

Influential Factors Shaping Investor Decision-Making in the Nepalese Stock Market

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Abstract

The study investigates factors influencing investors' decision-making in the Nepalese stock market. It uses a research design with primary data collected through a questionnaire. The study focuses on financial performance, brokers' recommendations, and informal information as key factors affecting investment decisions. The findings suggest that most investors analyze the market condition and prioritize financial performance, while informal sources have a weaker correlation. Some investors still rely on rumors for their decisions. The study contributes valuable insights to investor behavior and decision-making in the Nepalese stock market.

Keywords: *Nepalese Stock market, Rumors, Investor Behavior, correlation.*

1. Introduction

Investing involves purchasing assets with the expectation of generating future income or appreciation in value. It can encompass various mechanisms such as bonds, stocks, real estate, or businesses. The stock market, with its origins dating back centuries, provides a platform for investors to quickly buy and sell assets, enabling firms to access capital through equity issues. The Nepalese Stock Market has experienced significant growth over the years, attracting more investors and regulatory attention. The stock market is a marketplace for trading publicly held company stocks and associated financial instruments, with modern trading conducted electronically through online exchanges. It provides a platform for investors to buy and sell securities like stocks and bonds issued by public companies. The primary market offers new securities for the first time, attracting funds for issuers, while the secondary market facilitates the trading of existing securities, creating liquidity and attractiveness for financial assets (Manandhar, 2015). The Nepalese Stock Market is a growing part of the economy today and is becoming more popular. Over the decade, the Stock Market has grown in terms of its securities, investors as well as its regulatory authorities (Regmi, 2012).

In the Nepalese context, issues related to the relationships between independent variables (Brokers' Recommendation, Financial Performance, Informal Sources) and the dependent variable (Investors' Decision) include limited access to reliable financial information, low investor education, vulnerability to insider trading, weak broker regulation, cultural influences on decision-making, market volatility, lack of diversification options, and

psychological biases. Policymakers should focus on improving investor education, transparency, and regulation while encouraging diversification to enhance the investment environment. Conducting research specific to Nepal can provide valuable insights for market participants and policymakers.

The study aims to explore factors influencing investors' decision-making in the Nepalese stock market. It seeks to understand investors' perceptions and individual investment behavior patterns. The main objectives are to identify these influencing factors and determine investment behavior patterns. However, the research acknowledges limitations, including reliance on primary data from survey responses, which may be subject to respondents' intentions, and potential limitations in the representativeness of the sampled population (Nepalese investors).

2. Review of Literature

The theoretical review explores existing theories related to the issue of investor decision-making. Traditional finance theory assumes rational investors unaffected by emotions, but Behavioral Finance, influenced by psychological studies, recognizes the role of emotions, culture, and misperception in financial behavior. Prospect theory highlights loss aversion, where people fear losses more than they value gains, impacting their choices. Modern Portfolio Theory focuses on diversification to maximize returns for a given level of risk, while rational choice theory posits individuals make decisions based on self-driven rational actions, benefiting the economy. This study aims to identify factors influencing investor decisions and understand the interplay of rational and irrational influences. Empirical review: Adhikari's (2010) research on "Investment Behaviour of Nepalese Investors" found that investors prioritize social objectives alongside financial goals, with behavioral factors influencing their decision-making contrary to traditional finance paradigms.

Several studies have explored investment decisions in various stock markets. Kumar (2016) focused on Indian investors' preferences for utilitarian or value-expressive motives and their reliance on behavioral variables. Akbar et al. (2016) analyzed factors influencing investment decisions in the Islamabad Stock Exchange using advanced econometric techniques and data from 253 individual investors. Khanam (2017) studied the impact of demographic factors on investors' decisions during dividend declaration in the Bangladesh stock market, surveying 300 retail investors. Phuyal (2019) investigated the Nepali stock market, identifying a long-term equilibrium between macroeconomic factors and stock prices, along with short-term corrections.

The present study aims to address the research gap by exploring the relationship between influencing factors and socioeconomic variables in the local context of the researcher's country, Nepal. It draws from behavioral finance theories and introduces additional factors

specific to the Nepal Stock Exchange. The study seeks to fill the void in understanding factors affecting individual investment decisions and how investors handle uncertainties in their choices, adding valuable insights to the existing body of research.

3. Research Methodology

This heading discusses the methodology applied in the study, including data sources, research design, and sample size. The research design used is descriptive, aiming to systematically describe and summarize the characteristics of individual investors in the Nepalese stock market. Data was collected through structured questionnaires from individual investors in the Kathmandu valley. The questionnaires were distributed online through platforms like Google forms and social media, as well as through face-to-face interactions. The population of interest was individual investors in the Nepalese stock market, with a sample size of 150 out of around 200-250 respondents who willingly participated in the study.

The data collection procedure involved using structured questionnaires, which were then analyzed through statistical models to understand the major factors influencing investor decisions. The questionnaire comprised three sections: one gathering demographic information, another focused on factors influencing investment decisions, and the third section included financial literacy-related questions. Multiple-choice and Likert-scale questions were used to extract the necessary information, with the Likert-scale offering five choices ranging from “Strongly Agree” to “Strongly Disagree.”

To achieve the purpose, a specific theoretical framework as shown in figure 1 was employed.

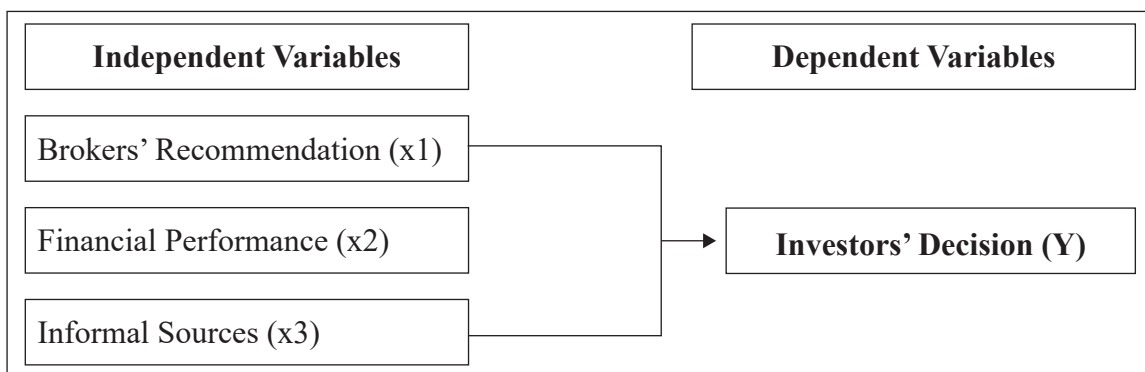


Figure 1: Conceptual Framework

In the Nepalese context, relationships between the independent variables (Brokers' Recommendation, Financial Performance, Informal Sources) and the dependent variable (Investors' Decision) can vary based on factors like accuracy of broker recommendations and financial performance. Positive relationships may exist if brokers provide reliable advice, and financial performance is strong. However, reliance on informal sources may lead to mixed impacts on decisions. Cultural, regulatory, and market-specific factors can

also influence these relationships. Empirical research is needed to understand the dynamics and interactions of these variables in Nepal’s financial market.

4. Results and Discussion

This section of the study describes the empirical investigation conducted through a field survey using a structured questionnaire. The survey was administered to more than 200 respondents, and 150 respondents provided complete responses. Non-probabilistic procedures were used for sample selection. The collected data was arranged, tabulated, and analyzed descriptively. A 5-point Likert scale was used to collect the perceived importance of determinants, with respondents indicating their level of agreement or disagreement with each factor on the scale.

The study collected respondents’ preferences and views regarding the impact on their decision-making through a survey questionnaire. Open-ended questions were used initially to familiarize respondents with the questionnaire, and later, Likert scale questions were employed to gather data.

The analysis of the demographic profile of the respondents, including age, gender, academic qualification, occupation, and monthly income, was conducted to understand their perception of the factors influencing their investment decisions.

Age of Respondents:

Table 1, shows the majority of the respondents were aged between 30 to 59 years (63%), followed by those below 30 years (32%), and those aged 60 years or above (5%).

Table 1: Age of Respondents

Age of Respondents	Frequency	Percent
Less than 30	48	32 %
30-59 years	94	63%
60 years or above	8	5 %
Total	150	100%

Source: Field Survey, 2023

Table 1 present the age distribution of the respondents. Out of the total 150 respondents, 46 (31%) were below the age of 30, while 96 (64%) were in the age group of 30-59 years. The data indicates that the majority of investors are from the working age group, actively participating in the stock market. Only a small percentage (5%) of investors are aged 60 years or above.

Gender of Respondents:

Table 2: Gender of Respondents

Gender	Frequency	Percent
Male	80	53.33
Female	70	46.67
Total	150	100

Source: Field Survey, 2023

Table 2 presents the gender-wise distribution of the respondents. It shows that female investors' participation in the Nepalese stock market is relatively low, accounting for only 46.67% of the respondents. The majority of the respondents are male investors.

Academic Qualification of Respondents

Table 3: Occupational Status of Respondents

Occupational status	Frequency	Percent
Business	33	22%
Retired	3	2%
Banker	12	8%
Service	62	41%
Student	15	10%
Self Employed	14	9%
Unemployed	11	8%
Total	150	100%

Source: Field Survey, 2023

Table 3 present the occupational status of the survey respondents. Among the 150 participants, 22% were engaged in business, 2% were retired, 41% were in service, 10% were students, 9% were self-employed, and 8% were unemployed.

Participation in Stock Market

The duration of respondents' participation in the stock market was also examined. Among the participants in the survey, 8% had been involved for less than a year, 43% for 1-2 years, 26% for 2-5 years, and 23% for more than 5 years.

Table 4: Participation in Stock Market

Participation in Stock Market	Frequency	Percent
Less than a year	12	8%
1-2 Years	65	43%
2-5 Years	39	26%
More than 5 Years	34	23%
Total	100	100%

Source: Field Survey, 2023

Table 4 illustrates the distribution of respondents based on their years of participation in the stock market. The majority of the respondents have been participating for more than 1-2 years, followed by 2-5 years, more than 5 years, and less than a year, in that order.

Pearson Correlation of Investment Decision, Advocate Recommendation, Financial Performance and Market Condition

The Pearson correlation coefficient (r) measures the strength of a linear association between two variables, ranging from +1 to -1. A value of 0 indicates no association, while a positive value suggests a positive association, and a negative value indicates a negative association. The closer r is to +1 or -1, the stronger the association between the variables.

Table 5: Pearson correlation of Investment Decision, Broker's Recommendation, Financial Performance and Informal Information.

		Correlations			
		Decision Making	Brokers' Suggestion	Informal Information	Financial Performance
Decision Making	Pearson Correlation	1	.213**	-.272**	.818**
	Sig. (2-tailed)		0.009	0.001	0
	N	150	150	150	150
Broker's Suggestion	Pearson Correlation	.213**	1	.399**	-0.018
	Sig. (2-tailed)	0.009		0	0.831
	N	150	150	150	150
Informal Information	Pearson Correlation	-.272**	.399**	1	-.372**
	Sig. (2-tailed)	0.001	0		0
	N	150	150	150	150
Financial Performance	Pearson Correlation	.818**	-0.018	-.372**	1
	Sig. (2-tailed)	0	0.831	0	
	N	150	150	150	150

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

Source: Calculated by the researcher by the SPSS

The table 5 provides a systematic analysis of Pearson correlation coefficients among four variables: Decision Making, Brokers’ Suggestion, Informal Information, and Financial Performance. These coefficients offer insights into the magnitude and direction of linear relationships between these pairs of variables.

1. Decision Making and Brokers’ Suggestion:

Pearson Correlation Coefficient: 0.213, p-value: 0.009, Significance Level: 0.01 (2-tailed). Interpretation: A positive correlation coefficient of 0.213 signifies a weak positive connection between Decision Making and Brokers’ Suggestion. As Decision Making increases, Brokers’ Suggestion tends to increase as well.

2. Decision Making and Informal Information:

Pearson Correlation Coefficient: -0.272, p-value: 0.001, Significance Level: 0.01 (2-tailed). Interpretation: The negative correlation coefficient of -0.272 indicates a weak negative association between Decision Making and Informal Information. As Decision Making increases, Informal Information tends to decrease.

3. Decision Making and Financial Performance:

Pearson Correlation Coefficient: 0.818, p-value: 0.000, Significance Level: 0.01 (2-tailed). Interpretation: The substantial positive correlation coefficient of 0.818 suggests a strong positive relationship between Decision Making and Financial Performance. As Decision Making increases, Financial Performance also shows a significant increase.

These statistical findings provide valuable insights into the relationships between the examined variables, aiding in understanding the factors influencing decision-making processes in the context being studied.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852 ^a	.725	.720	.44280

Source: Calculated by Researcher from SPSS

The model under consideration encompasses two main elements:

a. **Predictors:** These include the following variables:

- Constant (a_0)
- Broker’s recommendation(X_1)
- Financial performance of the company(X_2)
- Informal information(X_3)

b. **Dependent Variable:** The variable of interest is “Decision Making.”(Y)

$$\text{i.e. } Y = a_0 + a_1 X_1 + a_2 X_2 + a_3 X_3 + et$$

The model as explain in table 6 employed in this study aims to forecast the dependent variable, “Decision Making,” using three distinct independent variables: broker’s recommendation, financial performance of the company, and informal information. Here’s a systematic breakdown of the model’s performance:

Correlation Coefficient (R): The calculated correlation coefficient (R) is 0.852, signifying a robust positive relationship between the independent and dependent variables.

Coefficient of Determination (R Square): The coefficient of determination (R Square) is 0.725, indicating that approximately 72.5% of the variance in Decision Making can be elucidated by the independent variables.

Adjusted R Square: Accounting for the number of predictors, the adjusted R Square is 0.720, providing a more conservative estimate of the model’s explanatory power.

Standard Error of the Estimate: The standard error of the estimate is 0.44280, denoting the average deviation of actual values from predicted values within the model.

In summary, the model’s summary underscores the substantial contribution of the independent variables in elucidating the variance in Decision Making, portraying a notably robust relationship between these variables.

Table 7: Regression Analysis

Model Std. Error	Standardized Coefficients		t	Sig.
	Beta			
(Constant)	0.199		3.373	0.001
Brokers’ Suggestions	0.043	0.26	5.421	.000
Informal Information	0.04	-0.081	-1.568	0.119
Financial Performance	0.036	0.792	16.753	.000

Source: Calculated by Researcher from SPSS

The dependent variable in the regression analysis is “Investment Decision.” The regression equation is given as $Y = 0.671 + 0.234X_1 - 0.062X_2 + 0.610X_3$, where Y is the predicted value of the dependent variable, X1 is “Brokers’ Suggestions,” X2 is “Informal Information,” and X3 is “Financial Performance.”

The conclusions drawn from the regression equation are as follows as from table 7:

1. **Brokers' Suggestions:** Brokers' Suggestions have a significant positive effect on the dependent variable. For every one-unit increase in Brokers' Suggestions, the dependent variable is predicted to increase by 0.234 units, indicating the importance of brokers' suggestions in influencing investment decisions.
2. **Informal Information:** The effect of Informal Information on the dependent variable is not statistically significant. The negative coefficient (-0.062) suggests a potential negative impact, but the p-value (0.119) is greater than the common significance level of 0.05, meaning there is insufficient evidence to support a significant relationship in this analysis.
3. **Financial Performance:** Financial Performance has a highly significant positive effect on the dependent variable. For every one-unit increase in Financial Performance, the dependent variable is predicted to increase by 0.610 units, indicating that financial performance strongly influences investment decisions.
4. The constant term (0.671) represents the intercept, which is the predicted value of the dependent variable when all independent variables are zero.
5. In summary, the results suggest that Brokers' Suggestions and Financial Performance are important factors influencing investment decisions. Brokers' Suggestions have a positive impact, while Financial Performance has a stronger positive impact. However, the relationship between Informal Information and the dependent variable is not statistically significant in this analysis.

Chi-Square Test

The Chi-Square Test is a statistical method used to determine if there is a significant association between categorical variables in a contingency table.

Cross Tabulation of Decision Making and Gender of Respondents

Table 8: Decision Making * Gender of Respondent Cross tabulation

		Gender		Total
		Male	Female	
Decisions	Strongly Disagree	2	8	10
	Disagree	12	10	22
	Neutral	32	26	58
	Agree	28	22	50
	Strongly Agree	6	4	10
Total		80	70	150

Source: Calculated by Researcher from SPSS Top of Form

Among the male respondents, 2 strongly disagreed, 12 disagreed, 32 were neutral, 28

agreed, and 6 strongly agreed as shown in table 8. Among the female respondents, 8 strongly disagreed, 10 disagreed, 26 were neutral, 22 agreed, and 4 strongly agreed. The total number of respondents is 150, with 80 males and 70 females.

Chi-Square Tests

Table 9: Results of Cross Tabulation of Decision Making and Gender of Respondents

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.878 ^a	4	0.3
Likelihood Ratio	5.116	4	0.276
Linear-by-Linear Association	2.235	1	0.135

Source: Calculated by Researcher from SPSS

The chi-square tests for the cross-tabulation of “Decision Making” and “Gender” variables indicate that there is no significant association between these variables. The p-values for the Pearson chi-square, likelihood ratio chi-square, and linear-by-linear association tests are all greater than the chosen significance level (e.g., 0.05) as found in table 9, suggesting no significant relationship based on gender. The analysis was conducted with 150 valid cases.

Decision Making *Age of Respondents Cross tabulation

Table 10: Cross Tabulation of Decision Making and Age of Respondents

		Age			Total
		<30	30-59	>59	
Decisions	Strongly Disagree	2	6	2	10
	Disagree	4	15	3	22
	Neutral	27	30	1	58
	Agree	14	35	1	50
	Strongly Agree	1	8	1	10
Total		48	94	8	150

Chi-Square Tests

Table 11: Results of Cross Tabulation of Decision Making and Age of Respondents

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	19.242 ^a	8	0.014
Likelihood Ratio	17.878	8	0.022
Linear-by-Linear Association	0.46	1	0.498
N of Valid Cases	150		

Source: Calculated by Researcher from SPSS

The data categorizes responses by age groups and agreement levels as shown in table 10. In the “<30” age group, 48 respondents were divided into different agreement levels. The “30-59” age group had 94 responses, while the “>59” age group had 8 responses. Overall, the agreement levels were distributed with 10 respondents strongly disagreeing, 22 disagreeing, 58 being neutral, 50 agreeing, and 10 strongly agreeing with the statements presented. The data analysis reveals that age groups and agreement levels are significantly associated, with the “<30” and “30-59” age groups showing a higher tendency towards agreement as from table 11. The majority of respondents expressed neutrality towards the statements. The chi-square tests indicate that age is a significant determining factor that affects decision-making of investors in the Nepalese Stock Market.

Table 12: Cross Tabulation of Decision Making and Occupation of Respondents

Decision * Occupation Cross tabulation

	Banker	Occupation							Total
		Business	Retired	Self Employed	Service	Student	Un-employed		
Decisions	Strongly Disagree	1	1	0	1	1	1	5	10
	Disagree	2	5	2	0	10	2	1	22
	Neutral	4	10	1	8	22	10	3	58
	Agree	3	15	0	5	24	2	1	50
	Strongly Agree	2	2	0	0	5	0	1	10
	Total	12	33	3	14	62	15	11	150

Source: Calculated by Researcher from SPSS

The “Service” occupation category had the highest number of respondents, followed by “Business,” “Student,” “Self Employed,” “Unemployed,” “Banker,” and “Retired” categories as seen from table 12. The most common decision level was “Neutral,” followed

by “Agree,” “Disagree,” “Strongly Disagree,” and “Strongly Agree.” The study indicates a general tendency towards neutrality in decision-making among respondents, with a significant portion agreeing with the decisions presented.

Table 13: Results of Cross Tabulation of Decision Making and Occupation of Respondents

Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	52.825 ^a	24	0.001
Likelihood Ratio	42.722	24	0.011
N of Valid Cases	150		

a. 27 cells (77.1%) have expected count less than 5. The minimum expected count is .20.

Source: Calculated by Researcher from SPSS

The chi-square tests were conducted to analyze the association between occupation and decision levels. The results from table 13 indicate a statistically significant association between the two variables. Among the listed professions, the “Service” profession showed the highest agreement, with 29 respondents indicating agreement with the decisions presented.

5. Conclusion

Investors’ decisions are positively influenced by brokers’ recommendations and the financial performance of the company, with informal information having a comparatively weaker impact; Pearson correlations confirm these relationships, and regression analysis shows that 72.5% of the variation in Decision Making is explained by these factors.

The study concludes that individual investors’ decisions are influenced by emotions, social factors, and knowledge of gains and losses. The relationship between investors’ decisions and broker’s recommendation, financial performance of the entity, and informal sources of information is significant, rejecting the null hypothesis. Investors analyze the market condition and prefer entities with higher returns, while the influence of informal sources has decreased as investors become more informed and analytical in their decision-making. Increasing financial literacy and awareness have led investors to prioritize the financial performance of firms over other sources of information.

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