



# Effect of Market Variables and Investment Decisions in Financial Market: A Case of Pokhara, Nepal

Bharat Ram Dhungana<sup>1\*</sup> , Nita Khatri<sup>1</sup> , Deepak Ojha<sup>1</sup> , Sujana Acharya<sup>1</sup> 

<sup>1</sup> School of Business, Pokhara University, Pokhara, Nepal

\*Corresponding Author:  
dhunganabharat.pu@gmail.com

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## Abstract

**Background:** Understanding the elements and variables influencing a decision is crucial for making the best financial decisions possible. Investors make complex decisions using their instincts, perceptions, emotions, and thought processes.

**Objectives:** This paper aims to examine the effect of market variables on investment decisions concerning the financial market of Nepal.

**Methods:** The research used primary sources of data collected through structured questionnaires. The researchers have applied purposive sampling techniques and selected 168 respondents who have been involved in the transaction of the secondary financial market for at least one year in the Nepalese stock market. We used descriptive and explanatory research design, including correlation analysis and multiple linear regression model, to analyze the data with the help of statistical software.

**Results:** Young people from a new generation are becoming an increasingly large portion of the capital market and are actively participating in the Nepali security market. The study finds that the stock's price, customer preferences, past stock trends, and market information in the secondary market highly impacts investment decision. However, the company's fundamental report has no significant impact on investment decisions in the secondary market.

**Conclusion:** Investors need to understand the financial landscape of the country prior to investing. Policymakers should understand the behavior of investors to promote the secondary market, and proper market information should be disclosed that may help to make better investment decisions in the secondary market.

**Keywords:** Behavioral finance, Financial market, Investment decision, Market variables, Nepalese stock market

**Paper Type:** Research Paper

**JEL Classification:** D53, G11, G41



Open Access

## Introduction

A sound and healthy financial system are necessary for accelerated economic growth Raju Manandhar<sup>1</sup>. The financial sector is an economic growth engine as it is critical in allocating resources and promoting economic activities (Caporale et al., 2015; King & Levine, 1993; Schumpeter, 1934). Well-developed financial institutions promote capital formation and develop a productive business environment in the economy (Dhungana, 2019; Greenwood & Smith, 1997; Habibullah & Eng, 2006; Levine & Zervos, 1998). The expansion of the financial sector contributes to the economic growth of a nation through the effective utilization of accumulated funds in productive sectors (Hao, 2006; Levine, 1997).

The components of the financial system are financial institutions, financial markets, and financial instruments (Gomez, 2008). Financial institutions and economic expansion have a long-term relationship (Darrat, 1999; Dhungana, 2014; Khatri Chettri, 2022; Wu et al., 2010). The stock market and banking infrastructure growth help the country's economy perform well (Fabozzi, 2008; Hondroyannis et al., 2005). Long-term economic growth and the development of the stock market are strongly and favorably correlated (Arestis et al., 2001; Levine & Zervos, 1996). A stock market index is influenced by macroeconomic factors (Bhuiyan & Chowdhury, 2020; Osamwonyi & Evbayiro-Osagie, 2012).

Behavioral finance literature has discussed many cognitive and psychological biases that can influence investment decisions (Acciarini et al., 2020; Brown & Solomon, 1987; Dhungana et al., 2022; Hristov et al., 2022; Muradoglu & Harvey, 2012). Many variables, including behavioral, market, heuristic, and herding, influence investing decisions and impact how well investments perform (Cao et al., 2021; Karmacharya et al., 2022; Kengatharan & Kengatharan, 2014).

Even though emotional and cognitive biases affect everyone, conventional finance ignores these biases since it assumes that people always make rational decisions (Epstein, 2006). Numerous studies in behavioral finance have suggested that investors do not always act rationally when choosing investments. The specific market factors impacting investors' decisions are limited in the context of Nepal, so this study is significant for investors because these factors can significantly affect the performance and value of stocks in the financial market.

Nepalese financial market is unstable due to various factors such as shifting economic conditions, political developments, unexpected news, and changes in investor attitude. As a result, it is necessary to understand the elements that affect investment decisions in the Nepalese financial market by examining the relationship between market variables and investment choices in Pokhara, Nepal. This study aims to address the following research questions (i) How do market variables such as interest rates, inflation rates, exchange rates, and stock prices affect investment decisions in the financial market? (ii) What are the most important factors influencing investment decisions in the financial market? (iii) what strategies do investors use to mitigate risk in the financial market, and how effective are these strategies?

This study could be useful for investors and financial analysts interested in investing in the Nepalese financial market. Moreover, policymakers and regulators could develop more effective policies to support economic growth and stability in the region by better understanding the relationship between market characteristics and investment decisions. Investors and financial institutions can reduce this risk by diversifying their portfolios, hedging their positions, and regularly monitoring market circumstances. Furthermore, in an effort to stabilize financial markets and foster economic growth and stability, policymakers and regulators may put policies in place, like setting interest rates, implementing monetary policy, and overseeing financial institutions.

The effect of market variables and investment decisions may vary in geographic setting, methodology, period, and scope. These differences might result in various conclusions and understandings of how market factors and investment decisions interact. The rest of the paper is organized as a review of literature, research methods, data analysis and results, discussion and conclusion and recommendations in the subsequent headings.

## Review of Literature

### *Theoretical Review*

The ideas of behavioral finance, which include elements of psychology, sociology, and economics, were developed in these three fields (Baker & Nofsinger, 2010; Singh, 2021). Muradoglu and Harvey (2012) concentrated on behavioral finance to better understand how societal, cognitive, emotional, and social biases influence market prices and investment decisions. These theories center on how people's irrational conduct in the financial markets affects their decisions (Hilton, 2001; Sadi et al., 2011). Investment decisions, portfolio selection, and timing of buying and selling stocks are all impacted by investor behavior (Parveen et al., 2020). The study of behavioral finance is receiving increased attention from academics and researchers who want to understand how investors behave in the financial markets (Subrahmanyam, 2008; Thaler, 1999).

The efficient market hypothesis (EMH) holds that capital markets are informationally efficient and that investors may choose the best investments under the assumption of information symmetry (Diaconășu et al., 2022; Timmermann & Granger, 2004). The market is efficient when all the information required to make investment decisions is available to market participants (Hilton, 2001). Traditional financial models are unable to fully describe and anticipate all financial decisions, as well as some factors that affect a stock picker's decision (Hossain & Siddiqua, 2022).

### *Empirical Review*

Making decisions based solely on intuition can result in losses because markets have become more significant and complex (Arthur, 2014; Kartini & Nahda, 2021; Slovic, 1972). Investor sentiment affects the amount of trading and asset values on stock markets (Baker & Wurgler, 2007). Investment decisions are highly influenced by investor sentiment, over- and underreaction, overconfidence, and herd behavior. Additionally, investors' investing decisions are significantly influenced favorably by their age, gender, and level of education. Although experience is not having a big effect on financial decisions, as investors get more experienced, they start to ignore the emotional aspects (Metawa et al., 2018).

The stock market and, consequently, the investment behavior of individual investors are significantly influenced by market information (Shleifer, 2000). To maximize their return on the market, investors take into account both the stock's fundamentals and their trading habits (Karmacharya et al., 2022). Inflation, money supply, and trading volume have an equilibrium relationship with stock prices in both the short and long runs (Patra & Poshakwale, 2006). The price fluctuations of stocks impact investors' investment behavior (Merikas et al., 2004).

In Nepal, there are limited financial platforms available to investors. The derivative, commodity, option, future, and others are in the developing phase in Nepal. Many investors in the Nepalese capital market are struggling with portfolio management and risk diversification-related concerns as a result of financial illiteracy, a lack of investment opportunities, various cognitive biases, and shifting market conditions (Devkota et al., 2021; Dhungana, 2013; Kadariya et al., 2012). Since there is limited research on market-specific variables, this study aims to examine the market variable and investment decisions in the financial market with reference to the Nepalese capital market.

This study has considered a range of market characteristics drawn from behavioral finance theories and elements that have been discovered to affect stockholders' investment choices in the Nepalese capital market. One of the most crucial elements that investors consider when making investment decisions is the stock price (Dow & Gorton, 1997; Jaiyeoba & Haron, 2016). Investors also consider a company's fundamental report (Tijjani et al., 2009), market information (such as financial news and economic indicators), past trends, and customer preferences when making investment decisions (Gao et al., 2021;

Rasheed et al., 2018; Waweru et al., 2008).

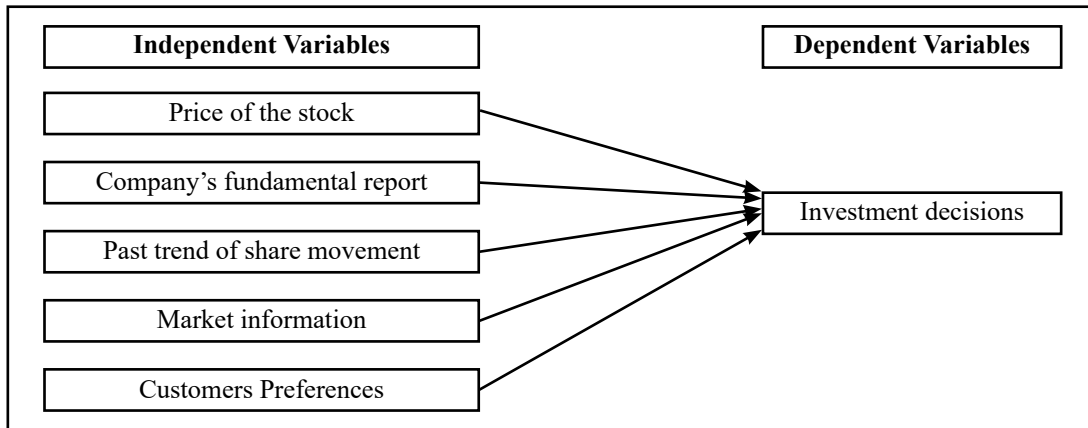
Other additional aspects may affect financial decision-making on a global scale. These variables include, among others, the regulatory environment, investor behavior, geopolitical developments, and economic data. There may be certain limitations with regard to sample size, data quality, scope, timeframe, and geographic context with respect to earlier studies on the effects of market variables and investment decisions in the financial market. Given these constraints, additional investigation is necessary to develop a thorough and precise knowledge of this relationship.

## Research Methods

### *Conceptual Framework*

Based on the above literature, we present the following conceptual framework to examine the impact of market variables on investment decisions in the financial market concerning the Nepalese capital market.

**Figure 1** The conceptual framework of the study



*Source: Based on a literature review made by researchers.*

Based on the above conceptual framework, the following hypotheses have been used to examine the market variables (independent variables: the price of the stock, company's fundamental report, the past trend of share movement, market information, and customer preferences) and investment decisions (dependent variable) in the secondary market with reference to Pokhara, Nepal:

$H_1$  : There is a significant impact of price change on investment decisions in the secondary market.

$H_2$  : There is a significant impact of the company's fundamental report on investment decisions in the secondary market.

$H_3$  : There is a significant impact of past trends on investment decisions in the secondary market.

$H_4$  : There is a significant impact of market information on investment decisions in the secondary market.

$H_5$  : There is a significant impact of consumer preference on investment decisions in the secondary market.

### *Study Area*

The research is based on primary sources of data. We collected the primary data through structured questionnaires. The structured questionnaires have been developed and administered to the investors involved in the Nepalese stock market for at least one year. The study area concerns secondary market

investors involved in securities transactions from registered stockbrokers. The researchers have selected 168 investors from various stockbrokers located in Pokhara as a purposive sampling technique.

### *Data Collection Techniques*

We used descriptive and explanatory research designs to analyze the data with the help of statistical tools. This research has the limitation of confining the study within the Pokhara Valley, having 168 sample sizes of investors involved in the secondary market.

## **Data Analysis and Results**

### *Descriptive Statistics*

#### **Demographic Profile of Respondents**

The demographic profile of respondents includes gender, age, education, and occupation. Table 1 shows the demographic profile of the respondents.

**Table 1 Demographic profile of the respondents**

<b>Factors</b>	<b>Demographic variables</b>	<b>Frequency</b>	<b>Per centage</b>
Gender	Female	57	33.9
	Male	111	66.1
Age	Below 30 years	117	69.6
	31-50 years	49	29.2
	50 years above	2	1.2
Education	Up to intermediate	22	13.1
	Bachelor	94	56.0
Occupation	Master and above	52	30.9
	Unemployed	5	3.0
	Employed	66	39.3
	Self-employed	27	16.1
	Students	70	41.6
	<b>Total</b>	<b>168</b>	<b>100</b>

*Source: Calculation based on the survey, 2022.*

Table 1 shows that most respondents are male (66.1%), aged below 30 (69.6%), and have bachelor-level education. In terms of occupation, respondents are students (41.6%), employed (39.3%), self-employed (16.1%), and unemployed (3.0%), respectively. Women typically use more conservative investment strategies than men, placing their money in safer items like certificates of deposit and government bonds. Men typically adopt less conservative methods, placing their money in riskier goods like high-growth stocks (Lascu et al., 1997). Investor decision-making is influenced favorably by age, gender, and educational attainment (Metawa et al., 2018).

#### **Investment Experience of Respondents**

Table 2 presents the investment experience of respondents involved in the share market.

**Table 2 Investment experience**

Investment experience	Frequency	Per cent
Up to 3 years	125	74.4
3-5 years	19	11.3
More than 5 years	24	14.3
<b>Total</b>	<b>168</b>	<b>100.0</b>

Source: Calculation based on the survey, 2022.

Most respondents (74.4%) have investment experience in the secondary market of up to three years. And 14.3% of the respondent have more than five years of investment experience, and 11.3% have three to five years of experience in the investment market. Although experience does not significantly influence investment choices, as investors advance in experience, they tend to ignore the emotional aspects (Metawa et al., 2018; Salzman & Zwinkels, 2017).

### Investment Portfolio Inspection by Respondents

An investor's investment portfolio is their collection of financial assets, including commodities, bonds, stocks, and other financial instruments. Table 3 presents the investment portfolio inspection by respondents.

**Table 3 Investment portfolio inspection by respondents**

Investment Portfolio Inspection	Frequency	Per cent
Daily	62	36.9
Weekly	59	35.1
Monthly	30	17.9
More than a month	17	10.1
<b>Total</b>	<b>168</b>	<b>100.0</b>

Source: Calculation based on the survey, 2022.

Table 3 shows that most respondents inspect their portfolio within a week, consisting of daily 36.9% and weekly 35.1%. Likewise, 17.9% of respondents inspect monthly, and 10.1% more than a month.

### Investment Motives of Respondents

An investor may have a specific investment motif for investing his money. Table 4 presents the investment motives of respondents in the secondary market.

**Table 4 Investment motives of respondents**

Investment Motive of Respondents	Frequency	Per cent
Diversification of portfolio	19	11.3
Investing in long term	49	29.2
Maximizing return on investment	88	52.4
Minimizing risk	12	7.1
<b>Total</b>	<b>168</b>	<b>100.0</b>

Source: Calculation based on the survey, 2022.

Table 4 shows that most respondents' motive for investment is to maximize return on investment. Likewise, 29.2% of respondents have a primary investment motive for long-term investment, 11.3% have portfolio diversification, and 7.1% have minimized the risk. The three potential ethical investing

drivers are financial returns, non-wealth rewards, and social transformation. The actions of all ethical investors cannot be attributed to a single reason (Beal et al., 2005).

### Investment portfolio status of respondents

A portfolio investment is the composition of stocks, bonds, or other types of financial assets with the hope that it will provide income or increase in value over time. Table 5 presents the investment portfolio status of respondents in the financial market.

**Table 5 Investment portfolio status of respondents**

Investment Portfolio Status	Frequency	Per cent
Stocks	96	57.1
Mutual funds	6	3.6
Bonds	3	1.8
Stocks, bonds, and others	63	37.5
<b>Total</b>	<b>168</b>	<b>100.0</b>

*Source: Calculation based on the survey, 2022.*

Table 5 shows that most respondents (57.1%) have invested their funds into stocks, and 37.5% have invested in more than one security, such as stocks, bonds, and others. Likewise, 3.6% of respondents have invested only in mutual funds, and 1.8% have invested only in bonds. The study finds that most investors have more attraction to the stock market than other investment options (Barber et al., 2003; Black & Gilson, 1998).

### Inferential Analysis

#### Correlation Analysis among the Variables

**Table 6 Correlation analysis among the variables**

Variables	Price of stock	Customer preference	Fundamental reports	Market information	Past trend	Investment decision
Price of stock	1					
Customer preferences	.546**	1				
Fundamental reports	.418**	.334**	1			
Market information	.405**	.482**	.376**	1		
Past trend of share movement	.453**	.471**	.333**	.427**	1	
Investment decision	.670**	.542**	.303**	.450**	.565**	1

*Source: Calculation based on the survey, 2022.*

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

The correlation analysis shows that all the variables— the price of the stock, customer preferences, company fundamental report, market information, and past trends of share movement are significantly correlated at a 0.01 level of significance with an investment decision when building a portfolio, heuristic and herding biases influence investment behavior (Chapagain et al., 2022; Gavrilakis & Floros, 2022).

### Regression Model

The multiple linear regression model for investment decisions correlates with the price of a stock, customer preferences, fundamental reports, market information, and past trend in share movement. The multiple linear regression model for investment decisions is given by:



$$Y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + \epsilon$$

$$= 0.965 + 0.387 x_1 + 0.129 x_2 - 0.068 x_3 + 0.109 x_4 + 0.269 x_5 + \epsilon$$

Where the dependent variable is Y as an investment decision, and the independent variables are  $x_1, x_2, x_3, x_4$  and  $x_5$  i.e., stock price, customer preferences, fundamental reports, market information, and past trend on share movement. Similarly,  $b_0, b_1, b_2, b_3, b_4,$  and  $b_5$  are the parameters of a regression model.

The study reveals an R square value of 0.561, indicating that 56.1% of the variation in the investment decision is explained by the variation in all the independent variables. The tolerance and variance inflation factor (VIF) was calculated to assess the regression model's presence and degree of multicollinearity. All the assumptions of linearity and normality were checked and validated.

**Table 7 Linear regression of investment decision**

Description	Beta	T-value	P-value	VIF
(Constant)	0.965	3.264	0.001	-
Price of stock	.387	6.836	0.000	1.652
Customer preferences	.129	1.977	0.050	1.695
Fundamental reports	-.068	-1.069	0.287	1.310
Market information	.109	1.723	0.047	1.476
Past trend of share movement	.269	4.276	0.000	1.467
R-square: 0.561	Adjusted R-square: 0.548	F-value: 41.427	P-value: 0.000	

Source: Calculation based on the survey, 2022.

The result shows a significant impact of the stock price on investment decisions in the secondary market at a 0.01 level of significance. It is consistent with the other study that found similar findings, i.e., the stock price's significant impact on investment (Kengatharan & Kengatharan, 2014; May, 1971; Shah et al., 2018). Similarly, our result indicates that customer preferences impact investment decisions in the secondary market at a 0.05 significance level. The finding is consistent with Baker and Wurgler (2007) and Guo et al. (2017), who also observed that customer preference and investor sentiments might impact investment decisions in the secondary market. Likewise, this study also indicates a significant impact of market information on investment decisions in the secondary market. The linear regression of the model (shown in Table 7) shows that market information significantly impacts investment decisions in the secondary market at a 0.05 level of significance. The study finds that market information plays a crucial role in investment decisions in the secondary market (Joshi, 2018; Kamuti & Omwenga, 2017). Further, our study shows a significant impact of past trends of share movement on the investment decision in the secondary market at a 0.01 level of significance. The study finds that past trend of share movement significantly impacts investment decision in the secondary market. Investors are interested in purchasing stocks whose prices have shown increasing trends in the past (De Long et al., 1990; Gavrilakis & Floros, 2022). Stock price deviations from fundamentals might be detrimental (Xiao, 2009). investor sentiment, over- and underreaction, overconfidence, and herd behavior highly influence investment decisions. Although experience is not a big factor in investment decisions, as investors get more experienced, they start to ignore the emotional aspects (Metawa et al., 2018). Investors' investing decisions are significantly and favorably impacted by availability bias and representativeness bias (Khan et al., 2021).

## Discussion

Investor sentiment, overreaction, and underreaction, overconfidence, and herd mentality greatly influence investment decisions (Baker & Wurgler, 2007; Metawa et al., 2018; Praveen et al., 2020; Shu, 2010). Investors' investment selections are significantly influenced positively by age, gender, and



educational attainment (Adil et al., 2022; Metawa et al., 2018). According to Waweru et al. (2008), price movements, market information, historical stock patterns, customer choice, overreaction to price changes, and the fundamentals of the underlying stocks are among the market aspects that affect investors' decision-making.

Investments and stock prices have a strong correlation (Chen et al., 2007; Husain & Mahmood, 2001). The degree of informativeness and the sensitivity of an investment to stock price are strongly associated (Chen et al., 2007; Kong et al., 2010; Ozoguz & Rebello, 2013). The relationship between stock prices and investments is examined in many empirical research (Dritsaki & Dritsaki-Bargiota, 2005; Kong et al., 2010; Woolridge & Snow, 1990). Investors gradually analyze the customer preferences of the companies while closely observing stock price changes (Kengatharan & Kengatharan, 2014; Rajeshwaran, 2020). When making investment decisions, investors also take into account a company's fundamental report (Tijjani et al., 2009), market information, historical trends, and customer preferences (Gao et al., 2021; Rasheed et al., 2018; Waweru et al., 2008).

Market anomalies and investors' irrational conduct triggers stock market swings (Qawi, 2010). Frieder and Shanthikumar (2008) investigated the idea that investors increase their stock investments after successive positive earnings and returns. Investment decisions are positively correlated with market characteristics (Rehan et al., 2021). Fluctuations in stock price, underlying stock fundamentals, and market information might over- or underreact to price changes (Baker & Wurgler, 2007; Kirchler, 2009). Investors are interested in buying stocks whose prices have previously displayed increasing patterns (De Long et al., 1990; Gavrilakis & Floros, 2022). Enhancements to corporate governance and corporate information disclosure are significant routes for increased efficiency in the financial market (Peng et al., 2021).

## Conclusion and Recommendations

Behavioral variables that affect the stock market impact investment decision-making significantly. Market variables have a significant role in investment decisions in the financial market. The capital market participants are increasing rapidly among a new generation of youths and are highly engaged in the security market in Nepal. The research concludes that investment decision is highly impacted by the stock's price, customer preferences, past stock trends, and market information in the secondary market. The applied theory related to investment decisions supports the result. However, the company's fundamental report has no significant impact on investment decisions. Investors are advised to understand the financial landscape of the country prior to investing. Policymakers should understand the behavior of investors to promote the secondary market, and proper market information should be disclosed that may help to make better investment decisions in the secondary market. This research has higher implications to policymakers and regulators that could create more effective policies to support economic growth and stability in the nation. This study is limited to the market variables and investment decisions on the financial market with reference to Pokhara, Nepal.

## Additional Information and Declaration

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