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Factors Influencing Stock Investment Decision among Individual Investors of Chitwan, Nepal

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Abstract

Background: Stock investment is one of the most important growth indicators for the economy because it makes a great contribution to the nation's growth and brings significant returns to investors. However, the behavioral factors of individuals are producing confusion for investors.

Objectives: The objective of this study is to identify the main factors influencing individual investors' decisions in stock investments.

Methods: This study utilizes a structured questionnaire survey conducted with 385 trade management system (TMS) account holders and employs a descriptive and causal-comparative research design. Analytical techniques such as percentage, mean, standard deviation, correlation, and regression analysis were applied.

Results: The study discovered a significant positive impact among all the influencing variables and stock investment decisions. However, the study results exposed a greater significance of accounting information and stock investment decisions.

Conclusion: The findings concluded that accounting information and investment decision were highly influential dimensions of stock investment, followed by optimism, advocate recommendation, herd behavior and overconfidence.

Keywords: Individual Investor, Nepal Stock Exchange (NEPSE), Stock Investment Decision

JEL Classification: D01; D03; D92

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

Introduction

Financial theory presumes that investors are rational, possess organized information, and make sound decisions. In fact, only asymmetric information is available to investors. Over the last few decades, behavioral finance has studied this problem because investors can be affected by many things during their investment period. In addition, behavioral finance examines the influence of psychological aspects on individual investors. Baker and Yi (2016) claim that psychological feelings influence individual investors' decisions. Book value of the stock, the risk/reward ratio, the company's future prospects, government laws and regulations, are some indicators for investors to make investment decisions (Aurangzeb, 2012).

The stock market is an institutional space and process in which stocks and other securities are regularly bought and sold (Pant, 2018). The stock market exchanges share to provide investors with liquidity and to inspire savers to attract a growing number of entrepreneurial economic entities to develop productive businesses (Upadhyaya, 2019). Nepal is a capital-deficit country that needs large amounts of investible money in the productive sector to achieve rapid economic development. Financial market is an important sector for promoting various productive activities in the economy (Bam et al., 2018). According to Mishra (2018), the lack of a risk transfer mechanism in Nepal, which may be related to the lack of a well-developed stock market in the country, accounts for the low demand and supply of capital for investment in productive companies.

The capital market in Nepal is divided into two segments: the primary market and the secondary market. There are now only 50 licensed stockbrokers, with 43 offices operating on the trading floor under the rules and regulations of the Securities Act 2007. The brokerage company and its offices are located in 21 different cities (Nepal Stock Exchange, 2022). These markets provide liquidity for security investments which reflect the overall health of the economy (Ross, 2018). Both the stock market and its investors play crucial roles in the capital market. In recent years, Nepal's stock market has experienced significant growth, attracting many investors. Despite this expansion, there remains a limited understanding of the factors that affect investors' decision-making processes (Maharjan & Bhattacharya, 2023).

The most significant issue currently facing the Nepal stock market is the uneven participation of investors in securities transactions. Individual investors are one of the main players who invest their money in securities to take risks and earn a return. It is often considered that investors make the best use of their capital by balancing risk and return. The level of risk investors is willing to accept is shaped by their characteristics, traits, and risk-taking tendencies. Therefore, it is crucial to investigate the behavioral factors influencing the decision-making process of individual investors (Karmachraya et al., 2022). So, this study examines the most influential factors for individual investors' investment decisions in the Nepal stock market.

Review of Literature

Theoretical Review

Behavioral Finance Theory: This idea explores the psychological and emotional factors that affect investment choices. Overconfidence, herd mentality, and so forth are some of these variables. According

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

to this hypothesis, investors make irrational judgments based on their beliefs and attitudes, resulting in inferior investment outcomes (Prosad et al., 2015).

Modern Portfolio Theory: Harry Markowitz, an economist, developed this idea in the 1950s. It advises investors to diversify their investments rather than focusing just on one, taking into account the variable levels of risk and return in order to build an optimized portfolio. This method recommends emphasizing the risk and return of the entire portfolio instead of spending time selecting individual stocks (Curtis, 2004).

Efficient Market Theory: Efficient market theory suggests that share prices reflect all available market information. The EMH asserts that stocks are always priced fairly on exchanges, which prevents investors from purchasing or selling undervalued equities. It is argued that additional market players bring diverse knowledge to bear on market prices, leading to increased efficiency (Silwal & Bajracharya, 2021).

Empirical Review

Stocks and bonds are basic financing building blocks that help enterprises, governments, and investors satisfy their financial obligations. Businesses require capital to grow, and without capital from outside investors, a company's growth potential is limited. In order to raise funds, corporations sell stocks and bonds (Gitman, 2017). The capital market plays a vital role in an economy by enabling investor funds to reach potential opportunities, effectively channeling savings to those who need them. It offers a streamlined way for corporations and governments to secure long-term financing through the issuance of shares, debentures, or bonds, while also providing investment opportunities for both individuals and institutions (Adhikari & Adhikari, 2020).

Pradhan (1993) results show that larger companies have lower dividends, poorer profitability, higher market-to-book equity ratios, lower liquidity, and higher price-to-earnings ratios. Price-to-earnings and dividend ratios generally show greater volatility for smaller companies, while the market value-to-book ratio of equity tends to be more variable for larger companies. Larger stocks often exhibit greater leverage, lower asset turnover, and weaker interest coverage. However, these traits tend to vary more significantly in smaller companies than in larger ones. Stocks with a higher market value relative to their book value typically have elevated price-to-earnings ratios and reduced dividends. Additionally, these stocks often show weaker coverage, lower profitability, reduced turnover, increased leverage, and lower liquidity.

Likewise, Hassan Al Tamimi and Anood (2009) found that women are less financially literate than men and that financially savvy investors contribute to the smooth functioning of financial markets by making smarter trading decisions rather than impulsively turning to fundamental and/or technical research support law. Kadariya (2012) explored investors' perspectives on issues related to the Nepalese stock market, and the findings concluded that the investor's capital position influences investment decisions, followed by political and media coverage, good fortune, financial literacy, and intangible information.

Behavioral biases were studied by Dangol and Shrestha (2018) by using personality variables. The research explores how gender influences overconfidence among individual investors in the Nepalese stock market, and the influence of educational level on overconfidence among individuals. Rana (2019) found that the

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

majority of consumers rely more heavily on the media, newspapers and market reports when making financial decisions. While professional investors rely less on portfolio analysis and more on fundamental and technical analysis. Dangol and Manandhar (2020) investigate how shifts in investor perceptions affect the stock market. Their findings indicate that changes in investor outlook have a detrimental effect on the Nepal stock market.

Thapa (2021) concludes that there is a significant positive relationship between stock price and earnings per share, dividends per share, effective laws and regulations, market and rumor, company profiles and chance-dependent success. On the other hand, there is a significant negative correlation between stock price, interest rate and price/earnings ratio. The Nepal stock market performs better on fundamentals and technical research, as well as liquidity availability. Even more notable is that the stock market has shown a remarkable response to fluctuations in earnings and borrowing costs.

Chhetri (2022) investigated the factors affecting the decision-making behavior of equity investors in Nepal, considering how these factors vary across different demographic and socio-economic profiles. The study found that public and economic information significantly influences both male and female investors but does not have a notable effect on different age groups. It turned out that investors with different levels of education have completely different views on accounting and stock market information. The status of the annual financial statements, the expected dividends, the expected company profits, and the dividends paid were identified as the most relevant factors. Karmacharya et al. (2022) examine how the performance of the Nepal Stock Exchanges (NEPSE) relates to the behavioral elements influencing the decision-making of particular investors. Based on the analysis of the structural model data, market, heuristic, and herd factors significantly influence investment decisions among the four behavioral variables. According to this survey, investors are becoming increasingly dependent on market information and sentiment.

The majority of researchers studied factors affecting individual investments using accounting data (Ahmad, 2017). Merikas et al. (2011), found that shareholders trust accounting information more than other criteria. Instead of making decisions based on their own reasoning, they simply mimic the behavior of other investors. They believe that others have more knowledge than they do. Herd behavior in stock markets is evidenced by Shams and Passand (2015) and Balcilar and Demirer (2015). Similarly, many researchers have studied the phenomenon of overconfidence. Ton and Dao (2014) suggest that enthusiastic financial investors are convinced they can earn more money in the market by leveraging their emotions.

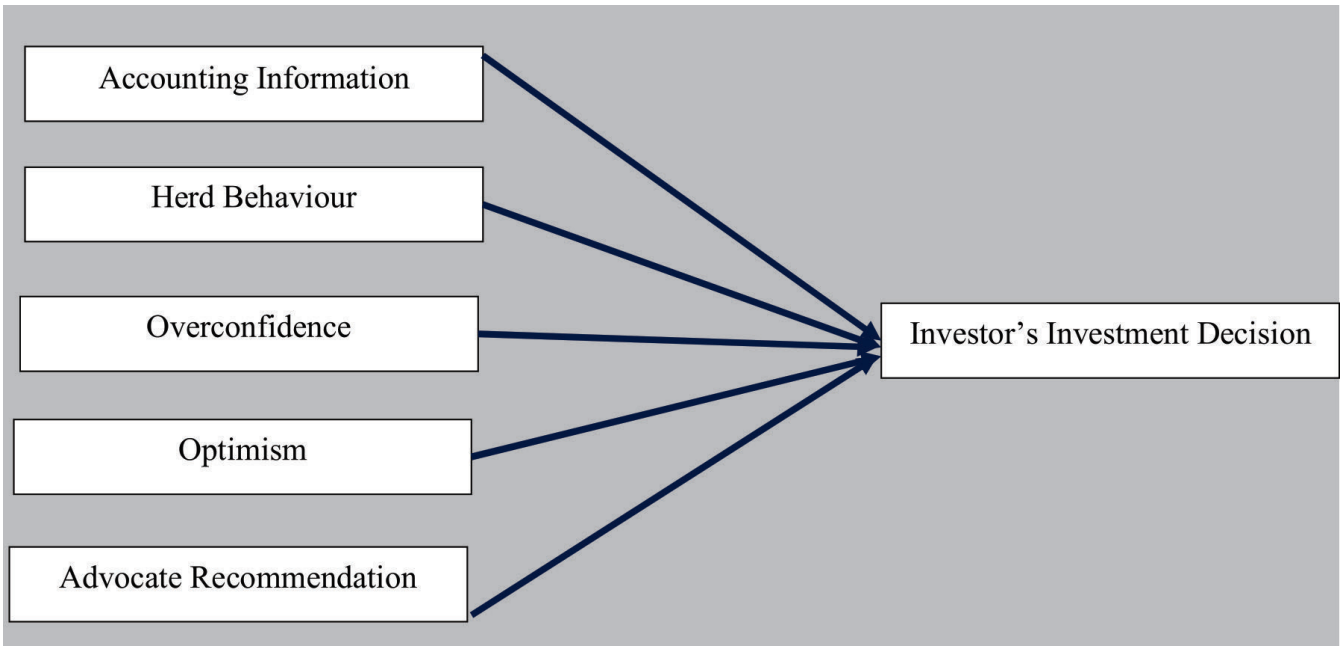
Furthermore, Lim (2012), Riaz and Iqbal (2015), and Bakar and Yi (2016), overconfidence has a strong and positive influence on investor decisions. Likewise, positive investors believe that prices will continue to rise, which will benefit the market, and that the market will do well. Many studies, including those by Tariq and Ullah (2013) and Tran (2017), have shown that prices rise when investors tend to follow their forecasts or are overly optimistic. Finally, several studies have examined advocate recommendations as an independent determinant of investor behavior (Merikas et al., 2011). They evaluate the recommendation of a brokerage house, the opinion of a family member, the opinion of a friend or colleague, and the recommendation of the company's major shareholder in advocacy recommendations. For example, recommendations from

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

brokerage houses have a major impact on investor decisions (Ahmad, 2017).

Figure 1

Conceptual Framework



Source: Developed by a researcher based on several related studies, including Abul (2019)

Drawing from the reviewed literature, this study aims to evaluate the main factors shaping investor attitudes towards stock trading in Nepal. Previous research has predominantly focused on investor awareness as well as physical and intangible information. This study categorizes all aspects that affect investor attitudes: accounting information, herd behavior, overconfidence, optimism, and advocate support. Statistical approaches were used in this study, including mean, standard deviation, correlation, and multiple regressions. The aim of the research is to examine the connection between individual investors and their investment decisions. Also, analyze the important influences on stocks investment decision.

H1: There is a significant impact of accounting information, herd behaviour, overconfidence, optimism and advocate recommendation on stock investment decisions.

Materials and Methods

Study Design

In order to achieve the aim of the study, descriptive and causal comparative research designs were used.

Population and Sample

The population studied consisted of investors from a brokerage firm in Chitwan district. There were three brokerage firms operating in Chitwan, that were selected for data collection (Trishul Securities, Oxford Securities and Sani Securities). The sampling frame was the number of Trade Management System (TMS) account holders at each brokerage firm. The researcher assumes that there are only active investors who

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

have at least one TMS account with a brokerage firm. As of July 2023, active investors in Trishul Securities, Oxford Securities and Sani Securities (19485, 14164 and 21153) respectively. The determination of the sample size for a finite population was calculated as part of Chaudhuri and Dutta (2018). The standard estimate of the margin of error is 0.05 or 5%.

$$S = \frac{N}{1+N(e)^2}$$

Where,

S = sample size for finite population

N = total population

e = Margin of error

So, Sample size has been taken 385 respondents.

Sampling Technique

Purposive sampling was employed.

Data collection Procedure and Ethical Consideration

Questionnaires were distributed to investors who could be reached at their broker's branch, such as Trishul Securities, Oxford Securities and Sani Securities. The questionnaire is split into two sections: the first part gathers demographic information, while the second part assesses the significance of factors influencing investors' stock investment decisions.

Measures

To ensure reliability and validity, a 10% sample was pre-tested, and the questionnaire revised based on suggestions from practitioners and experts. Cronbach's alpha was used to perform the reliable test in this study. A pretest was carried out with a random sample of 40 respondents from the target group. After the pretest, some changes to the questionnaire structure and sentences that made the questionnaire more reliable and effective resulted in a Cronbach alpha of 0.887. Most social science research considers the Cronbach alpha limit of 0.60 to be acceptable (Raihan & Karim, 2017). The questionnaire was returned by a total of 394 respondents, out of that only 385 were completed. This includes 154 Trishul TMS account holders, 58 Oxford TMS account holders and 173 Sani Securities TMS account holders with stakes of 40%, 15% and 45% respectively.

Data Analysis Technique

A range of financial and statistical techniques were employed to analyze the data, including measures like the mean, standard deviation, coefficient of variation, correlation coefficients, and regression analyses. Finally, both values, tolerance value and VIF, were examined in this study.

The model is IID it = α +β1AI it+β2HBit+β3OC it+β4OPit+β5ARit+ε

Where,

α = Alpha, i.e., constant,

β1AI = independent variable 1, i.e., accounting information

β2HB = independent variable 2, i.e., herd behaviour

β3OC = independent variable 3: overconfidence

β4OP = independent variable 4, i.e., optimism

β5AR = independent variable 5 (i.e., advocate recommendation)

IID = dependent variable, i.e., the individual investor's decision

e = error term

Result and Discussion

Table 1

Demographic Details of the Participants (n = 385)

Gender	**Frequency**	**Percent**
Male	234	60.78
Female	151	39.22
Age Groups		
18-25	131	34.02
26-35	174	45.20
36-45	13	03.38
Above 46	67	17.40
Marital Status		
Married	145	37.67
Unmarried	240	62.33
Education		
Below Intermediate	18	04.67
Graduation Degree	295	76.63
Post-Graduation Degree	72	18.70

Note: Field Survey 2023

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

Table 1 shows that out of a total of 385 respondents, the majority of respondents (234) or 60.78 percent were male, and the proportion of female respondents (151) was only 39.22 percent. Likewise, 45.20 percent of respondents were 26 to 35 years old, 34.02 percent were 18 to 25 years old, 17.40 percent were above 46 and 03.38 percent were 36 to 45 years old. Similarly, 62.33 percent of respondents were single, while 37.67 percent were married. Finally, the level of education of the respondents: 76.63 percent had a college degree, 18.70 percent had a postgraduate degree, and 04.67 percent had a sub-intermediate degree.

The majority of the investors were men between the ages of 26 and 35. Pandey et al. (2020) and Dhungana et al. (2018) also agreed that the majority of stock market investors were aged of 20 and 40. Likewise, most of the investors were single and had only college degrees. This information is against Pandey et al. (2020) and Dhungana (2018) who found that most respondents were married. It shows that investors were educated and tried investment practices before their conjugal lives.

Table 2

Basic Knowledge of stock markets on respondents (n=385)

Do you have a TMS account (Clint membership) at in the brokerage office?	**Frequency**	**Percent**
Yes	385	100.00
No	0	00.00
Do you know the Nepal Stock Exchange (NEPSE)?		
Yes	312	81.04
No	73	18.96
How often are you involved in stock trading?		
Sometimes	307	79.74
Frequently	78	20.26

Note. Field Survey 2023.

Table 2 reveals that every respondent has a TMS (Clint Membership) account with their brokerage firm. In addition, only 81.04 percent of the respondents well known about the Nepal Stock Exchange (NEPSE). Likewise, 79.74 percent of respondents trade stocks occasionally, while 20.26 percent trade stocks regularly.

Descriptive Analysis

Descriptive statistics are used to summarize the sample and observations. In this study, descriptive analysis is used to calculate statistical variables such as the mean and standard deviation. Data from a five-point Likert scale were used for each question, where 1 means totally disagree, 2 means disagree, 3 means

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

neutral, 4 means agree, and 5 means that totally agree.

Investor Investment Decision

The decision of an investor to invest is the study's dependent variable. The overall descriptive study on this variable and each of the drafted questions are shown below:

Table 3

Descriptive Statistics of an Investor's Investment Decision

Statement	Mean	SD
The accounting information gives me a positive inference on investment.	3.61	1.108
The herd behavior provides me a positive inference on investment.	3.08	0.953
My overconfidence helps me to win the more from the markets.	2.66	1.023
My optimism aids to growth the market index smoothly.	3.15	0.849
Advocate recommendation helps me to investment decision.	3.00	1.117

Note. Field Survey 2023.

The descriptive statistics of an investor's investment decision are presented in Table 3. Five statements are used to assess an investor's investing activity. Each of the 385 respondents used a five-point Likert scale to answer. The table shows that the accounting information that influences the investor's investment behavior has the largest mean (3.61), and the overconfidence indicators have the lowest mean (2.66). The highest mean of 3.61 means that it is the most commonly agreed statement to characterize investor's investment preference.

Table 4

Descriptive Statistics of determinants factors

Accounting Information	Mean	SD
I investigate the company's stock's previous performance.	3.15	1.105
Before making the investment, I examine the company's balance sheet and income statement.	3.01	1.149
I'm interested in making an investment decision because of the anticipated company profits.	3.52	1.108
I look dividend payment history of firm before investment decision.	3.84	1.108
Herd Behaviour		

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

I as a rule respond rapidly to the adjusts of other financial backer's perspectives and their responses to the securities exchange.	2.79	1.00
My investment decisions are influenced by the decisions of other investors to buy and sell stocks.	3.03	1.22
I follow the market participants on buying and selling my shares.	3.10	1.17
I confirm my investment decision based on the number of buyer and seller in market depth.	2.86	1.02
Overconfidence		
I trust my personal investment decisions.	3.79	0.82
I believe that my skills and knowledge of stock market can help me to outperform the market.	3.34	1.02
The return on my latest stock investment is what I anticipated.	2.94	1.04
I'm not concerned if the index decreases in value, as this is a typical occurrence.	3.22	1.11
Optimism		
I purchase additional shares as the index declines.	3.19	1.07
Long-term investment give me a profit from the market.	3.26	1.19
I wait for corrected market confidently before taking a trading decision.	3.53	1.00
I think after the political establishment market will be corrected.	3.78	0.90
Advocate Recommendation		
I get suggestions from co-workers and broker in my investment decision.	2.93	1.03
When making an investment decision, I consider the opinions of my family members.	2.91	1.20
I ask to experts about the company before trading the shares.	3.01	1.20
I apply the financial advisors and analysts' recommendation.	3.15	1.14

Note. Field Survey 2023.

Table 4 presents the summary statistics of the determinant factors for each individual item, as well as the full set of all independent variables: Accounting information, herd behavior, overconfidence, optimism, and advocate recommendation. All independent variables are measured using four statements each. Each of the 385 respondents used a five-point Likert scale to answer. The table shows that the company's dividend payment history indicates that investors' investment decision is the highest mean. The highest mean of 3.84 indicates that it is the most commonly agreed statement, including this accounting information. In herd behavior, investors follow the market participants when buying and selling their stocks. The highest mean of 3.10 indicates that this is the most widely used statement to describe herd behavior.

Likewise, overconfidence that personal decisions are the most influential factors to investors. The highest mean value of 3.79 shows that this is the most common statement about overconfidence. Similarly, optimism that one of the main indicators of investing in the stock market is the political establishment, which has the highest mean. The highest mean of 3.78 means it is the most commonly agreed term for optimism. Finally, recommendations from financial advisors and analysts have the highest mean, while opinions of family members on investment decisions have the lowest mean. The highest mean of 3.15 indicates that it is the most commonly for taking an investment decision.

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

Table 5

Pearson's Correlation Matrix

Variables	IID	AI	HB	OC	OP	AR
IID	1	.544**	.512**	.584**	.502**	.509**
		.000	.000	.000	.001	.000
AI		1	.344**	.564**	.537**	.348**
			.000	.000	.000	.000
HB			1	.237**	.235**	.297**
				.000	.000	.000
OC				1	.510**	.398**
					.000	.000
OP					1	.370**
						.000
AR						1

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

Table 5 shows that there is a positive correlation between influencing factors. Accounting information is significantly positively correlated with the investor's investment decision (r=0.544, p-value<0.01). Likewise herd behavior (r=0.512, p-value<0.01), overconfidence (r=0.584, p-value<0.01), optimism (r=0.502, p-value<0.01) and the advocate recommendation (r =0.509, p-value<0.01) all have a significant positive correlation with the investor's investment decision.

Table 6

Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.625	0.655		2.481	0.014		
Accounting Informa.	0.120	0.041	0.132	2.947	0.003	0.565	1.771
Herd Behaviour	0.282	0.034	0.304	8.299	0.000	0.845	1.183
Overconfidence	0.355	0.055	0.284	6.505	0.000	0.845	1.183
Optimism	0.144	0.045	0.137	3.217	0.001	0.596	1.678
Advocate Recomm.	0.187	0.034	0.209	5.436	0.000	0.630	1.586
R = 0.754	R^2 = 0.569		f = 99.980	Sig. = 0.000			

a. *Dependent Variables: Investor's Investment Decision*

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

Table 6 shows the regression analysis. The overall value of R is 0.754 and value of R2 is 0.569, it represents 56.9 percent of variation in the dependent variable (Investor's Investment Decision) that is accounted by the combined impact of independent variables (Accounting Information, Herd Behaviour, Overconfidence, Optimism and Advocate Recommendation). It shows the higher significant situation among the variables. Likewise, F-value 99.980 with significant at the level of 5 percent, i.e. ($p<0.05$). It indicates the statistically strong significant association in the overall model, which was reasonable to fit. Moreover, (B) the beta coefficients indicate how and to what extent such as accounting information, herd behaviour, overconfidence, optimism and advocate recommendation influencing investor's investment decision.

It has been found that all the independent variables are positively significant to dependent variable i.e. Investor's investment decision. Which details value (β =0.120, t = 2.947, p= 0.003 i.e <0.05), (β = 0.282, t = 8.299, p= 0.000 i.e <0.05), (β =0.355, t = 6.505, p= 0.000 i.e <0.05), (β =0.144, t = 3.217, p= 0.001 i.e <0.05), (β =0.187, t = 5.436, p= 0.000 i.e <0.05) respectively. To test the accuracy of the regression model tolerance and VIF was measured. All the tolerance value in collinearity statistics is higher than 0.10 and the variance inflation factor (VIF) value is lower than 10, both the values indicate no multi-collinearity issue between the independent variables.

The influences for individual investors were accounting information, herd behavior, overconfidence, optimism, and advocate recommendations. This finding is consistent with the accounting information and overconfidence of Chhetri (2022) and the herd behavior and advocate recommendation of Karmacharya et al. (2022) in Nepal. In addition, the results are consistent with previous research. Baker et al. (2019) and Metawa et al. (2019) examined the behavioral aspects that impact individual investor decision-making. Investment decisions were heavily influenced by investor emotion, overreaction, underreaction, overconfidence, and herd behavior. Sharma and Gupta (2011) a variety of variables influence investment decisions in India, including risk, return, as well as the influence of competitors, financial advisor recommendations, and market trends.

Conclusion and Suggestions

The findings indicate that each of the independent variables (accounting information, herd behavior, overconfidence, optimism, and advocate recommendations) has a significant positive effect on the dependent variable, which is the stock investment decision. In other words, accounting information, along with herd behavior, overconfidence, optimism, and recommendations from advocates, all influence an investor's choices in the stock market.

This research provides investors directly or indirectly associated with the stock market with information on how to make better investment decisions. They are likely to acquire knowledge that will affect their investment decisions and increase investor awareness. Moreover, these facts pave the way for future investment. It also helps the researcher to continue further investigations in the same direction to determine whether the same results occur in the coming days or not.

ISSN 2350-8868
Volume VIII | Issue 1 | June 2024

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