Factors Affecting Individual Investors Stock Investment Decision in Butwal City, Nepal

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Abstract

Investment decision-making is one of the most critical aspects of financial behavior among individual investors in the stock market. Traditional financial theories assume investors act rationally, focusing on profit maximization, whereas behavioral and situational factors often shape real-world investment choices. This study aims to analyze the relationship between company factor, herding factor, risk and return factor, and market factor on the investment decisions of individual investors in Butwal City, Nepal. The study used descriptive research design and collected data through a structured questionnaire from 375 investors in Butwal city. The collected data were analyzed using statistical methods such as descriptive analysis, correlation, and regression. The study tested eight hypotheses, assuming that all four factors would positively affect investment decisions. The findings revealed that herding, risk and return, and market factors significantly influence investment decisions, while company factors showed an insignificant effect. The study concludes that investors in Butwal are more affected by market trends, perceived returns, and peer influence than by internal company performance.

Keywords: *Investment Decision, Company Factor, Herding Factor, Risk and Return Factor, Market Factor, Nepal Stock Exchange.*

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Introduction

Investment decision is the act of deciding how and where to distribute money in order to generate the highest potential returns in the future. An investor in the stock market is someone who takes part in a company by buying or selling shares out of an organized set of stock exchanges. Investment has been widely interpreted as an asset purchase intended to generate a return. It can also be seen as the risk of losing money or other resources in the present for the sake of future gain. Investors in the stock market make investment decisions based on their investment needs, goals, and objectives. Investing is putting out the capital with expectations of income or profit. Personal investing is the purchase of financial securities or property in the hopes of profit. Investing in the share market is an essential aspect of financial planning across the globe, including in Nepal, the continuous expansion of the Nepal stock exchange (NEPSE) and increased awareness of potential profits from stock market investments have encouraged individual investors to be more active in the market.

Investors engage in the act of investing to achieve specific financial goals, such as capital appreciation, income generation, wealth preservation, or risk management (Brown & White, 2017). Investing means using your money today with the hope that it will grow and give you more money in the future. The main goal of investing is to put your money into different opportunities like stocks, bonds, or other assets with the expectation that it will increase in value over time (Buffett, 2012). People often believe they are making smart decisions, but many times, their choices are not the best. This is because humans can't always process all the information and calculations needed, especially when it comes to making investment decisions. These choices can be very complicated, involving things like risk, uncertainty, and timing. In many cases, there are no clear rules or perfect answers for what to do (Park, 2022).

Investment decisions are usually supported by decision making tools. The assumption is that information structures and the market factors systematically influence personal investment decisions as well as the market outcomes (Mehta & Chaudhari, 2016). These factors focus on how investors interpret and act on information to make investment decisions. Behavioural finance is defined by (Shefrin 1999) as a rapidly growing area that deals with the influence of psychology on

the behaviour of financial practitioners. No matter how well an investor is well informed, has researched, and studied intensely about the stock before investing, he also behaves irrationally with the fear of loss in the future. Adhikari (2010) studied to analyze the investment behavior of Nepalese investors. He had found that investors seem to be overconfident in their perception of their own investment knowledge, experience, and capability to make stock selection. There was a notable difference in the level of confidence in various aspects investing according to the age and gender of the respondents and further revealed that the availability of information and the respondents' level of understanding significantly impact their investment decision-making process.

In financial management, the stock market as an investment has proven quite beneficial as it can lead to wealth creation and provide economic stability for individuals. In Nepal, the stock market has indeed developed over the years as can be seen with the increasing market capitalization, value of transactions and the number of participants in the Nepal stock exchange (NEPSE). In behavioral finance it has been suggested that the decisions made by individuals when it comes to investment as well as the movements of the market are because of market characteristics and the characteristics of the participants in the market. Investment decisions of clients in financial markets tend to lean towards psychological, behavioral and biological aspects (Ahmad et al, 2017).

In recent years, the stock market in Nepal represented by the Nepal Stock Exchange, also called NEPSE has gained popularity and increased the number of individual investors who access the stock market. The stock market in Nepal has shown significant changes and growth over the past years. Individual investors have tremendously increased after the effect of Covid-19 because there was a positive impact on the Nepalese stock market (Malla et al., 2022). Nepal's capital market is still developing. However, the government has not yet been able to create a favorable and appealing environment that would encourage more investors to participate in the securities market (Shrestha 2020). Investing in the stock market can be profitable but also carries the risk of losing money. Many investors spend significant time analyzing various factors to develop effective investment strategies. However, despite these efforts, they often failed to manage their stocks effectively and make decisions that align with their financial goals (Gupta et al., 2022). The market also faces issues such as limited transparency, few market participants, and underdeveloped trading systems. While there are significant research studies worldwide on how individual investors affect stock investment decisions (Sarbabidya & Saha, 2018; Das, 2012; Obamuyi, 2013). However, very few studies have been undertaken in the Nepalese context, but no such evidence using more recent data exist in the context of stock investment decision in Nepal. Therefore, this current study tries to fill this research gap by identifying the factors affecting stock investment decision in the context of individual investors in stock market of Butwal city.

Objectives of the Study

The main objective of this study is to analyze the factor affecting individual investors' stock investment decision in Butwal sub-metropolitan city. The others specific objectives are as follows:

- To measure the relationship between factors (company factor, herding factor, risk and return factor, market factor) and investment decision.
- To examine the effect of company factors, herding factors, risk and return factors, market factors on investment decision.

Literature Review

Theorical Review

Regret theory: Regret theory explains the emotional response investors experience when they realize they made a mistake. Investors often become attached to the price at which they bought a stock and may avoid selling to prevent feelings of loss or embarrassment. This fear of regret influences decisions differently for each investor. It also applies when investors miss an opportunity to buy a stock that later rises, sometimes prompting them to follow the crowd and buy popular stocks to rationalize their actions (Loomes & Sugden, 1982).

Mental accounting theory: Developed by Thaler (1980), mental accounting refers to the way individuals mentally separate their money into different "accounts," influencing how they perceive gains and losses. In stock investment, this

can lead to behaviors like holding losing stocks to avoid realizing a loss or hesitating to sell profitable stocks during market corrections. Investors mentally segregate past gains and wait for the market to restore their perceived wealth, affecting overall portfolio decisions (Thaler, 2001).

Over/Under Reacting Theory: This theory suggests that investors overreact to recent market events while ignoring historical information. Optimism during rising markets can push stock prices above intrinsic value, while pessimism during declines can cause prices to fall excessively. Anchoring on recent news often leads to over- or under-reactions to market changes (Hong & Stein, 1999).

Prospect/Loss-Aversion-Theory: Prospect theory, introduced by Kahneman and Tversky (1979), asserts that investors evaluate gains and losses relative to a reference point. They tend to be risk-averse when facing potential losses but may take risks to avoid losses. This asymmetrical approach to risk can result in suboptimal investment decisions driven more by emotion than strategy (Odean, 1998).

Modern portfolio theory (MPT): Markowitz (1952) developed Modern Portfolio Theory, which guides investors in constructing portfolios that maximize expected returns for a given level of risk. MPT emphasizes diversification and the optimal allocation of assets to balance risk and return. Despite its widespread use, the theory's assumptions have been increasingly questioned in practical applications.

Empirical Review

Investment decision-making constitutes a major research core area, specifically in behavioral finance, which examines how psychological factors influence investor decisions. Often, traditional finance theories assume that investors behave rationally, making decisions based on a careful assessment of risk and return. However, behavioral finance argues that emotional and cognitive biases can drive irrational decision-making, especially among individual investors. Simon (1986) pointed out that the sometimes investors are the ones who do not behave based on the rational choice due to an information-processing capacity they possess. This issue is mainly focused on market efficiency. Therefore, traditional finance theory does not show that how important the investors behavior, attitude and perception in decision making process.

Iqbal & Usmani (2009) discussed the factors influencing individual investor behavior in the Case of the Karachi Stock Exchange. They examined how lifestyle, demographics, and behavioral factors affect investment decisions and used 30 different decision-making variables in their research. The results showed that investors mainly focus on wealth maximization when buying stocks. They also rely on accounting information and sometimes follow suggestions from friends and family. However, many investors still make decisions independently. The study suggests that individual investors need to develop better skills, as their level of knowledge affects how they make investment decisions.

Obamuyi (2013) examined the factors influencing investors' decisions in the Nigerian capital market, focusing on their socio-economic backgrounds. The study found that key factors included past stock performance, dividend policies, expected future earnings, and a "get-rich-quick" mindset. Additional influences such as religious beliefs, brand loyalty, family opinions, and concerns about other investments also affected decisions. The study concluded that investors' socio-economic characteristics play a significant role in shaping their investment behavior.

Yuniningsih et al. (2017) studied how people make decisions when investing in the stock market. The main goal of the study was to find out how much risk investors are willing to take, especially in relation to their fear of losing money, also known as loss aversion. The researchers looked at how this fear affects risk-taking behavior in two situations: when investors expect to gain and when they expect to lose.The results showed that investors who are afraid of losing money in situations where they expect gains tend to take fewer risks. On the other hand, those who are loss-averse in situations where they're already facing losses are more likely to take risks. Overall, the study found that loss aversion plays a big role in how investors decide to take risks, especially when they are investing in stocks.

Gill et al. (2018) investigated factors affecting investment decision-making, emphasizing the role of information search as a mediator. The study examined overconfidence bias and economic expectations as independent variables. Results showed that economic expectations positively influenced investment decisions. However, when information search was

considered as a mediating factor, this relationship became negative and insignificant, indicating that economic expectations impact investment decisions primarily through the process of gathering and analyzing information.

Sarbabidya and Saha (2018) investigated factors affecting investment decisions in the Bangladesh stock market, focusing on the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Surveying 100 investors, they found that market risks, unpredictable stockholder behavior, earnings per share, political instability, and broader economic challenges negatively influenced investment decisions. The study emphasized that addressing these issues is essential for market growth.

Chhetri (2022) examined factors influencing equity investors' decision-making in Nepal, highlighting differences across demographic and socio-economic groups. The study found that public and economic information strongly affected both male and female investors, while age had little impact. Education level influenced how investors interpreted accounting and market data. Key factors shaping decisions included annual financial statements, expected dividends, projected profits, and actual dividends paid.

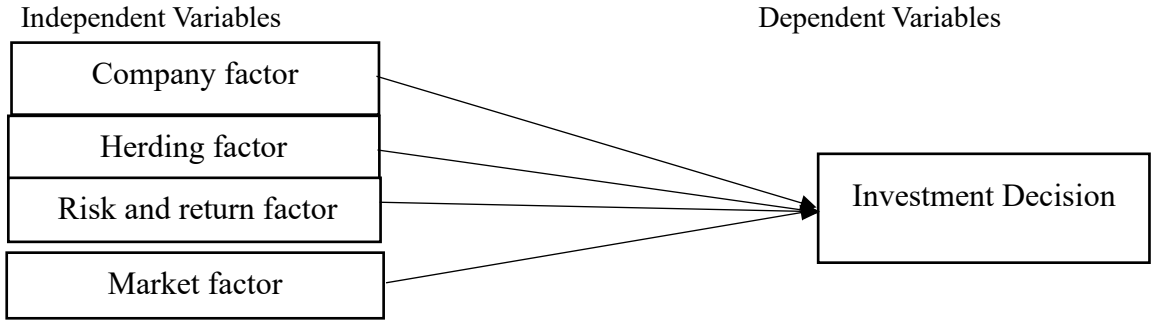
Maharjan and Bhattacharya (2023) studied factors influencing individual investment decisions in the Nepalese stock market, examining macroeconomic conditions, psychological influences, laws and regulations, and a company's market position. Using data from an online questionnaire, the study found that all these factors significantly affect investment choices. The research provides insights into market dynamics and potential trends, though the authors noted that the small sample size and limited timeframe may limit the generalizability of the findings.

Sharma et al. (2023) conducted study on factor influencing stock market investment decisions of individuals investors in the Delhi NCR region. Three elements are used as independent variables: the economic environment, social factors, and natural events. The dependent variable is the choice to invest in the stock market. The results showed that social and economic environment factors were found to have a significant impact on the dependent variable under consideration. Additional findings showed that the least influencing factors are natural events. Along with offering numerous helpful practical implications for prospective investors and policymakers, the study also makes recommendations for future research on investment decision-making.

Research Framework

A conceptual framework is a representation that outlines the key concepts, key variables, and their relationship in a research study. The conceptual framework for the proposed study is presented below:

Figure 1: Conceptual framework



Source: Developed by researcher based on several related studies, including Shrestha (2020)

Figure 1 shows the conceptual framework that identifies investment decision as the dependent variable and company factor, herding factor, risk and return factor, and market factor as independent variables. Each independent variable is expected to have a distinct influence on investors' decisions.

H1: There is a significant relationship between company factor and investment decision.

H2: There is a significant relationship between herding factor and investment decision.

H3: There is a significant relationship between risk and return factor and investment decision.

H4: There is a significant relationship between market factor and investment decision.

H5: There is a significant effect of company factor on investment decision.

H6: There is a significant effect of herding factor on investment decision.

H7: There is a significant effect of risk and return factor on investment decision.

H8: There is a significant effect of market factor on investment decision.

Research methodology

Research methodology refers to the systematic process a researcher follows to investigate a specific problem and achieve the study's objectives. This section explains the research design, sampling method, data collection process, data analysis techniques, and measures taken to ensure validity and reliability.

Research Design

This study adopts both descriptive and causal research designs to fulfill its objectives. The descriptive design is used to describe the characteristics of the respondents and summarize the collected data, while the causal design helps identify relationships between various factors influencing investment decisions. Since the study aims to analyze the existing behavior of investors without manipulating any variables, it falls under the descriptive research category. The findings are primarily based on survey data collected from a sample of investors.

Population and Sample

The target population of this study consists of individual investors residing in Butwal City. From this population, a total of 375 active investors were selected as the study sample. The respondents were chosen using the convenience sampling technique, which involves selecting participants who are easily accessible and willing to take part in the study.

Data Collection Instrument

Primary data were collected through a structured questionnaire designed to gather information relevant to the study objectives. SPSS software was used to code, count, and enter the responses. The questionnaire contained 20 items measured on a five-point Likert scale, ranging from Strongly Disagree (1) to Strongly Agree (5). It was organized into three sections: demographic information, dependent variables, and independent variables. The questionnaire was distributed electronically via Google Forms to reach respondents efficiently. The reliability of the instrument, assessed using Cronbach's alpha, was found to be 0.6 or higher, indicating an acceptable level of internal consistency.

Analysis of Demographic Profile of Respondents

The demographic analysis offers a brief summary of the respondents' key characteristics, including their gender, age, marital status, educational qualification and occupation. It provides an overall picture of the background information of the participants involved in the study.

Table 1: Demographic profile of the Respondent

	Details	N	%
Gender	Male	226	60.3
	Female	149	39.7
Age	18 to 25	93	24.8
	26 to 35	224	65.1
	36 to 45	35	9.3
	46 to 55	2	0.5
	55 above	1	0.3
Marital Status	Married	134	35.7
	Unmarried	241	64.3

Education Qualification	Intermediate	24	6.4
	Bachelor	228	60.8
	Master	107	28.5
	M.Phil./Ph.D.	16	4.3
Occupation	Student	151	40.3
	Employed	137	36.5
	Business	64	17.1
	Unemployed	23	6.1

Note: Field survey

Table 1 shows that out of 375 respondents, 226 i.e. 60.3% were male and 149 i.e. 39.7% were female. Likewise, most participants fall in the age group of 26–35 years, accounting for 65.1% of the sample, followed by 18–25 years at 24.8%. In term of marital status, majority of respondents are unmarried, with 64.3% and 35,7% being married. Education-wise, the largest group holds a bachelor's degree (60.8%), followed by master's degree holders at 28.5%. Regarding occupation, students form the highest share with 40.3%, followed by employed individuals at 36.5%, businesspersons at 17.1%, and unemployed respondents at 6.1%. These demographic characteristics highlight that young, educated, and active individuals are more engaged in stock investment in Nepal.

Reliability test

Reliability analysis checks how consistent the items are in measuring a particular topic. In this study, reliability analysis was used to see how well the questions work together to measure stock investment decisions. This was done using a method called Cronbach's Alpha.

Table 2: Cronbach alpha test

Variables	No. of items	Cronbach's Alpha
Company Factor	4	0.701
Herding Factor	4	0.803
Risk and Return Factor	4	0.694
Market Factor	4	0.650
Investment Decision	4	0.697

Table 3: Overall Results of Reliability Test

No. of items	Cronbach's Alpha
20	0.706

Table 2 & 3 shows the reliability analysis results for the variables used in the study, measured using Cronbach's Alpha to assess internal consistency. Generally, an alpha value of 0.60 or above is considered acceptable. According to Guilford (1965), a Cronbach's Alpha value above 0.70 denotes strong reliability, whereas values below 0.35 are generally regarded as insufficient and should be excluded from analysis. In the current study, all variables demonstrated Cronbach's Alpha values above the acceptable threshold of 0.60, indicating that the instrument used in the study maintains reliable internal consistency.

In this study, all the variables have Cronbach's Alpha values greater than 0.60, indicating acceptable to good internal consistency. Therefore, it can be concluded that the questionnaire used in this study demonstrates strong internal reliability and is suitable for further statistical analysis and interpretation.

Descriptive Analysis

Descriptive statistics offer a quantitative overview of all independent and dependent variables used in this study. Table 4 presents the minimum, maximum, mean, and standard deviation of respondents' views on their investment decisions. The independent variables include company factor, herding factor, risk and return factor, and market factor, while investment decision serves as the dependent variable.

Table 4: Descriptive statistics

	Company Factor	Herding Factor	Risk and Return Factor	Market Factor	Investment Decision
Minimum	1	1	1	1	1
Maximum	5	5	5	5	5
Mean	3.75	3.44	3.58	3.86	3.60
S. D	0.714	0.786	0.723	0.583	0.644

Table 4 presents the descriptive statistics for the variables used in the study: company factor, herding factor, risk and return factor, market factor, and investment decision. For each variable, the table reports the minimum and maximum values, along with the mean and standard deviation. The results show that company factor (mean 3.75), risk and return factor (mean 3.58), and market factor (mean 3.86) are rated relatively high by investors, while herding factor has a slightly lower mean of 3.44. The investment decision variable has a mean of 3.60. These values provide a quick overview of the general trends and variability in investors' responses.

Correlation analysis

Pearson correlation analysis is used to find out how strongly the dependent variable is related to the independent variables. It shows the strength and direction of their relationship. The correlation value can range from -1 to +1. A value of +1 means a perfect positive relationship, -1 means a perfect negative relationship, and 0 means no relationship at all. If a variable is compared with itself, the correlation will always be 1. This helps us understand how closely and in what direction the variables are connected.

Table 5: Results of Pearson Correlation

Variables	CF	HF	RRF	MF	ID
CF	1				
HF	.258**	1			
RRF	.306**	.183**	1		
MF	.433**	.246**	.389**	1	
ID	.331**	.280**	.470**	.489**	1

Note. CF: Company factor; HF: Herding factor; RRF: Risk and Return factor; MF: Market factor; ID: Investment decision.
** Correlation is significant at the 0.01 level (2-tailed)

Table 5 shows the results of the Pearson correlation analysis between four independent variables, i.e. Company Factor, Herding Factor, Risk and Return Factor, and Market Factor and the dependent variable, Investment Decision. The correlation results indicate that all the relationships between the independent variables and the dependent variable are statistically significant at either the 0.05 or 0.01 significance level. Specifically, the p-values for the correlations between Investment Decision and Company Factor ($r = 0.331$, $p < 0.00$), Herding Factor ($r = 0.280$, $p < 0.00$), Risk and Return Factor ($r = 0.470$, $p < 0.00$), and Market Factor ($r = 0.489$, $p < 0.00$) are significant. Among all the independent variables, Market Factor shows the strongest correlation with Investment Decision ($r = 0.489$), followed by Risk and Return Factor ($r = 0.470$), Company Factor ($r = 0.331$), and Herding Factor ($r = 0.280$). The results suggest that all four factors significantly influence individual investors' stock investment decisions in Butwal city.

Regression Analysis

Table 6: Coefficient of Regression Model

	Unstandardized Coefficients	Standardized Coefficients	*t*	Sig.

	B	Std. Error	Beta		
(Constant)	0.705	0.211		3.337	0.001
Company factor	0.064	0.043	0.072	1.502	0.134
Herding factor	0.107	0.036	0.131	2.979	0.003
Risk and Return factor	0.271	0.041	0.305	6.064	0.000
Market factor	0.339	0.054	0.307	6.274	0.000

R	R Square	F	Sig.
0.595	0.354	50.676	0.000

Table 6 shows that the correlation coefficient i.e. R is 0.595, which indicates a moderate to strong positive relationship between the dependent and independent variables. This means the independent variables are positively related to the investment decisions of individual investors. The R-square value is 0.354, meaning that 35.4% of the variation in investment decisions is explained by company factor, herding factor, risk and return factor, and market factor. Likewise, p-value is 0.000, which is less than the significance level of 0.05 (0.000 < 0.05). This indicates that the model is statistically significant at the 5% level of significance. The F-value is 50.676, which further supports that the combination of independent variables has a significant effect on the dependent variable.

The unstandardized coefficients (B) indicate how much the investment decision changes with a one-unit increase in each factor. The results show that the market factor has the strongest effect (B = 0.339), meaning a one-unit rise in market factor increases investment decisions by 0.339 units. The company factor has the smallest effect (B = 0.064), showing only a minimal change in investment decisions. Similarly, the standardized coefficients (Beta) compare the relative strength of each factor. The market factor shows the highest influence (Beta = 0.307), followed closely by risk and return (Beta = 0.305), then herding behavior (Beta = 0.131). The company factor has the weakest impact (Beta = 0.072). Overall, market conditions and risk–return expectations are the most influential predictors of investment decisions.

Based on the table, it can be inferred that the herding factor, risk and return factor, and market factor have a significant relationship with investment decision as they have significant values less than 0.05 (since their p-values are 0.003, 0.000, and 0.000 respectively). However, the company factor, i.e. 0.134, does not show a significant relationship, as its significant value is greater than 0.05.

Table 7: Summary of Hypothesis Testing

Hypothesis	P-Value	Result
H1: There is a positive relationship between company factor and investment decision.	0.000	Significant
H2: There is a positive relationship between herding factor and investment decision.	0.000	Significant
H3: There is a positive relationship between risk and return factor and investment decision.	0.000	Significant
H4: There is a positive relationship between market factor and investment decision.	0.000	Significant
H5: There is a significant effect of company factor on investment decision.	0.134	Insignificant
H6: There is a significant effect of herding factor on investment decision.	0.003	Significant
H7: There is a significant effect of risk and return factor on investment decision.	0.000	Significant
H8: There is a significant effect of market factor on investment decision.	0.000	Significant

Conclusion and Implication

The findings indicate that three independent variables herding factor, risk and return factor, and market factor have a significant positive effect on the investment decision of individual investors. This means that investors' choices in the stock market are strongly influenced by market conditions, expected returns, perceived risks, and the behavior of other investors. However, the company factor does not show a significant effect, suggesting that company-specific details such as management quality or corporate reputation play a comparatively smaller role in shaping investment decisions.

This research is useful for investors as it highlights the key factors that should be considered while making investment decisions. Understanding market trends, evaluating risk and return, and being aware of herding behavior can help investors make more informed and rational choices. The study also provides valuable insights for policymakers and financial advisors in designing awareness programs and market guidelines that support better investment practices. Additionally, future studies with larger samples and more factors can help provide an even better understanding of how investors make their decisions.

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