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Original Research Article

Does overreaction exist for contrarian strategies in the Nepalese stock market?

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Abstract

Purpose: The study aims to investigate the existence of the short-term overreaction effect in the Nepalese stock market and to assess whether short-term contrarian strategies can generate abnormal profits for investors.

Design/methodology/approach: Using monthly stock return data from NEPSE spanning July 2014 to July 2019, this study applies the cumulative average return method and three regression models across sixteen short-term buy and hold horizons to investigate both the existence of overreaction effects and the profitability of contrarian investment strategies.

Findings: The empirical results indicate no significant evidence of short-term overreaction effects in the Nepalese stock market. Further, none of the short-term contrarian strategies yielded significant results to yield abnormal returns during the studied period.

Conclusion: Findings indicate no evidence of short-term overreaction in NEPSE, suggesting relative market efficiency and the ineffectiveness of contrarian strategies for generating excess returns.

Implications: These results emphasize that investors should be wary of contrarian strategies in Nepal's market and that policymakers must strengthen settlement and liquidity frameworks to ensure any fleeting inefficiencies are neither masked nor unexploitable.

Originality/value: This study contributes to the limited literature on overreaction under behavioural finance in emerging markets, particularly in the context of the underexplored Nepalese stock market.

JEL Classification: G14, G41, G11, G15

Introduction

Overreaction effects, which challenge the market efficiency hypothesis, suggest that investors can earn abnormal profits by employing contrarian strategies that exploit return reversals following such anomalies. Overreaction effects and corresponding contrarian strategies are interrelated topics, extensively explored within the framework of behavioral finance. Overreaction occurs when investors, driven by psychological biases such as overconfidence and self-attribution (Daniel et al., 1998) or conservatism and representativeness heuristics (Barberis et al., 1998), push stock prices away from their fundamental values, creating temporary market inefficiencies. These deviations are typically corrected as investors adjust their expectations, leading to return reversals where past losers outperform past winners (Hong & Stein, 1999; Iihara et al, 2004).

Empirical evidence on overreaction is extensive. Numerous studies have documented such effects and the profitability of contrarian strategies across different markets (De Bondt & Thaler, 1985; Campbell & Limmack, 1997; Stock, 1990; Swallow & Fox, 1998; Kryzanowski

& Zhang, 1992; Lerskullawat & Ungphakorn, 2018; Zakamulin, 2024). In contrast, some researchers have questioned the existence or persistence of overreaction (Chan, 1988; Ball & Kothari, 1989; Zarowin, 1989, 1990).

However, the phenomenon remains underexplored in young and small markets like Nepal. Although implied short-term overreaction effects have been observed in the Nepalese stock market (Dongol, 2008, 2016; Dangol & Bhandari, 2019), a clear empirical examination is lacking. This study aims to address this gap by investigating the existence of overreaction effects in Nepal's stock market, a small emerging Asian market, and evaluating whether these effects present opportunities for abnormal returns through contrarian strategies.

Specifically, if returns indeed reverse among winners and losers, investors could capitalize by adopting a contrarian approach of buying previous losers and selling previous winners, thus potentially securing abnormal profits. Building on prior indications of short-term overreaction (Dongol, 2008, 2016; Dangol & Bhandari, 2019) and prospects of abnormal gains in Nepal's market (Adhikari & Karki, 2022; Khanal et al, 2025), this study further examines short-term contrarian strategies to determine their effectiveness in generating excess returns. By examining these dynamics in Nepal, this study not only fills a critical empirical gap but also extends the behavioral finance discourse by examining whether well-established anomalies manifest similarly in less mature market environments.

The remainder of this paper is structured as follows: the next section reviews the relevant theoretical and empirical literature, followed by a description of the research methodology. Subsequent sections present the empirical findings and their discussion, and conclude with the study's implications, and areas for future research.

Literature Review

The Efficient Market Hypothesis (EMH), as formulated by Fama (1970), remains a foundational concept in financial economics, positing that asset prices fully and instantaneously reflect all available information, leaving no scope for systematic excess returns through trading strategies. Under this framework, prices follow a random walk, and investors cannot consistently outperform the market using historical or public information (Malkiel, 2003; Sewell, 2011). However, the emergence of behavioral finance challenged these classical assumptions by incorporating cognitive biases and psychological factors that systematically influence investor decisions, leading to market anomalies (Barberis et al., 2003; Shiller, 2015).

A pivotal behavioral anomaly contradicting EMH is the overreaction effect, where investors disproportionately respond to new information, causing asset prices to deviate temporarily from intrinsic values. This phenomenon is often driven by psychological heuristics such as representativeness and conservatism (Kahneman & Tversky, 1974; Barberis et al., 1998) as well as investor overconfidence (Daniel et al., 1998). The market corrects these mispricings over time, resulting in return reversals, a dynamic directly exploited by contrarian investment strategies.

The seminal study by De Bondt and Thaler (1985) empirically established the overreaction hypothesis, demonstrating that stocks experiencing extreme past losses tend to outperform past winners in subsequent periods, indicating long-term return reversals. This finding was robust across various markets and sparked extensive academic discourse. For example, Chopra et al. (1992) further corroborated long-horizon reversals in U.S. stocks, while Jegadeesh and Titman (1993) highlighted this perspective by revealing short-term momentum followed by long-term reversal, thereby enriching the temporal dimension of price corrections.

Global studies continue to validate these patterns. Campbell and Limmack (1997) documented return reversals in the UK, while Otchere and Chan (2003) found asymmetric short-term reversals in Asian markets. Recent work by Zakamulin (2024) confirmed persistent contrarian profits in European equities, underlining the pervasiveness of behavioral anomalies even in mature markets.

Yet, the overreaction narrative is not without contention. Critics argue that apparent anomalies may be artifacts of data-snooping or compensation for risk (Fama, 1976; Conrad & Kaul, 1993). Kryzanowski and Zhang (1992) and Zarowin (1990) questioned the risk-adjusted abnormality of contrarian profits, suggesting that observed return reversals could reflect omitted risk factors rather than true inefficiency. More nuanced frameworks, such as Hong and Stein's (1999) disagreement model, propose that gradual information diffusion and heterogeneous investor beliefs drive temporary mispricings, offering alternative behavioral and informational explanations.

Behavioral finance thus provides a comprehensive theoretical underpinning for overreaction and contrarian strategies, integrating biases like loss aversion, overconfidence, and herd behavior (Thaler, 2005). Empirically, contrarian strategies that buy past losers and sell past winners have yielded abnormal returns across diverse contexts, such as India (Tripathi & Aggarwal, 2009), Indonesia (Pratama & Rahyuda, 2019), China (Chen et al, 2019), and Turkey (Alper & Aydoğan, 2017). Shrestha (2023) and Kusmayadi et al. (2024) recently extended this evidence to Southeast Asia, highlighting that psychological and institutional inefficiencies are particularly pronounced in emerging markets.

The relevance of these theories to developing economies is critical. Behavioral biases often intensify where market sophistication is limited and regulatory frameworks are evolving (Ming, 2016). For instance, thin trading, information asymmetries, and speculative sentiment frequently amplify mispricings in smaller markets (Ritter, 2003; Białkowski & Starks, 2016).

In the context of Nepal, evidence on overreaction remains sparse and fragmented. While studies by Dangol (2008, 2016) and Dangol and Bhandari (2019) identified inefficiencies and short-term price anomalies in the Nepal Stock Exchange (NEPSE), systematic exploration of overreaction and its exploitation via contrarian strategies is limited. Recent findings by Adhikari and Karki (2022) and Khanal et al. (2025) highlighted the potential for abnormal returns due to market inefficiencies, yet fell short of explicitly linking these to behavioral overreactions.

Given these gaps, this study advances the literature by rigorously testing for overreaction effects in the Nepalese stock market and evaluating the profitability of contrarian strategies within this emerging market context.

Methods

This study adopts a positivist approach, operating under the assumption that overreaction effects exist in the Nepalese stock market and that contrarian strategies can generate abnormal profits through short-term return reversals. It aims to empirically assess the viability of short-term contrarian investment strategies in exploiting such anomalies.

Building on the cumulative average return methodology pioneered by De Bondt and Thaler (1985), this study analyzes actual trading data from the NEPSE. It specifically investigates short-term symmetric and asymmetric return patterns to evaluate the presence of overreaction effects and the potential for contrarian gains. The analysis utilizes monthly NEPSE data spanning June 2014 to June 2019. Stocks with no transactions during a given month were excluded to ensure data reliability. The study examines 16 distinct short-term buy-and-hold periods aligned with contrarian strategy frameworks. These periods and their observation frequencies are detailed in Table 1.

Table 1: Buy and Hold Periods Matching Contrarian Strategies and their Frequencies

Portfolio period (P)	Test Period (T)	Buy and Hold Period (PxT)	Frequency
3-month	3-month	3x3	19 times
3-month	6-month	3x6	18 times
3-month	9-month	3x9	17 times
3-month	12-month	3x12	16 times
6-month	3-month	6x3	9 times
6-month	6-month	6x6	9 times
6-month	9-month	6x9	8 times
6-month	12-month	6x12	8 times
9-month	3-month	9x3	6 times
9-month	6-month	9x6	6 times
9-month	9-month	9x9	5 times
9-month	12-month	9x12	5 times
12-month	3-month	12x3	4 Times
12-month	6-month	12x 6	4 Times
12-month	9-month	12x9	4 Times
12-month	12-month	12x12	4 Times

The study employs a robust two-stage analytical approach to examine overreaction effects and the profitability of contrarian strategies in the Nepalese stock market.

First, the cumulative average return (CAR) methodology, adapted from De Bondt and Thaler (1985), is applied to detect short-term overreaction dynamics. The analysis proceeds through the following steps:

Construction of winner and loser portfolios for multiple portfolio formation periods, aligned with diverse short-term buy-and-hold horizons designed to capture contrarian effects.

Computation of CARs during test periods corresponding to each formation period and strategy horizon.

Estimation of average cumulative abnormal returns (ACARs) for loser and winner portfolios, followed by significance testing to determine whether losers systematically outperform winners. A statistically significant positive return differential supports the existence of overreaction effects and validates the effectiveness of contrarian strategies in generating abnormal profits.

Second, to deepen the analysis, three econometric models are employed using R-Studio:

Intercept-Only Model

$$RPt = \alpha + \varepsilon$$

Where 'RPt' denotes the return differential between loser and winner portfolios at time 't'. A significant positive intercept (α) confirms average abnormal returns attributable to overreaction.

Dummy Variable Model

$$RPt = \alpha 1 + \alpha 2\ (6\text{-month}) + \alpha 3\ (9\text{-month}) + \alpha 4\ (12\text{-month}) + \varepsilon$$

Where dummy variables are CAR differences of loser portfolios over winner portfolios for 3-, 6-, 9-, and 12-month test periods taken as independent variables to show trend with extended holding periods.

CAPM-Derived One-Factor Model

$$RD = \alpha + \beta\ (RM - RF) + \varepsilon$$

Where 'RD' refers to the return difference of the loser portfolio over the winner portfolio on each buy and hold period matching the contrarian strategy, RM is the market proxy (NEPSE return), and RF is risk risk-free proxy (91-day treasury). Here, β represents systematic risk, and α represents risk-adjusted abnormal return. Similarly, the positive and significant intercept value verifies overreaction effects and the suitability of the contrarian strategy to earn abnormal profit.

Results and Analysis

Since this study focuses on returns, the descriptive statistics pertain specifically to CAR. Moreover, because the analysis examines whether loser portfolios yield higher returns than winner portfolios, the descriptive statistics presented in Table 2 provide an overall summary of these return patterns.

Table 2: Descriptive Statistics of Overall CAR on Portfolio Periods

Portfolio Period	F.	Mean	SD	Max	Min	Range
3-months 19	-0.0334	0.1617	0.8129	-0.7000	1.5129	1.5129
6 months 9	-0.0656	0.2360	0.9912	-0.9107	1.9019	1.9019
9-months 6	-0.0984	0.2934	1.0809	-0.8992	1.9801	1.9801
12-months	4	-0.0289	1.0809	0.9912	-0.6033	1.5945

Note. F refers to the frequency of the test on each portfolio period.

As shown in Table 2, the highest mean return for winner portfolios (1.0809) occurs in the buy-and-hold strategy with a 9-month portfolio period, while the lowest mean return for loser portfolios (–0.9107) is observed in the 6-month portfolio period. The table further indicates that return differences between winners and losers across portfolio periods are generally modest, with all mean values negative and low deviations from these means.

Table 3 presents the results of significance tests on the excess ACARs of total loser portfolios over total winner portfolios across each of the 16 buy-and-hold periods, reflecting contrarian strategies examined using the cumulative average approach established by De Bondt and Thaler (1985).

Table 3: ACAR Differences of the Loser Portfolio over the Winner Portfolio in Test Periods

Periods			ACAR			
Portfolio(P)	Test (T)	(PxT)	L	W	L-W	t-stat
3	3	3x3	-0.0769	-0.0414	-0.0355	-0.8989
3	6	3x6	-0.0812	-0.0838	0.0025	0.0586
3	9	3x9	-0.1146	-0.1365	0.0219	0.3864
3	12	3x12	-0.1575	-0.2030	0.0455	0.5849
6	3	6x3	-0.0684	-0.0500	-0.0184	-0.4885
6	6	6x6	-0.0800	-0.0629	-0.0171	-0.2760
6	9	6x9	-0.0805	-0.1874	0.1068	0.8990
6	12	6x12	-0.1085	-0.2431	0.1346	0.7369
9	3	9x3	-0.0203	-0.0391	0.0188	0.3641
9	6	9x6	-0.1047	-0.0375	-0.0672	-0.8164
9	9	9x9	-0.1763	-0.0400	-0.1363	-1.3068
9	12	9x12	-0.1585	-0.1131	-0.0454	-0.4728
12	3	12x3	-0.1055	-0.0621	-0.0434	-0.6571
12	6	12x6	-0.1444	-0.0847	-0.0598	-0.5147
12	9	12x9	-0.1056	-0.1838	0.0782	0.3517

Note. P, T, PXT all fall under Periods; L, W, L-W all fall under ACAR L and W refers to ACARs of Loser and Winner Portfolios, respectively; (PxT) refers to different buy-and-hold periods taken for contrarian strategies.

The differences in returns between loser and winner portfolios across all 16 buy-and-hold periods were either negative or statistically insignificant. Consequently, the findings do not support the presence of overreaction effects or the effectiveness of any of the examined contrarian strategies.

To further validate these results, three regression models were employed, including a CAPM-based specification to account for market risk. The intercept-only regression results are summarized in Table 4, which reports the intercept estimates for the market-adjusted return differentials between loser and winner portfolios across each of the 16 contrarian strategy periods.

The intercept values in Table 4, representing the mean return differences between loser and winner portfolios, are statistically insignificant and align closely with the cumulative average method results. Therefore, these findings do not support the existence of overreaction effects or the profitability of contrarian strategies.

Table 5 presents the regression results for the dummy variable model, displaying coefficients for four test periods corresponding to different portfolio horizons. These coefficients indicate the mean return differences between losers and winners for the 6-, 9-, and 12-month test periods relative to the 3-month baseline (intercept).

Table 4 : Market Adjusted Returns Difference Using Regression on the Intercept Only Model for Different Buy and Hold Periods

Buy and hold period	Alpha (α)	t-value
3x3	-0.03552	(-1.068)
3x6	0.002537	(0.071)
3x9	0.02194	(0.4)
3x12	0.04549	(0.592)
6x3	-0.01841	(-0.822)
6x6	-0.01707	(-0.354)
6x9	0.10684	(1.099)
6x12	0.1346	(0.907)
9x3	0.01883	(0.563)
9x6	-0.06723	(-1.43)
9x9	-0.13630	(-1.394)
9x12	-0.04543	(-0.517)
12x3	-0.04339	(-1.05)
12x6	-0.05978	(-0.799)
12x9	0.07818	(0.673)
12x12	0.1918	(0.704)

Note. The values above are results from an intercept-only model regression with equation 1; $RP_t = \alpha + \varepsilon$; Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1.

Table 5: Market Adjusted Returns Difference of Loser Portfolios over Winner Portfolios Using Regression on Dummy Model for Differential Test Periods

Portfolio Period	α1	α2(6-month)	α3(9-month)	α4(12-month)
3-month	-0.03553 (-0.726)	0.03807 (0.543)	0.05746 (0.807)	0.08104 (1.120)
6-month	-0.018444 (-0.216)	0.001367 (0.011)	0.125294 (1.007)	0.152994 (1.230)
9-month	0.01885 (0.293)	-0.08608 (-0.948)	-0.15513 (-1.628)	-0.06427 (-0.675)
12-month	-0.04343 (-0.282)	-0.01635 (-0.075)	0.12160 (0.558)	0.23525 (1.079)

Note(s). The values above are results from regression on a dummy model using equation 2; $RP_t = \alpha 1 + \alpha 2$ (6-month) + α3 (9-month) + α4 (12-month) +ε; Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1.

The results indicate that none of the estimated coefficients for portfolios constructed using 3-, 6-, 9-, and 12-month averages are statistically significant. This suggests that portfolio formation based on these time frames does not produce meaningful differences in returns between loser and winner portfolios, regardless of the testing or holding periods considered. Extending the holding periods does not enhance the evidence for overreaction effects or generate abnormal profits.

Tables 6 through 9 present the results of regressions using the CAPM-derived one-factor model. These findings incorporate robustness checks by controlling for market risk, providing a more rigorous assessment of overreaction effects and contrarian strategy profitability.

Table 6: Risk Adjusted Return Difference Using Regression with CAPM for 3-Month Portfolio Period

Testing period	Alpha (t-value)	Beta (t-value)	R-square	F-value
3-month	-0.017562 (-0.33)	0.003766 (0.44)	0.01126	0.1937
6-month	0.016463 (0.278)	0.001667 (0.299)	0.005543	0.08919
9-month	0.114385 (1.156)	0.006650 (1.119)	0.07705	1.252
12-month	0.117299 (0.769)	0.003828 (0.549)	0.02107	0.3014

Note(s). The adjusted returns are results of regression with equation (3); RD = α + β (RM– RF) +ε; Values in the parentheses refer to corresponding t-values for the significance test. Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1.

Table 6 shows no significant difference in mean returns between loser and winner portfolios, as indicated by the intercepts (α). These results suggest that neither overreaction effects nor contrarian strategies are supported when buying losers from the past 3 months and holding them for subsequent short-term periods of 3, 6, 9, or 12 months.

Table 7: Risk Adjusted Return Difference Using Regression with CAPM for 6-Month Portfolio Period

Testing period	Alpha (t-value)	Beta (t-value)	R-square	F-value
3-month	-0.085604 (-3.758) **	-0.014936 (-3.719) **	0.664	13.83
6-month	--0.0079685 (-0.089)	0.0009149 (0.125)	0.002231	0.01565
9-month	0.221859 (1.200)	0.008509 (0.741)	0.08381	0.5489
12-month	0.204914 (0.616)	0.003605 (0.241)	0.009595	0.05813

Note (s). The adjusted returns are results of regression with equation 3; RD = α + β (RM– RF) +ε; Values in the parentheses refer to corresponding t-values for the significance test; Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Table 7 reports a single significant mean return difference between loser and winner portfolios at the 1% level. This significant intercept (α) occurs for the 3-month test period within the 6-month portfolio horizon. However, the negative value indicates persistence rather than reversal of returns, suggesting that overreaction effects are absent and contrarian strategies are unlikely to yield abnormal profits.

Table 8: Risk Adjusted Return Difference Using Regression with CAPM for 9-Month Portfolio Period

Testing period	Alpha (t-value)	Beta (t-value)	R-square	F-value
3-month	0.051962 (0.946)	0.006318 (0.780)	0.1321	0.6089
6-month	0.061955 (0.956)	0.013713 (2.345)	0.5788	5.497
9-month	-0.107190 (-0.460)	0.002151 (0.143)	0.006747	0.02038
12-month	-0.0414892 (-0.210)	0.0002293 (0.023)	0.000179	0.000537

Note (s). The adjusted returns are results of regression with equation 3; RD = α + β (RM– RF) +ε; Values in the parentheses refer to corresponding t-values for the significance test; Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1.

Table 8 shows no significant mean difference in returns between loser and winner portfolios across all test periods following the 9-month portfolio formation. These results do not support the presence of overreaction effects or the profitability of contrarian strategies based on buying past 9-month losers and holding for subsequent short-term periods.

Similarly, Table A1, reports a single significant mean return difference between loser and winner portfolios at the 10% level for the 3-month test period following the 12-month portfolio formation. However, the negative intercept indicates persistence rather than reversal of returns, suggesting no evidence of overreaction or the effectiveness of contrarian strategies. The remaining insignificant results further reinforce the absence of overreaction effects and the inability of contrarian strategies to generate abnormal profits across all test periods.

Discussions

The empirical evidence from this study offers a clear narrative: short-term overreaction effects are largely absent in the Nepalese stock market, and contrarian strategies based on exploiting such effects fail to deliver abnormal profits. Using a comprehensive approach, including cumulative average methods, multiple regression specifications, and CAPM-adjusted models, the analyses consistently reveal either statistically insignificant return differentials between loser and winner portfolios or, in the few cases where significance emerges, negative coefficients suggesting continuation rather than reversal.

The results of this study, derived from the cumulative average method, show no significant positive differences in the returns of loser portfolios over winner portfolios across any of the test periods (3-, 6-, 9-, and 12-month) combined with varying portfolio formation periods (3-, 6-, 9-, and 12-month). This provides little evidence for the presence of overreaction effects or the viability of short-term contrarian strategies to generate abnormal profits in the Nepalese stock market. Similarly, the regression analyses revealed largely insignificant differences in mean returns, reinforcing the conclusion that contrarian strategies lack empirical support in this context.

While two intercepts in the CAPM-based regressions were statistically significant at the 1% and 10% levels when the 3-month test period was assessed with 6-month and 12-month portfolio periods, notably, these significant differences were negative. Rather than indicating a return reversal consistent with overreaction, they suggest a continuation of return trends, which fundamentally contradicts the contrarian premise.

These findings diverge from the prior global context that documented short-term overreaction and profitable contrarian strategies. Lehmann (1990) found strong evidence of short-term return reversals in U.S. markets, while Otchere and Chan (2003) demonstrated similar effects across several Asian stock markets, attributing them to behavioral biases and delayed information diffusion. Likewise, Ali et al. (2012) provided robust support for contrarian gains in Pakistan, reinforcing the classical behavioral finance argument by De Bondt and Thaler (1985).

In the context of Nepal, these findings also stand in contrast to earlier studies. Dangol (2008) and Dangol and Bhandari (2019) identified short-term overreaction effects, arguing that the Nepalese stock market's structural inefficiencies and behavioral biases create fertile ground for return reversals. Furthermore, studies by Adhikari and Karki (2022) and Khanal et al. (2025) implied that investors could secure abnormal profits through timing strategies in Nepal's underdeveloped market.

Conclusion and Implications

This study set out to determine whether short-term overreaction effects exist in the Nepalese stock market and whether contrarian strategies built on exploiting such reversals could deliver abnormal profits. The empirical evidence, drawn from cumulative average returns, multiple regression approaches, and CAPM-adjusted analyses, demonstrates consistently that these strategies do not generate significant gains. In nearly all tests, return differences between loser and winner portfolios were statistically insignificant, and where significance did emerge, the negative signs pointed to return continuation rather than reversal, undermining the behavioral premise of overreaction. These findings stand in contrast to seminal evidence from more developed markets and diverge from earlier Nepalese studies suggesting short-horizon inefficiencies. Instead, they align more closely with studies from other emerging or thin markets, indicating that any overreaction in Nepal likely corrects too quickly or is obscured by microstructural constraints. Hence, this study emphasizes that short-term contrarian strategies are not a viable approach to earning abnormal profits in Nepal, challenging general behavioral finance expectations and emphasizing the need for context-specific investment and market behavior models.

By demonstrating the absence of exploitable short-term overreaction effects in Nepal, this study extends behavioral finance theory by illustrating how market anomalies can dissipate rapidly under specific liquidity and structural conditions. Consequently, investors should exercise caution when relying on contrarian or technical strategies based on past performance, as empirical evidence from NEPSE shows no systematic abnormal returns. Moreover, the findings imply that Nepal's market infrastructure and trading dynamics may already facilitate swift price corrections, signaling emerging forms of efficiency in this nascent context. Therefore, policymakers and market developers should prioritize enhancements to settlement systems and liquidity provision to determine whether lingering microstructural frictions are masking transient behavioral opportunities.

Limitations and Further Research

Thin and uneven trading in the Nepalese stock market posed significant challenges for this study. Regulatory updates, mergers, and acquisitions, driven by evolving government and central bank guidelines, have led to discontinuities in NEPSE's data series, while the market's small size and the exclusion of entire sectors (such as hotels and trading) further restricted the sample. Consequently, the limited number of listed securities and their sporadic trading histories introduce uncertainty into the conclusions. Nevertheless, by illuminating these structural constraints, the study lays the groundwork for future research into investor behavior and investment strategies in Nepal's nascent market, as well as in other emerging markets with similar characteristics.

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Conflict of Interest

The authors declare that they have no conflicts of interest related to this study.

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Ethical Statement

This study did not require ethical approval as it involved no human or animal subjects; however, the authors affirm its originality and adherence to established research ethics and standards.

Authors' Contribution and ORCID iDs

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Annex

Table A1: Risk Adjusted Return Difference Using Regression with CAPM for 12-Month Portfolio Period

Testing period	Alpha (t-value)	Beta (t-value)	R-square	f-value
3-month	-0.15506 (-3.467) .	-0.03068 (-2.881)	0.8058	8.298
6-month	0.06538 (0.201)	0.01422 (0.400)	0.07407	0.16
9-month	0.314320 (0.545)	0.009427 (0.258)	0.4588	1.695
12-month	0.314320 (0.545)	0.009427 (0.258)	0.03223	0.0666

Note(s). The adjusted returns are results of regression with equation 3; RD = α + β (RM– RF) +ε; Values in the parentheses refer to corresponding t-values for the significance test; Significance codes have been developed as 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1.

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