



Impact of Behavioral Factors on Stock Market Investment Decisions among Young Investors in Biratnagar

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Abstract

The study analyzes the impact of behavioral factors on stock market investment decisions among young investors in Biratnagar. The study examines the relationship between the behavioral factors (anchoring bias, risk propensity, herding behaviour, overconfidence bias), financial literacy and investment decision. The study was based on quantitative research design which used descriptive and explanatory research based on primary data collected among the young investors of stock market. The sample size of study compromised 200 respondents, the data were collected through the survey using the Google Form. The data analysis was performed with use of IBM SPSS Statistics 27 software. The data analysis consisted of demographic analysis, descriptive analysis, reliability tests, correlation analysis and regression analysis. The result of the study shows minimum threshold of reliability for each variable and overall reliability was maintained i.e. greater than 0.70. The study shows a positive relationship among overconfidence bias ($\beta = 0.332$, $p < 0.001$), financial literacy ($\beta = 0.320$, $p < 0.001$), and anchoring bias ($\beta = 0.157$, $p < 0.05$) with investment decision. But in contrast risk propensity ($\beta = -0.011$, $p > 0.05$) and herding behavior ($\beta = 0.060$, $p > 0.05$) shows statistically insignificant relationship with investment decision. The study suggests the young investors are more concerned with cognitive and informational factors making investment decision.

Keywords: behavioral aspects, investment decision, young investors, overconfidence bias, financial literacy

1. Introduction

The fundamental paradigm shift from mechanical assumptions of the Efficient Market Hypothesis (EMH) (Fama, 1970) to psychologically grounded frameworks of modern behavioral finance (Shiller, 2003) has been witnessed by financial economics. Traditional model assumes investors are rational i.e. 'Homo Economicus' (Fama, 1970), but the market anomalies show investment decisions are guided and influenced by cognitive biases and psychological factors (Shiller, 2003). Among the young investors, decisions are shaped by

digital trading platforms and peer networks, with behavioral influence (Ghazal et al., 2022). Similarly, the paradigm shift in investment decision from Classical Investment Theory of Fisher (1930) to the Modern Portfolio Theory (MPT) of Markowitz (1952) is crucial concept to understand in finance. Traditional theory of investment state investors is rational and aim to maximize the wealth where investment decisions are based on expected future returns where risk is considered implicitly through certainty and time preference (Fisher, 1930). But in contrast modern portfolio theory state investors are rational and risk averse where the decision is based on expected return and portfolio variance, unsystematic risk can be minimized through diversification (Markowitz, 1952). The paradigm shift has important influence, but behavioral aspects have vibrant role in investment decision. The traditional assumption of investor rationality is challenged by behavioral finance which states cognitive biases such as overconfidence, loss aversion, and herd behavior significantly influence investment decisions, directing to suboptimal outcomes and increased market volatility (Wamae & Nasieku, 2024). Financial literacy enhances investment decision quality enabling investors for diversified portfolios and make informed long term asset allocation choices (Gedamkar et al., 2025). Stock Investment decisions are positively influenced by financial literacy among millennials investors highlighting the critical role of knowledge and competence in promoting informed and sustainable investment behavior (Sunarko & Sutrisno, 2025).

In the context of Nepal, behavioral biases and financial literacy have influence in the investment decision among the investors. According to (Thapa, 2024), behavioral biases such as herding, overconfidence, anchoring, and the disposition effect positively influence investment decisions in Nepal prominence the need for strategies to mitigate these biases and improve decision-making quality. (Poudel & Poudel, 2024) state that overconfidence, anchoring, and disposition biases significantly influence investment decisions, while herding behavior appears less pronounced, highlighting the importance of understanding and managing behavioral biases in emerging markets among the Nepalese millennial investors. Financial risk propensity affects investment decisions among Nepalese investors, influencing their portfolio choices, risk-taking behavior, and susceptibility to psychological biases (Sitaula & Uprety, 2024)

Several studies are performed in behavioral finance in context of Nepal regarding how it influences the investment decision among the investors. The studies by (Dhakal & Lamsal, 2023) and (Paudel & Shakya, 2025) have established the significant influence of individual behavioral biases, including anchoring and overconfidence, on investors' decision-making. However, these studies largely rely on generalized samples or are predominantly centered on Kathmandu-based investors, limiting their regional applicability. Moreover, while Sharma et al. (2024) and related studies have examined behavioral biases and financial literacy in isolation, there is limited empirical evidence that simultaneously integrates financial literacy and multiple behavioral biases such as risk propensity, anchoring bias, herding behavior, and overconfidence within a single analytical framework (Sharma et al., 2024). Hence, the study is concerned with fulfilling the research gap of the previous studies with the integration of the behavioral bias and financial literacy role and influence in the investment decision among the young investors in the context of Biratnagar. It provides the basis for the furtherer researcher with the sample of young investors. With the integration of multiple factors anchoring bias, overconfidence, herding behavior, risk propensity, along with the financial literacy in the study provides the comprehensive understanding on influence of those factors in investment decision among the young investors in Biratnagar, Nepal. The study also contributes to the behavioral finance literature in the Nepalese context by providing the empirical evidences bridging the gap between global theoretical insights and local empirical evidence. It also provides evidences on influence of the behavioral aspects and financial literacy on investment decision among the young investors.

1.1. Objectives of the study

The general objective of the study is to analyze the impact of behavioral factors on stock market investment decisions among young investors in Biratnagar.

The specific objectives are as follows: -

- i. To analyze the relationship between behavioral biases- anchoring bias, herding behavior, and overconfidence on stock investment decision among the young investors in Biratnagar
- ii. To evaluate the effect of financial literacy on stock investment decisions among young investors in Biratnagar.
- iii. To analyze the influence of financial literacy on stock investment decisions among young investors in Biratnagar.

2. Literature Review and Hypotheses Development

2.1 Theoretical Background

This section consists of how the anchoring bias, risk propensity, financial literacy, herding behaviour and overconfidence bias influence the investment decision. The study is grounded on behavioral finance theory which emphasizes Prospect Theory and the Heuristics and Biases framework for the enlightenment in stock investment decisions among young investors in the context of Biratnagar. According to prospect theory, stock investment decision of investors is based on evaluation of potential gain and losses relative to reference points rather than rational analysis leading to systematic behavioral biases which influence investment choices (Kahneman & Tversky, 1979). Self-Attribution theory states overconfidence bias is the outcome of biased investment decision where investor credit successes to their own liability and blame failures to external market factors (Bem, 1972). Heuristics and Biases Theory state that anchoring bias occurs to those investors who depends on the initial information's like past stock price while making complex investment decision which influence subsequent judgments and choices (Tversky & Kahneman, 1974). Herding behaviour occurs when investors copy the actions of others rather than depending in own information which shows the influence of collective behaviour rather than fundamental in investment decision (Bikhchandani et al., 1992). Herding behaviour is further reinforced by Social Influence Theory states that due to peer pressure and collective sentiment, investors tend to follow the actions and options of others (Cialdini & Goldstein, 2004). But the traditional finance theories Expected Utility Theory (Neumann & Morgenstern, 2004) and Human Capital Theory assume rational decision are based on risk preferences and financial knowledge of investors. Previous studies in behavioral finance state that financial literacy and consistent risk attitudes do not always lead to rational investment decision under uncertainty where behavioral biases have stronger impact. Hence the above theories reflect behavioral determinants have dominant role compared to factors of the market which guide investment decisions and investors.

2.2 Overconfidence bias and Investment Decision

According to (Rehman & Ahmad, 2025) overconfidence refers to individual Investors' systematic tendency which overestimates the accuracy of their abilities, knowledge, or judgments on how their financial results will stand and how best they can manage investments. Pikulina et al. (2017) reflect a positive relationship between overconfidence in financial knowledge and choice of investment which is based on experimental studies on different subject pools, financial professionals and students, and different media: computer, paper, and web-based (Pikulina et al., 2017). Overconfidence bias leads investors to overvalue their own investment decisions and influences greater divergence from optimal investment choices (Dittrich et al., 2005). Adhikari et al. (2025) states overconfidence bias have strong influence on investment decision; in the context of individual investors in the Nepal Stock Exchange

(NEPSE) (Adhikari et al., 2025). However, study of Silwal and Ghimire (2025) shows high overconfidence leads to inferior investment decision in emerging economies like Nepal (Silwal & Ghimire, 2025).

2.3 Herding Behaviour and Investment Decisions

Herding Behaviour is doing what others are doing, even though their private information suggests doing something quite different (Banerjee, 1992). Herding Behaviour negatively affects the quality of investment decision and increases the fragility of financial markets, making investment outcomes more uncertain (Dewan & Dharni, 2019). There is a positive impact of herding behavior on investment decisions in the context of Pakistan Stock Exchange (PSX) (Bhutto et al., 2025). Herding Behaviour and Investment Decisions have a statistically significant relationship with the reference of active individual investors brokerage firms operating inside the Butwal, Nepal (Tharu, 2025). A study by Koirala and Niraula (2025) states that herding behavior has a positive effect on investment decision among Nepalese mutual fund investors (Koirala & Niraula, 2025). According to study of Bikash Rana (2024) herding behaviour significantly enhances the investment decisions (Rana B. , 2024). Herding behaviour is considered as an important factor in determining how individual investors make decisions in Nepal Stock Market (Lama et al., 2025).

2.4 Anchoring bias and Investment Decision

Anchoring bias refers to the cognitive bias where individuals depend on information which they receive at the time of making the decisions and adjust insufficiently away from the initial anchor at the point when new and more relevant information is available (Zhao, 2025). The study based on individuals residing in Varanasi investing in the stock market shows anchoring bias leads to increase irrationality in investment decision (Mer & Vishwakarma, 2024). Anchoring bias indirectly influences the investment decision and there is insignificant effect on the investment decision as per the conclusion of the study (Sumantri et al., 2024). The findings of the study based on the National stock exchange show that anchoring bias does not have influence in the investment decision of investors (Madaan & Singh, 2019). The study based on the individual investors in the Nepali share market shows the statistically significant relationship with the investment decision making as indicated by the p-value (Dhakal & Lamsal, 2023). Anchoring bias has positive but statistically insignificant impact on the investment decisions among the Investors at brokerage businesses in the Pokhara Valley (Dhungana et al., 2022). The study on Nepalese stock market shows the positive and statistically significant relationship between the anchoring bias and individual investors investment decision which indicates that investors rely on the initial reference points when making investment (Gurung et al., 2024).

2.5 Risk Propensity and Investment Decision

Risk propensity is defined as individual inherent willingness such as perceive, evaluate, and respond to take or avoid risk when faced with uncertain outcomes (Das & Teng, 2001). The study by Islama et al. (2024) shows that risk propensity has a significantly positive impact on the investment decisions of investors in the context of Jammu and Kashmir, India (Islama et al., 2024). The results of the study conducted by Lestari et al. (2021) results reveals risk propensity a direct positive effect on investment decisions among the Muslim investor respondents in Indonesia, whereas negative influence of risk propensity on Sharia investment decisions (Lestari et al., 2021). Individuals with least one year of experience in investments from millennials generation tend to make more risk-taking investment decisions because of their higher level of risk propensity and has a direct positive effect on investment decisions (Solihat et al., 2025). The study by Sitaula and Uprety (2024) demonstrates that risk propensity

significantly affects all investment-related decisions (Sitaula & Uprety, 2024). (Sapkota, 2022) states that risk propensity makes Nepalese stock market investors aware of fears, nervousness and uncertainty and has a significant positive influence on making stock investment decisions in NEPSE.

2.6 Financial Literacy and Investment Decision

Financial literacy is the knowledge and the ability to understand financial concepts and the associated risks, along with the appropriate skills and attitudes to utilize that knowledge and understanding to assist in making informed and effective financial decisions for oneself and others and thereby contribute positively to one's own financial well-being and the financial well-being of society; and to facilitate an individual's active participation in economic activity (Lusardi & Messy, 2023). Financial literacy has positive and significant effect on the investment decision; those individuals who are financially literate are more likely to involve and participate in the markets, diversify assets, and make informed long-term investment choices (Lusardi & Mitchell, 2014). The findings of the study conclude that the significant influence of financial literacy on investment decisions and individuals who possess low financial literacy have low involvement in the stock market investment (Rooij et al., 2011). Financial literacy has positive and significant relationship with investment decision which shows that individuals with higher financial literacy consistently lead to better risk assessment, portfolio diversification, and informed long-term investment behavior and vice versa (Nasrin, 2025). The findings show the positive and significant relationship between financial literacy and investment decision in the Nepalese share market as the higher the financial literacy the better investment decision (Subedi, 2023). Financial literacy has positive and significant effect on investment decision, and the financial literacy helps in the better risk analysis, selection of best investment options and in making informed financial choices (Uprety, 2025).

Based on the research objectives and the literature reviews section, the following hypotheses are formulated to provide the empirical evidences based on the collected data for the study. The hypothesis is as follows: -

H₁: Overconfidence bias has a significant positive effect on investment decisions among young stock market investors.

H₂: Herding behaviour has a positive effect on investment decisions among young stock market investors.

H₃: Anchoring bias has a significant positive effect on investment decisions among young stock market investors.

H₄: Risk propensity has a significant positive effect on investment decisions among young stock market investors.

H₅: Financial Literacy has a significant positive effect on investment decisions among young stock market investors.

3. Research methodology

The study was based on the quantitative research design which used the descriptive and explanatory research design to analyze the demography of the respondent and identify the relationship among the construct and youth investment decision in the context of Biratnagar. The study was based the primary data which were collected through the google form survey with the adoption of the convenience sampling (non-probability sampling) methodology among the youth who perform the investment activities in the share market of Nepal (i.e. both

primary and secondary market). The population of the study included all the youth of performing the transactions in the share market where the sample size of the study was 200 respondents. The collected data were analyzed with the help of IBM SPSS Statistics 27 where statistical analysis such as descriptive, reliability, correlation and regression analysis were performed. The regression model used in the study is as follows:

$$ID = \beta_0 + \beta_1.RP + \beta_2. AB + \beta_3.FL + \beta_4. HB + \beta_5. OC + \epsilon \dots \dots (i)$$

Where,

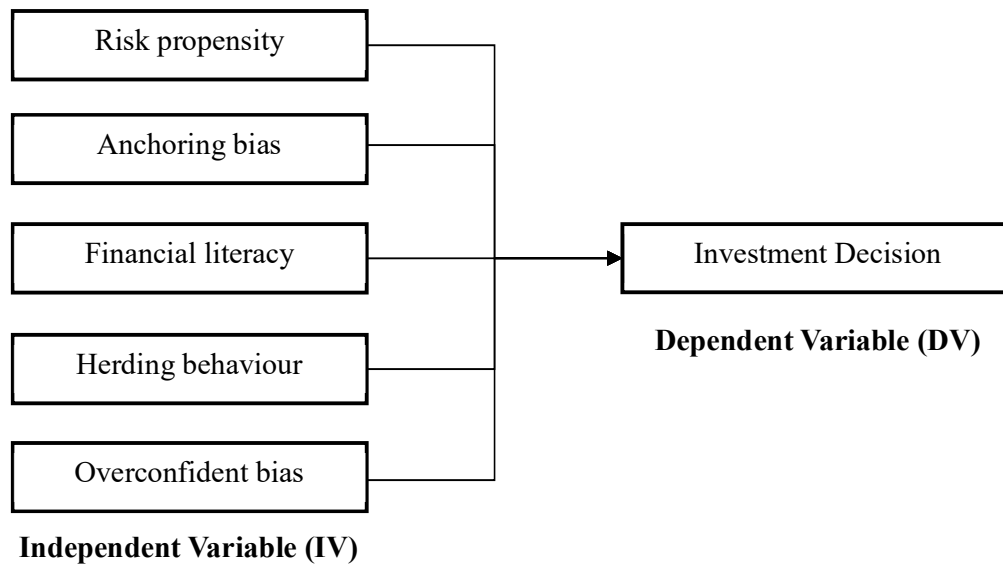
ID = Investment decision, AB = Anchoring Bias, RP = Risk Propensity, FL = Financial literacy, HB = Herding Behaviour, OC = Overconfidence Bias, β_0 = constant value, β_1 to β_4 = coefficient of variables, ϵ = error term

Based on the econometric model used in the study, the research framework below is developed to evaluate and analyze how the behavioral aspects and financial literacy influence investment decision among young investor in stock market.

3.1 Research Framework

The following research framework has been developed, building on the previous discussion. The purpose of this study's research framework is to show how different factors influence young stock market investors' investment decisions in Biratnagar, Nepal.

Figure 1: Research Framework



4. Data Analysis and result

The data analysis was based on the respond of 200 respondents involved in the survey where the analysis was performed with the help of IBM SPSS Statistics 27. The data analysis and result is presented below: -

Table 1: Demographic profile of Respondent

Demographic Detail	Description	Frequency	Percent (%)
Age	18-22	168	84.0
	23-27	25	12.5
	28-32	4	2.0

Gender	Female	79	39.5
	Male	121	60.5
Academic Qualification	Bachelor's Degree	117	58.5
	High School (+2)	76	38.0
	Master's Degree or Higher	7	3.5
Employment Status	Employed (Full-Time)	14	7.0
	Employed (Part-Time)	16	8.0
	Self-Employed	7	3.5
	Student	160	80.0
	Unemployed	3	1.5
Total		200	100%

Source: *Survey report 2026 & SPSS*

Table 1 presents the demographic details of the respondent where the sample size was 200. The (84%, n=168) of the respondent is of 18-22 age group and the least (2%, n=4) respondent were of 28-32 age group. Male respondent size is (60.5%, n=121) where (39.5%, n=79) were female respondents. On the basis of academic qualification, the majority of respondent (58.5%, n=117) were bachelor degree holders and (3.5%, n=7) respondents were master degree or higher. The employment status of the respondent shows (80%, n=160) respondents were students where (1.5 %, n=3) were only unemployed.

Table 2: *Types of Investors*

Statement	Frequency	Percent (%)
Does not have investments.	125	62.5
Has investments and solid market knowledge.	6	3
Has investments but no knowledge of the financial market.	27	13.5
Has investments with limited market knowledge.	42	21
Total	200	100%

Source: *Survey report 2026 & SPSS*

Table 2 present the types of investors based on their investment and knowledge on the financial market. The study shows (62.5%, n=125,) of respondent did not have any type of investment where (3%, n=6,) had the investment in the financial market as well as the solid knowledge about the financial market. (21%, n=42) of youth in Biratnagar had investment in the financial market with limited market knowledge where (13.5%, n=27) youth had investment in the financial market even if they did not have the knowledge about financial market due to the influence of the external factors.

Table 3: *Descriptive statistics of Risk Propensity*

S. No	Statement	Mean	S. D
RP1	I am willing to take financial risks for higher returns.	3.43	1.04
RP1	I prefer high-risk investments if rewards are higher.	3.50	1.02
RP1	I feel comfortable investing even when returns are uncertain.	3.21	1.17

RP1	I stay calm and continue investing during market declines.	3.29	1.15
RP1	I believe taking calculated risks improves investment outcomes.	3.52	1.04

Source: *Survey report 2026 & SPSS*

Table 3 presents descriptive statistics for risk propensity. The mean score ranged from 3.21 to 3.52 and standard deviation ranged from 1.02 to 1.17. The mean score shows moderate inclination toward financial risk-taking among respondents. Youth were attracted to high-risk investment if only the chance of return is higher. The standard deviation reflects the moderate variability in risk attitudes across respondents.

Table 4: *Descriptive statistics of Anchoring Bias*

S. No	Statements	Mean	S. D
AB1	I rely on a stock's initial (current) or past price when deciding.	3.20	.97
AB2	Historical prices influence my investment decisions.	3.30	.97
AB3	I find it hard to change my decisions once I set a reference price.	3.32	.99
AB4	I use past market levels to judge current investment value.	3.38	.98
AB5	I stick to earlier price estimates even when conditions change.	3.21	.94

Source: *Survey report 2026 & SPSS*

Table 4 presents descriptive statistics for Anchoring Bias. The mean score ranged from 3.20 to 3.38 indicating moderate presence of anchoring behaviour among respondent and standard deviation ranged from .97 to .99 which indicates relatively consistent response among all the respondent. Most of the youth Investors use past market levels to judge current investment value. level to judge current investment value.

Table 5: *Descriptive statistics of Financial Literacy*

S. No	Statements	Mean	S. D
FL1	I understand basic financial concepts like interest, inflation, and risk.	3.26	1.02
FL2	My financial knowledge helps me evaluate investment options.	3.25	.96
FL3	I can assess the risk–return trade-off of investments.	3.27	.97
FL4	My financial knowledge prevents impulsive decisions.	3.21	.95
FL5	Financial knowledge increases my confidence in long-term investing.	3.34	.96

Source: *Survey report 2026 & SPSS*

Table 5 presents descriptive statistics for financial literacy. The mean value (3.21 to 3.26) indicates moderate level of financial literacy among the young investors in Biratnagar. The respondents agreed on increasing the confidence level by the help of financial knowledge. The standard deviation ranged between (.96 to 1.02) reflecting consistency in the response across the sample of the study.

Table 6: *Descriptive statistics of Herding Behaviour*

S. No	Statements	Mean	S. D
HB1	I follow what other investors do when making decisions.	3.22	.987
HB2	I am more likely to invest when many others are buying.	3.36	.919
HB3	Popular market trends influence my decisions.	3.23	.895
HB4	I follow widely shared investment advice, including on social media.	3.33	1.00
HB5	Seeing others profit motivates me to invest in the same asset.	3.21	.979

Source: *Survey report 2026 & SPSS*

Table 6 presents descriptive statistics of Herding behaviour. The mean value (3.21 to 3.36) indicating the moderate tendency among youth investors followed the market investor trend as well as market trend. The youth were influenced by trend of market investor behaviour and their practices. The standard deviation ranged between (.919 to 1.00) representing consistency among the response among the youth investor in context of herding behaviour.

Table 7: *Descriptive statistics of Overconfident Bias*

S. No	Statement	Mean	S. D
OC1	I believe my investment skills are above average.	3.38	1.09
OC2	I feel confident predicting future price movements.	3.44	1.06
OC3	Past successes increase my confidence in future decisions.	3.28	1.03
OC4	I trust my own judgment more than external advice.	3.39	1.03
OC5	I trade frequently because I trust my investment skills.	3.33	1.13

Source: *Survey report 2026 & SPSS*

Table 7 presents descriptive statistics of overconfidence bias among the young investors in Biratnagar. The mean value (3.21 to 3.36) shows the moderate effect of overconfident bias in the investment decision and behaviour among the young investors and the youth were confident in analyzing predicting the future market trend and performs the investment decisions on the same basis. The standard deviation ranged between (1.03 to 1.13) reflecting moderate variability in overconfidence perceptions among the young investors of Biratnagar.

Table 8: *Descriptive statistics of Investment Decision*

S. No	Statement	Mean	S. D
ID1	I assess risks and returns before investing.	3.29	1.01
ID2	I compare different investment options before choosing one.	3.39	.95
ID3	I rely on reliable financial information, not emotions.	2.96	1.05
ID4	I review my investments and adjust them when needed.	3.17	1.05
ID5	My investment choices align with my long-term goals.	3.54	1.01

Source: *Survey report 2026 & SPSS*

Table 8 presents descriptive statistics of investment decision among the young investor in Biratnagar. The mean value (2.96 to 3.54) shows moderate level of deliberate investment behavior among respondents. Young investors of Biratnagar investment decisions align with

long term goal. The standard deviation (.95 to 1.05) indicated moderate variability in investment decision practices among young investors.

Table 9: Reliability Statistics

Name of Variable	Cronbach's Alpha	N of Items
Risk propensity	.848	5
Anchoring bias	.865	5
Financial literacy	.847	5
Herding behaviour	.803	5
Overconfident bias	.877	5
Investment Decision	.832	5
Overall reliability test	.953	30

Source: Survey report 2026 & SPSS

Table 9 present the reliability statistics of the constructs used in the study along with the overall reliability of the model with the help of Cronbach's alpha value. Cronbach's alpha value ranged from .803 to .877 for all the construct used in the study which was above the minimum threshold (≥ 0.70) and the construct used in the study were Risk propensity, anchoring bias, financial literacy, herding behaviour, overconfident bias, and investment decision. Among the construct used in the study overconfident bias shows the highest reliability ($\alpha = 0.877$), while herding behaviour records the lowest reliability ($\alpha = 0.803$). All the construct used in the study had 5 items. The overall reliability of the model was above the threshold i.e. ($\alpha = 0.953$) with total 30 items used in the study. The reliability test provides green signals to perform further statistical analysis in the study.

Table 10: Correlation Analysis

Variables	RP	AB	FL	HB	OC	ID
RP Risk propensity	1					
AB Anchoring bias	.694**	1				
FL Financial Literacy	.607**	.676**	1			
HB Herding behaviour	.512**	.619**	.553**	1		
OC Overconfidence bias	.700**	.647**	.654**	.547**	1	
ID Investment Decision	.575**	.635**	.685**	.522**	.699**	1

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

Source: Survey report 2026 & SPSS

Table 10 present the correlation analysis among the construct used in the study where the Karl Pearson's method was used and analysis was performed at 0.01 level (2- tailed). The correlation table shows the positive relationship among all the construct. The table shows strong positive correlation among between risk propensity (RP) and overconfidence bias (OC) ($r = 0.700$), while the lowest positive correlation is between herding behaviour (HB) and risk propensity (RP) ($r = 0.512$). The study shows the positive association among the independent and dependent variables used in the study indicates the interconnected role of psychological

and knowledge-based factors in shaping investment behavior of young investors in contest of Biratnagar.

Table 11: Regression Model

<i>Model</i>	<i>Intercept</i>	<i>RP</i>	<i>AB</i>	<i>FL</i>	<i>HB</i>	<i>OC</i>	<i>Adj. R²</i>	<i>SEE</i>	<i>F-value</i>
1	1.490** (8.028)	0.525** (9.887)					0.327	0.643	97.751
2	1.185** (6.386)		0.636** (11.555)				0.400	0.608	133.512
3	0.981** (5.521)			0.701** (13.227)			0.466	0.573	174.943
4	1.402** (6.317)				0.572** (8.614)		0.269	0.671	74.208
5	1.166** (7.378)					0.626** (13.750)	0.486	0.562	189.067
6	0.431* (2.297)	-0.011 (-0.163)	0.157* (2.087)	0.320** (4.584)	0.060 (0.907)	0.332** (5.174)	0.585	0.505	57.057

Source: Survey report 2026 & SPSS

Table 11 presents the regression model of the study analyzes the effect of behavioral and cognitive factors on investment decision among young investor in Biratnagar 6 models were used in the regression analysis where the 1 to 5 models represent the separate regressions, indicating that risk propensity, anchoring bias, financial literacy, herding behaviour, and overconfidence each exert a positive and statistically significant influence on investment decisions when examined individually. The model 6 presented the regression model where financial literacy ($\beta = 0.320$, $p < 0.01$) and overconfident bias ($\beta = 0.332$, $p < 0.01$) remained strong and significant predictors of the study but anchoring bias shows a weaker but significant effect in the investment decision among young investors in Biratnagar. But for the predictors risk propensity and herding behaviour were statistical insignificant. The model explains 58.5% of the variance in investment decision ($Adj. R^2 = 0.585$) and is statistically significant, indicating a robust overall model fit.

Table 12: Summary of Hypothesis Testing

Hypothesis Statement	P-value	Alpha	Result
H ₁ : There is an effect of overconfidence bias on the investment decisions of young stock market investors on the Nepalese stock market.	0.000	0.05	Accepted
H ₂ : There is an effect of herding behaviour on the investment decisions of young stock market investors on the Nepalese stock market.	0.366	0.05	Rejected
H ₃ : There is an effect of anchoring bias on the investment decisions of young stock market investors on the Nepalese stock market.	0.038	0.05	Accepted
H ₄ : There is an effect of risk propensity on the investment decisions of young stock market investors on the Nepalese stock market.	0.871	0.05	Rejected

H ₅ : There is an effect of financial literacy on the investment decisions of young stock market investors on the Nepalese stock market.	0.000	0.05	Accepted
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Source: *Survey report 2026 & SPSS*

Based on the summary of hypothesis testing in Table 12, the analysis concluded that overconfidence bias, anchoring bias, and financial literacy all significantly influence investment decisions of young stock market investors on the Nepalese stock market, as their p-values were below the 0.05 significance level. This means that young investors overestimated their market knowledge and ability, relied heavily on initial reference indications, and were significantly influenced by their level of financial knowledge. On the other hand, Herding Behaviour and Risk propensity had no significant impact, suggesting that young investors did not follow others investment decision nor did their general tendency toward risk play a decisive role in influencing their investment decision.

5. Discussion

The findings of the study provide the empirical evidences on relationship between the behavioral factors and investment decision among the youth investor in context of Biratnagar with the explanation power of 58.5% of variation by the model (Adj. $R^2 = 0.585$). Among the predictors used in the study overconfidence bias and financial literacy are the strong predictors followed by anchoring bias, but herding behaviour and risk propensity became insignificant in the full model. The outcomes of the study reinforce investors are not completely rational while making investment decision but rely on psychological heuristics and subjective confidence while making the investment decision.

Overconfident bias demonstrated strong and statistically significant positive effect on investment decision which supports H₁. The findings of the study support the previous studies of Muhammad Abdul Rehman (2025), Pikulina et al. (2017), and Adhikari et al. (2025) that investors who overestimate their abilities tend to trade more actively and exhibit stronger decision conviction and also align with overconfidence theory i.e. investors with inflated self-assessment engage more confidently in risky assets. But Silwal & Ghimire (2025) suggest that excessive overconfidence may deteriorate decision quality in emerging markets. The present study indicates that among young and relatively educated investors, overconfidence may function as a motivating cognitive driver rather than a purely detrimental bias. Anchoring bias also exhibited positive and significant influence on investment decisions which supported H₃ and supported the previous study findings of Dhakal & Lamsal (2023) and Gurung et al. (2024) indicating young investor investment decision depends on historical price levels and initial reference points, consistent with heuristic-based decision-making frameworks. In the context of emerging market anchoring may serve as a cognitive stabilization mechanism, although it may also limit rational adjustment to new information. The findings also align with the theory of Lieder et al. (2007), anchoring as a cognitive shortcut used under uncertainty. The findings of study contradict Madaan and Singh (2019) and Sumantri et al. (2024), studies shows anchoring bias to have an insignificant effect.

Financial literacy shows a strong and highly significant positive impact on investment decisions, supporting H₅. The findings support the findings of Lusardi and Mitchell (2014), Rooij et al. (2011), Subedi (2023), and Uprety (2025) with adding the empirical evidence on the relationship between financial literacy and investment decision indicating cognitive competence moderates irrational tendencies and improves investment rationality, particularly among youth investors.

But in contrast herding behaviour and risk propensity were insignificant in the combined regression model where hypothesis H₂ and H₄ were rejected. Studies of Bhutto et al. (2025) and Sapkota (2022) demonstrated a significant positive effect of herding behaviour and risk propensity on investment decision. Young investors in Biratnagar may rely more on individual judgment and knowledge rather than crowd behavior or inherent risk-taking tendencies. Financial literacy and self-perceived competence are becoming stronger determinants of decision-making than traditional social imitation effects. Overall, the study provides the empirical evidences on behavioral finance and its relationship with investment decision among youth indicating cognitive factors dominate social and dispositional traits in shaping youth investment behavior, offering important implications for financial education policies and market development strategies in Nepal.

6. Conclusions

The study provides robust evidence on relationship between behavioral and cognitive factors and investment decision among youth investors in context of Biratnagar involved in Nepal Stock Exchange. Psychological and knowledge-based constructs are key determinants in an emerging market for the investment decision among youth investors. Overconfidence bias and financial literacy were found to have the strongest positive impact, followed by anchoring bias, whereas herding behaviour and risk propensity were not significant predictors in the full model. Cognitive competence, self-perceived confidence, and reliance on reference points exert greater influence on decision-making than social imitation or innate risk-taking tendencies among young investors. Investment decisions among youth are often guided by heuristics and personal judgment rather than purely rational calculations.

Young investors who overestimate their financial knowledge tend to make more assertive and frequent investment choices. Investors rely on initial price references or historical market information to guide their decisions, particularly under conditions of uncertainty. Financial literacy is the key determinant indicating educated and literate investors are capable to analyze and assess risk–return trade-offs, align investments with long-term goals, and resist impulsive or emotionally-driven choices. Financial education plays an important role in shaping rational investment behavior and enhancing market participation among youth in emerging economies.

In the context of emerging market like Nepal, cognitive and knowledge-based factors outweigh social and dispositional influences in determining investment behaviour among young investors. The study also provides insights for the different stakeholders to mitigate the cognitive biases and promote informed investment practices among investors in emerging market. The young Investors' investment behaviour depends on their self-assessment and analysis rather than herding behaviour. The study provides the direction for future research and digital sources of information along with longitudinal effects of behavioral biases on portfolio performance providing the basis of understating the investment decision in context of Nepal and other emerging market. Overall, the study underlines for integration of behavioral insights in financial education and policy framework for rational investment practices among the investors.

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