Behavioral Biases in Investment Decisions: Investigating the Role of Financial Literacy as a Moderator in Nepal

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Abstracts

This study provides critical insights into investor behavior and its association with various behavioral biases in the context of investment decisions in Nepal's financial markets. Data was collected from 260 individual investors using a structured questionnaire, and hierarchical regression analysis was applied to test the hypotheses. The research identifies significant biases, including anchoring bias, overconfidence, and herding, that influence investment decisions. Additionally, the role of financial literacy as a moderating factor was examined, revealing its significant impact on reducing the effects of these biases.

The findings highlight the unique investment patterns in Nepal's emerging market, contrasting with established norms in developed financial markets. These results are valuable for policymakers, regulators, and stock market authorities in addressing investor behavior, enhancing financial education, and promoting informed decisions.

Keywords: Investor behavior, behavioral biases, financial literacy, Nepal.

1. Introduction

Making sound financial decisions is essential for managing family wealth and maintaining personal financial stability. Traditional finance theories focus on maximizing utility, operating under the assumption that markets function efficiently and investors act rationally when making choices. Efficient markets are defined by the swift and equitable distribution of information, allowing investors to evaluate and decide logically. Traditional finance has consistently encountered challenges in reaching a consensus on the efficiency of financial markets and the rationality of investor behavior. Behavioral finance questions these assumptions by incorporating psychological and sociological insights, demonstrating that investor decisions are shaped by emotions, cognitive biases, and heuristics rather than solely rational evaluations (Dhungana et al., 2022; Sun et al., 2022). In Nepal, behavioral finance has become an essential field of study to understand investor behavior in financial markets. Investors in Nepal often make decisions that deviate from rational

norms due to biases such as overconfidence, herding, and anchoring. These behavioral tendencies are more pronounced in emerging markets like Nepal, where financial literacy levels are relatively low, and access to accurate information is limited. A study conducted in Pokhara Valley highlights that cognitive biases, particularly herding, significantly impact investment decisions as investors often mimic others without conducting thorough evaluations of market conditions (Dhungana et al., 2022).

Moreover, psychological priorities often take precedence over rationality when investors in Nepal evaluate stocks or other financial products. Anchoring bias, where individuals rely heavily on initial information or historical trends, is particularly prevalent. This results in decisions based on incomplete or outdated information rather than current market dynamics (Nepal et al., 2023). In Nepal, behavioral biases such as overconfidence and herding significantly impact investment decisions. Overconfident investors often underestimate risks while overrating their ability to forecast market trends. This behavior often results in excessive trading, which drives up transaction costs and diminishes overall investment returns. Herding bias, on the other hand, causes investors to follow market trends blindly, often leading to market bubbles or crashes (Sun et al., 2022). Another prominent bias observed in Nepal is the disposition effect, where investors are inclined to sell profitable stocks too early while retaining losing investments, anticipating a future rebound. This irrational behavior arises from loss aversion, a principle highlighted in prospect theory, which suggests that individuals experience the pain of losses more intensely than the satisfaction derived from equivalent gains (Dhungana et al., 2022). Such biases not only affect individual investment outcomes but also contribute to inefficiencies in the overall market.

Financial literacy is essential in reducing the negative impact of behavioral biases on investment decisions. In Nepal, the level of financial literacy among investors remains a significant challenge, particularly in rural and semi-urban areas. Research shows that higher levels of financial literacy enable investors to assess risks more effectively and make informed decisions, reducing reliance on heuristics and emotional responses (Andersson, 2023). Financial literacy also enhances the ability to evaluate the intrinsic value of financial products, promoting rational decision-making. For instance, educated investors are more likely to consider factors such as company performance, market conditions, and potential risks to consider before making investment decisions (Sun et al., 2022). In Nepal, financial institutions and policymakers have a significant role in addressing the gaps in financial literacy and investor awareness Programs like investor education initiatives, workshops, and awareness campaigns can play a vital role in closing this gap. Investment banks and stock markets can also use technology to provide easy access to financial information, enabling investors to make better-informed decisions (Prasetyo et al., 2023). Policymakers should focus on integrating financial literacy into the education system to cultivate a financially aware population.

By equipping individuals with the tools to evaluate financial products and market risks, Nepal can develop a more stable and efficient financial market (Nepal et al., 2023).

Research on behavioral finance in Nepal offers valuable insights for investors, financial advisors, and institutions. Recognizing the psychological and cognitive factors that drive investment decisions can help investors steer clear of common mistakes, such as excessive trading or blindly following market trends. Financial advisors can use insights from behavioral finance to provide tailored advice, addressing the specific biases of their clients (Dhungana et al., 2022).Future research should focus on exploring the interplay between behavioral biases and emerging financial technologies in Nepal. The increasing use of fintech applications and online trading platforms presents new challenges and opportunities for addressing behavioral biases. Understanding how these technologies influence investor behavior can provide valuable insights for designing interventions that promote rational decision-making (Andersson, 2023). Behavioral finance provides a comprehensive framework for understanding the complexities of investment decision-making in Nepal. By highlighting the role of behavioral biases and the importance of financial literacy, it offers valuable insights into the challenges faced by Nepalese investors. Addressing these challenges through education, awareness programs, and policy interventions can significantly enhance investment outcomes and market efficiency. As Nepal continues to develop its financial markets, integrating behavioral finance insights into practice will be crucial for fostering a more informed and resilient investor base.

2. Literature Review

2.1. Behavioral Biases and Decision-Making Among Individual Investors

Behavioral biases are a critical factor influencing investment decisions, often leading to deviations from rationality. These biases are particularly evident in emerging markets like Nepal, where access to financial literacy and structured investment data remains limited. Recent studies have identified the prevalence of cognitive biases among investors in South Asian markets, including Nepal (Joharudin, 2023; Sun et al., 2022). These biases often drive anomalies in investment behavior, reflecting the interplay between individual psychology and market dynamics.

2.1.1. Overconfidence Bias

Overconfidence bias, which reflects an individual's tendency to overrate their knowledge and forecasting skills, is a common challenge among investors in Nepal. This bias often results in excessive trading and less-than-ideal investment performance. For example, Saleem et al. (2023) found that overconfidence undermines decision-making efficiency, particularly in rapidly changing financial markets. In Nepal, this bias is evident among retail investors engaging in speculative trading on the Nepal Stock Exchange (NEPSE), often without adequate risk assessment.

2.1.2. Herding Bias

Herding bias refers to investors' propensity to imitate others' actions, leading to market inefficiencies. Studies in South Asia have demonstrated the influence of herding behavior, particularly in group-oriented societies (Ranaweera & Kawshala, 2022Nepalese investors commonly follow trends in prominent sectors such as hydropower and real estate, basing their decisions on peer recommendations rather than performing independent evaluations (Joharudin, 2023).

2.1.3. Disposition Bias

Disposition bias, where investors hold on to losing assets while selling profitable ones prematurely, is another prevalent issue. A study by Sun et al. (2022) emphasizes the influence of emotional attachment in sustaining this behavior. In Nepal, this bias is especially visible during market downturns, where investors often delay selling underperforming stocks, hoping for future recovery.

2.1.4. Risk Aversion Bias

Risk aversion is a common behavioral trait where individuals weigh potential losses more heavily than equivalent gains (Tversky & Kahneman, 1974). In Nepal, risk aversion is particularly evident among female investors, who tend to prefer low-risk financial products such as fixed deposits and government bonds. Joharudin (2023) also notes that this cautious approach often limits exposure to potentially higher-yielding investments.

2.1.5. Representativeness Bias

Representativeness bias, where decisions are based on limited observations or non-representative samples, is prevalent in Nepal's investment context. According to Thanki et al. (2022), investors often rely on anecdotal evidence or past performance, leading to overreaction to market news. This bias has been observed among Nepalese retail investors who disproportionately favor stocks in trending sectors without conducting thorough due diligence.

2.1.6. Anchoring and Adjustment Bias

Anchoring bias, where individuals overly rely on initial information, has significant implications for investment decisions. Saleem et al. (2023) found that these bias influences investors' ability to update their beliefs based on new information. Nepalese investors often exhibit this bias when they anchor their decisions to initial public offering (IPO) prices, ignoring subsequent market dynamics.

2.2. Investor Decision-Making and Financial Literacy

Financial literacy is essential for effective investment decision-making, particularly in emerging economies like Nepal. Sun et al. (2022) identified a strong relationship between financial literacy and rational investment decisions. However, financial literacy levels in Nepal, particularly in rural

and semi-urban regions, remain comparatively low. This gap is a significant barrier to empowering investors with the knowledge necessary to mitigate behavioral biases and make informed choices. Empirical findings from Joharudin (2023) highlight the significance of tailored financial education programs in enhancing investment results. Initiatives such as workshops and online learning platforms have proven effective in enhancing financial awareness and reducing susceptibility to biases such as overconfidence and herding.

2.3. Behavioral Biases, Financial Literacy, and Investor Decision-Making

Behavioral finance underscores the importance of financial literacy in reducing cognitive biases that can skew investment decisions. Saleem et al. (2023) found that greater financial literacy is linked to a lower likelihood of biases such as the disposition effect and anchoring. Additionally, Sun et al. (2022) demonstrated that financial education significantly enhances investors' ability to evaluate risk and returns effectively, promoting more balanced decision-making. The interplay between financial literacy and behavioral biases is particularly relevant in Nepal, where low levels of financial education exacerbate the effects of biases. Thanki et al. (2022) suggest that integrating financial literacy into formal education systems and workplace training programs can help mitigate these challenges.

2.4. Hypotheses Development

Drawing from the insights gained from existing literature, the following hypotheses are formulated to examine the connection between behavioral biases, financial literacy, and investment decisions in Nepal:

- H1: Overconfidence bias has a significant effect on the investment decisions of investors in Nepal.
- H2: Herding bias strongly impacts the investment decision-making of Nepalese investors.
- H3: Disposition bias is a key factor in shaping the investment behavior of Nepalese investors.
- H4: Risk aversion bias significantly influences the investment choices of investors in Nepal.
- H5: Representativeness bias plays a crucial role in the decision-making process of Nepalese investors.
- H6: Anchoring bias significantly impacts the investment decisions of Nepalese investors.
- H7: Financial literacy is a critical factor affecting the investment decisions of Nepalese investors.
- H8: Financial literacy moderates the relationship between overconfidence bias and investment decisions.
- H9: Financial literacy acts as a moderating factor in the effect of herding bias on investment decision-making.
- H10: Financial literacy influences the relationship between disposition bias and investment

decisions.

- H11: Financial literacy moderates the connection between risk aversion bias and investment choices.
- H12: Financial literacy plays a moderating role in the influence of representativeness bias on investment decisions.
- H13: Financial literacy moderates the relationship between anchoring bias and investment decision-making.

2.5. Research framework
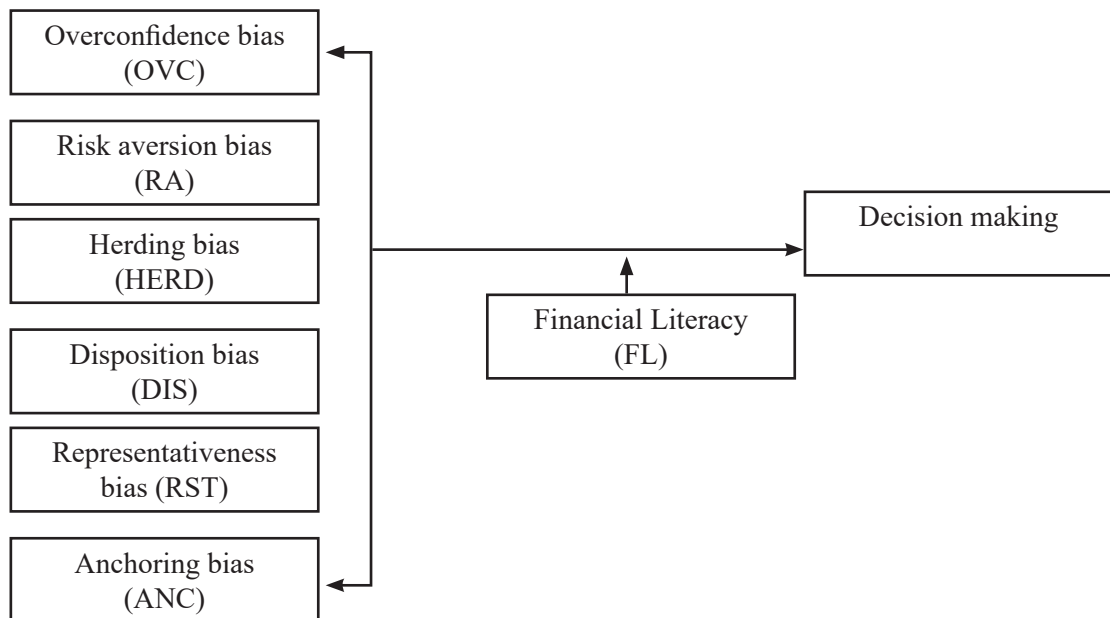
Source: Saleem et al. (2023)

3. Research Methodology

3.1. Data Collection and Target Population

This study utilized primary data collection to test the hypotheses. Primary data was specifically gathered for the purpose of understanding the behavioral biases and financial literacy of individual investors in Nepal, focusing on their decision-making processes. The study followed a cross-sectional research design, which included responses from individuals actively engaged in various investment avenues such as the Nepal Stock Exchange (NEPSE), mutual funds, fixed deposits, and government securities. The cross-sectional nature of the study enabled a snapshot analysis of behavioral trends among investors during a particular period.

Data was collected through structured questionnaires distributed to investors in Kathmandu

Disposition bias (DIS)

Valley, the financial hub of Nepal, as well as in emerging financial centers like Pokhara and Biratnagar. Respondents were approached both physically at financial institutions and brokerage houses, and digitally via email and social media platforms such as Facebook and LinkedIn to enhance reach and participation. A total of 300 questionnaires were distributed, yielding 260 valid responses after excluding incomplete ones. Ethical approval was obtained from the institutional review board of a prominent university, and the study adhered to strict ethical guidelines. Since no sensitive personal information was required, written informed consent was deemed unnecessary, and all participation was voluntary (Chaulagain, 2021; Khan et al., 2024).

3.2. Sampling Technique

The study adopted a convenient sampling technique, a cost-effective and practical approach to collect data from readily available respondents. Convenience sampling, a type of non-probability sampling, was suitable for this research given the challenges of reaching a representative sample of the broader population of Nepalese investors. Respondents were selected based on their accessibility, such as their physical presence at brokerage firms or willingness to respond to online questionnaires. Nepal's emerging financial market and growing participation of individuals in NEPSE and other investment schemes provided a diverse pool of participants. This sampling method allowed the researchers to capture the behavioral tendencies of investors in a developing economy, adding value to the existing literature (Dahal, 2023; Adhikari et al., 2022).

3.3. Measurements of Variables

The research instrument comprised a structured questionnaire with 38 questions, designed to measure six behavioral biases: overconfidence, risk aversion, herding, disposition, representativeness, and anchoring. The questionnaire was divided into two sections:

- **Section A** captured respondents' demographic profiles, including age, gender, educational qualifications, and years of investment experience.
- **Section B** contained scenario-based questions aimed at identifying the behavioral biases influencing respondents' investment decisions in hypothetical financial market situations.

Financial literacy was assessed through dichotomous Yes/No questions and a 5-point Likert scale (ranging from 1 = strongly agree to 5 = strongly disagree), adapted from validated studies (Adil, Singh, & Ansari, 2021; Lusardi & Mitchell, 2014). The behavioral biases of anchoring, overconfidence, herding, and disposition were measured using items derived from Adil, Singh, and Ansari (2021), while representativeness and anchoring biases were adapted from (Jain et al., 2019).

3.4. Statistical Techniques for Data Analysis

The reliability and validity of the instrument were tested through pilot testing, where 50 questionnaires were distributed to individual investors in Kathmandu. Out of these, 38 responses

were returned, and 32 complete responses were included in the analysis. The pilot study results validated the clarity and comprehensiveness of the questions, allowing the researchers to proceed with full-scale data collection.

The Cronbach's alpha coefficient was used to assess the internal consistency of the variables. Results indicated acceptable reliability scores for most variables: anchoring bias (0.730), overconfidence bias (0.732), disposition bias (0.675), herding bias (0.705), risk aversion (0.740), and representativeness bias (0.743). Financial literacy scored 0.470, which, though slightly lower, was sufficient for exploratory research. These scores are consistent with similar studies in emerging markets (Thanki et al., 2022).

Descriptive statistics were employed to analyze the demographic characteristics of respondents, such as age, gender, education, and investment experience. Pearson correlation was utilized to identify the relationships among variables and to check for multicollinearity. Significant correlations were observed between behavioral biases and investment decisions, confirming the influence of cognitive and emotional factors.

Hierarchical regression analysis was conducted to test the hypotheses. Predictor variables (behavioral biases) were entered stepwise to evaluate their individual and combined effects on investment decisions. This approach provided insights into how behavioral biases such as anchoring and herding influence decision-making while controlling for other factors.

Finally, moderation analysis was performed using the Process Macro tool to examine whether financial literacy moderated the relationship between behavioral biases and investment decisions. The analysis revealed a significant moderating effect, underscoring the role of financial literacy in mitigating the influence of biases like overconfidence and representativeness (Khan et al., 2024).

3. Empirical Results and Discussions

4.1. Pilot Testing

Pilot testing was conducted to ensure the reliability, validity, and clarity of the survey instrument before launching the full-scale study. Fifty questionnaires were distributed to individual investors in Kathmandu Valley, a major financial hub in Nepal. Of these, 38 responses were received, with 32 complete responses used for analysis as six surveys were incomplete and excluded. The pilot study revealed no significant flaws or ambiguities in the questionnaire, indicating that the instrument was suitable for capturing the behavioral biases and financial literacy levels of respondents.

Pilot testing also provided preliminary insights into the respondents' understanding of the questions, particularly those involving scenario-based queries to assess biases like anchoring and overconfidence. These results strengthened confidence in the ability of the instrument to elicit accurate and meaningful responses during the main survey.

4.2. Reliability Test

The internal consistency of the variables was evaluated using Cronbach's alpha, a widely utilized measure for assessing reliability. As shown in Table 1, most variables achieved acceptable reliability scores, exceeding the minimum threshold of 0.70 (Thanki et al., 2022). For instance, anchoring bias and overconfidence bias recorded scores of 0.730 and 0.732, respectively, demonstrating strong internal consistency in the measurement items. Herding bias and risk aversion showed similar reliability levels, with scores of 0.705 and 0.740, respectively, underscoring the robustness of these scales.

Disposition bias achieved a slightly lower score of 0.675, but it remains within the acceptable range for exploratory research. The highest reliability score of 0.743 was observed for representativeness bias, indicating high consistency in its measurement. On the other hand, financial literacy scored 0.470, slightly below the desired threshold. This finding, while slightly concerning, is not uncommon in financial literacy assessments in emerging economies like Nepal. Prior studies, such as Adil, Singh, and Ansari (2021), have also highlighted the challenges of reliably measuring financial literacy in diverse populations. Overall, these reliability results validate the appropriateness of the instrument for further statistical analysis.

Table 1

Reliability test results

Variables	Cronbach Alpha Reliability Test	No. of Items
Anchoring Bias	0.73	4
Overconfidence Bias	0.732	5
Disposition Bias	0.675	5
Herding Bias	0.705	5
Risk Aversion	0.74	5
Representativeness	0.743	5
Investment Decision	0.74	5
Financial Literacy	0.47	4

4.3. Descriptive Test

Descriptive statistics offer valuable insights into the demographic composition of the 260 respondents included in the main study. A majority (80.1%) of the participants were male, with female respondents comprising 19.9% of the sample. This gender disparity reflects broader trends in Nepal's financial markets, where male participation often surpasses female involvement due to socio-cultural factors and financial inclusion challenges (Joharudin, 2023). The age distribution

reveals that the largest group of respondents (44%) fell in the 25–35 age category, indicating that Nepal's younger, working-age population dominates investment activities. Participants aged 36–45 comprised 28%, while 21% were between 18–24 years old, reflecting emerging interest among younger investors. Respondents above 45 years accounted for only 7%, highlighting a relatively lower participation rate among older individuals. Regarding educational attainment, 50% of respondents were postgraduate degree holders, suggesting a significant representation of highly educated investors. Graduates formed 35% of the sample, while undergraduates and doctorate holders accounted for 9% and 6%, respectively. This profile underscores the influence of education on investment activities, as better-educated individuals are more likely to engage in financial markets.

In terms of investment experience, a balanced distribution was observed. Respondents with 4–5 years of investment experience made up 32%, while 28% had over five years of experience. Investors with less than one year of experience comprised 29%, while those with 1–3 years of experience accounted for 11%. These findings, illustrated in Figure 1, emphasize the diversity of investment experience among Nepalese investors, which is crucial for understanding their behavioral patterns and decision-making processes.
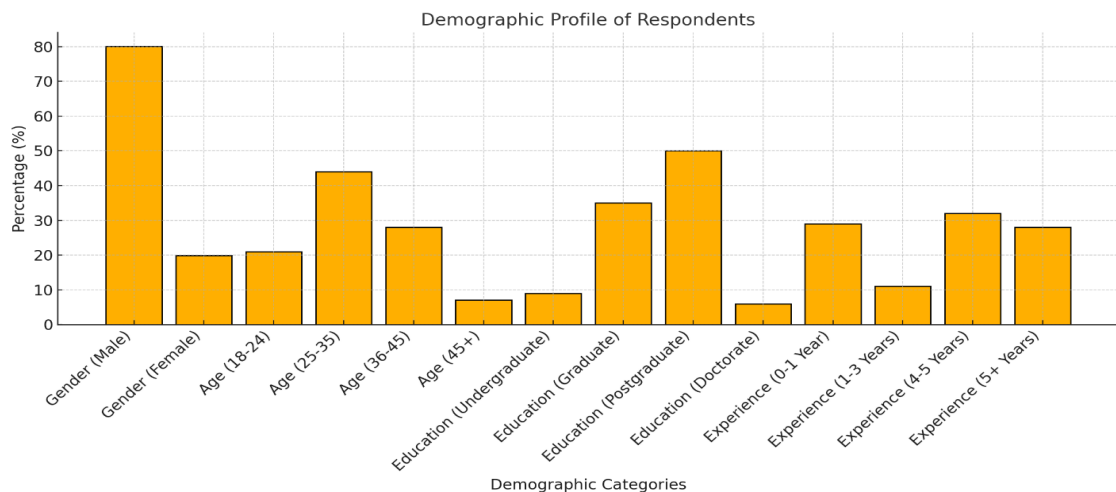

Fig. 1. Demographic variable statistics

4.4. Correlation Analysis

A Pearson correlation analysis was conducted to explore the relationships between the variables and detect any potential multicollinearity. As presented in Table 2, the analysis highlights several significant associations:

- **Anchoring bias** shows a positive correlation with investment decision-making ($r = 0.310$, $p < 0.01$), indicating that it significantly influences how investors assess their choices.

This result is consistent with theoretical predictions, as anchoring often causes investors to rely on initial information rather than conducting objective evaluations.

- **Overconfidence bias** is positively associated with herding bias (r = 0.190, p < 0.01), risk aversion (r = 0.325, p < 0.01), and representativeness bias (r = 0.277, p < 0.01). These findings suggest that overconfidence can intensify the effects of other biases, potentially resulting in less optimal investment decisions.

- **Disposition bias** is significantly positively correlated with herding bias (r = 0.280, p < 0.01) and risk aversion (r = 0.285, p < 0.01), underscoring the interrelation between these biases.

- **Financial literacy** demonstrates negative correlations with overconfidence bias (r = -0.081, p < 0.05), risk aversion (r = -0.063, p < 0.05), and representativeness bias (r = -0.069, p < 0.05). These results highlight the role of financial literacy in reducing the impact of cognitive and emotional biases, consistent with previous research (Adil, Singh, & Ansari, 2021).

The findings emphasize the need to tackle behavioral biases through focused initiatives, such as financial education, to improve investment decision-making.

Table 2

Pearson correlation analysis

Variables	Mean	SD	Anchoring Bias	Overconfidence	Disposition	Herding	Risk Aversion	Representativeness	Investment Decision	Financial Literacy
Anchoring Bias	9.85	3.95	1							
Overconfidence	10.65	4.4	-0.123	1						
Disposition	11.25	4.1	0.248	0.025	1					
Herding	10.9	4.05	0.219	0.19	0.28	1				
Risk Aversion	10.7	4.6	0.072	0.325	0.285	0.254	1			
Representativeness	11.1	4.5	0.145	0.277	0.272	0.205	0.394	1		
Investment Decision	10.95	4.6	0.31	0.055	0.185	0.34	0.29	0.205	1	
Financial Literacy	7.7	0.65	-0.039	-0.081	-0.061	-0.058	-0.063	-0.069	-0.066	1

4.5. Regression Analysis

A regression analysis was carried out to assess the extent to which behavioral biases predict investment decisions. The findings, outlined in Table 3, indicate that:

- **Anchoring bias** (β = 0.312, p < 0.01), **overconfidence bias** (β = 0.130, p < 0.05), and herding bias (β = 0.276, p < 0.01) have a significant impact on investment decisions, demonstrating their strong ability to predict investor behavior.

- **Disposition bias** (β = -0.088, p > 0.05), **risk aversion** (β = 0.072, p > 0.05), and **representativeness bias** (β = 0.066, p > 0.05) were not statistically significant, suggesting

that these biases have minimal direct influence on investment decisions.

The adjusted R^2 value of 0.205 indicates that behavioral biases collectively explain 20.5% of the variance in investment decisions, with the F-statistic (F = 10.925, p < 0.01) confirming the model's overall significance. These findings underscore the need for investors to recognize and mitigate the effects of cognitive and emotional biases to improve decision-making (Bashir et al., 2024).

Table 3

Regression test score, variables in the equation

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
Constant	2.88	-	2.42	0.017
Anchoring Bias	0.312	0.263	4.43	0.001
Overconfidence	0.13	0.123	2.03	0.045
Disposition	-0.088	-0.078	-1.22	0.225
Herding	0.276	0.243	4.03	0.001
Risk Aversion	0.072	0.074	1.16	0.248
Representativeness	0.066	0.064	1.05	0.295
Financial Literacy	-0.45	-0.065	-1.04	0.298

[a] Dependent Variable: Investment Decision

4.6. Moderation Analysis

A moderation analysis, presented in Table 4, was performed to evaluate the role of financial literacy in moderating the relationship between behavioral biases and investment decisions. Although anchoring (β = 0.263, p = 0.39) and herding (β = 0.243, p = 0.24) demonstrated significant main effects, their interactions with financial literacy were found to be statistically insignificant. This suggests that while financial literacy is vital for improving decision-making, it may not significantly alter the impact of some biases.

Notably, financial literacy serves as a negative moderator for overconfidence bias (β = 0.123, p = 0.24) and representativeness bias (β = 0.064, p = 0.33), diminishing their impact on investment decisions. These results are consistent with earlier studies (Thanki et al., 2022) and highlight the importance of financial education in alleviating the adverse effects of behavioral biases.

Table 4

Moderation effect of financial literacy

Predictor	Beta	Moderation Effect	Significance Level
Anchoring Bias	0.263	ANC × FL	0.38
Overconfidence	0.123	OVC × FL	0.24
Disposition	-0.078	DIS × FL	0.34
Herding	0.243	HERD × FL	0.24
Risk Aversion	0.074	RV × FL	0.22
Representativeness	0.064	RST × FL	0.33

4. Conclusion and Recommendations

This research investigated how various behavioral biases – Including anchoring, overconfidence, herding, risk aversion, representativeness, and disposition biases – affect the investment choices of individual investors in Nepal. Additionally, it analyzed the moderating role of financial literacy in shaping the influence of these biases on investment behavior. The results indicated that overconfidence, herding, and anchoring biases significantly and positively influenced investment decisions. However, biases such as risk aversion, representativeness, and disposition were found to have no statistically significant effect on investors' decision-making.

The research highlighted that individual investors frequently deviate from rational decision-making due to psychological and behavioral tendencies. This partially aligns with prospect theory, which posits that emotional and cognitive biases heavily influence investment decisions. In the context of Nepal, limited financial literacy was identified as a key factor contributing to such deviations. A lack of advanced financial knowledge often prevents investors from critically evaluating their decisions, leading many to rely on mental shortcuts or herd behavior. This phenomenon is not unique to Nepal but is common in developing economies where access to financial education is limited.

The research highlights the importance of enhancing financial literacy to promote logical and informed decision-making among investors. Behavioral finance insights reveal that understanding cognitive and emotional biases can help investors reduce their impact, enabling more informed and rational investment choices. Integrating theoretical financial knowledge with practical investment experience enables individuals to strengthen their financial decision-making skills.

An important insight from the study is the crucial role financial literacy plays in mitigating behavioral biases. Financial literacy equips investors with the skills needed to analyze financial information effectively, boosting their confidence in managing financial products and making

prudent decisions. Educating investors about the impact of behavioral biases can empower them to recognize and mitigate these tendencies, leading to improved investment outcomes.

The findings further highlight the value of consulting financial professionals, such as advisors, fund managers, and brokers, who possess a deeper understanding of market dynamics. These experts can guide investors in conducting detailed technical analyses, reducing the influence of biases. To support this effort, the introduction of financial literacy programs, investment workshops, and capital market courses is recommended. Such initiatives would provide investors with the necessary tools and skills to assess market conditions thoroughly and make sound financial decisions.

In Nepal, financial institutions and regulatory bodies hold a crucial responsibility in advancing financial literacy and educating individuals about the effects of behavioral biases. By offering accessible financial education and fostering informed decision-making, these stakeholders can enhance the stability and growth of Nepal's financial markets.

In conclusion, enhancing financial literacy is essential for mitigating the impact of behavioral biases and encouraging more informed and rational investment decisions. Providing individuals with the necessary financial knowledge not only enhances their personal investment performance but also strengthens the development and stability of Nepal's financial sector.

5. Implications

The findings of this study provide important insights for investors, financial educators, policymakers, and stakeholders in Nepal's financial markets. By acknowledging behavioral biases and judgment errors, individuals and institutions can improve their financial outcomes and promote economic stability.

For individual investors, becoming aware of the effects of biases such as overconfidence and herding can enhance the quality of their decision-making. Investors who are aware of these tendencies can take proactive steps to counteract them by consulting financial experts or relying on data-driven approaches rather than subjective intuition. Greater financial literacy empowers investors to manage complex market dynamics efficiently and strive for sustained financial growth.

The study underscores the necessity of developing customized educational programs to improve financial knowledge and awareness among Nepalese investors. These initiatives should prioritize teaching practical skills, such as market analysis, effective risk management, and understanding the psychological factors influencing investment decisions. By equipping individuals with these tools, such programs can enable more informed financial choices, contributing to personal economic growth and the broader prosperity of the nation.

The findings also have implications for financial advisors and consultants, who play a critical role in guiding investors. Awareness of their clients' behavioral tendencies can help advisors develop

personalized strategies that account for biases while aligning with clients' financial goals. This behavioral understanding can also help advisors design portfolios that minimize the impact of cognitive distortions and emotional decisions.

For investment bankers and strategists, the insights from this study can improve their understanding of market sentiment and investor psychology. Behavioral data can enhance the accuracy of stock recommendations, market forecasts, and risk assessments. This can lead to more reliable projections and better alignment with investor behavior, contributing to a more resilient financial market.

The study underscores the significant importance of financial literacy for policymakers and regulators in mitigating the influence of behavioral biases. Establishing policies that enhance financial education can greatly impact individual decision-making and foster greater efficiency in the market. Policymakers should also encourage transparency and the dissemination of accessible financial information to empower investors. Regulatory frameworks incorporating behavioral finance principles can promote ethical market practices and safeguard investors from the adverse effects of biases.

In addition, financial intermediaries can use the findings to tailor their services to the psychological profiles of their clients. For instance, brokers can offer tools and resources that help investors identify and counteract biases such as herding and anchoring. Financial institutions can also organize workshops and training programs to enhance clients' analytical skills and confidence in making independent decisions.

Finally, for Nepal's capital markets, this research underscores the importance of understanding behavioral biases to ensure market stability. The insights can guide strategies to attract a more informed investor base, reducing volatility caused by irrational decision-making. Programs aimed at increasing awareness of behavioral finance among market participants can create a more mature and stable financial ecosystem.

This study also serves as a cautionary tale for investors about the potential pitfalls of neglecting behavioral biases. Overconfidence, herding, and other biases can lead to financial losses if left unchecked. Therefore, integrating behavioral finance into educational and policy frameworks is essential for creating a robust investment culture in Nepal.

In conclusion, this research offers meaningful insights for diverse stakeholders within Nepal's financial sector. By addressing the challenges posed by behavioral biases and emphasizing the importance of financial literacy, the study contributes to the broader goal of improving financial decision-making and fostering economic growth.

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