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EFFECT OF PSYCHOLOGICAL FACTORS ON INVESTOR'S DECISION MAKING IN NEPALESE STOCK MARKET

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ABSTRACT

This paper attempts to examine how conservatism, overconfidence, herding behavior and availability bias influence investors' investment decisions in Nepalese stock market.The research methodology is quantitative, with a questionnaire created and disseminated to a sample of 384 individual investors in Nepal's stock market. SPSS software was used to examine the data and determine the direct effects of the hypotheses. Descriptive and causal-comparative research design utilized with Mann-Whitney U Tests, Kruskal Wallis H Test, correlation, and regression analyses. Beta coefficients indicate higher positive influence of Conservatism on Investor's Decision Making. This study found that overconfidence, Conservatism, Herding behavior and Availability bias have different degrees of impact on investment decisions. It is suggested that this study will increase investors' awareness of how psychological aspects affect their stock market decision-making, leading to more rational investments and improved market efficiency.

KEYWORD: *Overconfidence, Conservatism, Herding behavior, Availability bias and Investor's Decision Making*

I. INTRODUCTION

The stock market provides a forum for human interaction and plays an important role in economic progress. It collects funds from people and institutions and channels them towards businesses and sectors. Individual investors play the most important role in the market, and their behavior is researched both academically and professionally. In the unique Nepalese environment, individual investors may gather information from friends, family, coworkers, print media, and electronic media before investing in the stock market. In addition, an individual may seek information from bankers, brokers, and financial planners. Individual individuals differ from one another and may make various investment decisions, yet there always seems to be a pool of investors with similar investing patterns (Bellman, 2016). Numerous internal and external factors impact investment decisions. Internally, human traits including overconfidence, conservatism, availability bias, herding effects, anchoring, representativeness, gambler's fallacy, loss aversion, and regret aversion are critical. Externally, variables such as firm performance and market knowledge are important influencers. Numerous researches have looked at the link between behavioral factors and investing decisions, producing a wide range of empirical findings. Bakar and Amelia (2016) discovered that overconfidence and conservatism had a substantial influence on stock investment decisions in Malaysia. In contrast, Waweru (2008) underlined the major influence of herding effects and market dynamics on investment decisions in the Nairobi Stock Exchange.However, there are contradicting findings. According to Ngoc (2018), behavioral characteristics such as anchoring and loss aversion have little influence on investing decisions in the Ho Chi Minh City stock market. Similarly, Wamen (2017) stated that loss aversion has no influence on investing decisions on the Kenya Stock Exchange. These diverse findings emphasize the complexity of behavioral impacts on investment decisions, as well as the need for more study to better understand the intricacies of decision-making processes in various market scenarios.

When making investment decisions, investors must make sound judgments based on the economic, financial, and market conditions (Pompian 2012). Most significantly, one must consider that many components of the economy in developing nations differ from those in wealthy ones. Political stability, rules and regulations, scientific breakthroughs, information technology usage, financial structure, revenue level, social class, and the educational system are examples of such changes. Similar to this, there are significant differences between stock exchanges and investors in developed and underdeveloped nations. Making decisions on investments on the Nepali stock market has proven difficult for investors due to the country's unstable share market. Because more people in Nepal now recognize the importance of saving and investing, and because investor behavior affects stock price volatility, the number of investors has increased recently. It is nevertheless difficult for investors in Nepal to make informed

decisions, even if they are aware of these problems and have profited from some of their decisions. These problems haven't been fully examined yet. While neglecting a plethora of other known and unknown factors that may possibly affect Nepali investors' decision-making behavior, this study attempts to identify and address the impact of conservatism and overconfidence on investment decisions.

The study concentrated on factors including availability bias, herding behavior, conservatism, and overconfidence that should be taken into account while choosing investments. The research discovered a study gap after reviewing previous research, namely that ROI is dependent on time length, which varies constantly. The few factors that influence each investor's choice of investment are dividends, dividend growth rate, investment savings, and trading gains. Other microbusiness settings, such as the political, social, cultural, and economic ones, are also important. The paper's primary goal is to examine how investors' psychological behavior influences their decisions in the Nepalese stock market.

Millions of business choices are made globally every minute. Decisions about investments are influenced by a variety of behavioral factors. There are a wide range of behavioral aspects that influence how decisions are made in the realm of investing. Numerous research have been conducted in Nepal to better understand investor behavior and how it affects investment success. Psychological elements such as availability bias, conservatism, herding behavior, and overconfidence have a big impact on investor decision-making in the Nepalese stock market, which affects market stability and efficiency. Market dynamics are altered by overconfidence, which leads to excessive trading and greater risk-taking (Barber & Odean, 2001). Due to an underreaction to new information, conservatism bias results in sluggish price shifts and potentially mispricing assets (Ball & Brown, 1968). Because investors mimic the actions of others instead of conducting their own independent research, herding behavior raises market volatility and causes price bubbles and crashes (Bikhchandani et al., 1992). Because investors rely on information that is easily accessible, availability bias skews perceptions of risk and return and leads to bad investment choices (Tversky and Kahneman, 1974). All of these psychological factors play a part in market inefficiencies, which have an impact on market stability and investment returns.

The specific objectives are as follows

I. To determine the relationship between Overconfidence, Conservatism, Herding behavior, Availability bias and Investor's Decision Making.
II. To examine the effect of Overconfidence, Conservatism, Herding behavior, Availability bias on Consumer Buying Behavior.
III. To assess the differences among gender, age group of respondents with regard to Overconfidence, Conservatism, Herding behavior, Availability bias Investor's Decision Making.

II. REVIEW OF LITERATURE

This section deals with the theoretical and empirical review of the study which are as mentioned below

Theoretical Review

Heuristics are cognitive shortcuts used to simplify decision-making, especially in complex and uncertain scenarios. While they help reduce complexity and save time, they can also introduce biases (Waweru et al., 2008). Common heuristics include anchoring, Gambler's fallacy, overconfidence, availability bias, and representativeness (Kahneman & Tversky, 1974; Ritter, 2003; Waweru et al., 2008). In Nepal's stock market, heuristic theories such as representativeness and prospect theory provide insights into investor behavior. Prospect theory suggests that individuals evaluate potential gains and losses relative to a reference point, often leading to risk aversion when faced with potential losses. This explains why Nepalese investors may act cautiously in volatile markets. Similarly, the representativeness heuristic indicates that investors may make biased decisions based on how closely an event resembles a prior experience or prototype. Studies by Khanal and Sapkota (2017) and Bhandari (2018) highlight the significant role of cognitive biases in shaping Nepalese investor behavior.

Based on psychology, behavioral finance theory seeks to comprehend how individual investor behavior is influenced by emotions and cognitive errors (Kengatharan 2014). Scholars of behavioral finance believe that a range of attitudes and inclinations impact investing choices (Gitman and Joehnk, 2008). Investors will overreact to some financial information and underreact to others due to the accompanying biases and beliefs, which will influence their risk-taking behavior and lead to irrational decisions.

Regret theory, a component of behavioral finance, provides insights into the psychological variables that influence investor decision-making in Nepal's stock market. According to regret theory, investors are influenced not just by the outcomes of their choices, but also by the emotions associated with future regrets. In the context of the Nepalese stock market, investors may be unhappy if their investment decisions result in missed opportunities or

losses. This emotional response, known as the "disposition effect," may cause risk-averse behavior or a reluctance to sell losing stocks, altering market dynamics (Sharma & Ghimire, 2016; Aryal, 2019).

Empirical Reviews

Bakar and Amelia (2016) investigated the effect of psychological factors in the Malaysian stock market, including overconfidence, conservative bias, herding influence, and availability bias, on investor decision making. Data were gathered via survey questionnaires distributed to 200 people, including financial graduates, bank employees, executives, and managers involved in the Malaysian stock market. The questionnaire consisted of Likert scales and closed-ended questions. A multiple regression model was utilized to determine the influence of specified behavioral factors on investor decision-making. The regression results demonstrated that the behavioral factors of overconfidence had a favorable influence on investor decision making, much as the approximation coefficient and availability bias do in the Malaysian stock market. However herding effect and conservatism were found to have no significant impact on investor's decision making.

Trinugroho and Sembel (2011) found that highly confident investors trade more frequently than less confident investors. They also discovered that extremely overconfident investors continue to trade at the same pace before and after the bad news release, but less overconfident individuals decrease their trading activity. The study found that very overconfident investors did much worse than those who were not as overconfident.

Park et al. (2010) suggested that overconfidence may be significantly influenced by confirmation bias, which affects how investors process information. According to the theory of confirmation bias, people tend to choose which information they learn based on their preexisting opinions. Investors should expose themselves to confirming and disconfirming information, objectively analyze the relevance and reliability of new information, and integrate all the information before being impartial in their information collection and processing.

Peters and Büchner (2013) defined overconfidence bias as a cognitive bias that occurs when an individual's subjective confidence in their abilities or judgments exceeds the objective accuracy of those abilities or judgments. Wamen (2017) conducted a study of the influence of behavioral factors on Kenya Stock Exchange investment decisions using a sample of 17 Kenyan investment banks. The study's major purpose was to establish the link between behavioral impacts and investment decisions. The behavioral components in this study were risk aversion, prospecting, anchoring, and herding, and the questionnaire had both near and open-ended questions. Overall, the study found that investment decisions influenced all behavioral characteristics in the Kenyan stock market. In fact, the study found that herding had a stronger impact on prospecting and anchoring investment decisions. Risk aversion has less of an impact on investment decisions in Kenya's stock market.

Dhungana et al. (2018) investigated the behavioral dynamics that influence individual investor decision-making and performance, concentrating on five metropolitan regions and a sample of 350 investors from various brokerages. Their data show relationships between age, gender, marital status, and investment length. While most factors are unaffected by gender, age has an influence on investment success. With the exception of herding behavior, marital status and education have no impact. These findings emphasize the critical significance of behavioral variables in investing decisions. Regulatory agencies must equip investors economically and behaviorally to make more logical stock market decisions.

Sarkar and Sahu (2018) examined the investment behavior of individual stock market investors to see if three independent variables, namely Demographic Factors, Awareness, and Perceived Risk Attitude, had an effect on just one dependent variable, Investment Behaviors. The study employed a standardized questionnaire using a five-point Likert scale to collect primary data from 17,400 randomly selected individual stock market investors from various districts in West Bengal. The study found that individual investors had intermediate levels of awareness, with financial awareness outweighing social learning. Affect, not knowledge, dictates perceived risk attitudes. Individual stock market participants' investment behavior is significantly influenced by their demographic features, expertise, and perceived risk attitude, according to the statistics.

Madaan and Singh (2019) examine behavioral biases in investing decision-making. The major goal of the study is to identify behavioral biases in investing decision making. A questionnaire was prepared for this study, and 243 investors responded by survey. The current study used both inferential and descriptive statistics. In the existing study, four behavioral biases have been reviewed namely, overconfidence, anchoring, disposition effect and herding behavior. The results show that overconfidence and herding bias have significant positive impact on investment decision. Overall results conclude that individual investors have limited knowledge and more prone towards making psychological errors. The findings of the study also indicate the existence of these four behavioral

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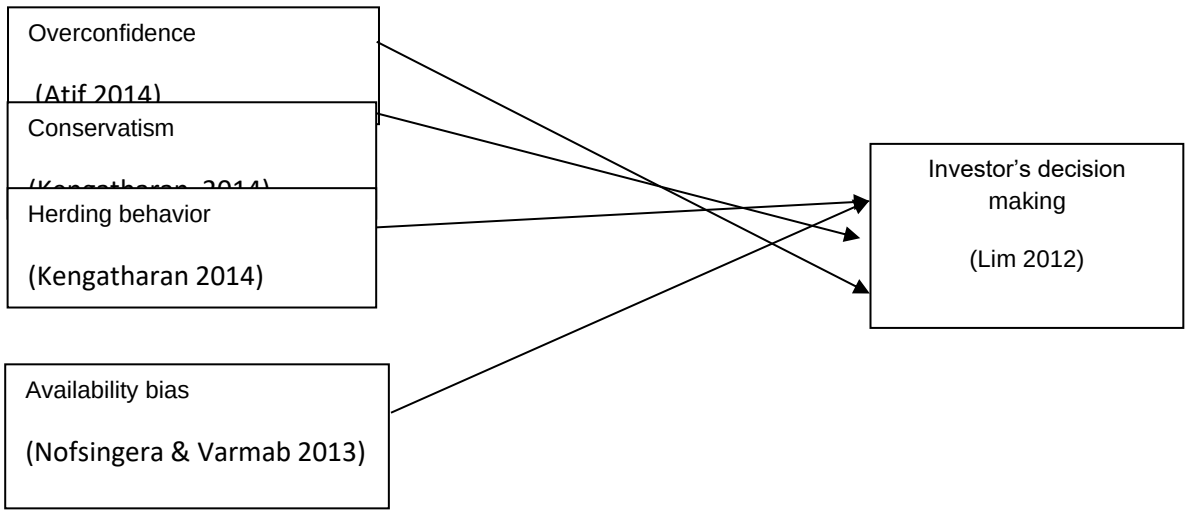
biases on individual investment decisions. This study will assist 19 financial intermediaries advise their clients. Further research may be conducted to investigate other behavioral biases influencing investment decisions.
Babajide and Adetiloye (2012) performed an empirical study on investors' behavioral biases in the Nigerian securities market. The study showed substantial evidence that Nigerian investors exhibit overconfidence, loss aversion, framing, and status quo bias. A small negative relationship between prejudices and stock market performance is also seen. Qureshi, Rehman, and Hunjra (2012) explored the impact of behavioral variables such as heuristics (representativeness, gambler's fallacy, anchoring, overconfidence, and availability bias) and risk aversion on equity fund managers' decision making in Pakistan. The findings revealed a favorable and substantial link between behavioral characteristics and investment decision-making. Mbaluka, Muthama, and Kalunda (2012) investigated the influence of behavioral characteristics, specifically framing and loss aversion, on investor decision-making at the Nairobi Securities Exchange in Kenya. The study found out that investors are frame dependent and loss-averse

.Hypothesis is the statement of assumption or guess of final outcome. It has to be tested once the analysis of data is completed. The hypotheses of the study are as follows:

- H_1: There is a significant relationship between Overconfidence and investor's Decision Making.
- H_2: There is a significant relationship between Conservatism and investor's Decision Making.
- H_3: There is a significant relationship between Herding behavior and investor's Decision Making.
- H_4: There is a significant relationship between Availability bias and investor's Decision Making.

The Research framework of the study is as presented below. A Research framework is a set of concepts, assumptions, and principles that underpin a particular research study or discipline. It provides the foundation for understanding the research problem, identifying relevant variables, and establishing relationships between them. Theoretical frameworks can be drawn from existing theories, models, or conceptual frameworks or they can be developed specifically for a particular research study.

Figure 1
Research Framework



III. RESEARCH METHODOLOGY

This section incorporates research design, population, sample size, sampling method, nature and source of data and instrument for data collection and methods for data analysis

Research Design

This study have employed descriptive research design which is a design which attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated by Cooper and Schindler (2003). Thus, this approach is appropriate for this study as it will help to describe the state of affairs as they exist without manipulation of variables which is the aim of the study. Moreover, a causal-comparative design has also been used in this study. It is used to find relationships between independent and dependent variables after an action or event has already occurred.

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Population, sample size and Sampling Method

The population for the study included all the investors who traded stocks in the stock market. The survey method was used to undertake research. The population was the active individual investors taken from brokerage firms operating inside the Butwal city. The convenient sampling method was accustomed to collect primary data from the active investors of Butwal city. The 384 individual investors were taken as sample. The primary data was collected for the study through structured questionnaires.

The sample size for the study has been determined based on Cochran's formula which is as mentioned below:

$$n = \frac{n_0}{1 + (n_0 - 1)/N}$$

Where,

- $n_0 = \frac{t^2 PQ}{d^2}$, P=0.5, Q=0.5, d=5%, α=5%, t=1.96 and N= unknown Where N= Total investor of the stock market (unknown)
- d= permissible error (5%=0.05)
- P= Proportion of satisfaction or dissatisfaction (0.5, from normal area of table)
- t= (1.96, from Normal area of table)
- The calculated sample size is 384

.

Sampling Technique

The sample respondents from total population has been approached through convenience sampling technique.

Nature and Sources of data and Instrument for data collection

Quantitative data for the study were collected through a primary source. A self-structured questionnaire was prepared based on conceptual knowledge obtained from previous literature. The questionnaire employs a Seven-point Likert scale (7=Strongly Agree, 6=Agree, 4=Somewhat Agree 4=Neutral, 3=Somewhat Disagree, 2=Disagree and Strong Disagree) to collect the responses from the participants.

In the initial phase, detailed practices and constructs related to the chosen variable were identified. In this perspective, five variables have been incorporated in the framework of the study. Among these variables Overconfidence, Herding Behavior, Conservatism and Availability are independent variable, Investor's Decision Making is a dependent variable. In this regard, 5 construct has been chosen under the umbrella of Independent variable. Sets of questions were designed for each independent and dependent variable having total of 25 items..From the total questionnaire i.e. 500 distributed to the participants only 384 complete filled questionnaire were collected with response rate 76.8 percent.

Statistical tools

The research study has used Smart PLS and SPSS version 20 registered software of LBC to analyze the collected data. In this regard, the study employed various statistical tools based on the appropriateness of the data. Descriptive statistics, including mean and standard deviation (SD), were computed to analyze and identify investor's responses. Additionally, a reliability test was conducted to assess the reliability of the research instrument. A Normality test, specifically the K-S test, was employed to check the normal distribution of the data. Following the assessment of data normality, parametric and non-parametric tests were utilized in inferential statistics. Furthermore, a Correlation tool was employed to measure the relationship between variables, and a Regression tool was used to examine the effect of independent variables on the dependent variable.

IV. RESULTS AND ANALYSIS

This section deals with the analysis and results of the paper. the collected have been analyzed using different tools of Smart PLS and SPSS Software, and the results obtained have been incorporated into this section.

Table 1

Measurement Items Assessment/ Assessment of Survey Items

Variables	Items	Loadings	VIF	Mean	SD	Mean of construct	S.D of construct
	AB1	0.909	3.176	5.615	1.453		
	AB2	0.872	2.981	5.034	1.767		
Availability Bias	AB3	0.786	2.625	5.018	1.806	5.2641	1.4317
	AB4	0.849	2.808	5.083	1.848		
	AB5	0.837	2.198	5.570	1.477		
Conservatism	C1	0.788	1.783	5.492	1.579		

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	C2	0.832	2.224	5.648	1.527	5.6135	1.3388
	C3	0.884	2.827	5.562	1.525		
	C4	0.855	3.425	4.948	1.682		
	C5	0.743	2.481	4.560	1.687		
	HB1	0.881	3.081	5.951	1.384	5.6135	1.33888
	HB2	0.905	3.818	5.844	1.462		
Herding Behavior	HB3	0.901	3.945	5.719	1.609		
	HB4	0.724	1.900	5.094	1.762		
	HB5	0.799	1.742	5.461	1.739		
	ID1	0.708	1.333	2.148	1.555	3.3865	1.54292
	ID2	0.889	3.197	3.339	1.946		
Investor's Decision Making	ID3	0.835	2.659	3.734	1.965		
	ID4	0.802	2.440	3.625	2.051		
	ID5	0.774	2.127	4.086	1.941		
	O1	0.847	2.419	5.104	1.702	5.3146	1.36422
	O2	0.819	2.242	5.133	1.797		
Overconfidence	O3	0.860	2.439	5.445	1.544		
	O4	0.818	1.960	5.768	1.586		
	O5	0.778	1.799	5.122	1.629		

Table 1 indicates the measures and validity related to the outer model. It shows the standardized outer loading, Variance Inflation Factor (VIF), mean, and Standard Deviation (SD) of the outer model. Seven scale items are used to assess four latent variables. The outer loading values of all the items are above the threshold value of 0.70. Similarly, the VIF values of all the items are below 5, indicating no multicollinearity among the scale items (Hair et al., 2019). Consequently, there is no multicollinearity among the items. The mean and standard deviation (SD) results of all the measurement items are in a good range on 7-point Likert scale data. Hence, the measurement items qualify for reliability and validity for further assessment. Table1 shows that among the four independent variables used herding behavior has highest mean of 5.6135 and SD of 1.3388 while conservatism has lowest mean of 5.2422 with SD of 1.3181 This indicates among the five variables used in the analysis, Herding behavior has highest influence in making investment decision while conservatism has the lowest.

Table 2

Convergent reliability and discriminant validity: Construct reliability and validity assessment

	Cronach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Availability Bias	0.908	0.938	0.929	0.725
Conservatism	0.880	0.895	0.912	0.675
Herding Behavior	0.899	0.917	0.925	0.714
Investor's Decision Making	0.865	0.882	0.901	0.646
Overconfidence	0.882	0.886	0.914	0.680

Table 2 contains the internal reliability and validity of the constructs used in this study. The Cronbach's Alpha values of all constructs are above the standard threshold value of 0.705 (Bland & Altman, 1997), which indicates that the internal consistency of all constructs and validates the scale used for measuring each of the constructs is reliable. Further, Composite Reliability (CR) rho_a and CR rho_c values are above 0.70, indicating construct reliability and validity (Saari et al., 2021; Hair et al., 2022). The Average Variance Extracted (AVE) values are above 0.50 threshold values, suggesting that the convergent validity of all the constructs is established (Hair et al., 2022). Hence, the results of the above table qualify all the quality criteria measures.

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Table 3
One-Sample Kolmogorov Smirnov Test

	Overconfidence	Herding Behavior	Conservatism	Availability Bias	Investor's Decision
Kolmogorov-Smirnov Z	2.735	3.351	2.924	3.604	2.049
Asymp. Sig. (2-tailed)	.000	.000	.000	.000	.000

As shown in Table 3, since the Z value for Overconfidence, Herding behavior, Conservatism, Availability bias and Investor's decision making do not lie between -1.96 to +1.96, Overconfidence, Herding behavior, Conservatism, Availability bias and Investor's decision making do not follow a normal distribution. for a non-normal distribution, we use non-parametric tests.

Table 4
Mann-Whitney U Tests

	Gender	N	Mean Rank	Z value	P value
Overconfidence	Male	114	182.96	-1.096	.273
	Female	270	196.53		
	Total	384			
Herding behavior	Male	114	180.71	-1.357	.175
	Female	270	197.48		
	Total	384			
Conservatism	Male	114	184.44	-.927	354
	Female	270	195.90		
	Total	384			
Availability Bias	Male	114	180.79	-1.347	.178
	Female	270	197.44		
	Total	384			
Investor's Decision Making	Male	114	192.47	-.003	.998
	Female	270	192.51		
	Total	384			

From the table, is shown that the P value of all variable is more than 0.05. Thus it can be said that null hypotheses is accepted at 5% level with regard to all variable. There is no significant difference between female and male investors with respect to the variables examined in the study. Based on mean rank of gender group of different respondent as shown in the above table, it is found that their opinions are same towards all variables. This may be due to the similarity in decision making among male and female investors in the Nepal stock market could be attributed to a shared cultural or societal influence that mitigates the impact of gender on investment behavior.

Table 5
Kruskal Wallis H Test

	Age	Mean Rank	Chi-square	p-value
Overconfidence	18-30 yrs.	192.57	5.017	.081
	31-45 yrs.	215.15		
	46-60 yrs.	148.29		

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Herding behavior	Total		1.183	.553
	18-30 yrs.	192.30		
	31-45 yrs.	204.69		
	46-60 yrs.	172.33		
Conservatism	Total		1.927	.382
	18-30 yrs.	194.79		
	31-45 yrs.	190.98		
	46-60 yrs.	160.24		
Availability Bias	Total		.452	.798
	18-30 yrs.	194.13		
	31-45 yrs.	184.94		
	46-60 yrs.	181.83		
Investor's Decision Making	Total		.113	.945
	18-30 yrs.	191.91		
	31-45 yrs.	193.19		
	46-60 yrs.	200.24		

From the table, is shown that the P value of all variable is more than 0.05. Thus it can be said that null hypotheses is accepted at 5% level with regard to all variable. There is no significant difference between age group of different investors with respect to the variables examined in the study. Based on mean rank of age group of different respondent as shown in the above table, it is found that their opinions are same towards all variables. This may be due to the similarity in decision making among age group of investors in the Nepal stock market could be attributed to a shared cultural or societal influence that mitigates the impact of age group on investment behavior.

Table 6
Correlation

		Overconfidence	Herding behavior	Conservatism	Availability Bias	Investor's Decision
Overconfidence	Pearson Correlation	1	.727**	.767**	.613**	-.615**
Herding Behaviour	Pearson Correlation		1	.789**	.706**	-.562**
Conservatism	Pearson Correlation			1	.821**	.478**
Availability Bias	Pearson Correlation				1	-.450**
Investor's Decision	Pearson Correlation					1

**. Correlation is significant at the 0.05 level (2-tailed).

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From the Table 6 it is found that the value of r with respect to Overconfidence, Herding Behavior, Availability bias in relation to investor's decision are .614, .562, .450 respectively which means there is strong negative relationship between independent variable and Dependent variable. Likely, conservatism has positive relationship with investor decision making. Moreover, the P value of Overconfidence, Herding Behavior, Conservatism, Availability bias to investor's decision are 0.00, 0.00, 0.00, 0.00 and 0.00 which signifies that the independent variable are significant at 0.05 level of significance which means there is a significant relationship between Overconfidence, Herding Behavior, Conservatism, Availability bias and investor's decision. Thus, it can be said that Null hypothesis H1, H2, H3 and H4 are rejected.

Table 7
Hypothesis Testing (Direct Effect)

Hypothesis	β	Sample mean (M)	STDEV	T-statistics	P values	Decision
Availability Bias -> Investor's Decision Making	-0.183	-0.184	0.063	2.903	0.004	Accepted
Conservatism -> Investor's Decision Making	0.324	0.327	0.081	4.001	0.000	Accepted
Herding Behavior -> Investor's Decision Making	-0.340	-0.344	0.064	5.329	0.000	Accepted
Overconfidence -> Investor's Decision Making	-0.572	-0.570	0.053	10.800	0.000	Accepted

Table show the boot-strapping results under 5000 subsamples and decisions on hypotheses. All hypotheses H1, H2, H3, and H4 are accepted at significance level 0.05. Hence, there is a negative and significant impacts of availability bias (β=0.183; $p<0.05$) on investor decision making. Similarly, conservatism (β=0.324; $p<0.05$) has positive and significant impact on investor's decision making. Similarly, herding behavior (β=-0.340; $p<0.05$) has negative and significant impact on investor's decision making and overconfidence (β=0.572, $p<0.06$) has positive and significant on investor's decision making.

Model Fit Assessment

We examined the goodness-of-fit indices for the model. Specifically, the standardised root mean square residual (SRMR) was utilised for this purpose. The SRMR value is 0.067, less than the threshold value of 0.08. The NFI value is 0.86, which is less than the critical value of 0.90. This indicates that the model possesses good explanatory power, as Hu and Bentler (1998) suggested. We examined the goodness-of-fit indices for the model. Specifically, the standardised root mean square residual (SRMR) was utilised for this purpose. The SRMR value is 0.067, less than the threshold value of 0.08. The NFI value is 0.86, which is less than the critical value of 0.90. This indicates that the model possesses good explanatory power, as Hu and Bentler (1998) suggested. Lastly, the R-square value of investor's decision making is 0.531, which indicates moderate predictive power (Hair et al., 2013).

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Figure

Path Diagram

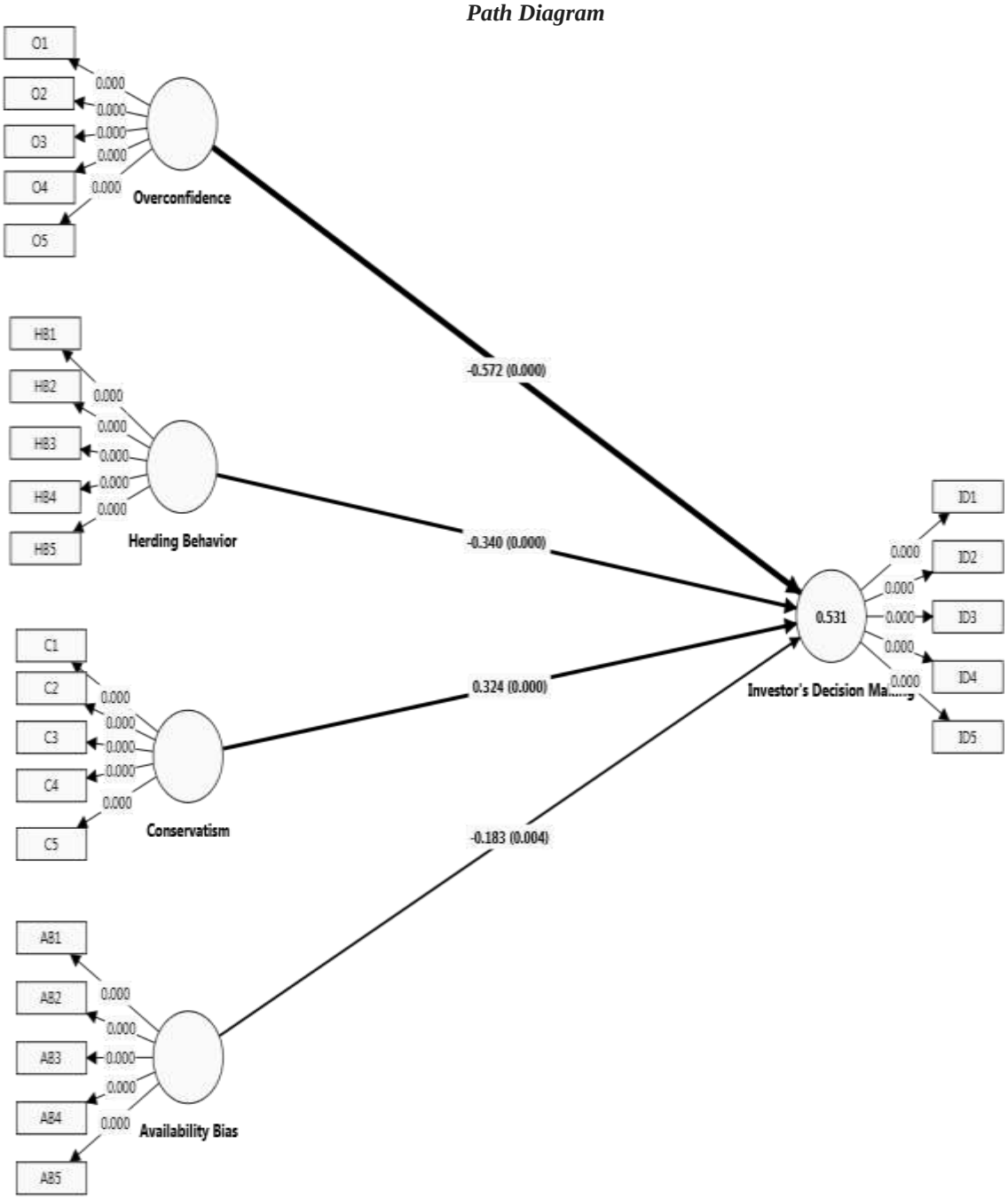

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Figure

Importance-Performance

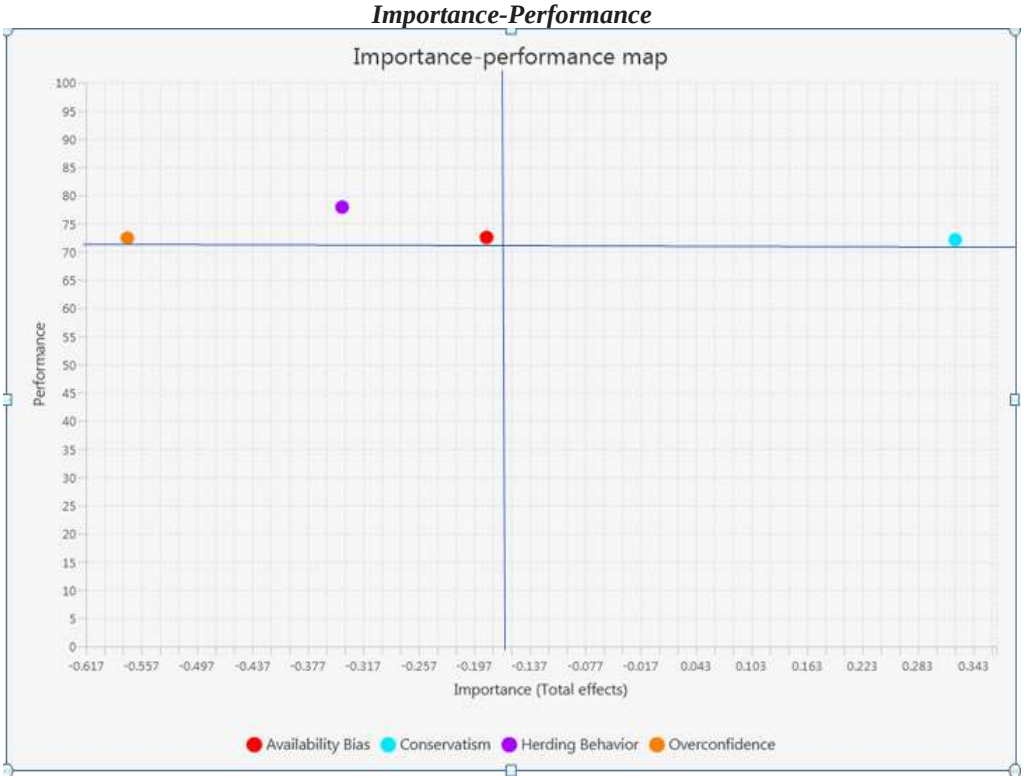

Table 8

	Importance	Lv Performance	
Availability Bias	-0.183	72.543	73.543
Conservatism	0.324	72.118	73.118
Herding Behavior	-0.34	77.909	78.909
Overconfidence	-0.572	72.408	73.408
Mean	-0.18275	73.7445	74.347
Investors decision	-	75.231	

The table indicates the importance-performance analysis of the factors of investor's decision making. The result indicates that if we increase one unit in Availability bias from 72.543 to 73.543, Investor's Decision Making decreases from 75.231 to 75.0480. Similarly, if we increase one unit in conservatism from 72.543 to 72.543, Investor's Decision Making increases from 75.231 to 7.55. Likewise, if we increase one unit in Herding behavior from 72.118 to 73.118, Investor's Decision Making Decreases from 75.231 to 74.89. Similarly, if we increase one unit in Overconfidence from 72.408 to 75.408, Investor's Decision making will decrease 75.231 to 74.65. Hence, it indicates that change in Conservatism is the most critical factor for increasing Investor's Decision Making in Nepalese Stock Market.

V. DISCUSSION

The discussion part deals with the findings of the previous study by comparing its consistency or inconsistency with the current findings.

From the literature, it has been found that Masomi (2016). stated that Overconfidence has a significant negative effect on Investor's Decision Making. Thus, it can be said that the previous findings are consistent with the present finding, which also states that Overconfidence has a negative but significant relationship with Investor's Decision Making. Furthermore, Habib (2018) and Mecso (2021) indicated an inverse relationship between Overconfidence and Investor's Decision Making. Therefore, it can be concluded that the present finding does not match with the findings of the previous study.

Similarly, it has been found that Oden (2019). stated that Availability Bias has a significant negative effect on Investor's Decision Making. Thus, it can be said that the previous findings are consistent with the present finding,

which also states that Availability Bias has a negative but significant relationship with Investor's Decision Making. Furthermore, Osagie (2021) indicated an positive relationship between Availability Bias and Investor's Decision Making. Therefore, it can be concluded that the present finding does not match with the findings of the previous study.

From the literature, it has been found that Masomi (2016). stated that Herding behavior has a significant negative effect on Investor's Decision Making. Thus, it can be said that the previous findings are consistent with the present finding, which also states that Herding behvior has a negative but significant relationship with Investor's Decision Making. Furthermore, Mecso (2021) indicated an inverse relationship between Herding and Investor's Decision Making. Therefore, it can be concluded that the present finding does not match with the findings of the previous study.

Hypothesis examines the influence of conservatism on investment decision making-behavior of investors. The study found that conservatism significantly influenced the investment behavior of investors of Nepali stock market. The findings of this study are consistent with those of previous studies (e.g. Desai & Jain, 1997; Ikenberry et al., 1996; Kaestner, 2006) which means increase in conservatism among investors greatly influence the decision making behavior of investors. Further, Lim (2012) and Kengatharan and Kengatharan (2014) found that conservatism positively impacted the investment decision making. Thus, this result validates our first hypothesis. When investors feel to make investment decisions, their dogmatism and beliefs overshadows the rational way of thinking. It may be reason that conservative investors tend to avoid the complexity process of decision making, and they might be prone to make wrong decision.

VI. CONCLUSION AND IMPLICATION

the conclusion deals with the gist of the findings, and implications help us understand why the research matters and how it can be applied or what actions might be taken based on the findings.

Conclusion

It is found that Overconfidence has a significant negative effect on Investor's Decision Making. Overconfidence may lead investors to make suboptimal choices, often resulting in financial losses and missed opportunities. This overestimation of their own abilities and the accuracy of their predictions can distort perceptions of risk and reward, leading to excessive trading, poor portfolio diversification, and ultimately diminished returns. Furthermore, overconfident investors may neglect to thoroughly assess available information, relying instead on intuition or incomplete data, which can amplify the likelihood of making flawed investment decisions. This tendency to overrate one's knowledge and underestimate uncertainty can foster a false sense of security, masking the potential risks inherent in financial markets.

Recognizing the detrimental effects of overconfidence on investor decision-making is crucial for both individual investors and policymakers. Strategies aimed at mitigating overconfidence, such as enhanced investor education, promoting evidence-based decision-making, and fostering a culture of humility and self-awareness, are essential for improving investment outcomes and safeguarding financial stability.

Implication

For policy makers, understanding these behavioral biases can inform the design of regulations and interventions aimed at fostering a more efficient and stable market. Implementing measures to mitigate these biases, such as enhancing investor education and promoting transparency, could help reduce market volatility and enhance investor protection.

Investors need to recognize these biases to make more informed decisions. Overconfidence may lead to excessive risk-taking, herding behavior can exacerbate market bubbles, conservatism may result in missed opportunities, and availability bias can distort perceptions of risk and reward. Awareness of these tendencies can empower investors to adopt more rational strategies and avoid costly mistakes.

Organizations operating in the Nepalese stock market should take heed of these biases in their decision-making processes. By understanding how these behavioral factors influence investor behavior, companies can better anticipate market dynamics, manage investor relations, and optimize their capital allocation strategies. Proactively addressing these biases within their operations can enhance investor confidence and ultimately contribute to the long-term sustainability of the market.

Further researchers in Nepal's stock market should conduct empirical studies to dissect psychological factors impacting investment decisions, considering market conditions, socio-economic status, and cultural nuances.

They should explore intervention effectiveness, experimenting with behavioral nudges and decision frameworks. Longitudinal analyses are vital to understand evolving psychological influences for informed intervention strategies.

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