Behavioral Factors and Investment Decisions: Evidence from the Nepal Stock Market

Phul Prasad Subedi[1]* , **Bhumiswor Sharma[2]**
Sushan Maharjan[3]

Abstract

Purpose – The aim of this study is to analyze the behavioral biases that affect investment decisions, focusing on five specific biases: availability bias, regret aversion bias, mental accounting, loss aversion bias, and herding behavior.

Design/methodology/approach – A descriptive and causal research design was employed, utilizing a structured questionnaire communicated to 386 investors chosen through convenience sampling. The data collection encompassed multiple-choice and Likert-scale questionnaires. Analysis was performed in SPSS (V25) utilizing reliability and validity assessments, descriptive statistics, correlation, and multiple regression methods.

Findings and Conclusion – The findings confirm that behavioral biases significantly influence investment choices, often leading to less optimal financial outcomes. Among these biases, herding behavior and loss aversion had the most decisive influence, indicating that investors tend to follow market trends or avoid losses rather than pursue potential gains. Regret aversion bias, however, was statistically insignificant, suggesting that past regret does not substantially affect future investment decisions.

Implication – The findings reveal that loss aversion, availability bias, and mental accounting strongly influence Nepalese investors' decisions. Investors should adopt research-based strategies to minimize these biases. Financial advisors can guide clients toward disciplined investment behavior, while policymakers and regulators can use these insights to enhance financial literacy and develop behaviorally informed market policies that promote rational and informed investment decisions

Originality/Value – The study emphasizes the need for substantial financial literacy initiatives, focused investor awareness programs, and the implementation of decision-support systems to promote informed and rational investment decisions among market participants.

Keywords – Availability bias, Behavioral biases, Herding behavior, Investment decision-making, Loss aversion

[1] Asst. Professor, Central Department of Management, Tribhuvan University, Kathmandu, Nepal

[2] Adjunct Faculty, Central Department of Management, Tribhuvan University, Kathmandu, Nepal
bsworsharma1994@gmail.com

[3] Dallo Tech Pvt. Ltd., Kathmandu, Nepal
sushanmaharjan2131@gmail.com

*Corresponding Author:
phul.subedi@som.tu.edu.np

1. Introduction

Investment decision-making in stock markets involves a complex interplay of financial reasoning and psychological behavior. Traditional finance theories, such as Modern Portfolio Theory (Markowitz, 1952) and the Efficient Market Hypothesis (Fama, 1970), assume rational investor behavior in pursuit of optimal financial outcomes. However, behavioral finance research highlights that cognitive and emotional biases often lead to deviations from rational models (Barberis & Thaler, 2003; Kahneman & Tversky, 1979; Shefrin, 2000). Key psychological factors, including overconfidence, loss aversion, and herding behavior, distort rational decision-making and contribute to market anomalies (Odean, 1998; Statman, 1999; Tian, 2024).

Behavioral biases like overconfidence, loss aversion, herding, and anchoring impair risk assessment and lead to suboptimal investment decisions (Shefrin, 2000). Similar trends appear in emerging markets, with Mohanty et al. (2023) noting recency, familiarity, confirmation, and overconfidence biases influencing Indian investors during COVID-19, and Cao et al. (2021) highlighted behavioral impacts on portfolio selection and risk perception in China. Availability bias drives decisions by prioritizing easily recalled information, with Khan et al. (2021) confirming its role in rapid portfolio shifts during market fraud (Khan, 2017; Christie, 2018).

Herding behavior distorts asset prices and market efficiency by prompting investors to mimic others, especially in volatile markets like Nairobi and Vietnam (Nguyen, 2022; Ngumi et al., 2022). Investors struggle to allocate investments optimally during crises, as traditional models relying on market prices and variance falter (Ghimire and Adhikari, 2023; Kliber et al., 2023; Sharma et al, 2024). Tifany and Pamungkas (2023) found regret aversion, financial literacy, and overconfidence positively affect investment choices among Jakarta workers, while Edison and Aisyah (2023) noted regret aversion and loss aversion interactions in small enterprises, mediated by financial literacy.

In the context of Nepal, the stock market has been growing steadily over the years. According to the latest data (2025) from Central Depository Company and Clearing (CDSC), a subsidiary of Nepal Stock Exchange (NEPSE), the total number of demat accounts has reached 6.2867 million. The Economic Survey 2080/081 (BS) mentions that the number of citizens holding demat accounts represented 21% of the total population as of mid-March 2024, with the number reaching 6.224 million (Republica, 2024). This study on biases like availability bias, regret aversion, mental accounting, loss aversion, and herding in Nepal's stock market highlights gaps in existing research. While herding and loss aversion are studied (Risal & Khatiwada, 2019; Gurung et al., 2024), the inclusion of availability bias, regret aversion, and mental accounting is underexplored locally. Previous studies addressed availability (Dangol & Manandhar, 2020) but not mental accounting, and regret aversion is only partially covered (Gurung et al., 2024). The study overlooks other biases like anchoring and representativeness, which are influential (Kandel et al., 2024; Gurung et al., 2024). It also neglects demographic factors such as age, gender, and education, which shape risk tolerance (Sharma et al., 2017; Basnet Chhetri, 2022). Emerging factors, such as ESG awareness and social media's impact on investor behavior, remain unaddressed. Although financial literacy is noted as a mitigator (Poudel et al., 2024), the study does not work on literacy programs or tailored interventions, limiting practical implications. Addressing these gaps could improve understanding of behavioral influences in Nepal's growing stock market. Therefore, addressing this gap could provide valuable insights for both individual and institutional investors, enabling them to develop strategies that enhance investment performance and make informed and rational investment choices. These insights collectively highlight the importance of integrating behavioral perspectives into the study of investment behavior, particularly in developing economies like Nepal.

2. Literature Review and Hypotheses Development

Theoretical Background

This study is grounded in both traditional and behavioral finance theories. Traditional theories such as the Efficient Market Hypothesis (Fama, 1970) and Modern Portfolio Theory (Markowitz, 1952) assume that investors are rational and markets are efficient, where prices fully reflect available information. However, behavioral finance challenges these assumptions by explaining that psychological factors often drive investor decisions. Prospect Theory (Kahneman & Tversky, 1979) highlights how individuals evaluate gains and losses asymmetrically, leading to biases such as loss aversion and mental accounting. Similarly, the Heuristics Theory (Tversky & Kahneman, 1974) explains how investors rely on cognitive shortcuts, causing biases like availability and overconfidence. Furthermore, Herding Theory (Banerjee, 1992) illustrates how individuals mimic others' actions, leading to collective market trends. Together, these theories provide a framework to understand how behavioral biases influence investment decisions, bridging the gap between rational expectations and actual investor behavior in the Nepalese stock market.

The influence of behavioral biases on investment decisions has been widely studied across various contexts. Santi et al. (2019) highlighted that mental accounting biases affect equity investment decisions, while Naveed et al. (2020) found regret to negatively impact investment choices and factors such as education, risk-taking, trust, and gender to have positive effects. Hunguru et al. (2020) identified a spectrum of behavioral biases, including anchoring, availability, gambler's fallacy, overconfidence, herding, loss aversion, mental accounting, regret aversion, and representativeness, as significant influencers on individual investor decisions. Similarly, Chaudhary et al. (2025) and Parveen et al. (2020) emphasized the role of cognitive biases like representativeness and overconfidence in shaping stock market behavior. Rahayu et al. (2020) documented herding tendencies among investors in Indonesia driven by social influence and limited knowledge, while Mumtaz and Ahmad (2020) and Kasoga (2021) confirmed the significant impact of heuristic biases on investment decisions.

In Nepali context, the behavioral finance literature aligns with and expands upon these findings. Early studies, such as Kadariya (2012), identified tangible and intangible information, including political and media coverage, belief in luck, and financial knowledge, as key factors influencing stock market investment decisions. Sharma, Chalise, and Dangol (2017) underscored demographic influences, revealing that gender, education, age, and income significantly affect risk tolerance, with males and more educated investors showing higher risk propensity. Risal and Khatiwada (2019) examined herding behavior and found that hasty decision-making correlates positively with herd behavior, whereas decision accuracy, age, and experience did not have significant effects. Rana (2019) further highlighted that investor behavior in Nepal is significantly shaped by financial awareness and social learning, which interact with perceived risk attitudes to influence investment decisions. Zahera and Bansal (2018) also demonstrated that the framing of risk and return can heavily influence whether individuals adopt conservative or aggressive investment strategies in Nepal. Similarly, Gyawali and Neupane (2021) investigated psychological factors influencing investors in NEPSE and found that cognitive and emotional biases play a substantial role in decision-making processes. Gnawali and Niroula (2021) identified factors such as quality management, company goodwill, performance, sector, and market information as significant determinants of investment decisions among Nepali investors. Rawat (2023) explored behavioral biases, including herding behavior and investor sentiment mediation on decision-making in NEPSE, reinforcing the complex dynamics in Nepal's stock market.

Dangol and Manandhar (2020) focused specifically on heuristic biases, including representativeness, availability, anchoring, and overconfidence. They reported significant irrationality linked to these biases among Nepalese investors, moderated in part by locus of control. Similarly, Neupane (2021) identified herd behavior and overconfidence as positive contributors to risk tolerance, while Kunwar (2021) classified behavioral dimensions into heuristics, prospects, market factors, and herding, finding heuristics as the most decisive influence on investment performance. Further reinforcing these patterns, Silwal and Bajracharya (2021) found herding, market variables, and heuristics such as overconfidence and anchoring to be positively related to investment performance in Nepal. Karmacharya et al. (2022) also observed that market information, heuristics, and herding behaviors significantly affect investment outcomes in NEPSE, with market sentiments being a dominant influence. Recent studies continue to deepen the understanding of these behavioral influences. Basnet Chhetri (2022) noted that while classical financial factors like dividends and earnings remain pivotal, there is a notable gap in Nepali investors' awareness of environmental, social, and governance factors. Giri and Adhikari (2023) found that conservatism positively influences Nepali investor decisions, whereas overconfidence did not significantly affect choices, suggesting possible cultural or market differences in confidence levels. In contrast, Gurung, Dahal, Ghimire, and Koirala (2024) reported overconfidence, anchoring, and regret aversion as significant behavioral determinants, while herding and representative bias showed weaker effects.

More recent empirical investigations corroborate the critical role of behavioral biases. Poudel, Bhusal, and Pathak (2024) documented overconfidence, disposition effect, and risk aversion as significant predictors of investment decisions in Nepal, with financial literacy serving as a mitigating moderator, thus aligning with global calls for investor education to reduce bias impact (Naveed et al., 2020; Kandel, Basnet, & Aryal, 2024). Shrestha (2024) categorized behavioral influences into self-image and firm-image, advocate recommendation, personal financial needs, and market information factors, all of which significantly shape Nepali investors' decisions. In addition, Kandel et al. (2024) further emphasized the pervasive influence of representative bias, herding, overconfidence, anchoring, and regret aversion, linking limited financial literacy and information access as barriers to rational decision-making. Chhetri (2024) demonstrated that Nepali investors' decisions are intricately influenced by firm performance, market trends, and individual risk tolerance, reaffirming the multifaceted nature of investment behavior. Lastly, Adhikari et al. (2025) identified overconfidence bias as the strongest behavioral predictor in Kathmandu's investors, followed by risk perception, representative bias, and loss aversion, collectively explaining a substantial proportion of investment decision variance. Studies also show that Nepali investors are often cautious when new changes occur in the financial market. For example, they develop a negative attitude toward green financial product if they perceive a financial risk (Pokhrel et al., 2024). This suggests that most investors prefer to avoid risks, especially when the phenomenon is new.

So far, the review of empirical studies on Nepal's investment landscape reveals that behavioral biases, availability, regret aversion, mental accounting, loss aversion, and herding significantly influence decisions, yet studies remain limited. Existing research primarily examines these biases in isolation and lacks a cohesive framework to explore their interconnected effects. To fulfill this gap, the following hypothesis has been formulated.

H1: There is a relationship between herding behavior and the investment decisions of individuals on the Nepal stock market.

H2: There is a relationship between availability bias and investment decisions of individuals on the Nepal stock market.

H3: There is an effect of loss aversion on the investment decisions of individuals in the Nepal stock market.

*H4: There is an effect of regret aversion on the investment decisions of individuals in the Nepal stock market.*

H5: There is an effect of mental accounting on the investment decisions of individuals in the Nepal stock market.

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 people's stock market investing decisions in Nepal.

Figure 1

Research Framework
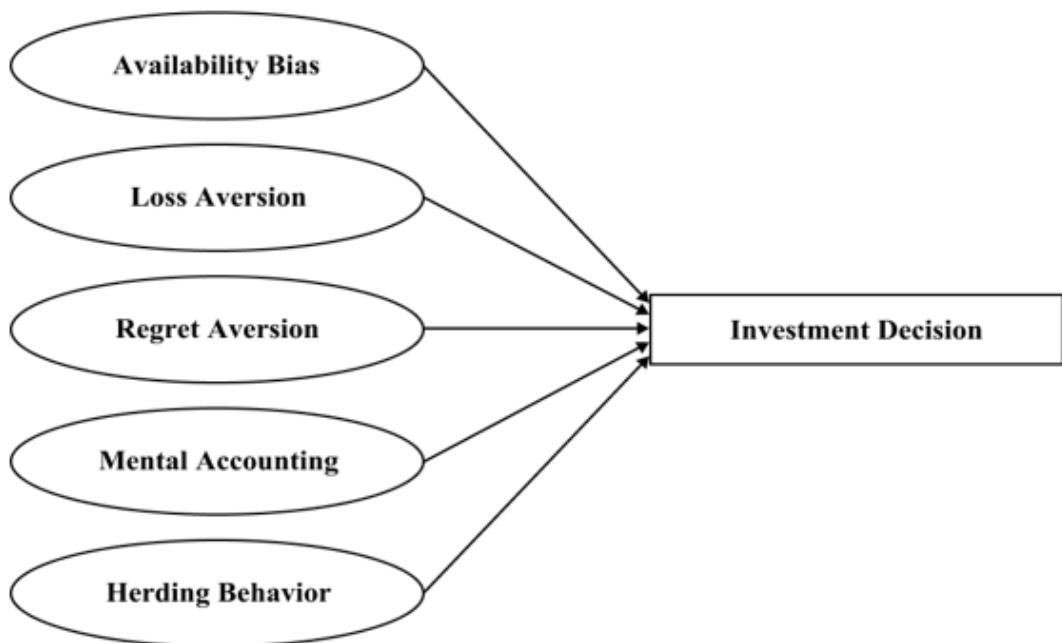
3. Research Method

A descriptive and causal research design was employed to examine factors influencing individual investment decisions in the Nepal stock market. Data were collected through a structured questionnaire focusing on behavioral aspects such as herding, availability bias, loss aversion, regret aversion, and mental accounting. The target population included all individuals who had invested at least once in the Nepal Stock Exchange. According to CDSC (2025), there were 6,565,600 Beneficial Owners' Demat Accounts, with 5,623,814 registered MeroShare users, of which 3,794,460 were active investors. This group formed the basis for selecting respondents for the study. To get the sample size, the Cochran formula was used at a 95% confidence level and 5% margin of error, which is considered especially appropriate in situations with large populations (Glen, 2019). Based on the formula and calculation, the sample size result was 384.16.

Among the total population, 386 investors were selected for the sample. Questionnaires were distributed electronically to the 386 investors to collect primary data. The survey included 10 multiple-choice questions and 5 to 7 Likert scale questions for each variable. For the sampling method, the convenience sampling technique was used to select respondents from diverse demographic groups, focusing on individuals based on their availability and willingness to participate. Different statistical techniques were used to analyze the results obtained from the questionnaire. Google Forms was used to create a questionnaire, and Statistical software SPSS V25 was used to analyze the reliability and validity of the variables, demographic statistics, descriptive statistics, correlation analysis, and multiple regression analysis.

$$ID = \alpha + \beta1\ HB + \beta2\ AB + \beta3\ LAB + \beta4\ RAB + \beta5\ MA + e \qquad (I)$$

A multiple linear model (I) was used to verify regression, where the Investment decision (ID) is the dependent variable, α is the constant value, β is the slope coefficient, and x is the independent variable influencing the dependent variable. Herding behavior (HB), Availability Bias (AB), Loss Aversion Bias (LAB), Regret Aversion Bias (RAB), and Mental Accounting (MA) are independent variables, and e is the error term or residual.

The research questions were gathered from various sources, and Table 1 lists the instrumentation details and their sources.

Table 1

Instrumentation

Variables	Sources
Availability Bias	Nizar & Daljono, 2024; Salman et al., 2020
Regret Aversion Bias	Wangzhou et al., 2021; Sukamulja & Senoputri, 2019
Mental Accounting	Thaler, 1985; Karmacharya et al., 2022; Santi et al., 2019
Loss Aversion Bias	Philip, 2022.
Herding Behaviour	Zainul & Suryani, 2021; Karmacharya et al., 2022
Investment Decision	Salman et al., 2020

4. Results

Demographic Analysis

The demographic information of the 386 participants, such as their gender, age, qualification, occupation, and level of income, was gathered and examined. The frequency distribution for each group is shown below. Based on the data from Table 2, the study found that the male respondents made up a significantly higher proportion (65.8%) compared to females (34.2%), which may indicate a gender imbalance in the sample. The majority of respondents were between 25 and 30 years old (62.7%), followed by those below 25 years (22.5%). This suggests that the sample is primarily composed of younger individuals, with a smaller share aged above 30.

In terms of education, more than half of the respondents held a bachelor's degree (55.4%), while 31.9% had completed a master's degree. Only a small fraction had qualifications such as

intermediate (6%), SLC/SEE (3.6%), or PHD and above (0.5%). This indicates that the sample is skewed toward highly educated individuals. Regarding occupation, salaried individuals represented the largest group (56%), followed by students (21.8%) and self-employed participants (18.1%). A minority were unemployed (3.1%) or retired (1%). Income distribution shows that nearly half earned less than 50,000 (47.9%), with 28% earning between 50,001 and 100,000, and 18.1% earning above one lakh, reflecting a diverse economic background among respondents.

Table 2

Demographic Characteristics

Particular	Categories	Frequency	Percent
Gender	Male	254	65.8
	Female	132	34.2
Age	Below 25	87	22.5
	25 - 30	242	62.7
	31 - 40	44	11.4
	Above 40	13	3.4
Qualification	SLC/SEE	14	3.6
	Intermediate	23	6
	Bachelor	214	55.4
	Master's Degree	123	31.9
	PhD and above	2	0.5
	Other	10	2.6
Occupation	Student	84	21.8
	Salaried Individual	216	56
	Self-Employed	70	18.1
	Un-employed	12	3.1
	Retired	4	1
Level of income	Less than 50,000	185	47.9
	50,001 to 100,000	108	28
	Above 1 lakh	70	18.1

Descriptive Analysis

Based on the data in Table 3, most people tended to make proactive decisions, indicating that they actively manage their money, with an average score of 3.43. Loss aversion (3.37) and availability bias (3.42) indicate that many investors rely on information that is easy to remember and are more focused on preventing losses than achieving gains. Mental accounting (3.33) and

regret aversion (3.27) show that people tend to be careful with their money and avoid choices that could lead to regret later. Herding behavior received the lowest score (3.05), indicating that while peer pressure exists, it does not significantly influence most investors' decisions. Interestingly, these results are so consistent, with all standard deviations being less than 0.82. These patterns are stable across the group.

Table 3

Descriptive Statistics

Variables	Mean	Std. Deviation
Availability Bias	3.4233	0.8018
Regret Aversion Bias	3.2739	0.71341
Mental Accounting Bias	3.3337	0.74231
Loss Aversion Bias	3.3741	0.7223
Herding Behavior Bias	3.0518	0.82375
Investment Decision	3.4348	0.73168

Reliability Test

A Cronbach's Alpha value is shown in Table 4, which presents the reliability analysis of various behavioral biases and investment decision-making, which measures internal consistency. A reliability score above 0.6 is generally considered acceptable (Nunnally & Bernstein, 1994). The results indicate that all constructs exceed this threshold, demonstrating good reliability. Among them, Herding Behavior has the highest Cronbach's Alpha value (0.864) for its seven items, indicating strong internal consistency. In comparison, Mental Accounting has the lowest score (0.705) with five items, which is still acceptable. The analysis confirms the reliability of the measurement instruments for credibility, and the data can be used for future studies.

Table 4

Reliability Analysis

Sn	Items	Cronbach's Alpha	No. of Items
1	Availability Bias	0.718	5
2	Regret Aversion Bias	0.742	7
3	Mental Accounting	0.705	5
4	Loss Aversion Bias	0.708	5
5	Herding Behaviour	0.864	7
6	Investment Decision	0.804	6

Correlation Analysis

Table 5 presents a correlation matrix illustrating the relationships between the variables. The numbers in each cell are Pearson correlation coefficients, which show how strong and in what direction the relationships are between pairs of variables. This gives us a better understanding of how they depend on each other and what effects they might have. Based on the data and correlation strength classification, all variables show a positive correlation with investment decisions at a 1 percent significance level.

Loss aversion bias (r = .436, p < .01) and availability bias (r = .415, p < .01) have moderate positive correlations, indicating that investors' decisions are significantly influenced by their fear of losses and reliance on readily accessible information. Similarly, Mental Accounting (r = .399, p < .01) and regret aversion bias (r = .354, p < .01) also show moderate correlations, meaning investors tend to mentally categorize their money and avoid decisions that could lead to regret.

Herding behavior (r = .213, p < .01) has the weakest positive correlation with investment decisions, suggesting that while investors do consider others' actions, it is not a primary factor influencing their choices. The strongest correlation within the biases is between regret aversion bias and Herding behavior (r = .583, p < .01), which falls into the strong correlation range. This indicates that individuals who fear regret are more likely to follow the investment actions of others rather than making independent decisions. Additionally, availability bias also has notable correlations with other biases, particularly regret aversion bias (r = .561, p < .01), suggesting that investors who rely on readily available information are also more likely to avoid choices that might lead to regret.

Table 5

Correlation Analysis

Variables	1	2	3	4	5	6
1. Investment Decision	1					
2. Availability Bias	.415**	1				
3. Mental Accounting	.399**	.490**	1			
4. Loss Aversion Bias	.436**	.469**	.457**	1		
5. Regret Aversion Bias	.354**	.561**	.460**	.553**	1	.
6. Herding Behavior	.213**	.464**	.430**	.439**	.583**	1

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

Regression Analysis

A multiple regression analysis was conducted to examine the relationship between one dependent variable and one or more independent variables. Table 6 depicts the R value, showing a positive relationship between the factors' means. When the independent factors improve, the dependent factor, i.e, "Investment Decision," also improves. The R-squared value (0.28) tells us that these factors explain 28.0% of the changes in investment decisions. The adjusted R-squared (0.27) confirms the model is reliable and works well, even after considering all the factors together.

Table 6

Model summary table

Model	R	R-squared	Adjusted R-squared	Std. Error of the Estimate
1	.529a	0.28	0.27	0.62508

a. Predictors: (Constant), Herding Behavior Bias, Mental Accounting Bias, Loss Aversion Bias, Availability Bias, Regret Aversion Bias

b. Dependent Variable: Investment Decision

Table 7

ANOVA table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.634	5	11.527	29.501	.000
	Residual	148.475	380	0.391		
	Total	206.109	385			

Table 7 shows the statistical implications of regression analysis. It indicates that the overall model understudy is significant when the value of sigma is below 0.05, and it is also enough to predict the outcome or dependent variable, which is Investment Decision. In the table, the value of sigma is 0.00, which is less than 0.05, indicating that the overall model is significant.

Table 8

Coefficient table

Model	Beta Coefficient	Std. Error	t-stat	Pvalue	Tolerance	VIF
(Constant)	1.329	0.186	7.164	0.000	-	-
Availability Bias	0.196	0.052	3.797	0.000	0.592	1.689
Regret Aversion Bias	0.076	0.064	1.199	0.231	0.493	2.030
Mental Accounting Bias	0.192	0.053	3.646	0.000	0.661	1.513
Loss Aversion Bias	0.264	0.056	4.719	0.000	0.620	1.613
Herding Behavior Bias	-0.114	0.050	-2.305	0.022	0.608	1.645

The regression analysis coefficient Table 8 examines how different behavioral biases influence the dependent variable. Loss Aversion Bias has the most potent positive effect ($\beta = 0.264$, $p = 0.000$), followed by Availability Bias ($\beta = 0.196$, $p = 0.000$) and Mental Accounting ($\beta = 0.192$, $p = 0.000$), all of which significantly impact the outcome. Herding behavior has a significant adverse effect ($\beta = -0.114$, $p = 0.022$), meaning it decreases the dependent variable. However, Regret Aversion Bias ($\beta = 0.076$, $p = 0.231$) is not statistically significant, implying that fear of regret may not be a major factor in this context. The constant value ($B = 1.329$, $p = 0.000$) suggests that even when all biases are absent, the dependent variable has a baseline value.

Tolerance values close to 1 indicate low multicollinearity, whereas lower values (close to 0) suggest high multicollinearity. The VIF, which is the reciprocal of tolerance (VIF = 1/Tolerance), helps

determine if a predictor is redundant (Oke et al., 2019). In this table, all VIF values range from 1.513 to 2.03, and tolerance values are above 0.49, indicating that multicollinearity is not a significant issue in this model. This suggests that the predictors are relatively independent of each other, allowing for more reliable interpretation of their individual effects on the dependent variable.

Table 9

Summary of Hypothesis Testing

Hypothesis Statement	P-value	Alpha	Result
H1: There is a relationship between herding behavior and the investment decisions of individuals on the Nepali stock market.	0.022	0.05	Accepted
H2: There is a relationship between availability bias and investment decisions of individuals on the Nepali stock market.	0.000	0.05	Accepted
H3: There is an effect of loss aversion on the investment decisions of individuals in the Nepali stock market.	0.000	0.05	Accepted
H4: There is an effect of regret aversion on the investment decisions of individuals in the Nepali stock market.	0.231	0.05	Rejected
H5: There is an effect of mental accounting on the investment decisions of individuals in the Nepali stock market.	0.000	0.05	Accepted

Based on the summary of hypothesis testing in Table 9, the analysis concluded that herding behavior, availability bias, loss aversion, and mental accounting all significantly influence investment decisions in the Nepalese stock market, as their p-values were below the 0.05 significance level. This means that investors tend to categorize money in ways that affect their financial decisions, follow others, rely on information that is easy to remember, and react more strongly to losses than gains. On the other hand, Regret aversion had no significant impact, suggesting that these investors' investment behavior is not significantly influenced by their fear of making a poor choice.

5. Discussion and Conclusions

The findings of this study are consistent with previous studies in some respects. Studies by Gyawali and Neupane (2021) found that overconfidence, herding, and loss aversion significantly influenced investment decisions, while anchoring, mental accounting, and regret aversion did not have a noticeable impact. The strong influence of loss aversion in this study aligns with findings from other markets, such as Pakistan (Mumtaz & Ahmad, 2020) and Indonesia (Edison & Aisyah, 2023). However, the extent of loss aversion in Nepal may be exacerbated by the relatively high volatility and lack of investor confidence in the Nepali stock market. This is consistent with Sapkota's (2022) findings, which indicated that herding and loss aversion had a significant positive influence on stock investment decisions among the respondents. Rawat (2023) explored behavioral biases, including herding behavior and investor sentiment mediation on decision-making in NEPSE, reinforcing the complex dynamics in Nepal's stock market. Rana's (2023) findings also revealed significant correlations between loss aversion and financial decisions, though regression analysis showed that loss aversion influenced these decisions.

Furthermore, a study by Adhikari et al. (2025) found that loss aversion accounted for a significant amount of the variance in investment decisions, which was consistent with the current findings. Finally, Kandel et al. (2024) linked a lack of financial literacy and information access to a lack of rational decision-making, underscoring the widespread impact of representative bias, herding, overconfidence, anchoring, and regret aversion.

Loss aversion, availability bias, and mental accounting were found to be the most significant factors in this study. In contrast, Gyawali and Neupane's (2021) research revealed that investment decisions were significantly impacted by herding and loss aversion. According to this result, herding behavior had an adverse effect, indicating that it can be harmful to follow market trends without conducting independent research. Koirala (2024) reported overconfidence, anchoring, and regret aversion as significant, whereas our research shows regret aversion had no significant impact, suggesting that these investors' investment behavior is not significantly influenced by their fear of making a poor choice. Investors should focus on creating their investment plans through in-depth research and analysis. It was discovered that regret aversion was negligible, suggesting that regrets about previous investments do not significantly affect present or future choices.

The study shows that behavioral biases significantly influence the investment decisions of individual investors in the Nepali stock market. This study provides a comprehensive analysis of the impact of behavioral factors on investment decision-making among individual investors in Nepal. The results confirm that psychological factors significantly shape investment behavior, with loss aversion, availability bias, and mental accounting being the most influential determinants. Investors' tendency to avoid losses, rely on accessible information, and categorize finances into mental accounts significantly affects their financial choices, sometimes leading to irrational decision-making.

6. Implication

The implications of this study extend to investors, financial advisors, policymakers, and stock market regulators. For investors, recognizing and reducing availability bias can help them maximize their financial strategies and avoid typical pitfalls. Additionally, by concentrating on creating their investment strategies based on in-depth research and analysis rather than mindlessly following market trends, they can avoid these pitfalls. Advisors can help clients develop structured investment plans that minimize the influence of biases and encourage long-term financial stability. Also, educate them in order to make informed decisions. When creating market regulations and investment guidelines, policymakers and regulators can consider these behavioral findings, which result in improving financial literacy and awareness among the general public.

7. Direction for Future Research

Future studies could examine other behavioral biases, such as confirmation bias, anchoring, disposition effect, risk aversion, overconfidence, and many other variables. Studies comparing various financial markets may offer insightful information about behavioral biases and how they affect investment behavior. Other significant areas, such as Nepali cities could be included for future studies, which can incorporate more behavioral and economic factors to determine how other factors affect decision-making. Additionally, to improve the study's insight, focus groups with brokers, investors, and stock market specialists would be preferable.

Conflict of Interest

Authors declare no conflict of interest while preparing this article

Acknowledgment

References

Adhikari, M., Bhusal, S., Adhikari, S., & Sharma, P. (2025). Evaluation of behavioral factors influencing investors' investment decisions in the Nepal Stock Exchange (NEPSE). *International Journal of Social Science and Management*, *12*(2), 77–88.

Adhikari, P. L. (2020). Factors influencing investment decisions of individual investors at Nepal Stock Exchange. *Management Dynamics, 23*(1), 183-198.

Banerjee, A. V. (1992). A simple model of herd behavior. *The quarterly journal of economics, 107*(3), 797-817.

Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. *Handbook of the Economics of Finance*, *1*, 1053–1128. https://doi.org/10.1016/S1574-0102(03)01027-6

Cao, M., Wang, Y., & Zhang, C. (2021). Behavioral factors and investor decision-making: Evidence from Chinese stock market. *Emerging Markets Finance and Trade*, *57*(10), 3037–3051. https://doi.org/10.1080/1540496X.2020.1869103

CDS & Clearing LTD. (2025). Retrieved from CDS and Clearing LTD: https://cdsc.com.np/

Chaudhary, M. K., Adhikari, M., Ghimire, D. M., & Bhattarai, D. R. (2025). Heuristic bias and investment decision: Exploring the mediating role of investors' risk perceptions. *Investment Management and Financial Innovations*, *22*(1), 441–452. http://dx.doi.org/10.21511/imfi.22(1).2025.33

Chhetri, G. R. (2024). Behavioral influences on individual investors' decision-making. *The Journal of Development and Administrative Studies*, *32*(1-2), 57–66. https://doi.org/10.3126/jodas.v32i1-2.75851

Chhetri, R. B. (2022). Decision-making behavior of individual stock investors in Nepal. *The journal of Nepalese business studies*, *15*(1), 107–124.

Christie, P. (2018). Does gender influence investor behavior in the secondary equity market? *International Journal of Applied Engineering Research, 13*(11), 9651-9662.

Dangol, J., & Manandhar, R. (2020). Impact of heuristics on investment decisions: The moderating role of locus of control. *Journal of Business and Social Sciences Research*, *5*, 1–14.

Edison, E. D., & Aisyah, H. (2023). The effect of regret experienced in investment decision: an experimental study. *International Journal of Asian Business and Management, 2*(1), 85-98.

Fama, E. F. (1970). Efficient capital markets: A review of Theory and empirical work. *The Journal of Finance*, *25*(2), 383–417. https://doi.org/10.2307/2325486

Ghimire, D. M., & Adhikari, M. (2023). Impact assessment of investment motivation toward mutual funds. *Journal of Emerging Management Studies*, *1*(1), 37–51. https://doi.org/10.3126/jems.v1i1.60161

Giri, B., & Adhikari, S. (2023). The influence of conservatism and overconfidence on investment decisions among investors in the Nepali stock market. *Journal of Emerging Management Studies*, *1*(1), 20-36. https://doi.org/10.3126/jems.v1i1.60160

Glen, S. (2019). *Sample Size in Statistics (How to Find it): Excel, Cochran's Formula, General Tips*. Retrieved from Statistics How To: https://www.statisticshowto.com/probability-and-statistics/find-sample-size/

Gnawali, A., & Niroula, B. (2021). The perception of investors towards initial public offerings: evidence from Nepal. *Jurnal Manajemen Terapan dan Keuangan* , *10*(1), 76-86.

Gurung, R., Dahal, R. K., Ghimire, B., & Koirala, N. (2024). Unraveling behavioral biases in decision making: A study of Nepalese investors. *Investment Management and Financial Innovations*, *21*(1), 25-37.

Gyawali, I., & Neupane, G. (2021). Individual investors' psychology and investment decisions in NEPSE. *The Lumbini Journal of Business and Economics*, *9*(1), 43-51.

Hunguru, P., Sibanda, V., & Tadu, R. (2020). Determinants of investment decisions: A study of individual investors on the Zimbabwe Stock Exchange. *Applied Economics and Finance*, *7*(5), 2332–7294.

Kadariya, S. (2012, July). Factors affecting investor decision-making: A case of the Nepalese capital market. *Journal of Research in Economics and International Finance (JREIF)*, *1*(1), 16–30.

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*(2), 263–291. https://doi.org/10.2307/1914185

Kandel, M., Basnet, B. J., & Aryal, M. (2024). Impact of behavioral biases on investment decisions. *DEPAN*, *6*(1), 68-80.

Karmacharya, B., Chapagain, R., Dhungana, B. R., & Singh, K. (2022, July). Effect of perceived behavioral factors on investors' investment decisions in stocks: Evidence from the Nepal Stock Market. *Journal of Business and Management Research*, *4*(1), 17–33.

Kasoga, P. S. (2021). Heuristic biases and investment decisions: multiple mediation mechanisms of risk tolerance and financial literacy—a survey at the Tanzania stock market. *Journal of Money and Business, 1*(2).

Khan, I., Afeef, M., Jan, S., & Ihsan, A. (2021). The impact of heuristic biases on investors' investment decisions in the Pakistan stock market: Moderating role of long-term orientation. *Qualitative Research in Financial Markets, 13*(2), 252–274.

Khan, M. Z. (2017). Impact of availability bias and loss aversion bias on investment decision making, moderating role of risk perception. *Management & Administration, 1*(1), 17–28.

Kunwar, K. (2021, May). The relationship of behavioral factors with *the investment performance of individual investors in the Nepali Stock Market. Prithvi Academic Journal, 4*, 66–83.

Markowitz, H. (1952). Portfolio selection. *The Journal of Finance*, 7(1), 77–91. https://doi.org/10.2307/2975974

Mohanty, S., Patnaik, B.C.M., Satpathy, I., & Sahoo, S.K. (2023). Cognitive biases and financial decisions of potential investors during COVID-19: an exploration. *Arab Gulf Journal of Scientific Research*, 42(3), 836–851. https://doi.org/10.1108/AGJSR-12-2022-0296

Mumtaz, F., & Ahmad, N. (2020). The influence of behavioral finance on the decision of investors: empirical investigation from the Pakistan Stock Exchange. *The Journal of Economic Research & Business Administration, 132*(2), 79–96.

Naveed, H. M., Fayyaz, R., & Hongxing, Y. (2020). Factors affecting the investment decision of individual investors in developing countries: An empirical analysis in Pakistan. *International Journal of management studies and social science research, 2*(5).

Neupane, P. (2021). Factors determining the risk tolerance of individual investors in Kathmandu Valley. *Journal of Business and Social Sciences Research, 6*(1), 77–88.

Ngumi, P. M., Kazungu, K., & Mutasa, F. (2022). Effect of herding behaviour on stock price movements at the Nairobi Securities Exchange. *International journal of economics, 7*(2), 37–49.

Nguyen, T. L. (2022). A study of herding behavior on the Vietnam Stock Market. *Journal of economics, finance and accounting studies, 4*(4), 93–98.

Nizar, M., & Daljono. (2024). The impact of availability bias and representative bias on investment decisions and performance: The role of FOMO as an intervening variable. *Jurnal Apresiasi Ekonomi, 12*(1), 71-89.

Nunnally, J., & Bernstein, I. (1994). *Psychometric Theory (3rd ed.).* McGraw-Hill.

Odean, T. (1998). Volume, volatility, price, and profit are all above average when all traders are above average. *The Journal of Finance, 53*(6), 1887–1934. https://doi.org/10.1111/0022-1082.00078

Oke, J. A., Akinkunmi, W. B., & Etebefia, S. (2019). Use of correlation, Tolerance, and variance inflation factor for multicollinearity test. *Global Scientific Journals, 7*(5), 652–659.

Parveen, S., Satti, Z. W., Subhan, Q. A., & Jamil, S. (2020). Exploring market overreaction, investors' sentiments, and investment decisions in an emerging stock market. *Borsa Istanbul Review, 20*(3), 224–235.

Philip, A. V. (2022). Impact of Loss Aversion and Anchoring Effect on Investment Decisions. *International Research Journal of Education and Technology, 4*(4), 56–62.

Pokhrel, L., Dangi, B. B., Chaudhary, M. K., & Giri, B. (2024). Purchase intention of green financial products: Application of behavioral reasoning theory. *Business Perspectives and Research, 0*(0). https://doi.org/10.1177/22785337241292936

Poudel, A., Bhusal, S., & Pathak, D. D. (2024). Behaviour bias and investment decision in Nepalese investors. *International Journal of Business and Management, 19*(2), 85–119. https://doi.org/10.5539/ijbm.v19n2p85

Rahayu, S., Rohman, A., & Harto, P. (2020). Herding behavior model in investment decision on emerging markets: Experimental in Indonesia. *Journal of Asian Finance, Economics and Business, 8*(1), 053–059.

Rana, B. C. (2023). Investor bias: A Case of Nepalese investor perspective. *The Lumbini Journal of Business and Economics, 11*(1), 116–130.

Rana, S. B. (2019). Investor Awareness, Risk Perception, and Investor Behavior in the Stock Market of Nepal. *IOSR Journal of Economics and Finance, 33*(2), 103–124.

Rawat, B. (2023). Effect of behavioral biases on investment decision making in the Nepalese Stock Market with the mediating role of investors' sentiment. *Journal of Bhuwanishankar (JoBS), 2*(1), 40-60.

Republica. (2024, June 5). *The number of demat accounts is nearing 6.3 million as investor participation in the stock market grows*. Retrieved from My Republica: https://myrepublica.nagariknetwork.com/news/investor-participation-rising-in-stock-market-demat-accounts-nearing-6-3-million/?categoryId=81

Risal, N., & Khatiwada, N. (2019). Herding behavior in the Nepali Stock Market: Empirical evidence based on Investors from NEPSE. *NCC Journal, 4*(1), 131–140.

Salman, M., Khan, B., Khan, S. Z., & Khan, R. U. (2020). The impact of heuristic availability bias on investment decision-making: A moderated mediation model. *Research article, 4*, 1–12.

Santi, F., Sahara, N. V., & Kamaludin, K. (2019). The effect of mental accounting on students' investment decisions: A study at Investment Gallery (GI) FEB University of Bengkulu and Syariah Investment Gallery (GIS) FEB IAIN Bengkulu. *Jurnal Ilmiah Ekonomi Bisnis, 24*(2), 137-152.

Sapkota, M. P. (2022). Behavioural finance and stock investment decisions. *The Saptagandaki Journal, 13*(1), 70-84.

Sharma, D. R., Adhikari, M., & Khatun, I. (2024). Behavioral Biases of Individual Investors' Decision-Making in Emerging Markets: A Mediation Approach . *Journal of Emerging Management Studies, 2*(2), 37–54. https://doi.org/10.3126/jems.v2i2.74499

Sharma, D. R., Chalise, M., & Dangol, J. (2017). Risk tolerance behaviour of individual Nepalese investors. *Sona Global Management Review, 11*(2), 63–70.

Shefrin, H. (2000). Beyond greed and fear: Understanding behavioral finance and the psychology of investing. Harvard Business School Press.

Shrestha, P. M. (2024). Behavioral factors influencing the investment decisions of individual investors at the Nepalese Stock Market. *Journal of Entrepreneurship & Management Studies (JEMS), 1*(1), 17–26.

Silwal, S., & Bajracharya, P. (2021). Behavioral biases and stock market participation in Nepal. *Journal of Business and Social Sciences Research, 6*(1), 1–12. https://doi.org/10.3126/jbssr.v6i1.37140

Statman, M. (1999). Behavioral finance: Past battles and future engagements. *Financial Analysts Journal, 55*(6), 18–27. https://doi.org/10.2469/faj.v55.n6.2311

Sukamulja, S., & Senoputri, A. Y. (2019). Regret Aversion Bias, Mental Accounting, Overconfidence, and Risk Perception in Investment decision Making on Generation Y workers in Yogyakarta. *SSRG International Journal of Economics and Management Studies, 6*(7), 102-110.

Thaler, R. H. (1985). Mental Accounting and Consumer Choice. *Marketing Science, 4*(3), 199–214.

Tian, Y. (2024). Behavioral Finance: Loss aversion, Market anomalies, and Prospect theory in financial decision-making. *Highlights in Business, Economics and Management, 28*(2), 276-280.

Tifany, A., & Pamungkas, A. S. (2023). The influence of financial literacy, regret aversion bias, and overconfidence on investment decision. *International Journal of Application on Economics and Business, 1*(3), 1732-1739.

Tversky, A., & Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases: Biases in judgments reveal some heuristics of thinking under uncertainty. *science, 185*(4157), 1124-1131.

Wangzhou, K., Khan, M., Hussain, S., Ishfaq, M., & Farooqi, R. (2021). Effect of regret aversion and information cascade on investment secisions in the real estate sector: The mediating role of risk perception and the moderating effect of financial literacy. *Frontiers in Psychology*.

Zahera, S. A., & Bansal, R. (2018). Do investors exhibit behavioral biases in investment decision-making? A systematic review. *Qualitative Research in Financial Markets, 10*(2), 210–251.

Zainul, Z. R., & Suryani, I. (2021). Identification of herding behavior, Overconfidence, and risk tolerance based on a gender perspective among stock investors in Aceh. *Advances in Economics, Business and Management Research, 197*, 157-164.