The Role of Behavioral Biases on Stock Investment Decision of Youth Investors in Pokhara: Financial Literacy as a Moderator

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Abstract

Background: Behavioral finance recognizes the effect of psychology and emotions in decision-making, in contrast with the concept of traditional finance that distorts the investor's rationality, and hampers market efficiency.

Objectives: The purpose of the study is to investigate the impact of behavioral biases in investment decisions. It furthermore examines the moderating effect of financial literacy.

Methods: This study allowed the convenience sampling method and collects the data from 202 respondents using a structured questionnaire conducting a survey. Similarly, the multiple regression model was employed to examine the impact of behavioral biases in investment decisions and the moderating effect of financial literacy.

Results: The study claimed that both overconfidence bias (β = .24, p < .001) and anchoring bias (β = .32, p < .001) have a positive impact, while herding behavior (β = -.20, p < .001) has a negative impact on investment decisions of youths. However, loss aversions (β = .05, p = .442) appear insignificant on investment decisions. In addition, this study established that financial literacy (β = -0.82, p < .05) moderates the relationship between overconfidence bias and investment decisions, effectively decreasing the effect of overconfidence bias.

Conclusions: Youth investors appear overconfident about their financial skills and self-judgments, as well as rely more on initial and outdated information in investment decisions-making. Likewise, investors who follow herd mentality would not be able to make informed decisions in the market. Additionally, financial literacy appeared as a strong moderator, which helps to reduce the negative impact of overconfidence bias on investment decisions. This study enriches academic literature and offers significant implications to the stakeholders.

Keywords: Anchoring bias, behavioral biases, herding behavior, loss aversion, overconfidence bias

Introduction

Traditional finance theories have the assumption of investors' rationality, who make efficient decisions based on available information to maximize estimated utility (Fama, 1970), ignoring the impact of investors' emotions. However, recent empirical evidence does not support it and claims that human emotions and psychology significantly influence the investor's behavior (Ahmad et al., 2017). Particularly, when investors prioritize personal experience and feelings in the investment decision-making, that leads to irrational behavior (Kudryavtsev et al., 2013). In this context, behavioral finance recognizes the irrational behavior of the investors, incorporating psychological aspects to explain investors behavior in the real world (Kahneman & Tversky, 1979). The behavior of the investor is different from the perspectives explained by the traditional theories of finance. Numerous studies challenged the assumption of the traditional finance theories in recent times. Behavioral biases such as mental accounting, overconfidence, herding, anchoring, loss aversion are common and significantly influence the investment behavior of the individual (Kharare & Lalwani, 2025; Rehman et al., 2025).

Most investors enter the financial market without sufficient knowledge and skills required for investment (Frydman & Rangel, 2014). Hence, such investors have a tendency to look for other's advice and rely on the general information available in the market (Shefrin, 2002). Generally, active investors tend to have the overconfidence bias in the financial market (ul Abdin, 2017). According to Barber and Odean (2001), overconfidence bias is the condition in which investors perceive their ability and knowledge as superior, which causes excessive trading and creates a risk of higher financial losses. Passive investors follow the herding in investment decisions (ul Abdin, 2017). Herding behavior is a tendency to follow others actions blindly in the stock market, that causes collective irrationality, which increases the volume of the transactions and volatility in the market (Malik & Elahi, 2014). Specifically, herd mentality encourages the investors to follow others' predictions rather than their own estimation (Mahapatra & Mehta, 2015). Likewise, anchoring is the behavioral bias in which investors rely more on firsthand and outdated information even when updated information is available (Tverskey & Kahneman, 1974). Additionally, loss aversion is the risk-aversion behavior of the investor, in which investor prioritize losses over gains, indicating the fear of losses of the investors (Kahneman & Tversky, 1979). Overall, these behavioral biases and emotions distort the investor's rationality, which increases financial risk in the investment stock market.

Lusardi and Mitchell (2014) stated that individuals with an adequate understanding of financial principles are well equipped to make informed investment decisions, display rational behavior in stock market, and are more resilient in ever-changing financial markets. Thus, financial literacy has a significant impact on the investment decisions (Rai et al., 2019). Financial literacy supports the individual to overcome behavioral biases and make informed investment decisions (Gupta et al., 2025). Generally financial literacy has three aspects regarding finance, such as competency, proficiency, and opportunity (G, 2021). In which, financial competency is related to providing sufficient knowledge about financial products to the individual (Shobha & Shalini, 2015). Likewise, proficiency is related to the application of the knowledge and skills while making financial decisions (Hilgert et al., 2003). Finally, financial opportunity reflects the ability of the person to create opportunity due to their knowledge (G, 2021). It is worth noting that financial literacy enhances the financial knowledge and skills of the individual that support to minimizing the irrational behavior of the investors.

In Nepal, investors make the decision without their own rational judgement; hence, various behavioral biases, such as availability, representativeness, anchoring, and overconfidence, all significantly influenced

their investment decisions (Dangol & Manandhar, 2020). While Shrestha (2019) asserted that investors in Nepal have a tendency to overestimate their own ability, hence overconfidence bias strongly influences the investment decision. According to Kunwar (2021), heuristics, herding, prospect, and market factors are prevailing behavioral biases among the investors in stock market in Nepal; however, heuristics is found most dominant bias on investment performance. Specifically, Poudel et al. (2024) claim that anchoring and disposition effect are key components to determine investment decisions in Nepal (Poudel et al., 2024). Considering these facts, Subedi and Bhandari (2024) highlighted the greater need for strengthening financial decision-making skills through financial education among young investors.

In Nepal, most of the studies have examined only the direct impact of a particular behavioral bias on investment decisions. Similarly, the potential moderating effect of financial literacy has not been properly examined in the prior studies in the context of global recognition of financial literacy as a significant component to mitigate the irrational behavior of investors. There is a need for a comprehensive study. Hence, the study fills this gap. It combined multiple behavioral biases and investigated the moderation effect of financial literacy to gain better understandings. On the other hand, understanding the financial behavior of youths is crucial in the evolving financial markets in the context of increasing financial responsibilities of youths (Stolper & Walter, 2017). Previous studies indicate the notable impact of behavioral biases on investment decisions. Additionally, many studies focused on the moderating impact of financial literacy as well. Therefore, this study offers significant insights on behavioral biases and financial literacy and their impact on the investment decision. Thus, the study considered the investment behavior of youths in Pokhara, as there is a growing participation of youths in the stock market. Hence, the general objective of the study is to examine the role of behavioral biases such as herding behavior, overconfidence, anchoring, and loss aversion in stock market investment decisions of youths in Pokhara. In addition, the strength of the relationship between behavioral biases and investment decisions is examined through financial literacy.

Review of Literature

There is an increasing trend to address the behavioral biases in the investment decisions in the global context based on the behavioral theories. Barber and Odean (2001) discussed how the overconfident bias detrimentally affects the profit of the investors due to the involvement of unnecessary trading. Lim (2012) also revealed the positive impact of overconfidence and regret aversion; in contrast, no effect of herding on decision-making. Bakar and Yi (2016) reported overconfidence on investment decisions but observed no herding behavior among investors. Shah et al. (2018) found a negative impact of herding on market efficiency. In contrast, Javed et al. (2017) claimed that overconfidence and herding behavior improved the investment performance. Kengatharan and Kengatharan (2014) found that anchoring is the most influential bias, along with overconfidence and herding mentality. Rehman et al. (2025) found the negative impact of herding and heuristics and the significant positive impact of anchoring and loss aversion on the market. In conclusion, behavioral biases are pervasive, which affects the market efficiency and investment decisions of the investors.

The overflow of information that is easily available in the market, as well as the psychological and emotional side of investors, is crucial to influence the investment decision (Banerjee, 2011). Generally, due to a lack of experience and knowledge about the financial market, youths rely more on digital and general information, which creates the possibility of behavioral biases on investment decisions (Hoffmann & Post, 2017). The cognitive and emotional biases such as herding, loss aversion, overconfidence, and anchoring are major influential of investment decisions (Abideen et al., 2023; Kharare & Lalwani, 2025; Rajimol et al., 2025; Rehman et al., 2025), ignoring rationality and the risk of the investment. In particular, the positive impact of

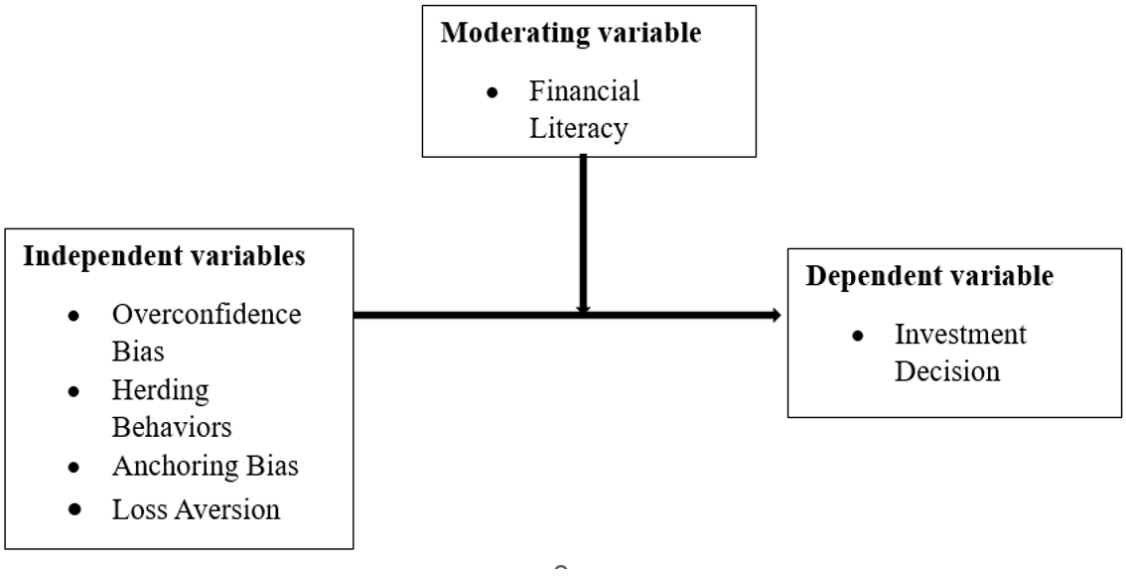
overconfidence bias (Madaan and Singh, 2019) and anchoring bias (G, 2021) was found on the investment decisions. However, herding behavior negatively influences investment decisions (G, 2021; Madaan and Singh, 2019). While Kharare and Lalwani (2025), Rajimol et al. (2025), and Rehman et al. (2025) claimed the positive impact of loss aversion on investment decisions. Hence, based on these claims of the prior studies, the study developed the research hypotheses.

Lursadi and Mitchell (2014) emphasized the role of financial literacy in improving the financial decisions by improving knowledge and skills. Abideen et al. (2023) claimed the moderating effect of financial literacy in the relationship between overconfidence bias and investment decision. Mahmood et al. (2024) also found the significant impact of financial literacy to reduce the negative impact of overconfidence bias and loss aversion that improves self-judgments. Subedi and Bhandari (2024) also highlight the crucial role of financial literacy in enabling one to make an informed financial decision. Hence, this study also developed the hypothesis to study the moderating role of financial literacy in the relationship between behavioral biases and investment decisions.

The study follows hypothetical assumptions as presented on the conceptual framework in Figure 1 and illustrates how behavioral biases- overconfidence, herding, anchoring, and loss aversion directly affect the investment decisions of youth investors in Pokhara. Likewise, financial literacy is taken as a moderator to examine whether it acts in a corrective role. Finally, the conceptual framework of the study was developed based on assumptions of behavioral finance theories.

Figure 1

Conceptual Framework



Based on the relationship assumed in the conceptual framework, following research hypotheses are developed for this study:

H_1: Herding behavior has significant relationship with investment decision.

H_2: Overconfidence has significant relationship with investment decision.

H_3: Anchoring bias has significant relationship with investment decision.

H_4: Loss aversion has significant relationship with investment decision.

H_5: Financial literacy moderates the relationship between behavioral biases and investment decision.

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Methods

This study is based on a quantitative approach, following descriptive and analytical research design. The research adopts a cross-sectional survey method; hence, data had been collected at a single point in time from the youth investors aged 16–40 following the convenience sampling method in Pokhara. The target population of the study comprises youth residing in the Pokhara Metropolitan City of Nepal who are involved in stock market investment. The individual belongs to the age category of 16 to 40 is considered youth in Nepal (Government of Nepal, 2015). The study considered youth investors as they are most dynamic segment.

The study prepared a structured questionnaire and developed in Google forms. The questionnaire was distributed to the potential respondent via social media platforms and email. A five-point Likert scale was used to take the agreement of the respondents regarding study variables. The study used the Cochran's formula to determine the required samples, hence the suggested sample size for the study is 196 at 7% margin of error and 95 % confidence interval as the size of the population is unknown. However, 202 samples were included for the study. For data collection, informed consent was taken from the respondents, and assured them about the confidentiality of personal information. Additionally, the study used the scale of measurement of each variable applied and validated from the previous studies (see in appendix). Regarding the reliability of the data, Cronbach's alpha was used to examine the consistency of the measurement items. Table 1 presents the results of the reliability test, ensuring that all the constructs have the Cronbach's alpha value above the suggested value of 0.70. Hence, reliability has been established.

Table 1

Assessment of Inter-Item Consistency Reliability

Variables	No. of Items	Cronbach's Alpha
Investment Decision	5	0.824
Overconfidence Bias	5	0.737
Herding Behavior	5	0.767
Anchoring Bias	5	0.743
Loss Aversion Bias	5	0.755
Financial Literacy	5	0.786

Note. Based on survey, 2025

The study employed the multiple regression model to determine the collective and individual impact of behavioral biases: overconfidence bias, herding behavior, anchoring bias, and loss aversion along with financial literacy in the process of investment decision of youth investors in Pokhara. The model used for this study is expressed as:

$$IDM= \alpha+\beta_1 OC_{+} \beta_2 HB+ \beta_3 AB+ \beta_4 LA+ \beta_5 FL+\mu$$

Where,

- IDM represents Investment Decision-Making,
- OC, HB, AB, LA, and FL represent Overconfidence Bias, Herding Behavior, Anchoring Bias, and Loss Aversion, Financial Literacy respectively,
- α is the constant term
- $\beta 1–\beta 5$ are regression coefficients, and
- μ is the error term.

Results and Discussion

This segment of the study integrates results of respondent's profile, investment profile, descriptive analysis, and multiple regression.

Respondent's Profile

Table 2

Respondents Information

Details	Frequency	Percentage	Details	Frequency	Percentage
Age			**Occupation**		
16-20	16	7.9%	Student	102	50.5%
21-25	96	47.5%	Employed	80	39.6%
26-30	67	33.2%	Self-employed	16	7.9%
31-35	17	8.4%	Other	4	2.0%
36-40	6	3.0%			
Gender			**Average Monthly Income**		
Male	108	53.5%	Under 20,000	68	35.1%
Female	94	46.5%	20,001- 40,000	39	20.1%
Education level			40,001-60,000	42	21.6%
SLC/SEE or below	2	1.0%	Above 60,000	45	23.2%
Intermediate	12	6.0%			
Bachelor's	127	63.2%			
Master's and above	60	29.9%			
	N=202	100%		N=202	100%

Note. Based on survey, 2025

Respondents profile shows the general background of the respondent. Table 3 depicts the respondents profile. It contains information related to respondent's age, gender, educational background, occupation, and income. Table 3 represents the higher participation of young respondents from the age category of 21-25 years in the study. Likewise, male respondents are slightly greater as compared to female. Regarding educational background, majority of the respondents have bachelor's degree. In terms of income distribution, since the respondents are youth investors hence, the majority of the respondents have a monthly income less than Rs 20,000. In particular, the study includes the respondents, who are youth investors from diverse background.

Investment Profile

Table 3 reflects the information regarding investment profile of the respondents. Investment profile may help to understand and relate the behavior pattern of the investors in decision-making. Investor profile includes information related to training, type of investor, experience of investors that indicates the knowledge skills and exposure investor have. Additionally, it also includes trading patterns, investment horizon preference, and information sources reflecting the trading strategies of the respondents.

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Table 3

Investment Information

Details	Frequency	Percentage	Details	Frequency	Percentage
Trading Behavior			**Investment duration**		
Daily	31	15.3%	Less than 1 year	84	41.65%
Weekly	44	21.8%	1–3 years	64	31.7%
Monthly	56	27.7%	4–5 years	31	15.35%
Semi- Annually	44	21.8%	More than 5 years	23	11.4%
Annually	21	10.4%			
Other	6	3.0%			
Training			**Investment Horizon**		
Yes	79	39.1%	Short Term	89	45.6%
No	110	54.5%	Long Term	106	54.4%
Maybe	13	6.4%			
Source of information				**Investor Type**	
Social Media		120	59.4%	Trader	61
Peer Group		90	44.6%	Investor	136
Relatives		46	22.8%		
Online Services	51	25.2%			
Other	13	6.5%			
	N=202	100%		N=202	100%

Descriptive Analysis

The study considered overconfidence, herding, anchoring, and loss aversion are independent variables and investment decision is considered as dependent variable. Whereas financial literacy is a moderating variable. The mean characteristics for each construct were analyzed based on Likert-scale responses. Each of these consisted of five point structured questions designed to measure the constructs on a five-point Likert scale ranging from “strongly disagree” (1) to “strongly agree” (5). The interpretation of mean values follows the formulation where the width of each level is determined by dividing the range between the highest and lowest scores by the number of levels (Musikapart, 2013):

Table 4

Perception towards Behavioral Biases Factors

Statements	*M*	*SD*
Investment Decision	3.73	0.78
Overconfidence Bias	3.14	0.70
Herding Behavior	3.20	0.73
Anchoring Bias	3.50	0.68
Loss Aversion	3.28	0.75
Financial Literacy	3.41	0.70

Table 4 summarizes the mean values of all the variables investigated in the study. The mean value for investment decisions was 3.73 (SD = 0.78), demonstrating a practice of making informed decisions in stock investments. The mean score of 3.14 (SD = 0.70) related to overconfidence bias, representing a moderate level of acceptance to overestimate own abilities while making investment decisions. Similarly, the mean value of herding of 3.20 (SD = 0.73), also demonstrating enough acceptance on following market trends and others' judgements. Furthermore, mean value represented in the table 4 for anchoring was 3.50 (SD = 0.68),

indicating a high level of trust on initial information for investment decisions. Likewise, Loss aversion had a mean of 3.28 (SD = 0.75), confessing a moderate level of tendency in prioritizing loss avoidance over potential gains. Finally, financial literacy had a mean value of 3.41 (SD = 0.70), admitting a high level of agreement on possessing financial knowledge and skills about market operations. The results recommend the presence of a noticeable level of anchoring bias and financial literacy; along with moderate level overconfidence, herding, and loss aversion.

Association between Behavioral Bias with Investment Decision

To explore the strength and direction of relationships between behavioral biases (overconfidence bias, herding behavior, anchoring bias, and loss aversion) and investment decisions, correlation analysis has been performed. The result of Pearson's correlation has been presented in Table 5.

Table 5

Association between Behavioral Bias with Investment Decision

Statements	Investment Decision	Overconfidence Bias	Herding Behavior	Anchoring Bias	Loss Aversion
Investment Decision	1				
Overconfidence Bias	.517**	1			
Herding Behavior	.125	.218**	1		
Anchoring Bias	.508**	.421**	.533**	1	
Loss Aversion	.228**	.208**	.411**	.552**	1

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

The correlation matrix is presented in Table 5. Investment decision showed moderate positive correlations with overconfidence bias ($r = .517$, $p < .01$), and anchoring bias ($r = .508$, $p < .01$), indicating that higher levels of these biases are associated with variations in investment decision-making. A weak positive correlation was observed with loss aversion ($r = .228$, $p < .01$), suggesting a lesser but significant link. However, the correlation with herding behavior was not significant ($r = .125$, $p > .05$), implying no substantial association in this sample. The results of correlation analysis support the research hypotheses of the study. In sum, findings highlight the persistence of behavioral biases that control the investment decisions among youth in Pokhara, except herding behavior.

Analyzing the Impact of Behavioral Biases on Investment Decision

Table 6

Determinants of Investment Decision Making: Output of Multiple Regression Model

	Unstandardized Coefficients		Standardized			
Predictor	B	SE	β	t-Stat	*p*-Value	VIF
(Constant)	.62	.27		2.31	.02	
Overconfidence Bias	.27**	.07	.24	4.18	.00	1.36
Herding Behavior	-.21**	.06	-.20	-3.31	.00	1.46
Anchoring Bias	.37**	.08	.32	4.38	.00	2.13
Loss Aversion	.05	.06	.05	.77	.44	1.55
Financial Literacy	.43**	.07	.39	6.56	.00	1.40
R^2	0.51					

Adjusted R^2	0.50
F (5, 201)	40.36**

Note. ** and * indicates the coefficients are significant at 1% and 5% level of significance respectively.

Multiple regression analysis results are offered in Table 6. The overall model is statistically significant, F (5, 201) = 40.36, p < .001, indicating that the independent variables collectively explained 51% of the variance in investment decision-making (R^2 = .51). Variance inflation factors (VIFs) ranged from 1.36 to 2.13 which is less than 5, indicating there is no issue regarding multicollinearity.

Overconfidence bias was a significant predictor, indicating a positive impact on investment decisions (B = .27, β = .24, p < .001). Herding behavior was a significant negative predictor implying that individuals who do not follow the crowd or do not depend on others decisions tend to make lesser investment decisions and found less active, (B = -.21, β = -.20, p < .001). Anchoring bias positively predicted investment decisions suggests that investors who are more confident in their abilities, rely on initial reference points, (B = .37, β = .32, p < .001). Financial literacy was a strong positive predictor in influencing investor to make proactive and assertive investment decision, (B = .43, β = .39, p < .001). Loss aversion was not a significant predictor, (B = .05, β = .05, p = .442) suggesting that fear of losses did not substantially influence decision-making in this sample.

Moderation Analysis

Moderation analysis was employed to examine whether the financial literacy serves as moderator within the relationship between behavioral biases and investment decision of youth investors in Pokhara. This analysis examines whether the financial literacy weakens the relationship between behavioral biases, precisely overconfidence, herding behavior, anchoring bias, and loss aversion and investment decision-making. The moderating model used in this study is expressed as:

$$IDM= \alpha+\beta_1 OC + \beta_2 HB+ \beta_3 AB+ \beta_4 LA+ \beta_5 FL+ \beta_6 OC\times FL+ \beta_7 HB\times FL+ \beta_8 AB\times FL+ \beta_9 LA\times FL+ \mu$$

Where:

- IDM represents Investment Decision-Making,
- OC, HB, AB, LA and FL represent Overconfidence Bias, Herding Behavior, Anchoring Bias, Loss Aversion and Financial Literacy respectively,
- OC×FL, HB×FL, AB×FL, and LA×FL represent the interaction terms between financial literacy and each behavioral bias,
- α is the constant term, β1–β9 are regression coefficients, and μ represents the error term.

Table 7

Moderation Analysis

	Unstandardized Coefficients		Standardized			
Predictor	B	SE	β	t-Stat	*p*-Value	VIF
(Constant)	-2.05	0.99		-2.06	0.04	
Overconfidence Bias	0.85**	0.26	0.76	3.22	0.00	22.53
Herding Behavior	-0.18	0.30	-0.16	-0.58	0.56	32.61
Anchoring Bias	0.56	0.38	0.49	1.47	0.14	45.68
Loss Aversion	0.14	0.27	0.13	0.51	0.61	27.80

Financial Literacy	1.21**	0.29	1.08	4.23	0.00	26.94
OC×FL	-0.17*	0.08	-0.82	-2.23	0.03	55.21
HB×FL	-0.01	0.08	-0.03	-0.08	0.93	64.90
AB×FL	-0.05	0.11	-0.28	-0.49	0.62	129.11
LA×FL	-0.03	0.08	-0.12	-0.34	0.73	55.21
R^2	0.53					
Adjusted R^2	0.51					
F (9, 201)	24.38**					

Note ** and * indicates the coefficients are significant at 1% and 5% level of significance respectively.

Table 7 presents the result of moderation analysis. The model included main effects for the biases and financial literacy, along with four interaction terms (overconfidence bias × financial literacy, herding behavior × financial literacy, anchoring bias × financial literacy, and loss aversion × financial literacy). The overall model was statistically significant, as F (9, 201) = 24.38, p < .001, and all the variables in the model account for 53% of the variance in investment decisions (R^2 = .53). Likewise, variance inflation factors (VIFs) alternated from 26.94 to 129.11, indicating significant multicollinearity due to interaction effects, mainly among interaction terms, which deserves cautious interpretation of results.

Considering the moderation model, among all variables, overconfidence bias positively forecasted investment decisions, (B = 0.85, β = 0.76, p < .001). Financial literacy is also a significant positive predictor, (B = 1.21, β = 1.08, p < .001). Whereas, other behavioral factors such as herding (B = -0.18, p = .56), anchoring bias (B = 0.56, p = .14), and loss aversion (B = 0.14, p = .61) were found to be insignificant.

Moderation result analysis confirms that financial literacy has the negative interacting effect only in between overconfidence bias and investment decisions (B = -0.17, β = -0.82, p < .05), indicating financial literacy weakens the effect of overconfidence bias while making investment decision. In contrast, there is no effect of financial literacy on the relationship between behavioral bias, such as herding ((B = -0.01, p = .93), anchoring bias (B = -0.05, p = .62), and loss aversion (B = 0.03, p = .73) and investment decisions.

Hypotheses Testing

Table 8

Hypotheses Test Results

Hypotheses Statement	**p-value**	**Decision**
H_1: HB → ID	.00	**H_1** is accepted. p-value<.05
H_2: OB → ID	.00	**H_2** is accepted. p-value<.05
H_3: AB → ID	.00	**H_3** is accepted. p-value<.05
H_4: LA → ID	.44	**H_4** is rejected. p-value>.05
H_5: FL moderates between OB and ID	.03	**H_5** is partially accepted. p-value<.05

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Multiple regression analysis results regarding the relationship between behavioral factors and investment decision and the moderation result of financial literacy are obtainable in Table 6 and Table 7, respectively. Based on the result, decisions regarding hypotheses tested are presented in Table 8. For this purpose, a significance level at 5% is considered, for the decision of acceptance and rejection of hypotheses. It indicates that behavioral bias, such as overconfidence, herding, and anchoring bias, influence investment decisions of youth in Pokhara, accepting hypotheses H1, H2, and H3 as the P value is less than .05. Conversely, the relationship between loss aversion and investment decisions is not statistically significant; hence H4 is not supported, signifying that investors do not get affected by the fear of losses while making investment decisions. Furthermore, Table 8 reveals that H5 is partially accepted, as statistically, the financial literacy was found a strong moderator on relationship between overconfidence bias and investment decisions. On the other hand, financial literacy seems ineffective in remaining relationship. Overall, it claims that financial literacy serves as a moderator.

Discussion

The study aimed to investigate the relationship between behavioral biases and investment decisions of the youth in Pokhara. In addition, it investigated whether financial literacy affects the relationship. The study found that behavioral biases such as overconfidence, herding, and anchoring affect the investment decisions of youths. These findings are consistent with the claim of Abideen et al. (2023), Kharare and Lalwani (2025), Rajimol et al. (2025), and Rehman et al. (2025). The results of the study support the theoretical assumptions of Kahneman and Tversky (1979).

In particular, the findings of the study indicate that overconfidence bias have significant positive impact on youth's investment decisions, supporting the claim of Madaan and Singh (2019). It reflects that youth investor have tendency to involve in excessive trading, ignoring the risk factors associated with it. Similarly, anchoring bias also found influential while making investment decision of youth, that specifies the behavior of investors being depend on initial information, ignoring the updated information. This result aligns with G (2021), and Kengatharan and Kengatharan (2014). On the other hand, the result regarding herding behavior, it is found that herding behavior negatively influence the investment decisions of youth, which is opposite with the result of G (2021) and Madaan and Singh (2019). It shows that while following trends and bubbles in market, investors act irrationally and would not be able to make informed decisions. As opposed to the conclusions of Kharare and Lalwani (2025), Rajimol et al. (2025), and Rehman et al. (2025), the study reveals that there is no relationship between loss aversion and investment decisions.

Similarly, the result aligns with Abideen et al. (2023) who claimed the moderating effect of financial literacy in the relationship between overconfidence bias and investment decisions. It ensures that financial literacy equips the person with sufficient financial knowledge and skills (Lusardi & Mitchell, 2014), that weaken the overconfidence biases and protect one from making excessive trading without considering risks. The finding is similar to G (2021). Therefore, the study summarizes that financial literacy is crucial to reduce the negative effects of psychological biases and human emotions and further supports to make informed decisions in stock market. This study highlights the need of integrating financial education to empower youth investors.

Conclusion and Implications

The study examined the impact of various aspects of behavioral biases, including overconfidence bias, anchoring bias, herding behavior, and loss aversion on youth's investment decision in stock market in Pokhara. In addition, it also investigated the moderating role of financial literacy within the relationship of behavioral

biases and investment decisions. The study asserts that investment decisions of youth investor are affected by behavioral biases such as overconfidence bias, anchoring bias, and herding behavior, indicating the strong presence of behavioral biases in investment decisions. However, financial literacy is effective in weaken the negative effect of overconfidence bias of youth investor, since it equips required financial knowledge and skills to the investor which supports to make informed decisions. Thus, the study established, financial literacy as a strong mechanism to save the investors and improve market efficiency. Moreover, financial literacy is effective in promoting rationality on investment decisions in stock market.

The study extends the knowledge regarding behavioral biases, in the context of emerging market, hence enriches academic literatures. It also provides significant implications to the stakeholders. The result indicates that policymakers should reinforce the youth-focused effective financial literacy programs and promote transparency and accessibility of information to ensure the market efficiency and encourage youth participation in stock market. On the other hand, the study has some limitations as it is based on convenience sampling technique and the self-reported responses from Pokhara only, hence the study may not generalizable in the other context. Additionally, the study highlights the need for additional research incorporating other aspects of behavioral biases and psychological traits to develop better understanding regarding investment decisions. Longitudinal assessments may provide different insights in this regards.

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Appendix

Investment Decision-Making

I regularly review and revise my investment portfolio.
I make investment decisions based on careful analysis.
I invest with a clear long-term financial goal in mind.
I prefer diversifying my portfolio to minimize risks.
I evaluate risks before investing in any stock.

Overconfidence Bias

I believe I can consistently outperform the average investor.
I rarely make wrong investment decisions.
I depend more on my judgment than on expert advice.
I trade more often because I trust my skills.
I am confident that I can time the market correctly.

Herding Behaviour

I follow others when making investment decisions.
I often invest in stocks that are trending on social media.
I consider what my friends and family are investing in before I invest.
I feel more comfortable when my decision aligns with the majority.
I would rather follow the crowd than take risks on my own.

Anchoring Bias

I rely heavily on the purchase price when deciding whether to sell a stock.
I am influenced by past stock highs when making decisions.
I compare current prices to historical benchmarks before buying.
My decisions are often based on initial information I receive.
I hesitate to sell stocks below their previous high.

Loss Aversion

I avoid selling stocks at a loss even when it's the best option.
I feel losses more strongly than I enjoy gains.
I tend to hold losing investments longer than I should.
I am more focused on avoiding losses than making gains.
Fear of losing money prevents me from making new investments.

Financial Literacy

I am well informed about the stock market.
I understand how inflation impacts investment returns.
I am aware of the risk-return trade-off in investing.
I have attended investment or financial literacy programs.
I am confident in managing my personal finances.