Considerations for Investing in the Secondary Stock Market

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ABSTRACT

The primary purpose of this research is to examine major aspects of investing. This study employed a causal-comparative research approach to assess correlation and regression, using data collected from 385 respondents involved in secondary market support via a non-probability sampling frame and a purposive sample method. Investment choice is the dependent variable, whereas firm image, accounting information, personal financial demands, and herding are the independent variables. The correlation and regression analyses found high statistical significance between corporate image and 12investment choice. At the same time, there is a positive correlation between the investment choice and each independent variable. The herding factor is a subsequent significant variable for the investment decision. At the same time, the importance of meeting one's financial obligations is far less substantial. The results of a one-way ANOVA demonstrated that gender, age, and educational background had no modest influence on investing activities. The research concluded that investors base their decisions on a firm's image; thus, businesses must devise strategies to improve their public image. There is much room for investigating more compact elements that determine behavior.

1. INTRODUCTION

According to behavioral finance, a subfield of business economics, investors and financial experts may be influenced by their psychological characteristics and biases. Anomalies, especially in the stock market, such as sudden price rises or drops, might result from biases and influences. An investment decision is a method of allocating capital. Investors choose the assets and investment opportunities that best meet their needs based on risk preferences, investment goals, and expected returns. Investor heuristics, biases, and framing effects have been the primary foci of previous research on behavioral finance difficulties. Examples of studies that demonstrate the impact of investors' irrationality on

stock market valuation may be found in works by De Bondt and Thaler (1985); Kumar (2006).

Additionally, many academic and financial experts (Kumar & Chandra, 2009) were compelled to reject the complete rationality thesis and now prefer to admit the natural effect of specific psychological decision-making factors on investor behavior concerning investments. Vaidya (2021) discovered that the critical worry of Nepalese investors is a fundamental feature of the listed firms when picking an investment. In the booming stock market, investors plan their strategies by thinking about the stock and the investors' actions. According to Karmacharya (2022), stock market traders also consider investor conduct while trying to make a profit. People's actions and financial commitments have shifted due to the pandemic.

Consequently, one kind of investment opportunity is the acquisition of tangible assets during a manufacturing process carried out over time. To get the highest possible return on investments, it was necessary to reallocate funds across various investment opportunities. It gives companies the ability to choose the most profitable asset class in which to invest their money. The company's founders or senior managers make these decisions after thoroughly weighing the options. During the process of determining whether or not investments will be profitable, every organization is required to exercise critical choices. An appropriate risk and return analysis have to be carried out before any funds are spent on the prospective investment opportunities. This must be done before any money is spent on the potential investment possibilities. There are two types of investing choices: those made for the long term and those made for the short time. Some traders have expressed that a connection exists between the financial sector and the market for securities.

On the other hand, certain financiers have asserted that they do not factor in global macroeconomic conditions while making investment decisions. Managers are now making financial choices concerning the source of funding and capital structure based on the strengths and weaknesses of the firm (its internal characteristics) and, undoubtedly, the macroeconomic conditions and country-specific variables (its external features) (Mokhova & Zinecker, 2014). It is widely believed that the success of a stock market or the pricing of stocks has a significant impact on a nation's economic climate. The economic recovery and the financial market's growth benefit one another's advancement. The financial sector's movement, which in turn influences the economy, is heavily influenced by the actions of investors. The success of investors may be significantly affected by several factors; thus, it is essential to zero in on those aspects of investor conduct that are most influential.

A decision has to be made between the possible income streams offered by various alternative investments. Investment firms and national economics are responsible for determining how factors such as herding, the image of the company, accounting facts, and personal financial needs influence an investor's choice. What strategies or interventions can be implemented to improve investors' decision-making processes in the secondary stock market, considering the factors of company image, accounting information, herding, and personal financial needs? This is a significant issue for this study. This research examines the influences on investors' decision processes in the Kathmandu Valley. In this consequence, the study's objectives were: (i) to determine what elements are most important when making a financial investment; (ii) to find out how the investor's choice is affected by the company's image, accounting information, herding, and their own financial needs; and (iii) to examine the influence of firm image, accounting information, herding and personal financial need on the investor's decision.

This study aims to determine and examine factors that lead most investors to have a short-term profit-making ambition, which is unrelated to the firm's image, the gathering of accounting information, or the personal financial needs of investors. The following are the most crucial aspects of the significance of this research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Expected Utility Theory (EUT), also known as the Prospect Theory, is another approach to decision-making that is considered throughout determining how the nature of the investor plays a role in the selection of stocks. EUT emphasizes investors' rational expectations, while prospect theory emphasizes investors' subjective decision-making influenced by their value system (Filbeck et al., 2005). When studying how individuals make choices in uncertain situations, the expected utility theory (EUT) is the preeminent normative model of rational choice and descriptive model of economic behavior. On the other hand, the idea has been called into question since it does not explain why people are interested in insurance and gambling. The human tendency is to value certain events more than those likely to occur. According to Kahneman and Tversky (1979), people's responses to similar events could differ depending on whether or not they are given in the context of possible rewards or losses.

The term "herding effect" describes how investors prefer to respond in unison (Kengatharan, 2014). According to Waweru et al. (2008), an investor may make six different stock investing choices, each of which may be influenced by the others. Among these choices are whether and how much stock to buy or sell, which stocks to buy or sell, how long to hold stocks for, how many shares to trade, and how much volume to change, and also found that investors are heavily impacted through buying and selling actions of other investors and that herding behavior helps individuals acquire a regret aversion for their own choices. However, these findings are based on the behavior of stock market investors; consequently, the outcome may differ for individual investors. This is because, as stated earlier, individual investors are more likely to follow their peers' investment behavior than institutional investors. Additionally, there may be a psychological effect brought about by the company image or available information regarding accounting results. There is a strong relationship between the dependent variable, investment choice, and the independent variables, information in online social media, the conduct of online communities, and the image of firms in online social media (Helm, 2007; Ismail et al., 2018; Sharma et al., 2017). Therefore, this research will look into how behavioral economics affects financial choices.

H1: There is a strong link between herding and the investor's decision.

Markedly, Zhai and Wang (2016) discovered that the strength of a link increases in proportion to the publicly traded companies and the information quality of their accounting activities. This is especially true when the listed business's corporate governance is subpar. The accounting information quality may help maximize the choice of where to spend assets which assists in the execution of corporate governance. Transparency of social, environmental, and economic outcomes is prevalent, comparable, and similar to financial reporting and is also crucial for institutional success (Al-Wattar et al., 2019; Safa, 2018). Qasim et al. (2019) found that Pakistani investors were significantly influenced by behavior based on herding and optimism bias. According to Madan and Singh (2019), these four behavioral biases are present in individual investors' choices about their financial investments. This research will assist financial intermediaries in better advising their customers by providing them with helpful information. Further research might investigate the effects of learning bias on investing choices.

H2: There is a strong link between accounting information and investor's decision.

The findings of Rana (2019) revealed that six general features influence the stock investment selections made by Nepalese sample investors. These fundamental market factors include earnings, image, corporate governance, positioning, goodwill, market share, industry competition and size, and decision-making. These factors may be market forces.

Investors placed a significant amount of importance on the fundamental market features. Rahman and Gan (2020) discovered that anxiety and overconfidence have a negative relationship with investing choices, but self-monitoring has a good relationship with investment decisions. It has been shown that temperamental rage and herding tendency have no substantial influence on supporting choice.

According to Pandey et al.'s (2020) findings, there is a significant and positive association between the coincidence of self-image and corporate image, investment choice, accounting information, personal financial requirements, and neutral information. Investment selections were shown to have a moderate connection with accounting information and unique financial needs. Despite this, a minimal favorable link exists between investment choices and neutral information. Pokharel (2020) showed that market conditions strongly impact investment performance. The heuristic herding and potential clients (loss rejection, remorse aversion, and psychological finance) do not affect the effectiveness of investments. Adhikari (2020) found that critical issues that shape individual decisions about stock investment are; a statement made by government authorities, a predictable wealth rise, and a firm image in its industry, and Gnwali and Niroula (2020) collected and analyzed primary data from 290 respondents from five different brokerage businesses in the Kathmandu area. The research found that one should carefully consider the management of quality, organizational goodwill, business performance, commercial sector, and market knowledge before making an investment choice in an initial public offering. According to Sedhain and Shijin (2021), an individual's decision to invest in the Nepalese stock market depends on personal preferences and beliefs for the factors that make up the Fama-French three-factor model.

H3: A firm's image and an investor's decision are substantially linked.

Even if investment choices have a favorable effect, Saddique et al. (2021) demonstrated that facts and asymmetries significantly affect the pleasure linked with them. Investors in the Pakistani markets are immune to the effects of accounting information on their investment happiness. Since all investment decisions are made through mediation, the result is fair. One's values significantly impact investment happiness and are somewhat mediated by one's investment decision-making. Gofwan (2022) examined how a company's financial results changed after using new accounting software. A literature review forms the basis of this study. In light of rapid technological advancement, rising levels of knowledge, and more stringent criteria from customers and business owners, the study views accounting information systems as a fundamental tool that should be in the hands of managers seeking to preserve a competitive advantage. Karmacharya et al. (2022) suggested that investors who want to earn money in the market should consider both a company's underlying characteristics and other market participants' actions. It was discovered that the component "Accounting and stock market information" had the most significant impact on how individual stock investors made decisions about their investments. It was found that the effects of "Public and economic information" is notably different for male and female share investment makers but not for investors of various ages.

H4: There is a strong link between personal financial needs and investment decisions.

3. RESEARCH METHODS

This study used descriptive and causal-comparative research design, also known as explanatory research, to identify the degree and kind of cause-and-effect relationships among the dependent and independent factors. To begin with, the data collected for this study was evaluated in terms of numeric values, making this research quantitative. Non-probability purposive sampling design is used in this study. A questionnaire survey is

performed among stock investors inside Kathmandu for data collection. To gather information on factors influencing the investment decision of stock marketers, the population constituted both employed and non-employees. Three hundred eighty-five (385) respondents were considered for this study, non-probability sampling frame and convenience-based sampling design were employed. For an unlimited population size with a 5% margin of error, the study needed 385 respondents.

Eight items from Mutswenje (2009) were used and modified for the company image. Mutswenje (2009) used six items to determine the effect of accounting information on investment decisions. Kengatharan (2014) used seven items to assess the effect of herding on investment decisions. It impacts both short-term and long-term personal investment choices. This research modified four items that Mutswenie (2009) previously used to determine individual financial needs in the secondary market. For the dependent variable investment decision, three items from Adielyani and Mawardi (2020) and two statements from Shrestha (2020) were used. All information was measured on a Scale of 1-5; 1= Strongly Disagree, 2=Disagree, 3= Neutral, 4=Agree, 5= Strongly Agree. The statistical tools were used to test the hypothesized association between the dependent and autonomous factors, including mean, correlation, ANOVA, and regression analysis.

The study was based on 385 questionnaires administered to this study from secondary market investors in Kathmandu. The result analysis is in the following overall characteristics among the total respondents.

Table 1

Characteristics of Respondents

Dimensions	Frequency	Percentage (%)
Gender:		
Male	214	55.6
Female	171	44.4
Total	385	100
Age Group:		
20-30 yrs.	195	56.6
30-40 yrs.	136	35.3
40-50 yrs.	34	8.8
Above 50 yrs.	20	5.2
Total	385	100
Education Status:		
Intermediate	49	12.7
Bachelors	166	43.1
Masters	126	32.7
MPhil or above	44	11.4
Total	*385*	*100*

Source: Survey 2022

Table 1 presents the research responder category along with the results. The vast majority of responses were male, in comparison with their counterparts. The result demonstrates that male respondents are more engaged in investment choices than female respondents. Given that most respondents are between the 20 and 30 age group, this suggests that younger investors are more interested in investment choice-making. Additionally, the results of this study specify that the vast majority of respondents fall into the bachelor category. People who have completed at least a bachelor's degree can be interested in investing in the secondary stock market. Cronbach alpha was employed to

assess the internal consistency within the constructs. Table 3 demonstrates the construct-wise and overall alpha values.

Table 2

Reliability Result

Variable	Items	Cronbach Alpha
Accounting Information's	5	.676
Company Image	8	.927
Herding	5	.679
Personal Financial Need	4	.647
Investment Decision	5	.736
Total	27	.939

Research acceptability is estimated in the above table. Compared to other variables, the dependability of the company image is better. Taber (2018) illustrates the degree of acceptability of the Cronbach Alpha statistic. The overall Cronbach alpha for this research is satisfactory, and each variable's acceptability levels have been determined. The following research model has been set for estimation.

$$Y= α +β_1CI + β_2AI + β_3HE + β_4PFN + ε$$

where Y = Dependent variable, CI = Company Image, AI = Accounting Information, HE = Herding, PFN = Personal Financial Needs

4. RESULT AND ANALYSIS

This section presents the overall presentation of data and a comprehensive analysis of the primary data. A few of the statistical and regression models described in the previous chapter were used in the inquiry. This part of the analysis examined the demographic group gender with investment decisions—one-way ANOVA has been used to investigate the association of investment decisions across different gender groups.

Table 3

Mean Comparison with Investment Decision (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.645	1	2.645	2.831	.09
Within Groups	357.92	383	.935		
Total	360.57	384			

The data shown in Table 3 indicates that gender having, male and female investors do not significantly vary from one another in terms of the overall number of investment choices they make. This suggests that the gender group does not play a part in making investment decisions for secondary market investments. When it comes to making investments, it does not make a difference whether the person is a male or a female.

In this section, the study also investigated the modest effect of investing using the mean comparative test, the Post Hoc Tukey test, and the Honest Significant Difference (HSD) test. The study's findings are summarized in Table 4.

According to the post-hoc Test results, there is no statistically significant connection between the age of investors and investment choice. This finding indicates that age is irrelevant when deciding whether to invest in stocks.

As shown in Table 5, there is not a significant association between the degree of education an investor has and the possibility that they would invest in the stock market, according to the findings of the multiple comparisons that were done between the education levels provided in the table above (intermediate, bachelor's, master's, and M.Phil. and above), which can be seen in the results.

Table 4

Mean Comparison with Age and Investment Decision

(I) Your age	(J) Your age (yrs.)	Mean Diff. (I-J)	Std. Error	Sig.
20-30 yrs.	30-40	.106	.108	.761
	40-50	-.144	.180	.855
	Above 50	-.012	.228	1.000
30-40 yrs.	20-30	-.106	.108	.761
	40-50	-.250	.186	.535
	Above 50	-.118	.232	.958
40-50 yrs.	20-30	.144	.180	.855
	30-40	.250	.186	.535
	Above 50	.132	.273	.963
Above 50 yrs.	20-30	.012	.228	1.000
	30-40	.118	.232	.958
	40-50	-.132	.273	.963

Table 5

Mean Comparison with Education and Investment Decision

Education Level (I)	Education Level (J)	Mean Diff. (I-J)	Std. Error	Sig.
Intermediate	Bachelors	.073	.158	.967
	Masters	.145	.164	.811
	M.Phil.	.023	.202	.999
Bachelors	Intermediate	-.073	.158	.967
	Masters	.072	.115	.923
	M.Phil.	-.050	.165	.990
Masters	Intermediate	-.145	.164	.811
	Bachelors	-.072	.115	.923
	M.Phil.	-.122	.170	.890
M.Phil. and above	Intermediate	-.023	.202	.999
	Bachelors	.050	.165	.990
	Masters	.122	.170	.890

Table 6

Correlations Matrix

	Investment Decisions	Company Image	Accounting Information	Personal Financial Needs	Herding
Investment Decisions					
Company Image	.768**				
Accounting Information	.665**	.635**			
Personal Financial Needs	.436**	.341**	.391**		
Herding	.714**	.724**	.721**	.368**	

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

The relationship between investment decisions and company image, accounting information, personal financial demands, and herding is outlined in Table 6. There was a higher association between the image of the company and the investment choice when compared to all of the other independent variables. It may be deduced that individuals consider the image of the firm to be an essential consideration when making investment decisions in the secondary market. People are less concerned about their financial needs despite all the research factors that strongly relate to investing choices. It is feasible for investors to exhibit behaviors consistent with high self-esteem to be part owners of a renowned firm.

Table 7

Regression Results

	B	Std. Error	t	Sig.	(VIF)
(Constant)	-.215	.166	-1.297	.196	
Company Image	.433	.041	10.658	.000	2.237
Accounting Information's	.203	.053	3.823	.000	2.273
Personal Financial Needs	.159	.038	4.224	.000	1.209
Herding	.229	.054	4.219	.000	2.779
R = 0.822	Adj R^2 = 0.672	F(4,380) = 197.781		Sig(F) = 0.000	

Table 7 demonstrates that the variance in the dependent factor can explain the variation in the independent variable(s). In this model, the dependent variable can predict 67.6 % of the discrepancy in investment decision-making regarding herding, personal financial needs, company image, and accounting information. Furthermore, there were no multi-collinearity issues since the variance inflation factors (VIF) values did not exceed the threshold value of 4.0, as suggested by (Hair et al., 2010).

The model fits data on the independent effect of independent variables on investing decisions since F (4, 380) = 197.781, p < 0.05. Furthermore, the study's findings reveal that the company's image was the most influential factor (β = 0.433, p = 0.000), followed by herding (β = 0..229, p = 0.000), company's accounting information (β = 0..203, p = 0.000), and personal financial needs (β = 0..159, p = 0.000) on investment decision in the secondary stocks market in Nepal.

5. DISCUSSIONS

The choice to invest has a far higher impact on new businesses just starting today. Additionally, it is influential in the expansion of the company. The current research and the remarks made in the past have a more considerable impact on the market choice and the geographical region. In prior research, Pandey et al. (2020) discovered that self-image and firm image coincidence (SIFIC) positively correlate with stock choice. The current study came to the same conclusion. According to Saddique et al. (2021), information asymmetry has a considerable influence on financial joy, and even if it is somewhat mediated by investing choice, the impact is still significant. The research revealed that the mediating variables associated with satisfaction did not play any considerable effect, and the outcome has a different dimension from the one that Pokharel (2020) observed. Adhikari (2020) discovered that the essential elements that shape investor choices are statements made by government officials, predicted increases in resources, and the position of the business within the sector, and this research merely supports the notion that corporate image is a significant impact.

IFRS also applies to corporate accounts. Malo-Alain (2021) noted that IFRS increases accounting performance and investment choices, presenting findings in line with accounting knowledge and investing decisions considering accounting information because it affects the investor's investment choicer. Gnwali (2020) also observed that corporate goodwill and performance are essential before investing in primary shares. Secondary market investors behave similarly to leading market investors. Sedhain and Shijin (2021) said that investing in Nepal's stock market relies on investors' priorities. Karmacharya et al. (2022) advised investors to evaluate stock fundamentals and investor behavior to gain a market return, but personal financial requirements were less critical. Herding has a favorable and significant influence on investment choices, according to Qasim et al. (2019), Sabir et al. (2019), and Mohammad et al. (2016).

In addition, the findings indicate that investors are most concerned with the firm's image awareness and that herding is the second most crucial element in determining

whether or not to make a stock decision. The study may be able to explain that the low level of company image in Nepalese businesses fails to allocate monetary fund assortment, to reduce the competition and the attraction with the inclusion, and to enhance the process of choosing for investments. The company needs to practice the standard for the novel enticement of the image strategy.

6. CONCLUSION AND IMPLICATIONS

This study examines the factors investors consider in their decision-making processes. Previous research indicates that a more robust financial situation aids in making better investing choices by allowing one to rely more heavily on and give more weight to a heuristic pattern of stock decisions. Good company image, herding, accounting information, and personal financial needs facilitate selecting investments in the secondary market. Company image, accounting information, herding behavior, and individual financial needs significantly shape investor decision-making. These elements contribute to the overall evaluation of potential investments and assist in determining the perceived value and risk associated with a particular stock. Inhibit self-esteem and actualization behavior of individuals, and ensure the privileges of both males and females. There is a pressing need for more research into how heuristic behavior and information asymmetry impact monetary decisions. Managers might use the aggregate data to make business choices that would pique the attention of prospective investors if they were implemented successfully.

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