas 21 percent of total samples were females. The data shows that the participation of male respondents is higher than the female respondents. It was found that 44 percent respondents were 26 to 30 years old. Similarly, 24 percent are of 31 to 35 years. The respondents of age below 25 years are of 12 percent. The respondents of age group of 41 and above years and 36 to 40 years are 11 percent and 9 percent respectively. It shows that younger generations are more active and interesting in stock market investment. From the total sample sizes 56 percent of respondents were married and remaining 44 percent were single. Married are highly participated in share market rather than single. Master's degree qualified respondents were 46 percent, 31 percent has bachelor degree; likewise, 19 percent of respondents have secondary education and only 4 percent have above the master's degree. It shows that good numbers of qualified and educated investors are in stock market. It was found that 49 percent respondent were from service sector. 20 percent of respondents were businessperson. Similarly, 15 percent respondents are student and 12 percent respondents are of other sector than the given selection. The respondents of retired and housewife are 3 percent and 1 percent respectively. Respondents whose annual income ranges from Rs. 2,00,001 to Rs. 5,00,000 was 37 percent, and above Rs. 5,00,001 was 30 percent. Respondents whose earning up from Rs. 1,00,001 to Rs. 2,00,000 was 18 percent. And only 15 percent earns below Rs. 1,00,000 annually.

Investors are highly concerned about the earnings made by the firm which is important for them, because they purchase the shares of the company on belief of raise in corporate earnings for the better repayment made by the company as a dividend. Net Profit, EPS, NAV, P/E ratios etc. are the basic accounting information disclosed by the firm which helps in investment decision. Investors are very much influenced on their decision on past record of the firm. Stock availability is moderately concerned for investors before an investment decision. Investors are highly focused on coverage's in the press because the financial disclosure made by the firm's direct the investment decision. Other factor like government statement, internet based information, market fluctuation and development and current economic indicator are moderately importance for investment decision. Investors are not highly relying on rumor spreading in market. Investors are not relying on broker suggestions, advice and recommendation as well as they their family and friend's recommendations over the investment decision. Market rumor and trends are not believed by most investors. Investors follow different fundamental and technical analysis before investment and diversify their portfolio investment as much as they can. Easily availability of fund and non-stock investment are moderately performed by investors than stock market investment.

Kaiser-Meyer-Olkin (KMO) value is 0.704 which is greater than 0.5 indicates that the sample size is adequate for the factor analysis. At a 95 percent level of significance the p-value (sig.)  $0.000 < 0.05$  indicates the factor analysis is valid. As p is less than  $\alpha$ , there may be statistically significant interrelationship between variables. The Cronbach's Alpha value for the five categories, namely, self-image/firm-image, accounting information, neutral information, advocates recommendation and personal financial needs is 0.707, 0.819, 0.761, 0.529 and 0.633 respectively, greater than or equal to 0.5 is considered acceptable and good indication of reliability. The five most influencing factors are reputation of the firm's in terms of performance in stock market (mean 4.40) being the one, second reputation of firm in terms of business performance (mean 4.34), third information obtained from internet (mean 4.33), fourth Coverage in the press (newspaper, articles, online etc.) (mean 4.29) and the fifth factor is Expected corporate earnings (mean 4.27). The five least influencing factors are get rich quick (mean 3.31) as fifth, fourth is attractiveness of non-stock investment (mean 3.20), family and friends recommendation (mean 3.11) as third, second is broker recommendation (mean 2.85) and market trend/rumor (mean 2.72) being the first least influencing factor for affecting stock investment decision.

There was significant difference in mean score of gender and investment decision principal factor accounting information, neutral information, advocate recommendation and personal financial needs. Whereas there was no significant difference in mean score of gender and investment decision factor principal firm's image/self-image. It was no significant difference in mean score of marital status and investment decision principal factor firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs. There was no significant difference in neutral information and advocate recommendation between different age groups of sample investors in stock selection decision. But there was significant difference between the age groups in the cases of firm's image/self-image, accounting information and personal financial needs. There was no significant difference in advocate recommendation between educational qualifications of sample investors in stock selection decision. But there was significant difference between the educational qualification in the cases of firm's image/self-image, accounting information, neutral information and personal financial needs. It was significant difference in firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs between different occupation sample investors in stock selection decision. There was significant difference in firm's image/self-image, accounting information, neutral information, advocate recommendation and personal financial needs between their incomes status in the stock selection decision.

## Conclusions

The research study is undertaken to find out the various factors influencing investor's behavior while investing in Nepalese stock market. The number of retail investor's increasing everyday whether they are investing in primary market or secondary market. Generally, people living in city area are the main investors of Nepal Stock Exchange. The development of ASBA (Application supported by blocked amount) and upgrading to C-ASBA (Centralized application for ASBA based issuance) drastically changed the primary application process in Nepalese stock market. Launching of dematerialization system in secondary market transaction started the modern era in NEPSE. And another milestone ready for the modern magic in Nepalese stock market is Online Trading System. The online trading system is almost at the edge of development and after few months it will come in full-

fledged. After online trading fully implementation investors are almost 100 percent free from the secondary market transaction hassle.

With the growing age of technological advancement and technological accessibility investor get the companies information within a second of their publication through different means of media and publication. Investor's main focus in these days goes to the performance shown by the company rather than its unnecessary rumors. Firm's having a good reputation in stock market is best selection for the investors. Performance wise also investors are selecting the company as much it disclosure its information. Investors are highly concerned about the accounting information of the firm. EPS, DPS, PE ratio, PB ratio, Net Income are much concerned by the investors before taking investment decision. Most of the investor in NEPSE are attracted towards bonus shares rather than cash dividend.

Easy access of internet and availability of different media makes investors more aware about the market fluctuations and development. More investors in these days get information from internet and press coverages about the stock. Maximally investors are indifferent in rumor. Because of past evidence in rumor trap investors are not going blindly in rumor. Investors are indifferent in advices they get from their transaction broker, family and friends. Most of the investors living in central city were well educated and have at least knowledge about the share market and its functionality. Because of their self-judgments, calculation, techniques and valuations they do their own investment decisions concerning different micro and macro environmental factors. Investors diversify their investment in different stocks rather than all in one. Because of interest rate volatility investors are not much interested to borrowing fund from different institution. The less publicity of non-stock investment by the concerned authority many investors are unaware about the non-stock investment opportunity. In Nepal, mostly NRB treasury bills, government bonds, banks and financial institutions bonds are also issued for general public but due to lack of its awareness they are not first priority form investors like stocks.

## References

- Alfredo, M. O., & Vicente, S. F. (2010). I. T. investment and intangibles: Evidence from banks. *SSRN working papers series*.
- Al-Ajmi, J. (2009). Investor's use of corporate reports in Bahrain. *Management Audit Journal*, 24(3), 266-289.
- Baker, H. K., & Haslem, J. A. (1973). Information needs of individual investors. *Journal of Accountancy*, 136, 64-9.
- Bennet, E., & Selvam, M. (2011). Factors influencing retail investors attitude towards investing in equity stocks: A study in Tamil Nadu. *Journal of Modern Accounting and Auditing*, 7(3).
- Cetin, C. (2007). Markowitz kuadratiktprogramlamaile optimal portfoysecimi. *Suleyman Demirel Universitesi Iktisadiye Idari Bilimler Fakultesi Dergisi*, 12(1), 63-81.
- Cihangir, M., SabuncuI., & Guzeler K. A. (2008). Optimal portfoysecimindekonno-yamazakimodeliyaklasimiveimkbmali sector hissesenetlerineuygulanmasi. *Gazi Universitesi Iktisadiye Idari Bilimler Fakultesi Dergisi*, 3(10), 125-142.
- Civan, M. (2007). *Capital market analysis and portfolio management (1<sup>st</sup> printing)*. Ankara: Gazi Bookstore, 306-315.
- Demirtas, O., & Gungor Z. (2004).Portfoy management and portfoysecimine management application. *Journal of Aeronautics and Astronautics*, 1(4), 103-109.
- Fares, A. R. F., & Khamis, F.G. (2011). Individual investors' stock trading behavior at Amman stock exchange. *International Journal of Economics and Finance*, 3(6).

- Hossain, M. F., & Nasrin, S. (2012). Factors affecting selection of equity shares: The case of retail investors in Bangladesh. *European Journal of Business and Management*, 4(20), 110-124.
- Kadariya, S. (2012). Factors affecting investor decision making: A case of Nepalese capital market. *Journal of Research in Economics and International Finance (JREIF)*, 1(1), 16-30.
- Kardiyen, F. (2008). Portfoyo optimizasyonundaortalama mutlak sapma modelive Markowitz modelininkullanımıveimkbverilerineuygulanması. *SuleymanDemirelUniversitesilktisadiveIdariBilimlerFakultesiDergisi*, 13(2), 335-350.
- Kent, D. H., & Siew, HT. (2001). Investor psychology in capital markets: Evidence and policy implications, *Journal of Monetary Economics*, 49(1), 139-209.
- Markowitz, H. (1952). Portfolio selection, *The Journal of Finance*, 7(1), 77-91.
- Merikas, A. A., & Merikas, A. G., Vozikis, G.S., & Prasad, D. (2008). Economic factors and individual investor behavior: The case of the Greek stock exchange. *Journal of Applied Business Research*, 20(4), 93-98.
- Nagy, R. A., & Obenberger, R.W. (1994). Factors influencing individual investor behavior, *Financial Analysis Journal*, 50(4), 63-69.
- Norusis, M.J. (1985). *SPSS-X: Advanced statistics guide*. New York: McGraw-Hill.
- Nunnally, J.C. (1978). *Psychometric theory (2<sup>nd</sup> ed)*. McGraw-Hill.
- Pareto, V. (1971). *Manual of political economy*. New York: Augustus M. Kelley Publishers.
- Potter, R. E. (1971). An empirical study of motivations of common stock investors. *Southern Journal of Business*, 6(1), 41-1.
- Shefrin, H. (2000). *Beyond reed and ear; understanding behavioral finance and the psychology of investing*. Boston: Harvard Business School Press.
- Thaler, (2001). *Theory of mental accounting*. New York: Academic Press.
- Thapa, B. S., (2013). Investment behavior of individual in the stock market of Nepal: A survey, *The Open Journal*, 1(1), 22-42.
- CDS., & Clearing Limited ( 2016, May 31). Retrieved from: [www.cdsc.com.np](http://www.cdsc.com.np)