

Investors' Perceptions of Investment Decisions in the Stock Market: A Study of Pokhara Valley

Deepesh Ranabhat

Assistant Professor, Pokhara University, Kaski, Nepal
Email: deepeshrana2000@gmail.com (Corresponding Author)

Deepak Ojha

Assistant Professor, Pokhara University, Kaski, Nepal
Email: pokhara236@gmail.com

Prameshwor Adhikari

MBA Graduate, Pokhara University, Kaski, Nepal
Email: prameshworadhikari26@gmail.com

Keshav Lamichhane

Assistant Professor, Pokhara University, Kaski, Nepal
Email: keshavlamichhane699@gmail.com

Sandeep Koirala

Assistant Professor, Pokhara University, Kaski, Nepal
Email: beckham_pcm746@yahoo.com

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Abstract

This study analyses the factors influencing investors' perception of investment decisions in the stock market within the context of Pokhara Valley, Nepal. The study uses a descriptive research design in which 200 investors were selected as the sample. Primary data were collected through structured questionnaires and interviews. Regression analysis was conducted to examine the effect of various independent variables on investors' perceptions. The findings reveal that financial knowledge and awareness play a crucial role in shaping investors' perceptions and investment behavior. Financially literate investors tend to make rational and strategic investment decisions. Other variables, such as behavioral biases, risk perception, and social influences, were also found to significantly affect investor perception and behavior; however, their impact was less pronounced than that of knowledge and awareness. These findings provide valuable insights for investors, financial institutions, policymakers and other stakeholders in promoting a sustainable equity market in Nepal.

Introduction

The stock market plays a pivotal role in the economy since it enables companies to raise capital and provides investors with a wide range of investment options. Apart from ensuring liquidity and stability in the financial system, an efficient stock market facilitates resource allocation, contributing significantly towards economic development (Poudel et.al. 2024). While investor perceptions, along with other factors such as participation and regulatory

framework, determine the success of a country's stock market, the former plays a very crucial role.

The capital market of Nepal, the Nepal Stock Exchange (NEPSE) Limited, has gradually expanded during the past few decades. The roots of the securities market are dated to 1937 when shares were floated by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. The Securities Board of Nepal (SEBON) was established in 1993 as an important step towards improving transparency and safeguarding the rights of investors. However, despite these improvements, the Nepalese stock market is yet to catch up with other developing nations. Poor financial awareness, regulatory uncertainty, erratic policies, and low participation rates, especially amongst younger investors, pose significant hurdles (Shrestha, 2024).

The role of investor perception cannot be underestimated when considering these factors, as it encompasses financial awareness along with psychological and social considerations. Investors' perceptions can be influenced by personal experience, culture, economy, and peer pressure (Sah & Sahani, 2024). Although financial literacy gives a clear idea about different financial products and markets, behavioral finance examines the role of cognitive shortcuts, biases, and emotions in making financial decisions (Dhakal & Lamsal, 2023). Existing literature indicates that rumors, herding, and overconfidence often lead to irrational market phenomena like asset price bubbles and panic selling. This phenomenon is prevalent among Nepali investors, who rely excessively on socially and media-driven recommendations.

Financial illiteracy forms the most significant barrier for investing in the stock market because financial literacy allows individuals to judge their risk, diversify their portfolio, and have long-term investment plans (Volpe et al., 2002). However, in Nepal, the issue of insufficient financial literacy contributes to reducing the sense of confidence of the people and increases their exposure to misperception (Thapa, 2023). The other crucial element here is the idea of risk because many people perceive the stock market as risky due to instability in the country, regulatory issues, and the economy of the country (Subedi & Bhandari, 2024). Besides, such perceptions about risk are often fueled by social influences and even miscommunication through media (Chand, 2024). Moreover, institutional weaknesses make the situation even worse. Although there are some frameworks in the country, poor enforcement of rules and unexpected changes, including tax laws, pose problems (Amgain et al., 2025).

In Metropolis, an urban area that is rapidly expanding, such problems are even more pronounced. People earn more and there is more money flowing around, while very few are participating in stock exchange trading and prefer real estate and savings schemes instead. There have been numerous changes for the better in terms of stock investments in Nepal in recent years, however, there is still quite a lot of gap between the perceptions held by people in regard to this field. This study aims at filling the existing gaps by identifying the various factors that determine investor perceptions in the stock exchange.

Literature Review

This paper is based on Behavioral Finance Theory, Prospect Theory, and the Efficient Market Hypothesis (EMH) to examine investors' perception of the stock market in Pokhara Valley and their decision-making process when making investments. Behavior Finance Theory suggests that investors are vulnerable to biases including overconfidence, herding, anchoring, and loss aversion (Baker & Ricciardi, 2014). This has also been validated by more recent research which proves that emotions and cognitive biases influence global financial investment decisions (Almansour et al., 2025; Borah & Yarso, 2024). Further, Prospect Theory can be used to explain why investors have an inclination toward losing more than gaining in terms of risk perceptions due to uncertainties in the market (Kahneman & Tversky, 1979; Khan & Butt, 2024). In contrast, the EMH perceives markets as efficient and containing all information, the literature indicates inefficiencies in emerging markets owing to the presence of certain biases and lack of financial literacy (Ahmad et al., 2024; Prajwal et al., 2024).

The recent empirical findings on the impact of behavioral bias, financial literacy, and risk perception on investment decision-making have been demonstrated in Nepal and the broader Asia-Pacific region. In Nepal, there is low utilization of available information, resulting in an inefficient allocation of resources within the market (Paneru, 2023), and high risk aversion affects the likelihood of investing (Thapa, 2023; Rana, 2019). It is evident from cross-country literature that psychological factors drive investment decision-making. For example, conscientious and open-minded investors tend to retain stocks for longer periods despite market fluctuations (Treerotchananon et al., 2024), while cultural and behavioral influences such as overconfidence and herd behavior continue to distort individual judgment in emerging markets (Teoh et al., 2021). Indeed, risk aversion, emotion-based decision-making, and overconfidence have variously been demonstrated to influence investment strategy at both the individual and collective levels across a range of market contexts (Shahzad et al., 2024). The evidence based on Prospect Theory also attests that biases will affect investment choice through mediation by risk perception, with overconfident investors inclined to trade aggressively and loss-averse investors avoiding profitable opportunities (Khan & Butt, 2024). Limited financial knowledge increases irrational behavior among novice and youth investors. Millennial investors, in particular, rely extensively on media trends and the influence of peers to exit the market prematurely in times of volatility (Prajwal et al., 2024), while comparative analyses show that financially literate investors are less vulnerable to speculative trading and market anomalies (Ahmad et al., 2025). Anchoring bias is evident, where most investors depend on previous levels of price rather than the prevailing market conditions, resulting in mispricing and herd-driven speculation (Pervez et al., 2025). Consequently, based on Indonesian empirical research, it is revealed that young investors depend on their instincts rather than reason during uncertain market environments, leading to poor performance (Aisjah & Djazuli, 2024).

There are several studies in the context of Nepal proving that behavioral biases, social influence, and lack of financial education affect investment decisions. Specifically, risk

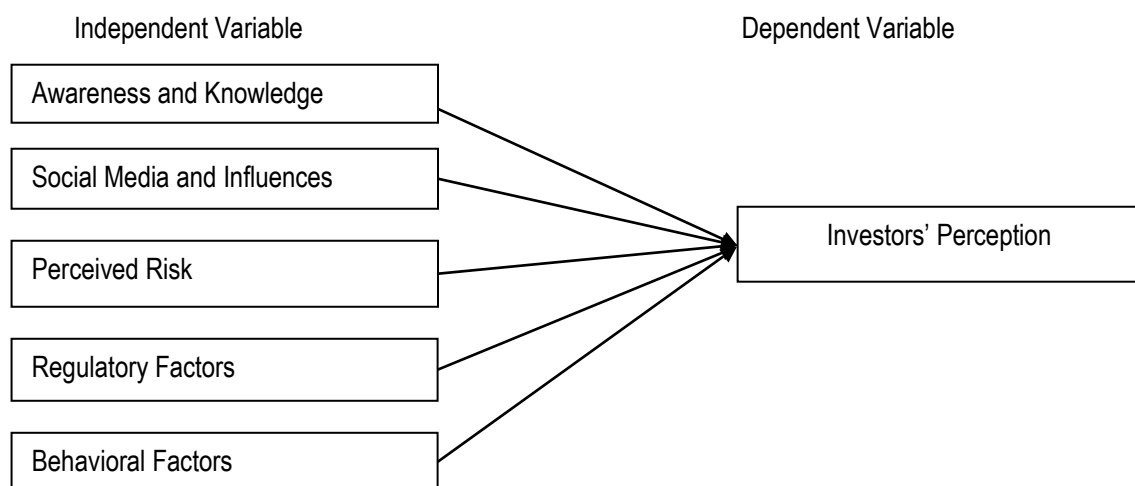
perception has consistently mediated the relationship between different biases like loss aversion and availability bias in relation to decision-making in the stock market (Hayat et al., 2024). Empirical evidence from Nepal Stock Exchange (NEPSE) indicates that herding behavior, overconfidence, loss aversion, and anchoring bias strongly predict investor decisions, with many investors preferring peer advice and trend-following over independent analysis (Shrestha, 2024).

Moreover, broader studies indicate that Nepalese investors often rely on informal advice from family and friends and social media, in the wake of a general lack of basic knowledge about portfolio diversification and risk management (Chhetri, 2022). Other research illustrates that younger Nepalese investors demonstrate a high degree of risk tolerance but are still locked into short-term speculative trading, given the distrust associated with regulators and market unpredictability (Sapkota & Chalise, 2023). Again, Lama et al. (2025) consistently found that herding and loss aversion remain dominant factors driving investment decisions in Nepal.

In addition, there is a restriction on optimal diversification and long-term planning. Collectively, these studies suggest that investors in Pokhara Valley are likely to exhibit similar behavioral tendencies—herd behavior, anchoring on past prices, overconfidence, fear of volatility, and reliance on social influence—that are likely to lead to suboptimal investment choices. Hence, strengthening financial literacy, building regulatory trust, and promoting informed decision-making is required to enhance rational investment behavior and market efficiency within the region. The conceptual framework for the present study is presented in Figure 1.

Figure 1

Conceptual Framework



In this study, awareness and knowledge, social media and influences, perceived risk, regulatory factors, and behavioral factors are considered as independent variables and

investors' perception is considered as dependent variable. Given the conceptual framework of the study, the following hypotheses are formulated and tested.

H1: Financial awareness and knowledge significantly affect investors' perception.

H2: Social media and influences significantly affect investors' perception.

H3: Perceived risk significantly affects investors' perception.

H4: Regulatory factors significantly affect investors' perception.

H5: Behavioral factors significantly affect investors' perception.

Research Methods

In this study, the descriptive design has been used to assess the investor's perception of the stock market in the Pokhara valley. The study focused on the factors like knowledge, awareness, behavior, and decision-making process of the investor about the stock market. A judgmental sampling approach was used where 200 investors who have practical knowledge of the stock market were selected. Data for this study were collected through a structured questionnaire, administered both online and offline. These questions consisted of demographic information, stock market-related information, and the measuring scale related to independent variables and dependent variable measured through a five-point Likert scale. Reliability was checked using Cronbach's Alpha and all the constructs were above the threshold value of 0.7. Validity was assured using the method of expert reviews and factor analysis. Data collected were coded and analyzed using descriptive statistics including frequency distribution and regression analysis.

Multiple regression analysis was conducted to measure the effects of independent variables on investor's perception. It evaluated how awareness, social media, perceived risks, regulatory and behavioral factors affected the investor's perception. The regression model followed this design structure:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon \quad \dots(1)$$

In Equation (1), 'Y' represents investors' percent (the dependent variables) and 'X₁' (Awareness and Knowledge), 'X₂' (Social Media and Influences), 'X₃' (Perceived Risks), 'X₄' (Regulatory Factors), and 'X₅' (Behavioral Factors) are independent variables. Similarly, 'β₀' is the regression intercept, 'β_{is}' represent regression coefficients representing the impact of independent variables, and 'ε' is the error term.

Results and Discussion

Demographic Profile

The distribution of respondents' profiles including the age, gender, educational level, and income level are presented in Table 1. According to the survey data, among the 200 people surveyed, males were 55%, while the rest 45% were females. Approximately, there is an equal gender distribution, though the number of participants in the stock market was higher

among men. The significant level of female investment (45%) in the stock market suggests that there is a growing trend in which women participate in stock market activities in Pokhara Valley. The largest age group of respondents is from 20 to 40 years old, at 77%. Also, most respondents have a bachelor's degree at 47.5%. The average income of respondents ranges from 1 to 1.5 million; 41.5% fall into this category, while 32.5% belong to lower-middle classes.

Table 1*Demographic profile of respondents*

Variables	Categories	Freq.	%
Gender	Female	90	45
	Male	110	55
Age	Below 20	20	10
	20-40	154	77
	Above 40	26	13
Academic qualification	SEE	17	8.5
	+2 level	34	17
	Bachelor level	95	47.5
	Master level	51	25.5
	No formal education	3	1.5
Average Gross Annual Income (millions)	0.5-1	65	32.5
	1-1.5	83	41.5
	Above 1.5	16	8
	Below 0.5	36	18
	Total	200	100

Key Information for Stock Markets

Various aspects of stock markets including the risk understanding, stock market awareness, risk understanding, investment preference and objectives etc. are presented in Table 2 through 13.

Table 2*Risk understanding about stock market*

Risk Understanding	Number of Respondents	Percentage (%)
Yes	163	81.5
No	37	18.5
Total	200	100

Table 2 shows that, 18.5% of respondents are unaware of stock market risks, potentially leading to impulsive trading decisions. This highlights the need for improved financial literacy programs, investor education, and risk management education to prevent blind decisions in investing.

Table 3 shows that 95.5% of respondents are aware of stock market trading platforms, indicating a high level of knowledge about these tools. This indicates that investors are well-engaged in the market and capable of participating in online trading, reflecting the rising interest in digital investment tools among emerging market investors.

Table 3

Stock market trading awareness

Stock Market Awareness	Number of Respondents	Percentage (%)
Yes	191	95.5
No	9	4.5
Total	200	100

Table 4 shows that most investors in Pokhara Valley have some understanding of the stock market, with 61% rating their understanding as "Good" and 27% as "Average." However, 6% reported that they have poor understanding. This suggests a need for awareness programs to improve stock market knowledge among these groups.

Table 4

Stock market investment understanding

Level of Understanding	Number of Respondents	Percentage (%)
Excellent	12	6
Good	122	61
Average	54	27
Poor	12	6
Total	200	100

Table 5 reveals that many investors from Pokhara valley are fairly comfortable with the workings of the stock market, as 72% find themselves very comfortable and somewhat comfortable. Still, 16% of investors have no clear idea about their comfort level, while 12% find themselves uncomfortable (somewhat or very uncomfortable) with the stock market. This clearly shows that investor education needs to be encouraged.

Table 5

Comfort level in stock investing

Comfort Level	Number of Respondents	Percentage (%)
Very Comfortable	18	9
Somewhat Comfortable	126	63
Neutral	32	16
Somewhat Uncomfortable	16	8
Very Uncomfortable	8	4
Total	200	100

Table 6 reveals that the investment in shares in Pokhara Valley is viewed as a risky one as 73 percent investors have termed it "Somewhat Risky" or "Very Risky." This indicates that there is a considerable amount of financial risk involved in investing in stocks.

Table 6*Risk understanding*

Risk Perception Level	Number of Respondents	Percentage (%)
Very Risky	67	33.5
Somewhat Risky	79	39.5
Neutral	27	13.5
Somewhat Safe	14	7.0
Very Safe	13	6.5
Total	200	100

Regarding the source of information on stock market in Table 7, social media (67.0%) was identified as the primary source from which Pokhara Valley. Other means include personal contacts (56.0%), financial websites (32.5%), as well as traditional means such as newspapers and books. This shows that the professional help and digital means are gaining popularity on providing stock market information to the clients.

Table 7*Source of information*

Source of Information	Number of Respondents	Percentage (%)
Social Media	134	67.0
Family or Friends	112	56.0
Financial Websites	65	32.5
Newspapers	28	14.0
Books or Academic Resources	23	11.5
Podcast or YouTube Channels	18	9.0
Financial Advisors or Brokers	15	7.5
TV	12	6.0

Regarding the investment objectives given in Table 8, most of the investors are long-term profit seekers (42.5%), who focuses on sustainable wealth and capital appreciation.

Table 8*Investment objectives*

Investment Objective	Number of Respondents	Percentage (%)
Long-term profit seeking	85	42.5
Short-term profit seeking	60	30.0
Steady income (Dividends)	25	12.5
All of the above	30	15.0
Total	200	100

However, a considerable percentage (30%) is that of people who invest for quick gains, while another 12.5% prefer to invest for steady income in form of dividends (12%). Only a small percentage of 15% invests with a motive of balancing growth, gain, and dividends.

The survey indicates that 60 percent of the respondents find the primary market more favorable because of its lower risk level and higher profitability compared to other markets. Thirty percent of the respondents prefer to trade in the secondary market for reasons such as liquidity and diversification of their portfolios, among others. Ten percent of the respondents deal in both markets.

Table 9*Investment market preference*

Market	Number of Respondents	Percentage (%)
Primary Market	120	60
Secondary Market	60	30
Both	20	10
Total	200	100

The results in Table 10 indicate that the influence of media and social media (42.5%) is a major determinant of investor sentiments in the stock market at Pokhara Valley. Financial literacy and awareness (22.5%) comes second as it affects the knowledge and risks associated with investments. The past performance of the market (15%) is another factor as investors draw their expectations based on it.

Table 10*Factors influencing perception of investors*

Factors Influencing Perception	Number of Respondents	Percentage (%)
Media and Social Media Influence	85	42.5
Financial Literacy/Awareness	45	22.5
Past Market Performance	30	15.0
Regulatory Policies and Market Transparency	20	10.0
Recommendations from Brokers or Advisors	10	5.0
Perceived Market Risks	5	2.5
Personal Experiences or Outcomes	5	2.5
Total	200	100

Table 11 shows that, in Pokhara Valley, 88.5% of investors are interested in individual stocks, 26.5% prefer mutual funds, while only 13.5% invest in bonds. Most investors are active in selecting stocks rather than other investment options.

Table 11*Investment type*

Investment Type	Frequency	Percentage (%)
Individual Stocks	177	88.5
Mutual Funds	53	26.5
Bonds	27	13.5

Table 12 shows the preferred investment sector. It indicates that banking (34%) is the top choice for investing in the Pokhara Valley because of its stability, reliability, and profit, followed by hydropower (20%), which has gained popularity because of the energy sector

in Nepal. Microfinance, finance, and insurance have attracted investors owing to their scope of growth and financial inclusion efforts, while investments in other sectors such as manufacturing have received less interest.

Table 12

Sectors that investors prefer for investment

Sector	Frequency	Percentage (%)
Banking	85	34%
Hydropower	50	20%
Microfinance	20	8%
Finance	30	12%
Insurance	25	10%
Investment	15	6%
Manufacturing	10	4%
Individual Stock	5	2%

Table 13 reveals that 48.5% of the survey participants have limited investment knowledge, and therefore there is a need for financial education. The participants who have good knowledge represent 39%, whereas only 6.5% possess excellent financial market knowledge. Those with poor knowledge, 6%, may make mistakes or get misguided.

Table 13

Investment knowledge of the investors

Investment Knowledge	Frequency	Percentage (%)
Limited	97	48.5
Good	78	39.0
Excellent	13	6.5
Poor	12	6.0
Total	200	100

Descriptive Analysis

In this study, six independent variables were identified which included demographic variable, awareness & knowledge, impact of social media, risk perception, regulatory factor, and behavioral factor. On the other hand, there is only one dependent variable which is perception of investors. There are 35 indicators in total used for perception analysis on 5-point Likert scale (scale from 5 = strongly agree to 1 = strongly disagree). Mean and standard deviation for these variables are given in the table below.

Table 14 presents the mean score analysis of independent and dependent variables. One can notice that the mean rating for the independent variable of investor perception was the highest ($M = 3.94$, $SD = 1.064$), implying a relatively positive investor perception. Out of the independent variables, perceived risk, investor awareness and knowledge, and regulation appeared as very significant influencing factors with a mean score 3.90, 3.88, 3.88, and 3.80 respectively. The behavioral factors with mean score of 3.80 also emerged as having

relatively high influence. Lastly, social media influence had the lowest mean value ($M = 3.50$, $SD = 1.127$), implying that they have a relatively low influence.

Table 14

Mean score analysis

Variables	Average Mean	SD
Awareness and Knowledge	3.88	1.042
Social Media Influences	3.50	1.127
Perceived Risk	3.90	1.041
Regulatory Factors	3.88	1.006
Behavioral Factors	3.80	1.093
Investors' Perception	3.94	1.064

According to the findings of this study, risk perception, regulatory system, and investor knowledge emerged as the major factors that determine investors' perceptions. There is a need to enhance financial literacy and regulatory systems to influence investor perceptions positively.

Regression Analysis

Regression analysis was used to show the impact of independent variables on dependent variables. Table 15 presents the results of regression analysis assessing the impact of various five factors on Investors' Perception. All the factors show a positive and statistically significant impact on investors' perception. Among the predictors, regulatory and institutional factors ($\beta = 0.412$, $p < .001$) have higher effect on investors' perception. Similarly, Behavioral Factors ($\beta = 0.197$, $p = .002$) Perceived Risk ($\beta = 0.183$, $p = .005$) and Awareness and Knowledge ($\beta = 0.170$, $p = .003$) also showed statistically significant and positive impact on investors' perception. Further, Social Media Influences ($\beta = 0.107$, $p = .041$) has also positive and significant impact on investors' perception though the impact is weaker than other predictors.

Table 15

Result of Regression Analysis

Model	Beta	t	Sig.	VIF
(Constant)	-.156	-1.095	.275	
Awareness and Knowledge	.170	3.045	.003	3.060
Social Media Influences	.107	2.053	.041	2.384
Perceived Risk	.183	2.829	.005	4.067
Regulatory and Institutional Factors	.412	6.098	.000	4.057
Behavioral Factors	.197	3.112	.002	4.362

Model Summary: $R^2 = 0.822$, Adjusted $R^2 = .817$, $F(5, 194) = 179.059$, $p < .001$

The model has an R^2 value of 0.822, indicating that 82.2% of the variance in Investors' Perception is explained by the independent variables included in the model. Furthermore, the F-statistic of 179.059, with a p-value less than .001, indicates that the model

significantly explains variations in Investors' Perception. The VIF values for all predictors is less than 5 which range between 2.384 and 4.362, suggesting that multicollinearity is not a serious concern in the model. These findings highlight the crucial role of regulatory and institutional factors, behavioral factors, cognitive factors, and social factors in shaping investors' overall perception.

Conclusion and Implications

The research was conducted to identify the significant determinants behind investors' perceptions and actions in the Pokhara Valley stock market. The variables considered were the importance of financial literacy, social network, perceived risk, regulatory issues, and the element of behavioral bias. It is concluded from this analysis that all of the mentioned determinants are positively and significantly affects the investors' perception. Financial literacy is identified as the primary determinant that influences investor perceptions. This is because investors who know more about markets and finance and can rationally analyze risks make better investment decisions.

Social factors such as suggestions from family members, friends, and online sources were also critical determinants of investor behavior. These results highlight the growing importance of social media in guiding investor sentiments. In addition to these social factors, behavioral factors such as herding and overconfidence were seen to create irrational behaviors in the market, thereby making it imperative to educate investors about behavioral finance to avoid any kind of misjudgment and faulty thinking process. While the effect of regulatory factors such as transparency and institutional backing was felt by the investors, its importance was less than that of other factors like behavioral and financial literacy.

In summary, the paper has provided many significant insights related to investment in the stock market. It is necessary to enhance financial literacy, improve regulation transparency, develop social networks, and eliminate behavioral problems that can help investors build confidence in Pokhara Valley.

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