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Research Article

# Impact of Behavioral Biases on Investment Decisions among Millennial Investors in Pokhara

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## ABSTRACT

*The study aims to examine the impact of behavioral biases, including overconfidence bias, anchoring bias, disposition effect, and herding behavior, on investment decision-making among Nepalese investors, with a specific focus on millennial investors. A purposive sampling method was used to collect primary data, with 200 active millennial investors in Pokhara participating in the study. The research employed descriptive statistics, correlation analysis, and regression analysis to analyze the data. The findings indicate that overconfidence bias was the most prominent factor influencing investment decisions, with a significant positive impact on investor behavior. Anchoring and disposition effects also showed notable positive impacts. However, herding behavior demonstrated no significant impact on investment decisions, suggesting that Nepalese investors, particularly millennials, tend to exhibit independent decision-making behaviors rather than blindly following market trends. This study provides valuable insights for policymakers, financial institutions, and stakeholders aiming to improve investment strategies and financial decision-making in Nepal. It emphasizes the importance of understanding and managing behavioral biases, especially in the context of an emerging market like Nepal.*

**Keywords**: Anchoring, disposition effect, herding behavior, investment decision, overconfidence bias

## INTRODUCTION

The rise of behavioral finance over the past three decades has been felt throughout finance and economics. Many scholars are now ready to entertain the consequences of either rational or irrational aspects of human judgment as relevant for the particular application at hand. This readiness is greatest for errors made by individual market participants; vigorous debate continues about how psychological and behavioral bias affects price determination in large and liquid markets (Hirshleifer, 2015). Human cognition and emotions drive these biases, offering fresh insights into investor behavior and the impact of psychology on financial decisions (Kumar & Chaurasia, 2024).

As the financial market consists of investors, the aggregate behavior of the investors in the market represents the behavior of the overall financial market. If a large number of investors in the market have biases in their investment decision making, certain market anomalies may occur (Abideen et al. 2023). Behavioral biases are psychological anomalies that an investor is susceptible to while taking investment decisions, which leads to irrational decisions and failure in achieving the investment goals (Kapoor & Prosad, 2017). Defined behavioral biases as tools to understand the irregularities from the economic basics of rationality while making an investment decision and referred to these biases as the reason for investors' irrational behavior in investment decisions hindering the growth perspective (Gupta & Shrivastava, 2021).

Investment decision-making is a challenging activity for investors, particularly in a dynamic environment with multidimensional alternatives, as it cannot be done in a vacuum relying solely on personal resources and complex models, requiring investors to remain vigilant and up-to-date to achieve their desired goals (Farooq at al. 2015). Investment decisions are not solely driven by rational analysis of financial data and market trends; they are also influenced by human psychology (Shrestha, 2020). Nepalese investors exhibit a diverse range of characteristics shaped by cultural, socio-economic, and educational factors. While some investors may prioritize stability and long-term wealth accumulation, others may seek high-risk, high-return opportunities (Barberis & Thaler, 2003).

Millennials, also known as Generation Y, are individuals born between the years 1980 and 2000. Gen Y (1982–1999), has been described as having a higher external locus of control, greater vanity, stronger self-esteem, and less dependence on social approval in contrast to their older peers. These characteristics might influence their perspective on or management of their capital (Twenge & Campbell, 2008). As digital natives, they demonstrate a high level of adaptability to online investment platforms and digital financial tools, significantly increasing

their participation in financial markets (Bannier & Neubert, 2016). Unlike older generations, Millennials often gravitate toward sustainable and socially responsible investments, paired with a willingness to take calculated risks to achieve long-term financial goals (Bannier & Neubert, 2016). In Nepal, where Millennials form a significant portion of the workforce and are becoming active participants in the financial markets, understanding these biases is critical to developing tailored investment strategies that address their unique preferences and behavioral patterns.

Nepalese investors are eager to invest in the stock market and seek better experiences through their trading activities on the NEPSE floor (Vaidya, 2021). The younger generation is increasingly dominating the capital market and actively engaging in Nepal's securities market. Research indicates that investment decisions in the secondary market are significantly influenced by factors such as stock prices, investor preferences, historical stock trends, and market information. However, the fundamental performance reports of companies do not appear to have a notable impact on these decisions (Dhungana et al., 2023). Overconfidence, the disposition effect, and risk aversion have a significant positive impact on investment decision-making, while herding behavior does not show a notable influence. Moreover, financial literacy negatively moderates the effects of these biases, including overconfidence, the disposition effect, risk aversion, and herding. This indicates that higher levels of financial literacy can help mitigate the impact of such biases on investment decisions (Poudel et al., 2024). Focusing on these biases would help individual investors improve their performance by overcoming and avoiding the resulting error of judgment (Shabarisha, 2016; Sahi, 2012).

Behavioral biases significantly influence investment decision-making, often leading to deviations from rational behavior. Overconfidence refers to the tendency to overestimate one's abilities, knowledge, or judgment (Svenson, 1981). Overconfidence might cause investors to believe their own opinions are true too much (e.g., Moore & Healy, 2008). Similarly, overconfidence bias reflects investors' overestimation of their knowledge and abilities, often resulting in excessive trading, concentrated portfolios, and suboptimal strategies, as demonstrated by Barber and Odean (2001) and Daniel et al. (1998). Anchoring bias, for instance, occurs when investors fixate on a particular reference point, such as historical prices or initial recommendations, limiting their ability to assess investment opportunities objectively. Studies by Tversky and Kahneman (1974) and Ariely et al. (2003) highlight how anchoring restricts rational decision-making in financial contexts. These cognitive tendencies reveal how psychological factors can overshadow analytical evaluation in investment practices.

Other prominent biases include herding behavior and the disposition effect, both of which undermine market efficiency. Herding is a follow-up motive for investors regarding investment decisions when there is no confidence factor and a lack of mastery of knowledge regarding the instrument they wish to invest (Khalid et al., 2018). Herding bias describes the inclination of investors to follow market trends, mirroring the decisions of others instead of conducting independent analysis. This collective behavior, as noted by Chiang and Zheng (2010) and Bikhchandani and Sharma (2001), can exacerbate market volatility and contribute to asset bubbles. The disposition effect further demonstrates irrational tendencies, where investors hold onto losing investments too long while prematurely selling winning ones, as described by Grinblatt et al. (1995) and Shefrin and Statman (1985). These biases highlight the significant impact of behavioral factors on influencing investment results, frequently harming financial performance

Empirical research has consistently demonstrated that behavioral biases can lead to suboptimal investment decisions. Common biases such as overconfidence, confirmation bias, loss aversion, and herding behavior have been documented to substantially influence investment choices across different market contexts (Barberis & Thaler, 2003; Daniel et al., 1998). Pompian (2012) identifies specific behavioral biases that significantly affect investor decisions, reinforcing the idea that these biases shape investment behavior. Barber and Odean (2001) explore how various cognitive biases impact investment choices within the context of financial markets. Their research highlights that behavioral biases such as overconfidence, anchoring, disposition effect, and herding significantly influence investment decisions.

This study holds significant value for various stakeholders by shedding light on how behavioral biases influence investment outcomes in the Nepalese context, with a particular focus on Millennial investors. For financial institutions and policymakers, the findings can guide the design of tailored financial literacy programs and investment products that address the unique biases and preferences of Millennials, a rapidly growing segment in the investment market. For financial advisors and market analysts, the study provides insights into behavioral patterns that can enhance advisory services and investment strategies. Academic researchers can benefit from the study's contributions to the understanding of behavioral finance, particularly in emerging markets like Nepal. Lastly, for Millennial investors themselves, the study serves as a tool to increase self-awareness about the psychological factors that may hinder rational decision-making, helping them make more informed and effective investment choices. By addressing the intersection of personal biases and external market dynamics, this

research enriches the understanding of Nepal's evolving investment landscape.

While several studies have explored the impact of cognitive biases on investment decision-making in Nepal (Dhakal & Lamsal, 2023; Dhungana et al., 2022) and the role of financial literacy in enhancing investment decisions (Poudel et al., 2024), there is limited research specifically examining how these biases manifest among millennial investors, who represent a growing and influential segment of Nepal's investment market. This research seeks to fill the void by exploring the ways behavioral biases impact choices related to investments of millennial investors, offering a clearer understanding of the unique behavioral patterns and decision-making processes of this demographic within Nepal's financial landscape.

**Literature Review and Hypothesis Development**

The study titled aims to understand how various behavioral biases influence the investment decisions of millennial investors in Pokhara. Several key theories from behavioral finance provide insights into these biases and their impact on decision-making. Prospect theory, introduced by Kahneman and Tversky (1979), challenges traditional economic assumptions by showing how individuals value certain outcomes more than uncertain ones. In the context of millennial investors in Pokhara, this theory indicates that these investors might act cautiously when expecting profits and take greater risks when confronted with possible setbacks. This can help explain why millennials might hold onto losing investments (disposition effect) or avoid potentially profitable but uncertain opportunities. Kahneman and Tversky's concept of the value function, which shows a sharper slope for losses compared to profits, could also explain these decision-making tendencies among millennial investors.

Regret theory, developed by Loomes and Sugden (1982), highlights the emotional consequences of decision-making, particularly the anticipation of regret from unfavorable outcomes. For millennial investors in Pokhara, regret theory suggests that they may avoid riskier investments or follow safer, more conventional choices to minimize the potential for regret. This tendency could result in decisions that are less logical and not the most effective. Additionally, the sensitivity to regret varies based on the perceived controllability of the outcomes, influencing the level of risk aversion or risk-taking (Barberis & Thaler, 2003; Shefrin & Statman, 1985), which could explain how millennials in Pokhara approach their investment decisions. Social Influence Theory, introduced by Kurt Lewin and expanded by Cialdini and Goldstein (2004), explores how social interactions influence behavior. In the investment context, this theory helps explain herding behavior, where millennial investors in Pokhara might follow trends set by peers or social networks rather than relying on independent

analysis. This could lead to irrational investment decisions, contributing to market inefficiencies and speculative bubbles (Barberis & Thaler, 2003; Shiller, 2000). Millennial investors in Pokhara may be more susceptible to social influences, which could significantly impact their investment choices and decision-making processes.

**Hypothesis Development**

Using the convenience sampling method, Dhungana et al. (2022) examined the impact of fiv cognitive biases—availability, anchoring, overconfidence, herd instinct, and regret aversion on investment decisions in the Pokhara Valley of Nepal. The study collected data from 179 investors through questionnaires distributed across seven brokerage houses. The results revealed that overconfidence, availability, and herd instinct biases significantly influenced investment decisions, with overconfidence having the highest impact. In contrast, anchoring and regret aversion biases showed no significant effect. The findings highlight the importance of identifying and mitigating cognitive biases to promote rational investment decision-making among investors. Shukla et al. (2024) analyzed the impact of behavioral biases namely overconfidence, herding, and representativeness bias on stock trading decisions through a quantitative approach. The research explored the impact of these biases on the ways investors make choices, frequently causing them to stray from logical financial decisions. By exploring the specific aspects of each bias, the research highlighted their effects on trading behavior and the importance of addressing these tendencies. The findings provided insights into how these biases shape investment decisions and emphasized the significance of financial education and well-informed strategies for improving outcomes in stock trading.

Using survey-based research, Pandit (2021) investigated the relationship between experience group and behavior bias (herding bias, investment decision bias, disposition bias, overconfidence bias, and optimism bias). The result exhibited that optimism bias and herding bias were significantly associated with experience group, while the experience group was not significantly associated with investment decision bias, disposition effect, or overconfidence. On the other hand, the researcher discovered that trading frequency was linked to tendencies like following the crowd, skewed investment choices, the tendency to hold losing assets, overconfidence, and excessive optimism. Parveen et al. (2020) argue that representative heuristics and the overconfidence of investors affect investment decisions. Because of variations in cultural values, financial literacy, education levels, and the infrastructure of financial markets between developed and developing nations, findings from studies conducted in developed countries may not apply to developing ones. As a result, it is essential to explore

how behavioral heuristics and biases influence investor decision-making on the Pakistan Stock Exchange. This study utilizes both market-level and individual-level data to examine behavioral heuristics and biases and their effects on investor trading decisions. The article highlights how overconfident investors tend to overestimate their abilities, relying solely on their skills, knowledge, past information, and reference prices when trading on the Pakistan Stock Exchange.

**Impact of Overconfidence Bias on Investment Decision**

Overconfidence bias plays a pivotal role in shaping investment behavior, manifesting as an investor's tendency to overestimate their knowledge, skills, and ability to predict market trends. Chauhan et al. (2024) highlighted its positive correlation with investment decision-making, emphasizing its interplay with other biases such as representativeness and anchoring, illustrating overconfidence as a key driver that amplifies the influence of other biases. Shukla et al. (2024) further validated the critical role of overconfidence in stock trading decisions, demonstrating through structural modeling its significant impact on trading behavior, including excessive trading and mismanagement of risks. Chadha and Nagpal (2024) linked overconfidence in mutual fund investments to heightened active trading and an overestimation of personal expertise, often leading to suboptimal financial outcomes. Similarly, Natasya et al. (2022) found that overconfidence bias significantly influences the investment decisions of millennials, emphasizing its pivotal role in shaping financial behavior. These findings collectively underscore the nuanced and far-reaching implications of overconfidence bias, reinforcing its status as a critical area of focus in understanding and mitigating irrational investment decisions. Based on this understanding:

H1: Overconfidence bias has a significant impact on investment decisions among investors.

**Impact of Anchoring Bias on Investment Decision**

Anchoring bias occurs when investors rely too heavily on initial information or a specific reference point when making investment choices. Tversky and Kahneman (1974) demonstrated how anchoring can distort financial decision-making processes. Anchoring bias significantly influences investment decisions by affecting how individuals rely on initial reference points in decision-making. Al Rahahleh (2024) found that anchoring directly increases the irrationality of investment decisions and indirectly amplifies overconfidence, especially in frequent trading scenarios. Similarly, Waszczuk (2024) demonstrated that anchoring impacts price valuations and expectations in the housing market, suggesting that individuals often base decisions

on external reference points. Contrastingly, Ige and Adebayo (2024) revealed a dual effect of anchoring in the South African derivative market, where it negatively impacts buying decisions but positively influences selling decisions, reflecting investors' reluctance to deviate from familiar reference values. Therefore, the study hypothesizes:
H2: Anchoring bias significantly influences investment decision-making.

**Impact of Disposition Effect on Investment Decision**

The disposition effect describes investors' tendency to sell winning investments prematurely while holding onto losing investments for extended periods. Shefrin and Statman (1985) identified this bias as a critical factor in suboptimal investment strategies. The disposition effect significantly impacts investment decisions, reflecting investors' tendency to sell winning investments too early while holding on to losing ones. Shandu and Alagidede (2024) found that South African investor teams are prone to this bias, with adverse effects on overall investor welfare, exacerbated by low female representation in teams. Similarly, Odean (1998) demonstrated that individual investors often hold onto losing investments longer than winners, leading to suboptimal decisions. Weber and Camerer (1998) confirmed this behavior in experimental settings, highlighting biased decision-making. Bouteska and Regaied (2018) observed a significant influence of the disposition effect, particularly in bull markets, while Adil et al. (2022) reported its statistical insignificance in influencing investment decisions. Therefore, the study hypothesizes:

**H3: The disposition effect has a significant impact on investment decisions.**

**Impact of Herding Bias on Investment Decision**

Herding behavior in financial markets reflects investors' tendency to follow market trends rather than making independent decisions, significantly impacting investment choices and creating inefficiencies (Chiang & Zheng, 2010; Zafar et al., 2024). Numerous studies confirm its substantial role in shaping investor behavior. For instance, Abiden et al. (2023), Cao et al. (2021), and Jain and Gupta (2020) demonstrated that herding bias strongly influences decision-making, causing investors to mimic others' actions instead of relying on their own judgment, which often leads to poor financial choices, particularly in volatile markets. Similarly, Madaan and Singh (2019) highlighted the significant influence of herding bias in shaping financial decisions, emphasizing its pervasive effect. Herding bias has a significant positive effect on investment decisions among millennial investors in Batam City during the Covid-19 pandemic (Yuwono & Elmadiani, 2021). However, the extent of its impact is debated; Hussain and

Siddiqua (2022) found herding bias to be insignificant in certain contexts, indicating variability across market environments. Additionally, Zafar et al. (2024) noted that herding behavior often results in clustering, leading to increased market volatility and irrational pricing as investors prioritize group behavior over fundamental analysis. Therefore, the study hypothesizes:
H4: Herding bias significantly affects investment decision-making.

## DATA AND METHODS

The research was carried out in Pokhara, Nepal, with the goal of investigating how psychological tendencies, including overconfidence, anchoring, disposition effect, and herding bias, affect the choices made by millennial investors. A descriptive and analytical research design was adopted for the study. The descriptive design was employed to assess the perception of behavioral bias factors and investment decisions, while the analytical research design was used to examine the influence of these behavioral biases on investment decisions. A quantitative methodology was utilized to test the hypotheses and analyze causal relationships among the variables.

The data for the study were collected using a structured online questionnaire distributed through digital platforms. The survey focused on millennial individual investors who were actively participating in trading activities on the Nepal Stock Exchange (NEPSE). Purposive sampling was employed to select 200 respondents, ensuring that the sample aligned with the research objectives. The questionnaire consisted of two sections: the first part gathered demographic information, while the second section assessed the behavioral biases of the respondents using a 5-point Likert scale, ranging from strongly disagree (1) to strongly agree (5).

The research instrument was developed based on previously validated scales from the literature. The instrument's validity was ensured by using items that have been previously employed in relevant studies. Internal consistency or reliability was confirmed by calculating Cronbach's alpha for each construct. The results indicated that all constructs had acceptable reliability values, with Cronbach's alpha values greater than 0.7, as recommended by Hair et al. (2010). The sources of measurement and the value of Cronbach's alpha is exhibited in Table 1.

**Table 1**

*Variables and Items Used for Measurement*

| Construct | Items | Cronobach Alpha | Authors |
|---|---|---|---|
| Investment Decision (ID) | 5 | 0.746 | Natasya et al. (2022), Khawaja and Alharbi, (2021) |
| Overconfidence Bias (OB) | 4 | 0.787 | Natasya et al. (2022), Adil et al., (2022) |
| Disposition Effect (DE) | 4 | 0.712 | Natasya et al. (2022), Verma and Verma, (2018) |
| Herding Bias (HB) | 4 | 0.856 | Natasya et al. (2022), Marjerison et al., (2023) |
| Anchoring Bias (AB) | 5 | 0.732 | Czerwonka, M. (2017) |

Data collection was facilitated using online surveys, ensuring wide access to participants and ease of response submission. Once the data were collected, statistical methods were applied for analysis, with a focus on both descriptive and inferential statistics to interpret the findings. To summarize investors' perceptions of behavioral biases, descriptive statistics such as measures of central tendency (mean and standard deviation) were employed. Inferential statistics, including correlation and regression analysis, were applied to investigate the relationships between the behavioral biases and investment decisions. The regression model used to assess the influence of the behavioral biases was as follows: $ID = \alpha + \beta OB + \beta AB + \beta DE + \beta HB + \mu$, where ID represents investment decisions, OB is overconfidence bias, AB is anchoring bias, DE is the disposition effect, HB is herding bias, and $\mu$ is the error term.

Data analysis was performed using SPSS and Microsoft Excel, which facilitated the robust analysis of the relationships between the variables. Ethical standards were strictly adhered to with the approval of participants. Informed consent was sought from all participants, ensuring that their participation was voluntary and based on a clear understanding of the study's objectives. The privacy and confidentiality of the respondents were also maintained throughout the research process.

## RESULTS AND DISCUSSION

The findings of the data analysis are shown in this section. Both descriptive and inferential statistics were used in the examination of the study variables, which included regression analysis and correlation coefficients. These evaluations sought to answer the study's research questions and put its theories to the test.

### 4.1 Status of Behavioral Bias

This section presents the perception of millennial group investors towards the four dimension of behavioral biases.

**Table 2**

*Perception of Millennial Investors towards Behavioral Biases*

| Behavioral Biases | Mean | SD | Min | Max | Rank |
|---|---|---|---|---|---|
| Overconfidence Bias | 3.53 | 1.05 | 3.75 | 3.28 | 1 |
| Anchoring Bias | 3.51 | 1.059 | 3.72 | 3.29 | 2 |
| Disposition Effect | 3.41 | 1.107 | 3.64 | 3.16 | 3 |
| Herding Bias | 3.22 | 1.138 | 3.46 | 3.05 | 4 |

Table 2 exhibits the perception of investors towards behavioral bias. Overconfidence Bias emerges as the most significant factor, with the highest mean score of 3.53 (SD = 1.05). This finding reflects a strong tendency among investors to rely on their judgment and exhibit a high level of self-assurance in their investment decisions. The minimum and maximum scores of 3.28 and 3.75, respectively, indicate that this bias is consistently prominent across the sample. Anchoring Bias, with a mean score of 3.51 (SD = 1.059), ranks second. Investors appear moderately influenced by initial information or reference points when making investment decisions. The range, from 3.29 to 3.72, shows that this bias is widely observed but less pronounced than overconfidence. Disposition Effect holds the third rank, with a mean of 3.41 (SD = 1.107). This suggests a moderate inclination among investors to hold on to losing investments due to emotional attachment while selling winning ones too soon. The scores range between 3.16 and 3.64, indicating variability in its impact among investors. Herding Bias ranks the lowest, with a mean score of 3.22 (SD = 1.138). This reveals a relatively lower tendency for investors to imitate the actions of others when making decisions. The minimum and maximum scores of 3.05 and 3.46 suggest that while this behavior exists, it is the least significant among the biases studied.

### Relationship Between Behavioral Bias and Investment Decision

Table 3

*Relationship between Behavioral Bias and Investment Decision*

| | Investment Decision | Overconfidence | Anchoring | Disposition | Herding |
|---|---|---|---|---|---|
| Investment Decision | 1 | | | | |
| Overconfidence Bias | .414** | 1 | | | |

| | | | | | |
|---|---|---|---|---|---|
| Anchoring Bias | .389** | .376** | 1 | | |
| Disposition | .340** | .182** | .320** | 1 | |
| Herding | .238** | .190** | .329** | .480** | 1 |

**. Correlation is significant at the 0.01 level

**. Correlation is significant at the 0.05 level

Table 3 displays the bi-variate correlations linking different behavioral biases i.e. Overconfidence, Anchoring, Disposition, and Herding with the investment decisions of Nepalese investors. The data reveals that all biases exhibit significant positive correlations with investment decisions. Specifically, Overconfidence Bias shows a moderate positive relationship with investment decisions ($r = 0.414, p < 0.01$), suggesting that more overconfident investors tend to make riskier and more optimistic investment choices. Anchoring Bias also demonstrates a significant positive correlation ($r = 0.389$, $p < 0.01$), indicating that investors who rely on initial information or past experiences may make decisions that are less adaptive to changing market conditions. Disposition Bias shows a positive correlation with investment decisions ($r = 0.340, p < 0.01$), meaning that investors are likely to hold onto losing investments for too long or sell winning ones too early, which can lead to suboptimal outcomes. Herding Bias exhibits a lower but still significant correlation ($r = 0.238$, $p < 0.01$), implying that investors who follow the crowd tend to make decisions based on collective behavior rather than independent analysis.

**Influence of Behavioral Bias on Investment Decision**

Table 4

*Influence of Behavioral Biases on Investment Decision*

| Model | UC | | SC | T | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | 1.189 | 0.295 | | 4.025 | 0.000 | | |
| OB | 0.277 | 0.062 | 0.295 | 4.477 | 0.000 | 0.852 | 1.173 |
| AB | 0.216 | 0.073 | 0.205 | 2.957 | 0.003 | 0.767 | 1.304 |
| DE | 0.216 | 0.071 | 0.215 | 3.034 | 0.003 | 0.739 | 1.353 |
| HB | 0.009 | 0.057 | 0.011 | 0.160 | 0.873 | 0.734 | 1.363 |

*$R^2 = 0.527, F = 18.736$*

Table 4 displays the regression analysis of various independent variables i.e. overconfidence, anchoring, disposition, and herding and their influence on investment decisions. The results of the regression indicate that 52.7% of the variance (R2=0.527) in the dependent variable

is explained by the four independent variables. The remaining 47.3% is explained by other factors. The overall regression model is statistically significant, with F =18.736, p<0.001.

The regression equation demonstrates how the independent variables relate to the dependent variable, namely investment decisions (ID). The constant term ($\beta$=1.189) represents the baseline level of investment decisions when all independent variables are zero. Overconfidence ($\beta$=0.277) is the most influential factor, indicating that a one-unit increase in overconfidence leads to a 0.277-unit increase in investment decisions, holding other factors constant. Both anchoring ($\beta$=0.216) and disposition ($\beta$ *=0.216*) also have significant positive effects, contributing equally to investment decisions. However, the effect of herding ($\beta$=0.009) is negligible and statistically insignificant ($p$=0.873), suggesting that it does not significantly influence investment decisions. The standardized coefficient depicts that the most important factor influencing investment decisions is the overconfidence bias. The model does not exhibit multicollinearity issues, as the Variance Inflation Factor (VIF) values are well below 5, ranging from 1.173 to 1.363.

The results of this study support and expand upon the increasing body of research highlighting the influence of psychological tendencies on investment decisions. Among the identified behavioral biases, overconfidence emerged as the most prominent factor influencing the investment decisions of Nepalese investors. This result is consistent with Barber and Odean (2001), Pompian (2012), and Kahneman and Tversky (1979), who highlighted overconfidence as a pervasive psychological bias that leads investors to overestimate their skills, knowledge, and the accuracy of their predictions. The current study's findings also corroborate Chauhan et al. (2024), Shukla et al. (2024), Dhungana et al. (2022), and Chadha and Nagpal (2024), who documented the significant but nuanced role of overconfidence in stock trading and mutual fund investments, suggesting its critical influence across diverse financial contexts. Similarly, Natasya et al. (2022) found that overconfidence bias significantly influences the investment decisions of millennials, emphasizing its pivotal role in shaping financial behavior. The robust regression results in this study further validate overconfidence as the strongest predictor of investment decisions, reinforcing its role in driving excessive trading and portfolio mismanagement, as identified by Daniel et al. (1998).

Anchoring bias, another key factor, was also found to significantly influence investment decisions, echoing the findings of Tversky and Kahneman (1974) and Al Rahahleh (2024). Investors' reliance on initial reference points when making decisions was evident in this study, leading to suboptimal outcomes. This aligns with Waszczuk (2024), who demonstrated how

anchoring biases influence price valuations and expectations, and Ige and Adebayo (2024), who explored its dual effects on buying and selling decisions. Anchoring's moderate impact in this study further supports the notion that initial reference points significantly distort rational financial decision-making processes.

The disposition effect, which describes investors' inclination to sell profitable investments too early while retaining unprofitable ones, was also observed in the Nepalese investment setting. The study's findings are consistent with Shefrin and Statman (1985), Weber and Camerer (1998), and Shandu and Alagidede (2024), who emphasized the prevalence of this bias and its adverse implications for investor welfare. Odean (1998) found that individual investors often hold onto losing investments longer than winners, which supports the findings of this study. Additionally, Bouteska and Regaied (2018) observed that the disposition effect has a significant impact, particularly during bull markets. While Adil et al. (2022) questioned its significance in certain contexts, this study supports its relevance in shaping investor behavior, particularly in markets with pronounced emotional attachments to investments, as observed in South Africa and Nepal.

Interestingly, herding bias had no significant impact on investment decisions in this study. Unlike previous research by Bikhchandani and Sharma (2001), Grinblatt et al. (1995), and Madaan and Singh (2019), which emphasized the influence of herding behavior, the lower prevalence of this bias among Nepalese investors may be attributed to unique cultural and institutional factors. This aligns with Hussain and Siddiqua (2022), who highlighted contextual variations in herding's impact, and Zafar et al. (2024), who linked herding to market volatility rather than consistent decision-making. Additionally, Abiden et al. (2023), Yuwono & Elmadiani (2021), Shukla et al. (2024) and Jain and Gupta (2020) demonstrated that herding bias significantly influences decision-making, causing investors to mimic others' actions, often leading to poor financial choices in volatile markets. However, the results suggest that Nepalese investors exhibit greater independence in their decision-making, driven by local norms and community influences, which reduces the opportunities for herding behavior to emerge.

From the perspective of prospect theory, introduced by Kahneman and Tversky (1979), the findings in this study reveal how investors in Nepal deviate from rational decision-making under uncertainty. The observed biases, such as overconfidence and anchoring, align with reference dependence and framing effects, where investors rely on subjective benchmarks rather than objective evaluations, leading to suboptimal decisions. Similarly, the regret Theory, introduced by Loomes and Sugden (1982), sheds light on the disposition effect, as investors

in Nepal tend to hold onto losing investments to avoid regret associated with realized losses, a behavior influenced by emotional anticipations. The social influence theory by Cialdini and Goldstein (2004) explains herding behavior, which, contrary to previous studies, had no significant impact on investment decisions in Nepal. This deviation from typical herding patterns suggests that cultural and institutional factors foster greater independence in the decision-making process.

## CONCLUSIONS

This research examines how behavioral biases influence the investment choices of Nepalese investors, offering significant insights into the role of cognitive tendencies in shaping financial behavior, especially among Millennials. The findings highlight the significant influence of overconfidence, anchoring, and the disposition effect on investment choices. Overconfidence stands out as the most dominant bias, reflecting Millennials' tendency to overestimate their investment knowledge and abilities. Anchoring shows a reliance on initial reference points, while the disposition effect indicates a tendency among Millennials to hold onto past investment outcomes. Interestingly, herding behavior does not influence investment decisions, indicating that Millennials in Nepal are more likely to adopt independent investment strategies rather than mimicking the actions of others. This stress a growing trend towards more autonomous financial decision-making within the local investment landscape.

Despite the valuable insights provided by this study, several limitations must be acknowledged. The reliance on self-reported data introduces the potential for social desirability bias, which may affect the accuracy of participants' responses. While purposive sampling simplifies data collection, it restricts the sample's representativeness and may limit the applicability of the findings to the wider population. Furthermore, the study concentrates on a narrow range of demographic variables, omitting other factors such as income or investment experience that could provide a more comprehensive insight into investment behavior. Lastly, the exclusive focus on individual investors restricts the applicability of findings to institutional investors or other market participants.

This research enriches the application of behavioral finance theories in Nepal's context and highlights the importance of addressing cognitive biases to foster more rational and informed investment practices. Policymakers and financial institutions must prioritize initiatives that enhance financial literacy and provide reliable market information. By reducing the negative impacts of biases and encouraging well-informed decision-making, these efforts

can contribute to market efficiency and the sustainable growth of Nepal's financial sector. The findings of this study carry significant economic implications for the Nepalese financial market. By illustrating how behavioral biases such as overconfidence, anchoring, disposition effect, and herding behavior influence investment decisions, the research challenges the assumption of market efficiency and rational investor behavior. These biases can lead to mispricing, resource misallocation, and potential market instability. Addressing these biases is crucial for creating a more efficient stock market and fostering informed investment practices. Policymakers should promote transparency and ensure timely dissemination of market data, enabling investors to rely on accurate information rather than heuristics, thereby reducing the risks of market bubbles and economic distortions.

The social implications are equally critical, as biases in investment decisions can jeopardize individual financial well-being and broader societal economic stability. Herding behavior and overconfidence, for instance, can result in suboptimal decisions that may lead to financial losses, negatively affecting investors' quality of life. By raising awareness of these biases, the study advocates for financial literacy programs to empower investors to make informed decisions. Improved investor education can promote financial independence and mitigate the potential societal costs of biased decision-making. For financial professionals, the research highlights the significance of incorporating behavioral finance principles into their advisory and management strategies. Financial advisors and fund managers should educate their clients on the impact of cognitive biases and guide them towards rational decision-making. Emphasizing long-term strategies, diversification, and disciplined investment practices can help mitigate the influence of biases. By aligning their strategies with these findings, investment professionals can enhance investor outcomes, contributing to greater market stability and sustained financial prosperity over the long term.

Building on the results of this research, future studies could investigate other behavioral biases, such as overreaction, familiarity, and loss aversion, to further understand their influence on investment decisions. Investigating the role of demographic factors, including income, education, and occupation, could also provide deeper insights into how these factors interact with biases. Moreover, the impact of online behaviors, particularly through social media and investment forums, on biases like herding and overconfidence warrants further exploration, as these platforms can amplify such biases. Additionally, research could investigate how financial regulations and policies could mitigate the impact of behavioral biases on investors. Future studies should also focus on the role of financial education and literacy in reducing

susceptibility to behavioral biases. Comparing the investment decisions of financially literate individuals with those of less educated ones could highlight the significance of financial literacy in enhancing decision-making processes. By addressing these areas, future research can enhance understanding of behavioral biases and their effects on investment decisions, ultimately guiding the development of better investment strategies, policies, and educational programs.

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