

# Determinants of Risk Tolerance of Investors in Nepal

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## Abstract

**Purpose:** The main purpose of this study is to determine the different factors that affect the investors risk tolerance in Nepal.

**Design/Methodology/Approach:** In this study, descriptive and causal comparative research design has been used. The present study issued 100 questionnaires to the investors in the NEPSE within Kathmandu Valley, out of which 70 are usable and taken further in this study.

**Findings:** The findings show that demographic factors (age, gender, education and monthly income) and cultural factors (uncertainty avoidance, power distance) are statistically significant with the investor's risk tolerance.

**Policy Implications:** Young investors are found to be more risk tolerant in this study, and with proper guidance and training to them on stock market, it helps for the stability of the stock market mechanism. Moreover, power distance and uncertainty avoidance are high in Nepal, where investors tend to be under the guidance of their seniors, and invest if they find it worthy enough for them, even if it's risky. Now, taking this as an opportunity, various relevant training sessions to investors can be done by the board itself in the aspect of ESG Investment, Valuable Investment.

**Originality/Value:** This research adds value by examining factors affecting risk tolerance among Nepali investors, blending demographics and cultural influences. It suggests the potential benefits of guiding young investors and leveraging cultural tendencies toward senior guidance for market stability.

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**Keywords:** Hofstede, Power Distance, Uncertainty Avoidance, Risk Tolerance, Investment.

## Introduction

The assessment of risk relies on a substantial experience and a wealth of information, facilitating the estimation of probable outcomes (Virlics, 2013). In this paper, the risk that is being dealt with, is investment related risk. To define it in simple terms, investment risk is the measure of the chance or probability of incurring losses compared to the anticipated returns associated with a specific investment (The Economic Times, 2023). The very same risk bearing capacity also differs from investors to investors, which is commonly termed as “Risk tolerance”, an individual’s attitude towards resisting risk, which is an inevitable component in investing (Massol & Molines, 2015). Tolerance of risk also pertains to the inclination to participate in actions where the outcomes are uncertain and may result in a discernible negative consequence (Song, Pan, Ayub, & Cai, 2023).

There is a fundamental principle of investment which highlights that individuals are generally willing to embrace greater levels of risk only when the potential for higher returns is greater, which is commonly referred as “higher the risk, higher the return”. In line with this risk-return theory, financially risk-tolerant individuals can take on more risk and therefore have a higher likelihood of receiving higher returns (Owusu, Korankye, Yankah, & Donkor, 2023). Nonetheless, while this principle theoretically guides the aspirations of all investors, practical decisions often see individual investors deviate from this path primarily due to variations in their personal risk tolerance levels, which, for a variety of reasons, may not align with a purely objective and rational assessment of risk (Pyles, Li, Wu, & Dolvin, 2016). It is said that every investor confronts an identical tradeoff and, as a result, should maintain an identical efficient portfolio (Markowitz, 1952). Ironically, real-world dynamics reveal that not every investor values risk equally. Some are willing to embrace high risk in pursuit of substantial rewards, prioritizing potential gains over the risk of losses. Conversely, others place a premium on consistent, stable returns, leading them to avoid assets that could enhance portfolio efficiency and yield greater returns due to discomfort with the associated risk (Pyles, Li, Wu, & Dolvin, 2016).

Despite historically receiving limited attention, risk tolerance has recently gained recognition as a highly significant subject in the field of financial planning (Baruah & Parikh, 2018). It has been proposed that the consequences of financial risk tolerance go beyond making financial decisions and include evaluating an individual investor's financial behavior (Pinjisakikool, 2017). Especially in the context of Nepal, assessing investment choices in the country has consistently involved a central focus on risk (Karki & Kafle, 2020). While assessing the financial risk tolerance, it is imperative to not solely focus on psychological aspects. Rather, a comprehensive approach should be adopted, which takes into account demographic and socio-economic factors. This is crucial because factors such as gender, age, marital status, income, and occupation can exert an influence on an individual's inclination towards risk-taking in their everyday financial decisions (Grable, 2000). As per the studies of (Shah, Khalid, Khan, Arif, & Khan, 2020) it also shows a favorable relationship between all demographic factors including age, gender, income, education and an individual's willingness to tolerate financial risk.

Also, as per the studies of (Statman & Weng, 2010) there was an extensive examination of risk tolerance undertaken across a diverse set of more than 20 countries. The findings from this research shed light on the substantial disparities in how various cultures perceive and engage in activities that involve taking risks. This indicates that people from different cultural backgrounds exhibit distinct attitudes and behaviors when it comes to dealing with risk-related matters. There are various factors that are responsible for determining the level of risk bearing capacity of investors.

There have been several studies that show a link of demographic factors, socio economic factors cultural factors with risk tolerance respectively. Studies of (Grable, 2000) show the necessity of studying demographic and socio-economic condition while analyzing investor's risk tolerance. Also, studies of (Anbar & Eker, 2010), (Sharma, Chalise, & Dangol, 2017), (Pak & Mahmood, 2013) also show relation of demographic factors with the risk tolerance. In regards to culture, studies of (Statman & Weng, 2010) show how cultural factors can have effect in the risk tolerance of investors. Also, studies of (Amirhosseini & Okere, 2012), (Shou, Olney, & Wang, 2022) show the relationship between cultural factors and risk tolerance. However, there has not been the inclusive study in this topic covering all the factors in one paper. Moreover, Nepal being a culturally rich country, diverse demographics and mindsets, this study is really essential to know what does culture and demography of Nepali people has to do with their risk tolerance level. Therefore, the main objective of this study is to determine the different factors that affects the investors risk tolerance in Nepal, primarily demographic and cultural.

## Review of Empirical Works

This section includes a brief literature on cultural and demographic factors; and, how investor's risk tolerance gets affected as a result of these factors.

### Cultural Factors and Risk Tolerance of Investors

Hofstede's Cultural Dimensions Theory serves as a framework employed for comprehending the variances in cultural norms and values among nations, as well as the resultant impact on business practices within diverse cultural contexts (Wale, 2023). To study the effect of cultural dimensions on risk tolerance, two of the major dimensions of the Hofstede Cultural Dimensions are taken into consideration in this research paper, i.e., Power Distance and Uncertainty Avoidance.

To begin with, power distance is a measure of the degree of inequality in power, wealth, and prestige within a country, as well as the society's willingness to tolerate and accept such disparities. In high Power Distance countries, it's common to acknowledge disparities based on gender and class, as equality isn't considered a natural state. Instead, people are evaluated differently based on their physical and mental abilities. A high-Power Distance suggests that societal inequality exists due to the influence of wealth, prestige, or status, and this inequality is culturally accepted over the long term (Amirhosseini & Okere, 2012). In Nepalese culture, characterized by high power distance, inequalities are accepted, and there is a well-defined hierarchical structure. This reflects the attitudes of obedience, avoidance of offending superiors, and a strong sense of loyalty to our seniors due to clear status differences among each other (Gautam, 2019). Undoubtedly, the very same culture also gets attached in the form of "consultation" or "suggestion" with the seniors or experts, while deciding on how much risk to tolerate while investing or what is the maximum ceiling that the investors are confident upon to invest, just based on the power that they have on which investors can't easily deny.

Similarly, uncertainty avoidance basically pertains to how individuals in a society manage anxiety by minimizing ambiguity or uncertainty. In high uncertainty avoidance cultures, people are more emotional and emphasize meticulous planning and rule-making to minimize surprises. In contrast, low uncertainty avoidance cultures are comfortable with unstructured and changing environments, preferring fewer rules, and are more adaptable to change (Amirhosseini & Okere, 2012). Nepal, being a country true rooted to its culture, investors are not quite open when it comes to uncertain situations. Be it any new

political news or a unique method of book building, Nepalese investors seem to be hesitant when it comes to uncertainties, which is clearly seen through the downgrading of the share market in the major news. Investors who conform to popular trends exhibit lower risk tolerance due to their aversion to uncertainty, leading them to prefer safer investment decisions (Neupane, 2021). All in all, the literature above shows uncertainty avoidance also has a relation with risk tolerance of investors.

### **Demographic Factors and Risk Tolerance of Investors**

Moving on with the demographic factors, there has been numerous research done that shows the relationship between risk tolerance and demographic factors. (Sharma, Chalise, & Dangol, 2017) carried out a research study to explore the connection between risk tolerance and several demographic factors, such as gender, educational history, income level, and age group.

There have been findings that show a mixed result of relation between age and risk tolerance. (Grable, 2000) shows that with the increase in the age of the investor, their risk tolerance also increases. On the other hand, (Grable, Lytton, & O'Neill, 2004) consider that young investors exhibit a higher degree of risk tolerance compared to their older counterparts.

Another study conducted by (Sharma, Chalise, & Dangol, 2017) indicates a statistically significant difference in risk tolerance between individuals with higher incomes and those with lower incomes, with those in the higher income bracket displaying greater risk tolerance. Similarly, the study of (Al-Ajmi, 2008) also shows that people with higher incomes are more willing to take risks compared to those with lower incomes. Contrarily, (Sharma, Chalise, & Dangol, 2017) reveal that the risk tolerance varies significantly across different age groups, which could be attributed to greater engagement in financial decision-making for wealth accumulation, heightened confidence, and the presence of alternative income streams within the age range of 31 to 50 years. Conversely, the results indicate that individuals between 18 and 30 years of age exhibit lower risk tolerance than other age groups. This is primarily because of factors such as lower confidence levels, recently completed university education, lower income, or the commencement of their earning journey.

In regards to Gender, studies of (Anbar & Eker, 2010) show males are more risk tolerant than females. One possible explanation for this gender difference is linked to the traditional role of women as mothers. It suggests that women may prioritize a stable, albeit smaller, income over a larger income that is uncertain or unpredictable (Pak & Mahmood, 2013). Ironically, (Aren & Zengin, 2016) shows there is not any role of gender in risk. In the context of Nepal, men are more into investment in stocks than females (Maharjan, 2021). A greater inclination towards risk aversion is also linked to lower levels of trading frequency. Given that women tend to engage in significantly fewer trading activities than men, this suggests that women tend to be more risk averse compared to their male counterparts (Pak & Mahmood, 2013).

Lastly, education also has a relation with risk tolerance. The degree of financial literacy significantly influences individuals' willingness to embrace risks associated with specific financial investments (Pak & Mahmood, 2013). As per the study done by (Gilliam & Chatterjee, 2011), it also shows education as a determinant factor of risk tolerance. In contrary, study of (Hallahan, Faff, & McKenzie, 2003) shows education has no significant relation.

## Conceptual Framework

Figure 1:

Conceptual Framework

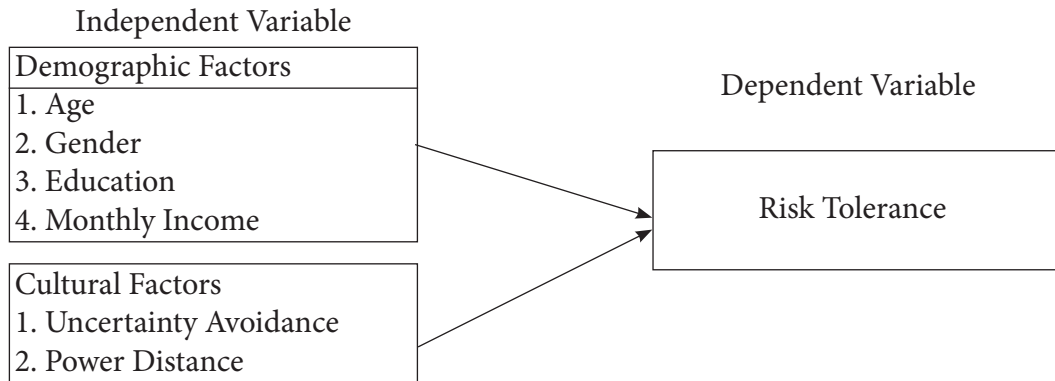


Figure 1 provides the framework provides the foundation upon which the study is based. With respect to the conceptual framework as represented in the figure, the paper highlights the significance of demographic variables like age, gender, education, monthly income, as well as aspects related to cultural traits such as uncertainty avoidance and power distance. Hence, this research is focused on investigating how an investor's risk tolerance is affected by both demographic and cultural factors.

## Hypothesis of the Study

The study effectively presents and examines the following alternative hypotheses:

**H1:** Demographic Factors (Age, Gender, Education and Monthly Income) have significant and positive relationship with the investor's risk tolerance.

**H2:** Cultural Factors (Uncertainty Avoidance and Power Distance) have significant and positive relationship with the investor's risk tolerance.

**H3:** Both Demographic and Cultural Factors (Age, Gender, Education, Monthly Income, Uncertainty Avoidance and Power Distance) have significant and positive relationship with the investor's risk tolerance.

## Research Methods

To determine the objective of the study, descriptive and causal comparative research design has been used. As per (Roscoe, 1969), an appropriate sample size for the majority of behavioral studies falls within the range of more than 30 and less than 500 participants. Considering this, in the present study, convenient sampling was followed where 100 questionnaires were issued to the investors in the NEPSE within Kathmandu Valley. Out of 100, 23 questionnaires had missing information and 7 respondents said they do not invest in shares. Hence, 70 samples were taken in this study and the data used in this research is of primary data, i.e., the investors of the shares in NEPSE.

For the cultural factor's questionnaire, the format as per (House, Hanges, Javidan, Dorfman, & Gupta, 2004) is used. In this context, we have taken into account two variables, namely power distance and uncertainty avoidance, each consisting of two questions. These questions are rated on a 7-point Likert scale. Similarly, for the risk tolerance questionnaire, the format as per (Morningstar, 2017) is being used. The questionnaire assesses an investor's risk tolerance by examining three major components, i.e., time horizon, long-term objectives and expectations, and short-term risk attitudes. It comprises a total of seven questions, with two focusing on the time horizon, three on long-term goals and expectations, and two on short-term risk. Each question provides five response options, each assigned a weight from 5 to 1 in descending order of risk tolerance, which is given below:

Table 1: Risk Tolerance Categories and Score

Final Result	Score
Very Conservative	7 to 10
Conservative	11 to 17
Moderate	18 to 24
Aggressive	25 to 31
Very Aggressive	32 to 35

## Data Analysis and Discussion

### Descriptive Analysis

Table 2: Descriptive Analysis of Demographic Factors

Title	Categories	Frequency	Percent
Age	56 to 65	10	14.3
	45 to 55	16	22.9
	Less than 45	44	62.9
Gender	Female	31	44.3
	Male	37	52.9
	Prefer not to say	2	2.9
Education	SEE Graduate	4	5.7
	Highschool	6	8.6
	Undergraduate	18	25.7
	Graduate	32	45.7
	Post-Graduate	10	14.3
Monthly Income (Nrs)	Below 20,000	11	15.7
	20,000 -50,000	21	30
	50,000 - 80,000	24	34.3
	Above 80,000	14	20
Are you involved in share market?	Yes	70	100
If yes, in which of the market are you involved in?	Primary Market	2	2.9
	Secondary Market	3	4.3
	Both	65	92.9

Table 2 provides a comprehensive overview of the demographic characteristics and share market involvement of the surveyed investors. Concerning the age distribution, a significant majority, i.e., 62.9% of respondents are categorized as "Less than 45," indicating a majority of youthful demographic. Meanwhile, 22.9% of participants fall within the 45 to 55 age brackets, and 14.3% belong to the 56 to 65 age group. In relation to gender composition, the sample comprises 44.3% females, 52.9% males, and 2.9% have chosen not to disclose their gender. Educational attainments exhibit diversity among the respondents, with 45.7% holding graduate degrees, 25.7% with undergraduate degrees, 14.3% having completed post-graduate studies, 8.6% possessing high school qualifications, and 5.7% being graduates of SEE. Monthly income is distributed across various brackets, encompassing 34.3% with incomes ranging from Rs:50,000 to 80,000, 30% falling within Rs:20,000 to 50,000 range, 20% earning above Rs: 80,000 and 15.7% having incomes below Rs: 20,000. The entire respondent cohort (100%) actively participates in the stock market, with 97.2% concurrently engaging in both primary and secondary markets, while 2.9% in the primary market.

### Reliability Analysis

In this paper, the questionnaire being used both for Cultural Factors as well as Risk Tolerance is based on perception of the sample. Considering this, it is necessary to assess the internal consistency among responses to evaluate the reliability of the scale. In this context, Cronbach's Alpha is used to assess the internal consistency or how closely interconnected a group of items is within a test, where a score greater than 0.7 is acceptable and consistent (Sekaran & Bougie, 2016). The result of the Cronbach coefficient of this paper is shown in the table below:

Table 3: Cronbach's Alpha score of all variables

Reliability Statistics	
Variables	Cronbach's Alpha
Time Horizon	0.731
Long Term Goals	0.754
Short Term Risk	0.793
Uncertainty	
Avoidance	0.844
Power Distance	0.802

From Table 3, we can observe that, all the variables, i.e., Time Horizon, Long Term Goals, Short Term Risk, Uncertainty Avoidance and Power Distance exhibited a good internal consistency, with values of 0.731, 0.754, 0.793, 0.844 and 0.802 respectively, suggesting strong reliability for these measures.



## Correlation Analysis

The correlation displays the relationships between different variables, i.e., both dependent as well as independent variables in this case.

Table 4: Correlation Coefficients

*The table displays the correlation coefficients between risk tolerance, demographic factors and cultural factors. The sample consists of 70 investors of shares in the NEPSE. Average\_UA is the average score of Uncertainty Avoidance, which is one of the variables of the cultural factor, Average\_PD is the average score of the power distance which is again another variable of cultural factor. Remaining Gender, Education, Monthly Income and Age are the demographic variables used in this study, and, Risk Tolerance is the dependent variable.*

	Gender	Education	Monthly Income (Nrs)	Age	Average_UA	Average_PD	Risk Tolerance
Gender	1						
Education	0.095	1					
Monthly Income (Nrs)	0.106	.410**	1				
Age	-0.068	-0.18	-.557**	1			
Average_UA	0.177	.323**	0.059	0.217	1		
Average_PD	0.181	0.107	0.164	0	.446**	1	
Risk Tolerance	0.213	.244*	0.222	0.198	.793**	.627**	1

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

\* Correlation is significant at the 0.05 level (2-tailed).

Table 4 shows there are positive and statistically significant associations (at the 0.01 or 0.05 level) between risk tolerance and Education (0.244\*), Average\_UA (0.793\*\*), and Average\_PD (0.627\*\*). This suggests that investors with higher education and certain cultural factors tend to exhibit higher risk tolerance. Similarly, education and monthly income is also moderately positively correlated with a score of (0.410\*). Furthermore, it appears that none of the independent variables exhibit a correlation exceeding 0.8. Consequently, further analysis has been undertaken, including an examination of variance inflation factors.



### Multicollinearity Analysis

Multicollinearity analysis is performed in this study to identify and address high correlation between independent variables in regression analysis. It helps ensure the stability and interpretability of regression coefficients, improves the precision of estimates, and aids in selecting the most appropriate model for accurate predictions.

Table 5: Multicollinearity Analysis

*The table displays multicollinearity analysis between all the independent variables. The sample consists of 70 investors of shares in the NEPSE. Average UA is the average score of Uncertainty Avoidance, which is one of the variables of the cultural factor, Average PD is the average score of the power distance which is again another variable of cultural factor. Remaining Gender, Education, Monthly Income and Age are the demographic variables used in this study. VIF (Variance Inflation Factor) measures the inter correlation among independent variables in a multiple regression model and Tolerance Level is the reciprocal of the variance inflation factor.*

Model 1	Collinearity Statistics	
	Tolerance	VIF
Age	0.623	1.605
Gender	0.945	1.058
Education	0.73	1.37
Monthly Income (Nrs)	0.573	1.745
Average_UA	0.642	1.559
Average_PD	0.762	1.313

a Dependent Variable: Risk Tolerance

When the tolerance value is near 1 and the VIF is below 10, multicollinearity is not a significant concern (Oke, Akinkunmi, & Etebefia, 2019). In the table 5, the tolerance level is nearer to one and VIF is also less than 10 for all the independent variables. Hence, there is no presence of multicollinearity in the given variables. The absence of multicollinearity enhances the precision of regression coefficient estimates, enabling us to proceed with further analysis for hypothesis testing.

## Regression Analysis: Determinants of Risk Tolerance

Table 6: Regression Analysis in 3 Models

*The table displays regression analysis between all the independent variables, i.e., Demographic Factors (Age, Gender, Education, Monthly Income) and Cultural Factors (Uncertainty Avoidance, Power Distance) with the dependent variable, i.e. risk tolerance. The sample consists of 70 investors of shares in the NEPSE. The estimated model for the regression is: Risk Tolerance= a+b1Age+b2Gender+b3Education+b4Monthly Income+b5Average\_UA+b6Average\_PD+Uit*

Model		Unstandardized Coefficients		Sig.	Adjusted R square	F	Sig.
		B	Std. Error				
1	(Constant)	0.288	0.769	0.709			
	Age	0.445	0.125	0.001			
	Gender	0.244	0.14	0.085			
	Education	0.101	0.082	0.221			
	Monthly Income (Nrs)	0.289	0.101	0.006	0.21	5.575	0.001b
2	(Constant)	0.782	0.235	0.001			
	Average_UA	0.307	0.035	0			
	Average_PD	0.231	0.049	0	0.714	86.976	0.000c
3	(Constant)	0.408	0.473	0.392			
	Age	0.205	0.074	0.007			
	Gender	0.054	0.08	0.507			
	Education	0.044	0.049	0.372			
	Monthly Income (Nrs)	0.199	0.058	0.001			
	Average_UA	0.29	0.036	0			
	Average_PD	0.211	0.047	0	0.75	35.414	0.000d

a Dependent Variable: Risk Tolerance

b Predictors: (Constant), Monthly Income (Nrs), Gender, Education, Age

c Predictors: (Constant), Average\_PD, Average\_UA

d Predictors: (Constant), Average\_PD, Average\_UA, Monthly Income (Nrs), Gender, Education, Age

**Model 1:** Here, the model examines the influence of Demographic Factors (Age, Gender, Education, and Monthly Income) on risk tolerance. The table provides unstandardized coefficients, which show the strength and direction of the relationship between each independent variable and risk tolerance. These coefficients (0.445 for Age, 0.244 for Gender, 0.101 for Education, and 0.289 for Monthly Income) indicate the estimated change in the dependent variable (Risk Tolerance) for a one-unit change in each of the independent variables while holding all other variables constant. Similarly, in individual level, gender and education aren't statistically significant, and, age and monthly income are statistically significant with a value of 0.001 and 0.006 respectively. For this model, the adjusted r square is 0.21, which means 21% of the Risk Tolerance is explained by demographic factors. All in all, the overall model is significant at 0.001, where the p-value is less than 0.05, which denotes, there is the impact of demographic factors on risk tolerance.

**Model 2:** In this second model, the focus shifts to Cultural Factors, specifically Uncertainty Avoidance (Average\_UA) and Power Distance (Average\_PD), as predictors of risk tolerance. The results show that both cultural factors are statistically significant predictors of risk tolerance, with positive coefficients of 0.307 and 0.231 respectively. This suggests that investors who exhibit higher levels of Uncertainty Avoidance and Power Distance tend to have a higher degree of risk tolerance. In this model, the adjusted r square is 0.714, which means 71.4% of the Risk Tolerance is explained by cultural factors, which is a good score. All in all, the overall models as well as the individual variable are significant at 0.00, where the p-value is less than 0.05, which denotes, there is the impact of cultural factors on risk tolerance.

**Model 3:** This model combines both Demographic and Cultural Factors as predictors of risk tolerance. In this comprehensive model, Age, Monthly Income, Average\_UA, and Average\_PD remain statistically significant predictors of risk tolerance, with p-value of 0.007, 0.001, 0.000 and 0.000 respectively. Interestingly, the significance of Gender and Education, observed in Model 1, diminishes in this more complex model. Here, the adjusted r square is 0.75, which means 75% of the Risk Tolerance is explained by both of these factors, which is again a good score. In overall, the model is statistically significant with a p-value of 0.00, which is less than 0.05. It gives the conclusion that, there is impact of both the demographic and cultural factors on investor's risk tolerance.

### Overall Analysis

Different statistical analysis has been performed in order to analyze the data collected in this research, to know if there is the impact of different factors that affects the investor's risk tolerance. With the reliability of the questionnaire that had been issued, the data was correlated which gave a positive and statistically significant associations (at the 0.01 or 0.05 level) between risk tolerance and Education (0.244\*), Average\_UA (0.793\*\*), and Average\_PD (0.627\*\*). Likewise, no evidence of multicollinearity was observed in the dataset. This absence of multicollinearity improved the precision of the regression coefficient estimates, resulting in more accurate parameter estimates for the model. Finally, the regression analysis was conducted using three different models, and in all cases, the p-value was less than 0.05, signifying statistically significant results. This indicates that both demographic and cultural factors indeed have an impact on an investor's risk tolerance.

In a nutshell, we reject all three of the null hypotheses and support the alternative hypothesis, which is summarized in the table below:

Table 7: Decision based on proposed hypothesis

Alternate Hypothesis	p-value of the model	Decision
<b>H1:</b> Demographic Factors (Age, Gender, Education and Monthly Income) have significant and positive relationship with the investor's risk tolerance.	0.001	Accept
<b>H2:</b> Cultural Factors (Uncertainty Avoidance and Power Distance) have significant and positive relationship with the investor's risk tolerance.	0.000	Accept
<b>H3:</b> Both Demographic and Cultural Factors (Age, Gender, Education, Monthly Income, Uncertainty Avoidance and Power Distance) have significant and positive relationship with the investor's risk tolerance.	0.000	Accept

## Conclusion

The main objective of this study is to determine the different factors that affects the investors risk tolerance in Nepal. In regards to that, two different factors, i.e., demographic as well as cultural factors were taken into consideration. After taking sample of 70 respondents, who are the investors of stocks in NEPSE, and, after going through a detailed data analysis and considering all the independent variables in this research, the overall model is significant with a p-value of 0.000, signifying that, demographic and cultural factors do affect the investor's risk tolerance in Nepal.

## Discussion

In regards to the demographic factor, individually the age was significant factor in effecting investor's risk tolerance. This conclusion also supports the findings of (Grable, Lytton, & O'Neill, 2004) which considers that young investors exhibit a higher degree of risk tolerance compared to their older counterparts. Moving on with the gender, well, when we see individually, it was not significant with a p-value of 0.085 in Model 1, which concludes, gender do not have that effect in investors risk tolerance in Nepal. This supports for findings of (Aren & Zengin, 2016), however, it contradicts the statement of (Pak & Mahmood, 2013), which showed that a greater inclination towards risk aversion is also linked to lower levels of trading frequency. Given that women tend to engage in significantly fewer trading activities than men, this suggests that women tend to be more risk averse compared to their male counterparts. For education as well, the p-value is 0.221 in Model 1, which concludes, education does not have that effect in investors risk tolerance. This conclusion supports the findings of (Hallahan, Faff, & McKenzie, 2003) which shows education has no significant relation with the risk tolerance. Lastly, for monthly income, the p-value is significant at 0.006, which concludes, income of investors has some relation with the risk level that the investors take. This conclusion supports the results of (Sharma, Chalise, & Dangol, 2017) which indicated a statistically significant difference in risk tolerance between individuals with higher incomes and those with lower incomes, with those in the higher income bracket displaying greater risk tolerance. Similarly, this also supports the study of (Al-Ajmi, 2008) also shows that people with higher incomes are more willing to take risks compared to those with lower incomes.

Moving on with the cultural factors, both the variables, uncertainty avoidance as well as power distance are statistically significant with a p-value of 0.000 and 0.000 respectively, which concludes a relationship of these cultural factors with investor's risk tolerance. For power distance, the findings (Gautam, 2019) matches the conclusion of this research. In Nepalese culture, characterized by high power distance, inequalities are accepted, and there is a well-defined hierarchical structure, which reflects the attitudes of obedience with seniors and a strong sense of loyalty to senior due to clear status differences among each other. In the case of share market, if the superiors, i.e., experts of the share market are believed, investors tend to be more relieved and willing to be more tolerant to risk considering the advice of their seniors. In regards to the uncertainty avoidance, the p-value is significant showing a positive relationship with risk tolerance. It supports the findings of (Aven, 2012), which says individuals tend to take risk in more uncertain situation, given that they are gaining high value in it.

In a nutshell, the overall model considering all the independent variables in this research is significant with a p-value of 0.000, signifying that, demographic and cultural factors do affect the investor's risk tolerance in Nepal.

## Policy Implication

Considering the result from this research paper, i.e. demographic and cultural factors do affect the investor's risk tolerance in Nepal, various training programs can be introduced to young investors. They are found to be more risk tolerant, and, with proper guidance and training on stock market, it helps for the stability of the stock market mechanism. Moreover, in the cultural aspect, it is evident that power

distance and uncertainty avoidance is high in Nepal, where investors tend to be under the guidance of their seniors and tend to invest if they find it worthy enough for them, even if it's risky. Now, taking this as an opportunity, various relevant training sessions to investors can be done by the board itself in the aspect of ESG Investment, Valuable Investment based on relevant news as facts rather the unnecessary news spread in the market.

### Scope for Future Research

This study could be further improved by increasing the number of sample size of the investors as well as the new variables with new hypothesis could be formed in order to analyze determinants of risk tolerance of investors in Nepal. Now, this gives a scope for future research, where further analysis with more variables both in cultural as well as other factor like experience in trading, training of share market, individualism nature, etc can be studied. Also, longitudinal study can be done since investor's perception on risk, culture might change over time. Further, comparison of risk tolerance among different countries can also be done.

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