

Behavioural Factors Influencing Investment Decisions and Performance in the Nepal Stock Market

Saujanya Timilsina^{1*}, Pranam Lama¹, Kapil Bhandari¹

¹Faculty of Business and Accountancy, Phoenix College of Management, Kathmandu, Nepal

*Corresponding author: saujanyatimilsina@gmail.com

Abstract: This study investigates the influence of behavioural factors on the investment decisions and perceived performance of individual investors in the Nepal Stock Exchange (NEPSE). Grounded in behavioural finance theory, the research examines the impact of four key factors: Heuristic biases (overconfidence, anchoring), Prospect Theory elements (loss aversion, regret aversion), Market factors (information, trends, fundamentals), and Herding behaviour. Utilising a quantitative research design, data were collected via a structured questionnaire from 120 active individual investors in Kathmandu. The data were analysed using descriptive statistics, correlation, and multiple regression analysis. The findings reveal that Herding behavior and attention to Market factors are the most significant and positive predictors of investors' self-assessed investment performance. In contrast, Heuristic and Prospect variables showed no statistically significant impact. Furthermore, investment performance did not vary significantly across demographic groups, including gender, age, or education. The results underscore the dominant role of social influence and collective market analysis over individual cognitive biases in the context of an emerging market like Nepal. The study contributes to the behavioural finance literature by highlighting the context-specific hierarchy of behavioural influences. It offers practical implications for investors, financial advisors, and market regulators in developing economies.

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1. Introduction

Investment decisions are a fundamental aspect of financial markets, traditionally analysed through the lenses of fundamental analysis, technical analysis, and rational judgment (Shefrin, 2000). Conventional economic theory posits that investors are rational wealth maximisers who base their strategies solely on risk-return considerations. However, in practice, investor behaviour often deviates from this rational model, as it is influenced by psychological predispositions and cognitive biases (Jagongo & Mutswenje, 2014). This divergence between theoretical assumptions and actual behaviour has given rise to the field of behavioural finance, which seeks to understand how psychological factors influence the behaviour of financial practitioners and market outcomes (Shefrin, 2000).

Investors, regardless of their level of information or depth of research, frequently exhibit irrationality, often driven by fear of future losses. This irrationality stems from various behavioural factors that compromise investor rationality (Nofsinger & Richard, 2002). The assumption that market information and structural factors systematically influence individual investment decisions and market outcomes underscores the importance of examining the psychological principles behind why people buy or sell stocks (Padmavathy, 2024). Behavioural finance integrates insights from cognitive psychology with conventional economics to explain these anomalies in financial decision-making (Shafi, 2014).

In the context of emerging markets like Nepal, understanding these behavioural underpinnings is crucial. The Nepal Stock Exchange (NEPSE) is a growing yet understudied market in which unique local factors and cognitive biases may significantly shape investor behaviour (Adhikari et al., 2025). Previous studies in other contexts have identified key behavioural dimensions that influence investment decisions and performance. For instance, research has highlighted the roles of heuristic-driven biases (such as overconfidence and anchoring), prospect theory factors (like loss aversion and

regret aversion), market factors (including reactions to price changes and information), and herding behaviour (the tendency to follow the actions of other investors) (Kengatharan & Kengatharan, 2014; Waweru et al., 2008).

Despite a growing body of international literature, there remains a significant research gap concerning the behavioural dynamics of individual investors in the Nepalese stock market. While studies have been conducted in markets such as Kenya, Sri Lanka, and Taiwan, limited empirical research has focused specifically on how these behavioural factors, both collectively and individually, affect investors' investment decisions and perceived performance in the NEPSE (Kadariya, 2012; Prabha, 2010). This study aims to address this gap by investigating the influence of heuristic, prospect, market, and herding factors on the investment decisions and performance of individual investors in Nepal.

The findings of this research are expected to contribute valuable insights for multiple stakeholders. Individual investors can gain a better understanding of their own behavioural tendencies, potentially leading to more informed and rational decision-making. For security organisations and financial advisors, this study offers a framework to predict market trends better and provide more tailored advice. Furthermore, by applying behavioural finance theories to a developing market like Nepal, this research tests the universal applicability of these concepts and enriches the academic literature in the field.

2. Methodology

This study employed a quantitative research design to investigate the behavioural factors influencing investment decisions and performance among individual investors in the Nepal Stock Exchange (NEPSE). The research was conducted through a cross-sectional survey, utilising a structured questionnaire as the primary data collection instrument.

The target population for this study comprised individual investors actively trading in NEPSE. The sample was drawn from investors affiliated with various stock brokerage firms in the Kathmandu Valley. A non-probability sampling method was used, specifically targeting active investors who were accessible and willing to participate. The final sample comprised 120 individual investors.

Data collection relied solely on primary sources. The self-administered questionnaire was divided into three main sections. The first section captured demographic and socioeconomic profiles of the respondents, including gender, age, education, monthly income, investment tenure, and amount invested. The second section measured the influence of behavioural factors on investment decisions using 29 items. These items were adapted from the framework established by Kengatharan and Kengatharan (2014). They were designed to measure four key independent variables: Heuristic (including representativeness, overconfidence, anchoring, gambler's fallacy, and availability), Prospect (including loss aversion, regret aversion, and mental accounting), Market (including price changes, market information, past trends, fundamentals, customer preference, and over-reaction), and Herding (including the impact of others' decisions on buying/selling, choice of stock, volume, and speed). The third section assessed the dependent variable, investment performance, using three items: return satisfaction, comparative market performance, and overall decision satisfaction.

A 5-point Likert scale was used for all behavioural and performance items, ranging from 1 (Strongly Agree) to 5 (Strongly Disagree). Thus, lower mean scores indicate stronger agreement with a factor's influence on investment decisions or performance. This scale was selected to minimise central-tendency bias and elicit more definitive responses from participants.

To ensure the reliability and validity of the research instrument, several steps were taken. Content validity was established by adapting items from previously validated studies and reviewing the questionnaire with academic experts. Reliability was assessed using Cronbach's alpha coefficient to test the internal consistency of the constructs. The results confirmed acceptable reliability, with alpha coefficients exceeding 0.6 for all constructs: Prospect variable ($\alpha = 0.73$), Market variable ($\alpha = 0.76$), Heuristic variable ($\alpha = 0.85$), and Herding variable ($\alpha = 0.78$).

The collected data were processed and analysed using the Statistical Package for the Social Sciences (SPSS) version 26.0. Analysis proceeded in stages. First, descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarise the demographic profile of respondents and the central tendencies of all measured variables. Second, inferential statistics were applied to test the research hypotheses. Correlation analysis (Pearson's r) was conducted to examine the direction and strength of the bivariate relationships between the independent variables (behavioural factors) and the dependent variable (investment performance). Finally, multiple regression analysis was performed to assess the combined and individual effects of the four behavioural factors on investment performance, controlling for other variables. The significance level (α) was set at 0.05 for all statistical tests.

3. Results

This section presents the empirical findings derived from the analysis of data collected from 120 individual investors in the Nepal Stock Exchange (NEPSE). The results are organised to address the study's objectives concerning the demographic profile of respondents, the influence of behavioural factors on investment decisions, and their impact on investment performance.

3.1. Demographic Profile of Respondents

The analysis of the respondents' demographic characteristics provides context for understanding the sample. As shown in Table 1, the sample consisted of 55% male and 45% female investors. The majority of respondents (45.8%) belonged to the 26-35 years age group, indicating a relatively young investor base. By investment size, the largest segment (25.8%) reported investing between NPR 50,000 and NPR 100,000. Regarding education, 40% of the investors held a bachelor's degree, while 27.5% had completed intermediate-level education. A significant portion of investors (20.8%) reported a monthly income below NPR 20,000. The data on investment tenure revealed that 23.3% of respondents had been involved in NEPSE for more than 10 years, whereas 19.2% had less than 1 year of experience.

Table 1: Demographic Profile of Respondents (N=120)

Variable	Category	Frequency	Percentage
Gender	Male	66	55.0%
	Female	54	45.0%
Age Group	18-25 years	21	17.5%
	26-35 years	55	45.8%
	36-45 years	29	24.2%
	Above 46 years	15	12.5%
Education	Intermediate	33	27.5%
	Bachelor's	48	40.0%
	Master's	22	18.3%
	Above Master's	17	14.2%
Investment Amount (NPR)	Below 10,000	22	18.3%
	10,000 – 20,000	24	20.0%
	20,000 – 50,000	29	24.2%
	50,000 – 1,00,000	31	25.8%
	Above 1,00,000	14	11.7%
Investment Tenure	Below 1 year	23	19.2%
	1-3 years	15	12.5%
	3-5 years	3	2.5%
	5-10 years	51	42.5%
	Above 10 years	28	23.3%

3.2. Descriptive Analysis of Behavioural Factors and Investment Performance

Descriptive statistics (mean and standard deviation) were calculated for the composite scores of the four behavioural factors and investment performance. The results, summarised in Table 2, indicate the average level of agreement among respondents. A lower mean score indicates greater agreement with the statements assessing the factor's influence.

Table 2: Descriptive Statistics of Key Variables

Variable	Mean	Std. Deviation
Investment Performance	2.55	0.55
Prospect Variable	2.44	0.55
Heuristic Variable	2.69	0.57
Market Variable	2.59	0.52
Herding Variable	2.58	0.50

Note: Lower scores indicate stronger agreement with the factor's influence

The mean score for Investment Performance (2.55) suggests that, on average, respondents were moderately satisfied with their investment outcomes. Among the behavioural factors, the Prospect variable had the lowest mean (2.44), indicating that elements such as loss aversion and regret aversion were perceived as having a relatively greater influence on decisions. The Heuristic variable had the highest mean (2.69), suggesting a slightly lower perceived influence of biases such as overconfidence and anchoring than other factors.

3.3. Correlation Analysis

Pearson's correlation analysis was conducted to examine the bivariate relationships between the independent variables (behavioural factors) and the dependent variable (investment performance). The results are presented in Table 3.

Table 3: Correlation Matrix of Variables

	1	2	3	4	5
1. Investment Performance	1				
2. Prospect Variable	.081	1			
3. Heuristic Variable	.016	-.083	1		
4. Market Variable	.573**	.058	.083	1	
5. Herding Variable	.667**	.124	.046	.461**	1

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

The correlation matrix reveals several key insights:

Both the Market Variable and the Herding Variable have strong, positive, and statistically significant correlations with Investment Performance ($r = .573$, $p < .01$; $r = .667$, $p < .01$, respectively). This indicates that greater reliance on market information and a stronger tendency to herd are associated with higher perceived investment performance among NEPSE investors.

Prospect Variable and Heuristic Variable show very weak, statistically non-significant correlations with Investment Performance ($r = .081$, $p = .380$; $r = .016$, $p = .866$, respectively). This suggests that, at the bivariate level, loss aversion/regret aversion and cognitive biases such as overconfidence are not meaningfully associated with how investors perceive their performance.

3.4. Analysis of Variance (ANOVA) by Demographic Groups

One-way ANOVA tests were performed to determine if there were statistically significant differences in investment performance scores across different demographic groups: gender, age, and education level.

Gender

The analysis revealed no statistically significant difference in investment performance between male and female investors ($F(1, 118) = 1.140$, $p = .288$).

Age Group

Similarly, no significant difference in performance was found across the different age categories ($F(3, 116) = 1.397$, $p = .247$).

Education Level

The results also indicated no significant difference in investment performance by educational attainment ($F(4, 115) = 0.092$, $p = .964$).

These Findings imply that, within this sample, perceived investment performance is not significantly influenced by these basic demographic characteristics.

3.5. Regression Analysis

To determine the combined and unique impact of the four behavioural factors on investment performance, a multiple linear regression analysis was performed. The model incorporated Prospect, Heuristic, Market, and Herding variables as predictors. Table 4 presents the model summary and the regression coefficients.

Table 4: Multiple Regression Analysis for Investment Performance

Model					
Summary					
R	R ²	Adjusted R ²	Std. Error of the Estimate		
.702	.494	.476	.400		
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.953	4	4.488	28.013	.000
Residual	18.446	115	.160		
Total	36.399	119			
Coefficients	Unstandardized B	Std. Error	Standardized Beta (β)	t	Sig.

(Constant)	.353	.216		1.635	.105
Prospect Variable	.097	.067	.096	1.438	.154
Heuristic Variable	.045	.065	.047	.693	.490
Market Variable	.274	.093	.257	2.954	.004
Herding Variable	.559	.090	.506	6.229	.000

Although the mean scores for Herding (2.58) and Market factors (2.59) are nearly identical in terms of respondents' reported agreement, the zero-order correlations presented in Table 3 reveal that Herding has a substantially stronger bivariate association with Investment Performance ($r = .667$) compared to Market factors ($r = .573$). This explains why Herding receives a larger standardised beta coefficient (.506 vs. .257) in the multivariate regression: herding behaviour shares more unique variance with perceived performance, even after controlling for the other behavioural factors.

The regression model was statistically significant ($F(4, 115) = 28.013$, $p < .001$), explaining approximately 47.6% (Adjusted $R^2 = .476$) of the variance in investment performance. This indicates that the set of four behavioral factors is a strong predictor of how investors evaluate their own performance.

An examination of the individual predictors (standardised beta coefficients) reveals their unique contributions:

Herding Variable ($\beta = .506$, $p < .001$): This was the strongest predictor. A one-standard-deviation increase in herding behaviour was associated with a 0.506-standard-deviation increase in perceived investment performance, holding other factors constant.

Market Variable ($\beta = .257$, $p = .004$): This was the second-strongest and also a statistically significant predictor. Greater attention to market information, trends, and fundamentals was linked to better self-reported performance.

Prospect Variable ($\beta = .096$, $p = .154$): Although showing a positive relationship, the influence of prospect factors (loss and regret aversion) was not statistically significant in the multivariate model.

Heuristic Variable ($\beta = .047$, $p = .490$): The influence of heuristic biases was minimal and statistically non-significant.

Based on the unstandardized coefficients, the estimated regression equation is:

Investment Performance = $0.353 + 0.097(\text{Prospect}) + 0.045(\text{Heuristic}) + 0.274(\text{Market}) + 0.559(\text{Herding})$

3.6. Conceptual Framework Visualisation

Figure 1 effectively summarises the theoretical model tested in this study. It illustrates the four key independent variables (Heuristic, Prospect, Market, and Herding) and their hypothesised relationship with the dependent variable, Investment Performance.

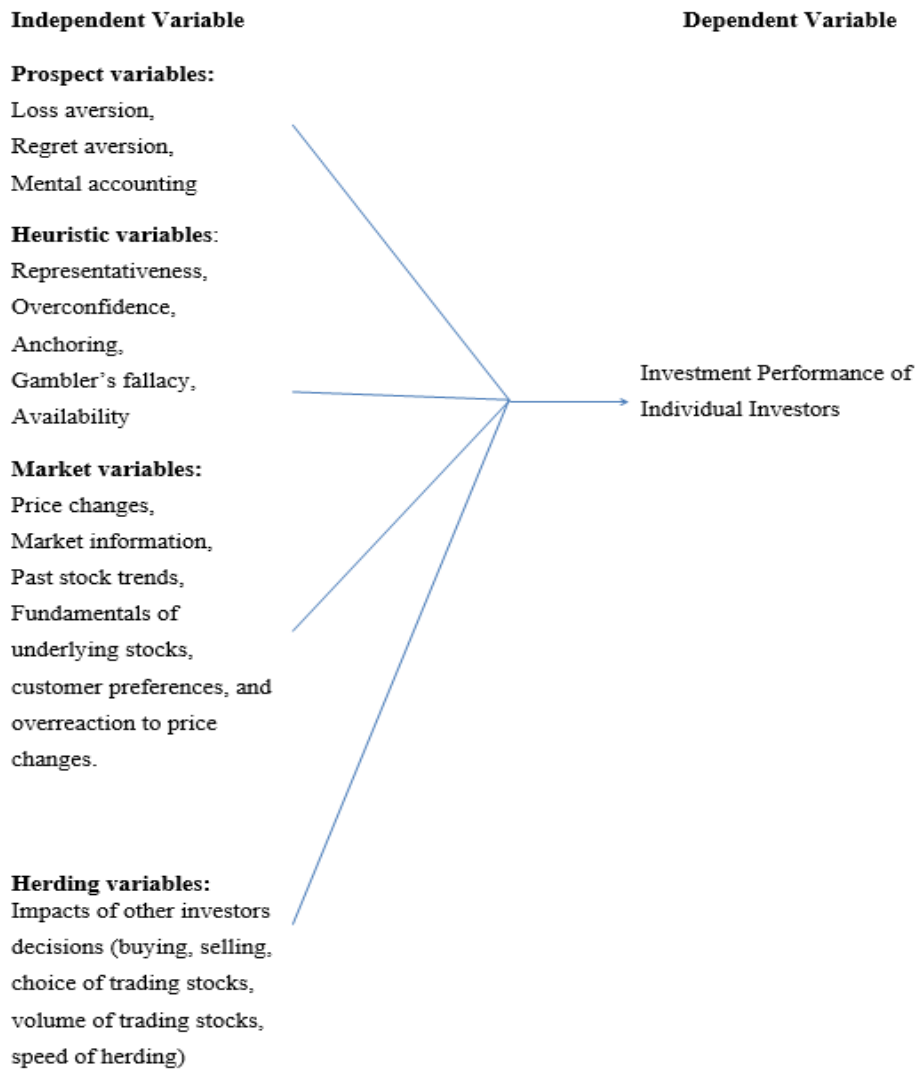


Figure 1: Theoretical model tested in this study (Kengatharan,2014)

4. Discussion

The most salient finding of this research is the strong, positive, and statistically significant impact of both herding behaviour and market factors on perceived investment performance. Herding emerged as the most potent predictor ($\beta = .506$, $p < .001$), suggesting that, for many NEPSE investors, aligning their actions with the perceived consensus or following peers' actions is a primary strategy associated with satisfactory outcomes. This aligns with observations in other emerging and Asian markets where information asymmetry is high, and investors often rely on social cues as a heuristic for decision-making (Tan et al., 2008; Luong & Ha, 2011). In an environment like NEPSE, which may be characterised by limited, reliable public information and high volatility, following the herd can provide a sense of security and validation. As posited by Caparrelli et al. (2004), herding is a primary behaviour that reduces the perceived risk and cognitive load in uncertain environments. The positive association with performance, however, presents a nuanced picture. While herding may yield short-term alignment with market momentum, it is also a classic driver of asset bubbles and subsequent crashes, casting doubt on the long-term sustainability of such a strategy. The positive correlation here likely reflects investors' perception of performance during trending markets, where herding yields immediate gains, rather than risk-adjusted, long-term returns.

Concurrently, the significant role of market factors ($\beta = .257$, $p = .004$) indicates a countervailing, more analytical tendency among investors. This factor encompasses the use of market information, analysis of past trends, study of fundamentals, and reaction to price changes. The positive impact suggests that investors who engage with available market data and analysis tend to feel more confident and satisfied with their results. This finding partially supports the traditional finance view that informed decision-making is crucial. It resonates with Waweru et al. (2008), who identified market information as a key influence.

The lack of a significant link between heuristic biases—such as overconfidence, anchoring, and the gambler's fallacy—and performance is exciting. Overconfidence, often cited as an essential cause of excessive trading and suboptimal returns in developed markets (Odean, 1999), does not appear to be a primary driver of performance in this sample. This may be due to the context of the Nepalese market. If the market is less efficient and dominated by speculative, momentum-driven trades (facilitated by herding), the potential adverse effects of overconfidence (such as frequent, poorly timed trades) may be masked or even aligned with the prevailing market rhythm. Similarly, anchoring to past prices or experiences may be a standard cognitive shortcut, but it does not independently account for variance in perceived success or failure.

Similarly, factors derived from Prospect Theory—loss aversion and regret aversion—did not show significant predictive power. This contradicts studies such as Kansal and Singh (2015), who found that loss aversion is a dominant bias among Indian investors. One interpretation is that, in a highly volatile, herd-driven market such as NEPSE, the fear of missing out (a driver of herding) may outweigh the fear of losses. When the dominant strategy is to follow the crowd, the regret of acting independently and incorrectly may outweigh the regret of following the herd and losing. Furthermore, the mental accounting of gains and losses may be less salient when decisions are frequently made in response to collective market movements rather than isolated, deeply personal analysis.

The ANOVA results, which reveal no significant differences in investment performance by gender, age, or education level, are noteworthy. This suggests that the behavioural forces at play—particularly herding and reliance on market factors—are pervasive across these demographic segments within the NEPSE ecosystem. This finding contrasts with studies such as Lin (2011) in Taiwan, which found gender differences in overconfidence and herding. The homogeneity in Nepal could be attributed to a relatively uniform market culture, familiar information sources (e.g., specific media, broker networks), and a shared experience of navigating a young, volatile market. It implies that interventions or educational programs aimed at improving decision-making may need to target these universal behavioural patterns rather than segmenting by traditional demographics. For example, investor training programs could focus on helping participants distinguish price momentum driven by herd behaviour from underlying fundamental value, using case studies from NEPSE's historical bubbles and corrections. Brokerage firms and regulators could also introduce simple disclosure statements in trading interfaces or mobile apps that highlight the risks of following crowd behaviour, such as "Are you buying because of your own analysis or because others are buying?" Such nudges have been shown to reduce reflexive herding in other emerging market contexts.

5. Conclusion

The study concludes that the correlation between the heuristic variable and individual investors' investment performance is 0.016, indicating a positive relationship. The corresponding p-value is 0.866, which is greater than the level of significance (α) = 0.01; there is no significant relationship between the heuristic variable and the investment performance of individual investors. The correlation between market variables and individual investors' investment performance is 0.573, indicating a positive relationship. The corresponding p-value is 0.000, which is less than the level of significance (α) = 0.05, thus there is a significant relationship between market variable and investment performance of individual investors.

Similarly, the regression coefficient for the prospect variable in the regression analysis is 0.096, indicating that a 1 per cent change in the prospect variable is associated with a 9.6 per cent positive change in individual investors' investment performance. The corresponding p-value is 0.154, which is more than the level of significance (α) = 0.05, signifying that the prospect variable has no significant impact on the investment performance of individual investors. The regression coefficient for the heuristic variable in the regression analysis is 0.047, indicating that a 1 per cent change in the heuristic variable is associated with a 4.7 per cent positive change in individual investors' investment performance. The corresponding p-value is 0.490, which is more than the level of significance (α) = 0.05, signifying that the heuristic variable has no significant impact on the investment performance of individual investors.

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