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## Factors Affecting Investment Decision in Nepalese Stock Market

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### Abstract

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*The Nepalese stock market has grown significantly, attracting domestic and international investors. However, various behavioral and psychological factors that impact investor behavior and market efficiency influence investment decisions in this market. This study aims to identify and analyze these factors, providing critical insights for investors and policymakers. Three hundred eighty-eight active investors in the Nepalese stock market, aged 18–44, participated in the study, completing structured electronic questionnaires. The study adopted a causal-comparative research design to explore the effects of trait anger, trait anxiety, overconfidence, herding effect, and self-monitoring on investment decisions. The findings reveal that trait anger significantly influences investment decisions, with higher levels of anger associated with poor decision-making. Conversely, trait anxiety showed no significant effect on investment decisions. Overconfidence was found to have a positive impact, leading to improved investment choices, while the herding effect also demonstrated a beneficial influence on decision-making. However, self-monitoring had no significant effect on investment decisions. The implications of these findings suggest that behavioral biases, such as anger and overconfidence, can drive impulsive and risky decisions, while anxiety may contribute to financial inertia. Understanding these psychological factors can help investors make more informed decisions, while policymakers and financial advisors can use these insights to foster better market practices and improve investor outcomes.*

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## 1. Introduction

The stock market is a pivotal component of economic development in any country, including Nepal. Over recent years, the Nepalese stock market has recently experienced notable growth, attracting domestic and international investors (Gurung, 2022; Bhusal & Gautam, 2022; Rana, 2021; Vaidya, 2021). However, investment decisions in this market are shaped by a complex interplay of factors that demand careful examination. Understanding these determinants is critical for investors and policymakers to enhance decision-making processes and improve market efficiency (Njenga et al., 2022; Kilinc-Ata & Dolmatov, 2022).

Key factors influencing investment decisions in the Nepalese stock market include economic conditions, political stability, market liquidity, investor sentiment, and regulatory frameworks (Dahal, 2022; Dhodary, 2020). Economic indicators such as inflation rates, interest rates, and GDP growth significantly affect investor confidence and risk-taking behavior (Chhetri, 2022; Gurung, 2022). Political stability and a sound regulatory environment are equally important, shaping investor perceptions of risk and market security. Moreover, market liquidity and access to information about listed companies play critical roles in facilitating safe and efficient investment decisions (Uhunmwangho, 2022; Khan & Ejaz, 2023; Santos et al., 2020).

In Nepal's emerging stock market, investor behavior is further influenced by cultural and psychological factors, including herd behavior and risk aversion. The roles of institutional investors, government policies, and foreign investment strategies also significantly impact market dynamics (Kunwar, 2021; Dhodary, 2020; Rana, 2021). This research aims to explore these factors comprehensively, providing insights into the variables that shape investment decisions in the Nepalese stock market. By investigating these dynamics, the study seeks to contribute to developing strategies that enhance market performance and support sustainable investment growth in Nepal.

## 2. Literature review and hypothesis development

### 2.1 Trait Anger

The term "trait anger" describes a long-standing personality trait that manifests as an almost constant propensity to enrage at the slightest provocation. Very low boiling points are found in those with high trait anger. According to Spielberger and Sydeman (1994), anger is a state of mind in which a range of emotions are mixed and change in intensity from mild irritation or annoyance to intense rage and fury. Anger inspires an aggressive and vigorous response, such as an invasion or attack. Anger and optimistic risk assessments have a positive correlation, according to Lerner and Keltner (2001).

Anger stimulates optimistic beliefs. Furthermore, they believed that the emotion of rage would only affect bad things. Furthermore, Forgas (2000) asserts that emotional states can influence people's attitudes, judgments, and goals. According to Slovic et al. (2004), people's emotional states can affect how they make decisions about how to evaluate an incident.

*H1: Trait Anger significantly impacts investment decisions in the Nepalese stock market.*

## **2.2 Trait Anxiety**

The term "trait anxiety" describes how people differ from one another in terms of their propensity to feel anxious when they anticipate a threat. According to Lazarus (1991), persistent uncertainty can lead to stress and anxiety. Caplin and Leahy (2001) claim that uncertainty about future consumption leads to anxiety, affecting the attractiveness of the reduction in investment products. Paying attention to or being concerned about a particular task or goal may cause anxiety. As a result, the more information an investor has, the more nervous they become. An anxious investor will typically stick to their portfolio strategies and be reluctant to make changes. Anxiety can be used to explain rigid strategies and investor financial inertia. Characteristic anxiety makes a person insecure, lowers their likelihood of learning about investments, and ultimately influences their decision to forgo investing (van Winden et al., 2011).

Gambetti and Giusberti (2012) found that trait anxiety negatively correlates with making investment decisions. According to Bensi and Giusberti (2007), worry causes people to put off investing to protect their current capital. An anxious person wants to minimize uncertainty to lessen their anxiety.

*H2: Trait anxiety significantly impacts investment decisions in the Nepalese stock market.*

## **2.3 Overconfidence**

Overconfidence describes a skewed perspective on a given circumstance. It is evident when a person's perceived level of competence exceeds their actual performance. According to Bondt and Thaler (1995), investors' judgment when making decisions about their investments is greatly impacted by overconfidence. Because investors are overconfident, they overestimate the information's capabilities, successes, and likelihood of accuracy. Adel and Mariem (2013) researched the influence of overconfidence bias on trading volume and volatility decisions.

*H3: Overconfidence significantly impacts investment decisions in the Nepalese stock market.*

## **2.4 Herding Effect**

When people follow the behavior or advice of others, it is known as the "herding effect," and academic and professional researchers in the financial markets are always interested in learning more about this phenomenon. According to Tan et al. (2008), this effect may cause stock prices to diverge from their intrinsic values. As such, it generates implications for perspectives within asset pricing theories and the features of risk and return models. Caparrelli et al. (2004) have highlighted that practitioners are apprehensive about exploiting the herding effect for profit. Even though herding is one of the many causes of speculative bubbles, integrating herding tendencies' informative signals can improve decision-making.

*H4: The Herding Effect significantly impacts investment decisions in the Nepalese stock market.*

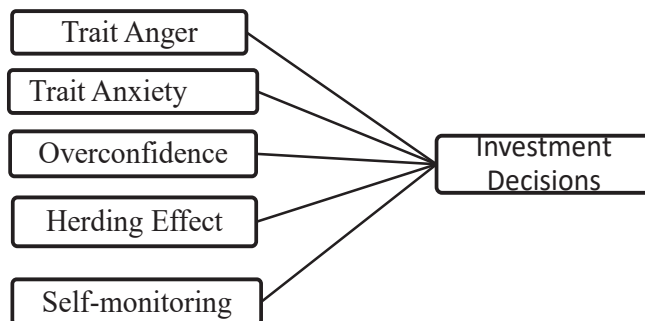
## 2.5 Self-monitoring

Self-monitoring is a personality trait that shows how much a person watches how they behave and present themselves. According to Biais et al. (2005), self-monitoring is an individual's capacity to modify behavior to fit into the social context. According to Kourtidis et al. (2011), psychological biases and personality traits like risk tolerance, social influence, and self-monitoring impact investment decisions. Individuals who engage in less self-monitoring than those who engage in more self-monitoring make investment decisions faster. According to Snyder (1974), self-monitoring refers to an individual's capacity to adjust and regulate behavior in various circumstances. The self-monitoring scale Snyder created for this study was utilized to categorize the market participants who were actively participating.

*H5: Self-monitoring impacts Investment Decisions in the Nepalese Stock Market.*

## 3. Methodology

To collect primary data, 388 investors actively traded securities on the Nepalese stock market, aged 18–44, and completed structured electronic questionnaires. This age range was deemed appropriate as it represents a demographic engaged in investment activities. The use of electronic questionnaires ensured efficient data collection and a robust dataset for analysis. The study adopts a causal-comparative research design to explore the impact of factors influencing investment decisions and their effect on trading behavior and outcomes. Primary data collection, centered on structured questionnaires, was essential to identify behavioral and contextual influences on investment practices. The target population consisted of active investors in the Nepalese stock market. A convenience sample of 388 respondents was selected to facilitate efficient data collection. While this method aids practicality, its non-random nature may limit generalizability. Both published and unpublished literature were reviewed, and primary data served as the core resource. The structured questionnaire aligned with the study's objectives, providing relevant insights to address research questions effectively. The conceptual framework of the study is as follows:



*Figure 1 : Conceptual Framework*

#### 4. Analysis and results

*Table 1: Correlations between Dependent and Independent Variables*

		ID	TA	TANX	OC	HE	SM
ID	Pearson Correlation	1					
TA	Pearson Correlation	-.354**	1				
TANX	Pearson Correlation	-.304**	.799**	1			
OC	Pearson Correlation	-.036	.367**	.469**	1		
HE	Pearson Correlation	.342**	-.307**	-.289**	-.193**	1	
SM	Pearson Correlation	-.239**	.522**	.550**	.419**	-.294**	1

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis between the independent variables—Trait Anger (TA), Trait Anxiety (TANX), Overconfidence (OC), Herding Effect (HE), and Self-Monitoring (SM)—and the dependent variable, Investment Decision (ID) sheds light on how these variables affect investment decisions. There is a statistically significant negative correlation ( $-0.354$ ,  $p < 0.01$ ) between ID and Trait Anger (TA). People seem less likely to make wise investing decisions and become more enraged. The connection implies that increased anger could obstruct reasoned decision-making, negatively affecting investment results.

Similar to ID, Trait Anxiety (TANX) exhibits a significant negative correlation ( $-0.304$ ,  $p < 0.01$ ). It suggests that anxiety increases have a detrimental effect on investing decision-making, with anxious people probably feeling less confident in their decisions. In situations involving investments, this may lead to lost opportunities or unduly cautious behavior.

Overconfidence (OC), on the other hand, shows a negligible correlation with ID ( $-0.036$ ,  $p = 0.479$ ), indicating that overconfidence does not significantly impact investment decisions in this dataset. It suggests that there may be a mismatch between a person's perceived level of confidence and their actual capacity for making sound decisions.

There is a strong positive correlation between ID and the Herding Effect (HE) ( $0.342$ ,  $p < 0.01$ ). This research shows that people who tend to imitate what others do in the market are likelier to make wise investment choices. Social dynamics have a significant impact on investment behavior, and positive outcomes can be fostered by collective behavior.

Lastly, a significant negative correlation ( $-0.239$ ,  $p < 0.01$ ) has been found between Self-Monitoring (SM) and ID. It implies that greater degrees of self-monitoring discourage people from taking risks with their investments because they are apprehensive about how others would see them or the effects of their decisions.

In conclusion, there is a positive correlation between the Herding Effect and investment decisions and a negative correlation between trait anxiety and anger and trait anger. Overconfidence does not affect trading, while self-monitoring does not encourage trading. Bundled or null: Gaining a deeper

understanding of these dynamics will help investors and financial advisors create strategies that reduce unfavorable headwinds and maximize advantageous tailwinds when it comes to investing.

**Table 2: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.485	.260		13.388	.000
	TA	-.174	.057	-.235	-3.033	.003
	TANX	-.076	.072	-.086	-1.056	.292
	OC	.136	.043	.167	3.145	.002
	HE	.227	.043	.259	5.319	.000
	SM	-.052	.047	-.063	-1.092	.275

a. Dependent Variable: ID

Trait Anger (TA) has a major impact on ID. The analysis reveals a significant relationship, with a coefficient of  $\beta = -0.174$ ,  $t = -3.033$ , and  $p = 0.003$ . This indicates that bad investment decisions are correlated with higher levels of trait anger. The impact of Trait Anxiety (TANX) on Investment Decisions (ID) is examined. The results show no significant effect, with  $\beta = -0.076$ ,  $t = -1.056$ , and  $p = 0.292$ . Indicating that trait anxiety has little effect on the choice of investments. The impact of Overconfidence (OC) on ID is examined, and the findings show that  $\beta = 0.136$ ,  $t = 3.145$ , and  $p = 0.002$  are significant. This strong positive relationship suggests that increased overconfidence improves investment decisions. The Herding Effect (HE) on Investment Decision (ID) is examined. According to the analysis, a significant positive correlation is found, with a  $\beta$  of 0.227,  $t = 5.319$ , and  $p < 0.001$ . Indicating that the Herding Effect has a beneficial impact on investment decision-making. The impact of Self-Monitoring (SM) on Investment Decision (ID) is examined. The results indicate no significant impact ( $\beta = -0.052$ ,  $t = -1.092$ , and  $p = 0.275$ ).

## 5. Discussion and conclusion

Trait anger refers to a person's tendency to become angry in various situations, and it can significantly impact investment decisions. According to Spielberger and Sydeman (1994), anger is a state that varies in intensity, ranging from mild irritation to intense rage. When individuals experience high-trait anger, they tend to react impulsively and aggressively, which could lead to rash investment decisions. This emotional state may lead to overestimating one's ability to assess financial risks, resulting in impulsive buying or selling of stocks. Lerner and Keltner (2001) suggest that anger often leads to optimistic risk assessments, causing investors to take on higher risks than they would under more neutral emotional states. As such, high levels of trait anger can disrupt rational decision-making processes, encouraging investors to make hasty decisions without fully considering long-term outcomes. In the Nepalese stock market context, individuals exhibiting high trait anger may be more prone to making erratic investment choices, which can lead to greater volatility in their portfolios.

Trait anxiety, characterized by a person's tendency to feel anxious in uncertain or threatening situations, can significantly affect investment decisions. According to Lazarus (1991), anxiety arises from persistent uncertainty, which could lead to stress and impair decision-making abilities. Anxious investors often hesitate, avoid risks, and may stick to conservative strategies to reduce uncertainty. It aligns with Caplin and Leahy's (2001) assertion that anxiety leads to risk aversion, with anxious individuals avoiding investments that they perceive as uncertain or volatile. Moreover, anxious investors may be more likely to delay decisions, which could result in missed opportunities or an inability to adapt to changing market conditions. Van Winden et al. (2011) further argue that anxiety can cause financial inertia, where investors refrain from making necessary changes to their portfolios even when circumstances demand it. In the Nepalese stock market, trait anxiety might manifest as a reluctance to invest in high-risk stocks or a tendency to liquidate investments prematurely, potentially undermining long-term financial goals.

Overconfidence, which refers to the tendency of individuals to overestimate their knowledge or abilities, significantly influences investment decisions. Bondt and Thaler (1995) argue that overconfident investors often overestimate their judgment and the accuracy of the information they possess, leading to skewed decision-making. Overconfidence can lead to excessive trading, as overconfident investors believe they can predict market movements accurately, even when they cannot. It can result in higher transaction costs and suboptimal investment returns. In the Nepalese stock market context, overconfident investors may engage in speculative trading, taking on higher risks than justified by their actual knowledge or market conditions. Overconfidence can make investors less receptive to new information or opposing viewpoints, reinforcing their biased decisions. Adel and Mariem (2013) found that overconfidence significantly influences trading volume and market volatility, and in the Nepalese context, this bias could contribute to market inefficiencies and increased volatility.

The herding effect, where individuals mimic the actions or behaviors of others, also plays a crucial role in investment decision-making. According to Tan et al. (2008), the herding effect can cause stock prices to deviate from their intrinsic values, as investors follow the crowd rather than relying on their independent analysis. This behavior is particularly pronounced in emerging markets, where investors may be more susceptible to social influences. Caparrelli et al. (2004) suggest that although herding behavior can lead to short-term gains, it often results in speculative bubbles and market inefficiencies. In the Nepalese stock market, herding can lead to irrational buying or selling behaviors, with investors following trends or other market participants without considering underlying fundamentals. It could cause overvaluation or undervaluation of stocks, contributing to increased market volatility. Furthermore, investors engaging in herding behavior may be more likely to make decisions based on fear of missing out (FOMO) rather than sound financial reasoning, which can ultimately harm their long-term investment outcomes.

Self-monitoring is a personality trait that describes an individual's ability to regulate behavior in response to situational contexts. According to Snyder (1974), self-monitoring involves adjusting one's actions to align with social cues and expectations. In the context of investment decisions, individuals with high self-monitoring tend to be more attuned to social influences and market trends, which can shape their investment choices. Kourtidis et al. (2011) argue that self-monitoring and other psychological traits like risk tolerance play a crucial role in investment decision-making.



Investors with high self-monitoring are more likely to adjust their strategies based on social perceptions or market trends, while those with low self-monitoring may make decisions more independently. In the Nepalese stock market, individuals with higher self-monitoring may be more prone to herd behavior, following market sentiments and trends rather than focusing on long-term investment strategies. It could result in decisions that are more reactionary and less based on fundamental analysis. On the other hand, those with lower self-monitoring may make more independent, albeit less socially influenced, investment choices.

Trait anger significantly influences investment decisions by fostering overconfidence and impulsive risk-taking. Investors with high trait anger are more likely to make aggressive, emotionally driven choices. Awareness of this emotional bias can help investors make more balanced decisions, avoiding rash investments that could harm their portfolios. Trait anxiety impacts investment decisions by increasing risk aversion and financial inertia. Anxious investors tend to avoid uncertainty, sticking to conservative strategies. Managing anxiety through financial literacy and expert guidance can improve decision-making and reduce the tendency for financial stagnation. Overconfidence leads to excessive trading and higher risk-taking, often causing investors to misjudge their abilities. Overconfident investors tend to underestimate potential losses, negatively affecting their financial outcomes. Recognizing and mitigating overconfidence bias can help investors make more informed and realistic decisions. The herding effect prompts investors to follow the crowd, often leading to decisions based on social influence rather than analysis. This behavior can create market bubbles and suboptimal outcomes. Understanding the herding effect can help investors make independent, rational choices and avoid following trends unthinkingly. Self-monitoring affects investment decisions by influencing how individuals adapt their strategies based on social context. High self-monitors may make impulsive decisions, while low self-monitors tend to be more consistent. Recognizing this trait can help investors balance social influences with personal goals, leading to more thoughtful and consistent investment choices.

## 6. Implications

rait anger can lead to impulsive and overconfident investment choices. Investors should be mindful of their emotions to avoid rash decisions. Financial advisors can help by promoting emotional awareness and encouraging more cautious strategies. Trait anxiety fosters risk aversion and financial inertia. Educating anxious investors through financial literacy and offering personalized advice can reduce uncertainty and encourage more active decision-making. Overconfidence can result in excessive risk-taking and poor financial outcomes. Investors should seek external opinions and reassess their assumptions regularly. Financial advisors can help by promoting realistic expectations and caution. The herding effect can lead to poor decisions based on social influence. Investors should focus on independent analysis rather than following trends. Advisors can encourage critical thinking to avoid speculative bubbles and market volatility. Self-monitoring influences investment consistency. Social pressures may sway high self-monitors, while low self-monitors may overlook trends. Advisors should help clients balance social influences with personal financial goals for more stable decisions.



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