Factors Influencing Investors' Perception and Decision-Making in the Stock Market

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Abstract

This research employed a descriptive and analytical research design to investigate the perceptions of Nepalese investors towards the stock market, to analyze the relationship between different factors (investment decision, company-related variables, risk, and return-related variables, market-related variables) and investors' perceptions to examine the factors that impact in the investment decision. This research used primary data. The data was collected from 292 respondents who are residents of Nawalpur district. Inferential analysis was conducted in SPSS using statistical tools like correlation and regression to examine the relationships between dependent and independent variables, as well as to assess how various factors influence investors' perceptions. The study revealed that investment decisions, company-related variables, risk, and return-related variables, and market-related variables are mostly considerable factors before investing in the stock market.

Keywords: *Perception, investment decision, stock market, Risk and return*

Introduction

In the Nepalese stock market, very few studies have been carried out concerning the behavior of investors about stock market investment decisions. Most investors have an inflated sense of confidence regarding their self-reported levels of knowledge and experience related to investments, as well as their capacity to select stocks. They exhibited optimistic thinking, hoping that the value of the shares they hold increases over time. The level of confidence that individuals had in various facets of investing varied significantly according to the age of the respondents as well as the gender of those who took part in the survey. Most Nepalese investors lack the necessary skills to analyze financial information related to companies in which they are considering investing. As a result, the quality of their investment decisions is negatively impacted (Adhikari, 2010).

These factors include luck, level of financial education, structure of the capital market,

political climate, media coverage, and analyses of market trends in the Nepalese capital market. According to the study's findings, investors are individuals in their twenties or thirties. When making decisions, these individuals look to sources of information like the media and the recommendations of their friends. When deciding, the most important considerations are typically things like dividends, earnings, how much equity is contributed, and how much control the government has. When investors suffer a loss, they place the blame on the market, but when they make a profit, they give themselves the full credit for their abilities (Kadariya, 2012).

The primary market is the primary channel through which the companies directly mobilize the savings of the households for investment, and it is also the most important market. It is the central stage of the capital market that helps to stimulate industrial and financial activities by supplying corporations and the government with long-term funding. It introduces new securities into the secondary market, which results in increased volume and a broader base of securities. The secondary market provides liquidity for investments in securities and is reflective of the economy in terms of its overall health (Levine and Ross, 2008).

Therefore, a thorough investigation into the perceptions of Nepalese investors in the share market is necessary. By identifying the factors influencing their perceptions, this research can contribute to tailored interventions aimed at improving financial education and enhancing investor confidence. Understanding how these perceptions shape investment behaviors is vital for investors, policymakers, and market regulators seeking to foster a stable and thriving investment environment in Nepal. This study aims to identify the factors influencing the investor perception of the stock market. The purpose of doing this research is to find out about the factors that increase the individual investors' level of awareness regarding the investment environment and stock market. The perception level among the investors is the foundation for making investment decisions. There are various factors based on which the investors make their investment decisions and yet there are various factors that make those investors' perception about the investment in the stock market. This research focuses on the investors' perception which may include investment decisions, company-related variables, risk and return-related variables, market-related variables, etc.

Literature Review

Chandra (2008) found that conventional theories of finance make some assumptions that don't hold up. When it comes to making investment decisions, investors are susceptible to a variety of cognitive and emotional errors, in addition to various biases, according to the findings of Chandra's research. This runs counter to the popular belief that investors always make rational choices. Their perception of risk is significantly altered as a direct result of these departures from rationality.

Acharya and Poudel (2010) explored the intricate relationship between stock market participation, investor knowledge, and investment decisions within Nepal's financial landscape. Through empirical analysis, the research examines how factors such as financial literacy and information accessibility influence individuals' decisions to participate in the stock market. By shedding light on these relationships, the study contributes to a nuanced understanding of the role of information and knowledge in shaping investment behavior. The findings have implications for policy efforts aimed at improving financial literacy, promoting broader stock market participation, and fostering a more informed and engaged investor community in Nepal.

Rakesh and Shrinivas (2013) highlighted the importance of tailoring the options available through mutual funds to meet the preferences and goals of a wide variety of investors. This research is relevant not only for financial institutions but also for investors who are looking to align their choices in mutual funds with their financial goals and the level of risk they are willing to take. If individuals and those who provide financial services have a better understanding of the factors that influence investment behavior, they can make more informed decisions about investments and improve their financial planning.

Dhungana (2017) examined the relationship between financial literacy and engagement in the stock market within the Nepalese context. By analyzing the connection between individuals' financial knowledge and their participation in the stock market, the research offers insights into the role of education in shaping investment behavior. Through empirical evidence, the study contributes to understanding how financial literacy influences investors' understanding of market dynamics, risk management, and investment opportunities. The findings have implications for policy initiatives aimed at enhancing financial education and promoting wider stock market participation

among Nepalese individuals.

Gurung and Basnet (2020) pointed out the relationship between investor sentiments, trading patterns, and market outcomes. By investigating the intricacies of investor decision-making, the study contributes valuable insights into the dynamics of Nepal's stock market. The findings underscore the relevance of understanding investor behavior for market regulators and policymakers, highlighting the need for measures that enhance investor confidence and promote stable market performance.

Bista (2023) intricated interplay between behavioral biases and investment choices among Nepalese investors is investigated. Through empirical analysis, the study sheds light on how cognitive biases influence investment decision-making processes. By examining the specific context of Nepal's investment landscape, the research contributes insights into the prevalence and impact of these biases on investor behavior. The findings underscore the significance of understanding psychological factors that shape investment decisions, offering implications for fostering informed decision-making and investor education in Nepal's share market.

Investors need to understand the influence of various behavioral biases on their investment decisions to ensure that current decisions lead to effective future returns through diversified portfolio allocations across different securities in the stock market. The study's findings are valuable for organizations, practitioners, and internal and external stakeholders in addressing the broader issue of behavioral biases and their impact on investment decisions in stock markets. Additionally, the results benefit financial institutions by supporting the development and implementation of policies aligned with financial regulations and practices. Similarly, institutional investors can use the findings to enhance their investment strategies and practices across various stock markets (Shahzad, Jianguo, Jan & Rasool, 2024).

Haliassos & Bertaut (2024) attempted to find out the cultural dimensions and local practices might exert substantial influence over investors' risk tolerance, investment preferences, and decision-making mechanisms. Moreover, restricted financial literacy and accessibility to information could influence how investors construe market trends and risks.

The literature review emphasizes the limited exploration of stock market perspectives, particularly in existing studies. This points to a significant research gap, as there is a

noticeable lack of understanding about the effects of behavioral biases on investment decisions in major stock markets. Bridging this gap is crucial to enhancing the current body of knowledge, particularly by examining how these biases influence investment behavior. This study aims to address the gap by offering a comprehensive analysis of behavioral biases and their impact on individual investor decisions in the context of the Nepalese stock market.

Research Method

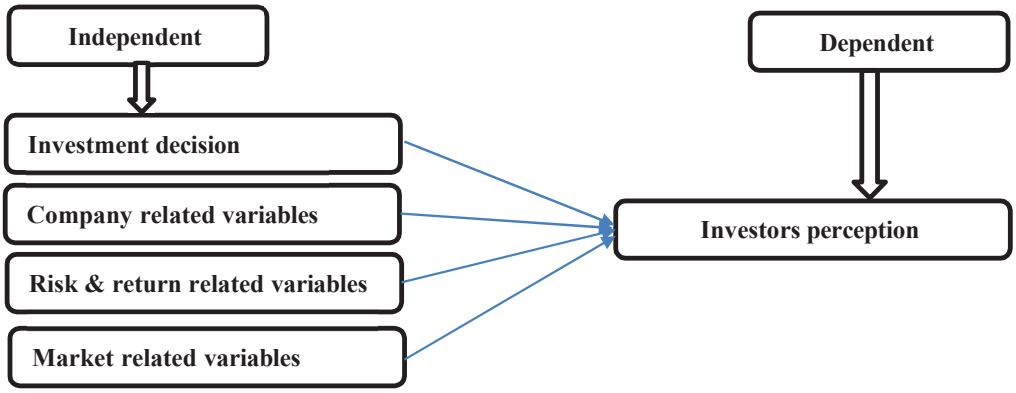
This research attempts to analyze the perception of investors towards the stock market in Nawalpur. To conduct the study, descriptive and analytical research design has been used. The target population for this study includes all the investors who invested in the stock market in Nawalpur district. As a result, the researcher selected 325 investors to represent the population. Although questionnaires were distributed to all 325 sample respondents, only 292 of them responded. The response rate was 89.85%. Gnawali and Niroula (2021) in their study on the perception of investors towards IPO. That study used 325 samples of investors as investors of the Kathmandu district. This study used purposive sampling methods to collect data from the respondents.

Twenty-four opinion statements were set to measure five different variables among which, four are independent variables and one is the dependent variable. Twenty different opinion statements were used to describe independent variables namely "Investment decision", "company-related variables", "risk and return related variables" and "market-related variables". Four different opinion statements described the dependent variable which is "investor perception". The study is based on primary data since it provides relevant and current data in the subject of study. Structured questionnaires were distributed to the investors of Nawalpur district. The data were collected over seven days from the respondents. Responses to the questionnaire were collected within seven days in April 2024.

Using statistical tools, the data collected from the questionnaire was analyzed and the results were presented. The analysis begins with the study of primary data using the SPSS. The data obtained from the respondents was coded into the SPSS version 23 worksheet and tabulated. To test the reliability of scaled products, the alpha coefficient of Cronbach Alpha was used. Regression, correlation, and hypothesis have been used for inferential analysis.

Generally, the values of the Alpha coefficient is above 0.6 and below 0.8 considered acceptable and if the value is above 0.8 it is considered as strong (Sekaran, 2000). Here, Cronbach's Alpha of all variables is between 0.6 to 0.8 and above, hence, all variables are acceptable. Therefore, the instruments used in this research are reliable.

Figure 1. Conceptual framework *(Source: Shrestha, 2020)*



This study consists of four independent variables; investment decision, company-related variables, risk and return-related variables, market market-related variables. Meanwhile, it has one dependent variable which is the investor's perception.

Hypotheses

Based on the conceptual framework, this study proposed the following hypotheses:

H1: There is a positive relationship between investors' decisions and investors' perceptions.

H2: There is a positive relationship between company-related variables and investors' perceptions.

H3: There is a positive relationship between risk and return-related variables and investors perception.

H4: There is a positive relationship between market-related variables and investors' perceptions.

Result and Discussion

The analysis results produced from the data collection process are presented in this chapter. This research used primary data and the data obtained via questionnaire and used 292 respondents for it. As stated in the previous section, data was analyzed with reference to the objectives of this study. This chapter represents to analyze the data and represent the results that derived from analysis of the data.

Demographic Data

The respondents' profile is shown in table 1.

Table 1

Respondents' Profile

Factor	Attributes	Frequency	Percentage
Gender	Male	207	70.89
	Female	85	29.11
	Total	**292**	**100.0**
Age	21-30 years	85	29.11
	31-40 years	114	39.04
	41-50 years	93	31.85
	Total	**292**	**100.0**
Educational Level	+2	15	05.14
	Bachelor's Degree	167	57.19
	Master's Degree	110	37.67
	Total	**292**	**100.0**
Occupation	Business	12	04.11
	Investor	125	42.81
	Farmer	13	04.45
	Service	83	28.42
	Student	59	20.21
	Total	**292**	**100.0**
Investment amount	up to 10 thousand	156	53.42
	10-50 thousand	73	25.00
	50-100 thousand	52	17.81
	Above 1 lakh	11	03.77
	Total	**292**	**100.0**

Source: Field Survey, 2024

Table 1 shows that 70.89% of respondents were male and 29.11% of respondents were female. from among the 292 respondents, 85 respondents belonged to the age group of 21-30 years of age, 114 respondents belonged to the age group of 31-40 years of age, and 93 respondents belonged to the age group of 41-50 years of age. This table clearly shows that young people are dominating the investment in the stock market. Since young people are more open-minded, their responses from them may show more accurate data, which will support the accurate analysis of this research study.

The educational level is divided into four

specifications, 15 respondents completing +2 make up 5.14%, 167 respondents completing a Bachelor's Degree make up 57.19%, and 110 respondents who completed a Master's Degree make up a solid 37.67%. This data shows that the respondents are comprised of highly educated individuals, dominated by Bachelor's Degree holders with 57.19%.

More than one-third (42.81%) of the respondents had stock investment as their main occupation, and 28.42% of respondents had service. Among the total respondents, 20.21% were students, 4.45% were farmers and 4.11% had business as their main occupation. The majority of the respondents ((53.42%) had up to 10 thousand invested in the stock market. Among the respondents, those who have invested Rs. 10-50 thousand and Rs. 50-100 thousand are 25% and 17.81% respectively. Whereas, only 3.77% invested Rs. 1 lakh and above in the stock market.

Inferential Statistics

Inferential statistics are procedures used that allow researchers to infer or generalize observations made with samples to the larger population from which they were selected. This result provides new information through prediction and generalization based on samples.

Correlation Analysis

Correlation between Independent and Dependent variables is shown in Table 2.

Table 2

Correlations Analysis Result

Variables		Investors' Perception
Investment decision	Pearson Correlation	.228**
	Sig. (2-tailed)	.000
Company related variables	Pearson Correlation	.471**
	Sig. (2-tailed)	.000
Risk and return-related variables	Pearson Correlation	.422**
	Sig. (2-tailed)	.000
Market-related variables	Pearson Correlation	.464**
	Sig. (2-tailed)	.000

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

Source: Field Survey, 2024

Table 2 presents the Pearson's Correlation Coefficient values between the dependent variable, investor perception, and the independent variables: investment decision, company-related factors, risk and return-related factors, and market-related factors, which are 0.228, 0.471, 0.422, and 0.464, respectively. These values indicate positive correlations between each independent variable and the dependent variable. Furthermore, the correlations are statistically significant at the 1% level.

Regression Analysis

The main purpose of regression analysis is to establish the relationship between various dimensions of the effects of post-merger on the employees' performance of commercial banks in Nawalpur. Regressions are a statistical tool to predict a score of a dependent variable on the basis of scores obtained by several other independent variables. It provides us with additional information about the relationship between several independent variables and a dependent variable.

Statistically regression equation can be written as:

$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$

Where,

$\hat{Y}$ = Investors' perception

α = Constant

X_1 = Investment decision

X_2 = Company related variables

X_3 = Risk and return related variables

X_4 = Market related variables

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficients of Factor 1 to Factor 4 respectively

e_i = Error term

Table 3

The Model Summary

Model	R	R Square	Adjusted R	Std. Error of the Estimate
1	.728[a]	.531	.518	.32934

Predictors: (Constant), Investment decision, Company related variables, Risk and return related variables, Market-related variables

The model summary of the study indicates R^2. R square helps to identify coefficient variation that is used in regression. The value of R square is 0.531 in Table 3 which indicates that the model can explain that 53.1% of independent variables are responsible for the perception of the investors. However, the remaining 46.9% is still unexplained in this research. The model of the summary table represents standard error and in this study is 0.32934 which shows the variability of the observed value of investors' perception towards the stock market.

Table 4

The ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.772	4	4.446	40.962	.000[b]
	Residual	15.728	145	0.108		
	Total	33.500	149			

a. Dependent Variable: Investors perception

b. Predictors: (Constant), Investment decision, Company related variables, Risk and return related variables, Market-related variables

The ANOVA test shows that the calculated p-value, 0.000, is lower than the value of alpha 0.01. The model is, therefore, a strong predictor of the relationship between the dependent variables and independent ones that are significant in explaining the variance in investors' perceptions.

Table 5

The Regression Coeficients Analysis Results

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.026	.393		2.609	.000
Investment decision	.102	.124	.036	4.920	.001
Company related variables	.149	.104	.156	1.425	.000
Risk & return related variables	.063	.117	.852	9.070	.000
Market-related variables	.443	.077	.620	5.724	.000

a. Dependent Variable: Investors perception

Table 5 shows the findings; the following model has been developed.

$$\hat{Y} = \alpha + 0.102X_1 + 0.149X_2 + 0.063X_3 + 0.443X_4 + e_i$$

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contributing to the variance in the dependent variable. The results presented in Table 5, show that the market-related variable (β_4 = 0.443, p=0.000) carries the heaviest weight for investors' perception, followed by company related variable (β_2 = 0.149, p=0.000), investment decision (β_1 =0.102, p=0.001), risk and return related variable (β_3=0.063, p=0.000). The results show that a one-unit increase in market-related variables would lead to a 0.443-unit increase in investors' perception keeping other variables constant. Similarly, a one-unit increase in company-related variables would lead to a 0.149-unit increase in the perception of investors and so on. In conclusion, Investment decisions, Company-related variables, Risk and return-related variables, and Market-related variables are significant. Thus, the result of multiple regression analysis accepts alternative hypotheses that there is a positive relationship between independent variables and dependent variables in investor perception.

Hypothesis Results

The results of each of these hypotheses are presented below:

Table 6

The Hypothesis Testing Results

S. N.	Alternative hypothesis	Result
H1	There is a positive relationship between investment decisions and investors perception.	0.001<0.01, H1 is accepted.
H2	There is a positive relationship between company-related variables and investors' perceptions.	0.000<0.01, H2 is accepted.
H3	There is a positive relationship between risk & return-related variables and investors' perceptions.	0.000<0.01, H3 is accepted.
H4	There is a positive relationship between market-related variables and investors' perceptions.	0.000<0.01, H4 is accepted.

Source: Field Survey, 2024

Table 6 shows that there exists a relationship between each independent variable and with dependent variable (investors' perception). The correlation is significant at a 1% significance level, as each p-value is less than alpha i.e. 0.000<0.01. Hence, all hypotheses can be accepted.

Conclusions and Discussion

The research highlights several critical factors that shape investor perception and decision-making in the stock market, focusing on the context of the Nawalpur district of Nepal. The findings reveal that demographic characteristics, psychological tendencies, and market-related factors play a significant role in influencing investment behavior.

The objective of this research is to examine the perception of investors towards the stock market. Four research hypotheses were formulated and tested. To identify the impact of four dimensions (Investment decision, Company-related variables, Risk and return related variables, and Market-related variables) considering investors' perception. From the significant value taken from the sample, the significance of the hypothesis among the variables is also evaluated. To address the four study hypotheses, the correlation findings were used. The Pearson Coefficient of correlation between all four different variables and the dependent variable (investors perception) was done, which implies that four variables are positively correlated at a 1% significance level. The value of R square 0.531 which means 53.1% variation in the perception of investors is explained by the independent variables. However, the remaining 46.9% is still unexplained in

this research.

The Pearson's correlation coefficient result shows a positive relationship between work culture and employee performance. This result is consistent with the results produced by; Kumar and Tseten (2018) and Gurung and Basnet (2019), showing the result that there is a positive relationship between market-related variables and investors' perceptions. On the other hand, this result is not consistent and contradicts the finding of Bista (2023), stating that the relationship between investment decision and investors perception is more complex, in simple terms change in work culture has no change in investors perception.

As per the Multiple Regression Analysis, all four independent variables have a positive effect on investors' perception of the stock market in Nawalpur and a significant relationship with the p-values of; 0.001, 0.000, 0.000, and 0.000 respectively which are lower than the significance (α) = 0.05. So, the above studies have the same level of contribution and findings as this present study. This research indicates that investment decisions, company-related variables, risk, and return-related variables, and market-related variables are major factors that largely affect investors' perceptions. Market and company-related variables are the highly considered factors. This study contributes 53.1% to the investor's perception.

Implication

This study provides an overview for future research on Nepalese investors' stock market perceptions and behaviors. This study can be used to study market-related variables, investment perceptions, and their effects. The study emphasizes the significance of education in investment decisions, suggesting that future investors can benefit from financial literacy programs tailored to their diverse educational backgrounds and preferences, facilitated by policymakers and educational institutions.

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