EFFECT OF DEMOGRAPHIC VARIABLES ON INITIAL INVESTORS INVESTMENT DECISION

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ABSTRACT

The study on the Effect of Demographic Variables on Initial Investors Investment Decision delves into the factors influencing stock market investors' choices in the context of the Nepali stock market. Through a survey of 180 participants in Butwal, the research examines how demographic characteristics such as age, gender, occupation, and academic qualification impact investment decisions. The study highlights the significance of various investment decision factors, including sources of information, investment preferences, and the role of financial stability in shaping investors' choices. By analysing the data using descriptive statistics and Chi-Square analysis, the research aims to provide insights into the relative importance of these factors and their implications for initial investors in the Nepali stock market.

1 INTRODUCTION

When making investments, stock market investors take their requirements, goals, and limits into account. However, it is not always easy to make wise investing choices.

Traditional financial theories make two fundamental assumptions about how investors decide whether to invest in the stock market: first, that they do so based on their investment strategies and risk-return considerations, and second, that they have a neutral expectation of future stock returns. Traditional financial theorists assert that in an efficient market, investors act and think "rationally" while buying, selling, and trading stocks, and each investor carefully evaluates all available information before making any trading or investing decisions. The theory of financial market efficiency, also known as the efficient market hypothesis (EMH), is the competitive equilibrium theory applied to the market for financial assets. Efficiency really

presupposes the atomicity of market actors and that all participants are actively competing with one another to maximize profits, meaning that no one of them can independently affect the level of prices that will emerge in the market.

However, behavioural finance, which is based on social and cognitive psychology and aims to study actual investor behaviour in the financial markets, has come to convincingly show that investors make significant systematic errors and that psychological biases influence investors' investment decision-making. In other words, according to behavioural finance, investors frequently have psychological and emotional biases that cause them to make unwise financial decisions. So, an argument against the assumptions of traditional finance theories advocates that investors do not always have same nature of investment, and hence their decisions also depend on their perceptions toward various factors that affect the investment decision (Mohammad Reza Tavakoli, 2011). Similarly, (Al-Tamimi, 2006),also argues that the Investor market behaviour drives from psychological principles of decision making, to explain why people buy and sell the stocks.

The stock market in Nepal is small but growing. The trading of shares in Nepal Stock Exchange Limited (NEPSE) started in the early 1990s with very small number of market participants. However, over the years until recent past, stock market indicators have shown that NEPSE has grown tremendously in terms of service delivery, value of transaction, volume of trade, market capitalization, and number of market participants since its establishment. Despite these growths, NEPSE started experiencing bearish trend since August 2008, which continued until the year 2010/11 and dropped to 362.85 at the end of 2010/11. However, the year 2011/12 showed a slight increase in NEPSE by 6.9 percent reaching to 389.72 points as on mid-July 2012. The NEPSE is experiencing recovery since then. An increase in the NEPSE index refers to the bullish stock market. NEPSE index increased from 1362.4 points in 2020/21 to 2883.41 points in 2021/22, a 1521.01-point increase. Similarly, another significant change was seen in 2013/14, when the index increased by 517.77 points. In 2006/07 and 2007/08, other significant changes were seen

when the index increased by 297 and 279.41 points, respectively (Alpa Badani Shakya, 2016). Nepalese stock market lacks sectoral diversification and has limited access to secondary trading services, insufficient transparency and efficiency of the issuer and market, limited market players, uncompetitive structure of market. Further, the market is featured by active individual investors and the growing but thin participation of institutional investors. The market infrastructures supporting the trading, clearing and settlement are yet to be fully developed and utilized. Thus, in between of these grounded facts of stock market in Nepal, this study attempts to identify the factors affecting stock investment decision in the context of initial individual

investors in stock market of Nepal as perceived by them. The study also attempts to understand the relative importance of investment decision factors across different demographic character of investors to coincide the market mechanisms and practices consistent to the investors' behaviour.

There are numbers of studies carried out in different countries to analysis the effect of individual investors behaviour in their decision making while investing but this study is more concern with the demographic and investment factors that could probably effect the investment decision of initial investors , those who are new in the market, to evaluate whether there is difference in between the behaviour of experienced investor (who have an investment experience of more than 5 year) and initial investors (less than 5 years). And the effect of demographic factors on investor's behaviour.

2 LITERATURE REVIEW

Behavioural finance contends that investors rely on various types of information when making investment decisions, so understanding the factors that influence investment behaviour is a concern. The efficient market hypothesis has long shaped the way in which academics and practitioners analyse investment performance. The theory is based on the notion that investors act rationally and consider all available information in the decision- making process. However, investors do not always have same nature of investment, and hence their decisions also depend on their perceptions toward various factors that affect the investment decision and sometimes, do not behave rationally because of their limitations of capacity to process the information. This issue is primarily related to investors' behaviour rather than the market efficiency (Simon, 1986).

The forms of information that investors use have been the subject of numerous earlier attempts. The study of Shafeeq Ahmad in Pakistan revels that the most influencing factors in terms of order are expected corporate earnings, dividends paid, stock marketability, condition of financial statements, expected dividends, current economic indicators, past performance of the firm stock, broker recommendations, firm status in industry and get rich quick (Ahmad, 2017). Similarly, A study conducted by Manoj Kumar Dash in India revels that majority of investors are found to be using some source and reference groups for taking decisions. The possible sources such as Brokerage firm, investor friends and relatives, internet, advertisement, annual report (Dash, 2010). Similarly, investors also use financial statement information for investment decisions and majority of the individual investors rely dramatically on stockbroker's consultation as main source of information about companies. The studies such as (Dev Prasad, Oct 1, 2004) have basically identified the role of profitability variables such as dividends and expected returns along with firms' financial stability to influence the process of individual investors' choice. Continuing evidence

revealed that corporate reports are highly considered by investors as the most important sources of information for investment decisions (Konstantinos Kapellas, 2017). (Krishnan & Booker, 2002) analysed factors influencing the decisions of investors and found that investors basically use analysts' recommendations to arrive at a short-term decision to hold or to sell a stock. The study of (Geetha, May 25 2012) attempts to find out the significance of demographic factors of population such as gender, age, education, occupation, income, savings and family size over several elements of investment decisions like priorities based on characteristics of investments, period of investment, reach of information source, frequency of investment and analytical abilities. The study was made by conducting a survey in Nagapattinam district of Tamilnadu, South India. The study reveals that the demographic factors have a significant influence over some of the investment decision elements and insignificant in other elements too. The study also discloses a general view of investors perception over various investment avenues. Paper named The Relationship Between Demographic Factors and Investment Decision in Surabaya revels the relationship between demo- graphic factors, such as gender, age, marital status, education, income, and family members, and investors risk tolerance as well as investment preference. The results also reveal a significant relationship between investors risk tolerance and their investment preferences (Lutfi, 2010).

As a result, research has shown that a wide range of factors influence stock market investors' decisions to buy or sell stocks. These variables, for instance, can be categorized as demographic variables, business financial statements, long- and short-term investments, investment size, accounting tools, economic variables, past stock price (return), consultation with various resources, second-hand information resources, firm public information, profitability variables, government policies, and historical stock trading volume.

Therefore, based on these issues, this study tries to pinpoint the key variables influencing initial stock investment choices as regarded by investors in the Nepali stock market. The study makes an effort to understand the relative weighting of demographic aspects that investors consider when choosing stocks to buy.

There isn't much research that look at behavioural finance in the setting of Nepal. However, some researches have sought to investigate the factors that influence investors' investment choices in the context of the Nepali stock market. For example, (Kadariya, July 8, 2012) surveyed the factors affecting investor decision making in the context of Nepalese capital market among the sample of 185 stock investors. The study revealed that capital structure and average pricing method are the most important factors that influence the investment decisions followed by factors such as political and media coverage, and financial

education. The study primarily concluded that both tangible and intangible information are essential factors affecting investment decision in Nepalese capital market.

3 CONCEPTUAL FRAMEWORK AND HYPOTHESES

The relative importance of investment decision factors varies across the demographic factors such as gender, marital status, academic qualification, age group and occupation of investors. Therefore, the conceptual framework of this study incorporates an idea of examining relative importance of investment decision factors based on the demographic character of investors. Hence, the conceptual framework for the study follows the approach demonstrated in the schematic diagram in Figure 1.

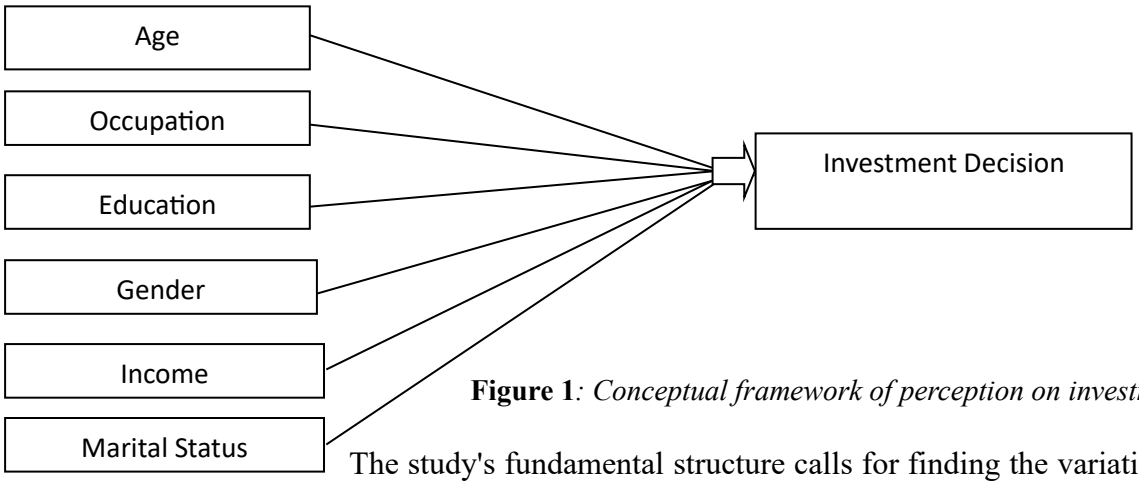

Figure 1: *Conceptual framework of perception on investment decision.*

The study's fundamental structure calls for finding the variations in investors' perceptions of the elements that influence investment decisions based on their gender, marital status, academic qualification, age group, income, and occupation. Based on the given conceptual framework and objective of the study, this study attempts to test the following hypothesis.

H1: There is an association between investment decision and gender.

H2: There is an association between investment decision and occupation.

H3: There is an association between investment decision and income.

H4: There is an association between investment decision and Material status.

H5: There is an association between decision making of initial and experienced investors.

4 METHODOLOGIES:

The details of the mathematical issue associated with this study are described in the following subsections:

4.1 Research design

The nature of research design used in this study is descriptive. This type of research methodology is used to observe and describe the characteristics of a group, situation, or phenomenon without intervening or manipulating variables.

4.2 Nature and sources of data

This study fully relied on primary sources of data. The structured questionnaire survey was conducted to record the opinions, perceptions, and characteristics of investors of stock market in Butwal. The survey was designed to understand the opinions of respondents, there awareness of capital market, preference, investment size, source of information, and how they select a particular corporate share, the purpose of investment, type, the return they expect, the way they take investment decision and their investment experience as how they perceive different factors affecting their investment behaviour.

4.3 Population and sample

The exact numbers of stockholders of all listed companies in Butwal are unknown as there is no verified source of information to obtain this data. Therefore, A random sampling technique is used to select a representative subset (sample) from a larger population. The questionnaire is distributed randomly through digital mode. The study involved the distribution of questionnaires to a targeted group, and we received a total of 180 responses from the participants. The study is based on the data collected through these 180 respondents, who willingly participated in the survey and provided valuable insights into the subject under investigation. The responses gathered from this group form the foundation of our research and serve as the primary data for our analysis and conclusions.

4.4 Method of data analysis

The results of a structured questionnaire survey were used as the basis for the primary data analyses. The purpose of the questionnaire was to gather relevant information from the participants. Respondents were asked to provide background information about themselves in the first phase of the survey, including their age, gender, occupation, marital status, and academic qualification, income level. Second section involves 13 questions about investment factors. The 13 questions were defined in categorical form.

The statistical tools used in this study are simple descriptive statistics such as mean and standard deviation to describe the importance of variables under consideration. The data collected for our study were in categorical form. Categorical data represent qualitative characteristics that can be divided into distinct

groups or categories. So, Chi-Square analysis is used in this study. It is a statistical method specifically designed for analysing categorical data.

5 Findings

5.1 Respondents' profile

Table 1:

Demographic Profile

Gender	**N**	**Percent**
M	78	43.33
F	102	56.67
Total	**180**	**100**
Age	N	Percent
20-30	180	100
Education Level	**N**	**Percent**
secondary	9	5
bachelor	102	56.67
master's	66	36.67
post-graduation	3	1.66
Total	**180**	**100**
occupation	**N**	**Percent**
student	141	78.33
employee	30	16.67
businessman	9	5
Total	**180**	**100**
Income level	**N**	**Percent**
up to 15000	119	66.12
15001-30000	22	12.22
30001-45000	17	9.44
45001-60000	11	6.11
Above 60000	11	6.11
Total	**180**	**100**
Marital Status	**N**	**Percent**
married	47	26.11
unmarried	133	73.9
Total	**180**	**100**

Among total respondents 43.3% were male and 56.67% were female. All the respondents belong to age group of 20-30. Among 180 respondents, the majority of respondents have bachelor's degree i.e., 56.67%, 36.67% master's degree and likewise, Among the total respondents 78.33% were students, 16.67% and 5% were employee and businessman respectively. From total respondents the majority of respondents i.e., 66.12% has monthly income up to 15000, and the least has monthly income above 60,000 i.e., 6.11%. Among the total respondents the majority of the respondents were unmarried 73.9% and 26.2% were unmarried.

Table 2:

Descriptive Statistics of investment factors

Investment Factors	Mean	Std. Deviation
Aware of mutual fund	3.1231	0.33108
Aware of shares	4.0154	0.12403
Aware of debenture/bond	4.2308	0.4246
Preference	4.8923	0.3124
Investment size	3.8615	1.33319
Selection of corporate share	2.9538	1.02116
Purpose	3.8615	1.04398
Type	2.3846	0.49029
Source of information	3.1538	1.25288
Investment decision	3.4923	0.56245
Expected return	2.6923	0.78905
Years of investment experience	3.6154	1.34272

Investment decision and demographic characteristics of respondents

The association between gender, age group, level of education, marital status, occupation, monthly income in terms of investment decision and also the association between the decision making of experienced and initial investor has been presented in cross tables and tested using the chi square test and the value has been presented in tables below.

Table 3:

Investment decision and gender of respondents.

Gender	Way of investment decision			
	on your own idea	idea of relative and friends	investment consultant opinion	Total
Male	2	49	26	77
Female	3	31	69	103
Total	5	80	95	180
Pearson Chi-Square (p- value)			0.064	

The above table revels that among the total respondents the majority of male respondents while making investment decision takes the idea of relatives and friend before investment and the majority of female respondents prioritize investment consultant opinion before making investment.

Interpretation:

The chi-square test shows that the p-value is more than 0.05 that means it accept the null hypothesis i.e., there is no association between the gender of respondent and investment decision.

Table 4:

occupation and the way you take investment decision.

Occupation	Way of investment decision			
	on your own idea	idea of relative and friends	investment consultant opinion	Total
student	4	86	10	100
employee	2	3	56	61
businessman	0	0	19	19
Total	6	89	85	180

Chi-Square Tests

	p- value
Pearson Chi-Square	0.000

From the above table, the majority of the respondents were students, most of them prefer to

take ideas from relatives and friends. Out of 180 respondents 61 were employee, 56 of them prefer investment consultant opinion while making investment decision.

Interpretation:

The chi-square test shows that the p-value is less than 0.05 that means it accept the alternative hypothesis i.e., there is association between occupation of respondent and investment decision.

Table 5:

Monthly income and the way you take investment decision.

	the way you take investment decision			
monthly income	**on your own idea**	**idea of relative and friends**	**investment consultant opinion**	**Total**
up to 15000	8	69	25	102
15001-30000	0	11	19	30
30001-45000	0	5	6	11
45001-60000	0	3	22	25
Above 60000	2	0	10	12
Total	10	88	82	180

Chi-Square Tests

	p- value
Pearson Chi-Square	0.006

The above table revels that the majority of respondents (102) has a monthly income up to 15000 and most of them prefer to take ideas of relatives and friends before making investment decision. 30 has a monthly income of 15001-30000 and 19 of them prefer investment consultant opinion.

Interpretation:

The chi-square test shows that the p-value is less than 0.05 that means it accept the alternative hypothesis i.e., there is association between monthly income of respondent and investment decision.

Table 6:

Marital status and the way you take investment decision.

marital status of respondent	the way you take investment decision			
	on your own idea	idea of relative and friends	investment consultant option	Total
married	0	30	16	46
unmarried	6	59	69	134
Total	6	89	85	180

Chi-Square Tests

	p- value
Pearson Chi-Square	0.277

The majority of the respondents were unmarried among them 69 prefer investment consultant opinion and 59 prefer idea of relative and friends. 46 were married, 30 of them prefer idea of relative and friends and 16 prefer investment consultant opinion.

Interpretation: The chi-square test shows that the p-value is more than 0.05 that means it accept the null hypothesis i.e., there is no association between marital status of respondent and investment decision.

Table 7:

years of investment experience and the way you take investment decision Crosstabulation.

Years of investment experience	the way you take investment decision			
	on your own idea	idea of relative and friends	investment consultant opinion	Total
Initial Investor	5	88	6	99
Experienced Investor	0	0	81	81
Total	5	88	87	180

Chi-Square Tests	
	p- value
Pearson Chi-Square	0.000

From the total respondents 99 were initial investor and 81 were experienced investor. The above table shows that majority of initial investor i.e., 88 prefer idea of relatives and experienced investor prefer investment consultant opinion while making investment decision.

Interpretation:

The chi-square test shows that the p-value is less than 0.05 that means it accept the alternative hypothesis i.e., there is association between investment experience of respondent and investment decision.

CONCLUSION

This paper attempted to identify the investment experience associated with investment decision of investors in stock market of Nepal and explored the relative importance of investment decision across the demographic characteristics of individual investors. The study was based on sample responses of 180 individual investors obtained through structured questionnaire survey. The findings of the study reveals that there is no association between investment decision and gender. That means gender of respondents does not affect their way of taking investment decision. Likewise, marital status doesn't have significance difference to investment decision. Whether the investor is married or unmarried that doesn't make any difference in the investment decision. On the other hand, occupation and monthly income shows a significance difference. Which means occupation and monthly income of investors affect their investment decision. This study also attempts to examine whether there is difference in between the behaviour of experienced investor (who have an investment experience of more than 5 year) and initial investors (less than 5 years), and the results revels there is association between initial and experienced investors while making investment decision.

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