“Impact of psychological factors on investment decisions in Nepalese share market: A mediating role of financial literacy”

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IMPACT OF PSYCHOLOGICAL FACTORS ON INVESTMENT DECISIONS IN NEPALESE SHARE MARKET: A MEDIATING ROLE OF FINANCIAL LITERACY

Abstract

Psychological factors such as emotional reactions, cognitive biases, and herd behavior influence investment decisions because they shape investor behavior, drive market dynamics, and affect rational decision-making. Similarly, financial literacy improves investment decisions by facilitating informed choices, minimizing biases, enhancing risk management, and promoting long-term financial planning. This study aims to examine the influence of psychological factors on investment decisions in the Nepalese share market, emphasizing the mediating role of financial literacy. Smart PLS 4.0 was used to analyze the structural relationships within the proposed theoretical model. Data were collected from the primary source using a structured questionnaire administered through a random sampling technique. The respondents included 410 active individual investors from the Nepal Stock Exchange (NEPSE). The study's findings reveal that psychological factors have a positive and significant effect on investment decisions among investors in the Nepalese stock market. Furthermore, the study revealed that financial literacy mediates the relationship between psychological factors and investment decisions by enhancing individuals' understanding and confidence, leading to more informed and rational investment choices. The results highlight the critical role of financial literacy in investment decisions in the share market. The findings indicate that investors with higher financial literacy levels are better equipped to mitigate the adverse effects of psychological biases, leading to more rational and informed investment decisions. By understanding the interplay between psychological factors and financial literacy, policymakers and financial institutions can develop targeted strategies to foster a more robust and resilient financial market in developing economies such as Nepal.

Keywords financial literacy, investment decisions, market volatility, market efficiency, psychological factors

JEL Classification G41, G40, G53

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INTRODUCTION

Investment decisions are influenced by psychological factors, financial literacy, and other internal and external elements. Cognitive biases, emotions, and the level of financial knowledge can further impact investors' decision-making processes (Song et al., 2023). By understanding these psychological factors, insights can be gained into why markets sometimes behave unpredictably and how investment decisions can be improved (Osagie & Chijuka, 2021). Additionally, comprehending these psychological elements helps explain how human emotions and cognitive processes shape financial behavior (Prabarani et al., 2023).

The psychological factors of individuals play a pivotal role in shaping investment decisions. It is concerned with the factors influencing how individuals perceive risks, interpret market information, and manage their portfolios. Risk perception varies widely among investors and is

influenced by factors such as personality traits, past experience, and financial goals (Dorn & Huberman, 2022). For example, individuals with higher risk tolerance may be more inclined to invest in volatile assets with the potential for higher returns, whereas those with lower tolerance may choose safer, less volatile investments despite potentially lower returns (Kahneman & Tversky, 2021).

Investors in the Nepalese stock market often face challenges related to psychological factors, financial literacy, and decision-making processes. Paudel and Pant (2018) highlighted that investors lack experience and expertise, often leading to emotional decision-making and susceptibility to herd mentality. Financial literacy remains a significant barrier, with investors often having an inadequate understanding of complex financial products and market risks (Nepal Rastra Bank, 2020). Moreover, the regulatory environment can be daunting, complicating compliance and accessibility to reliable information (Nepal Stock Exchange, 2021). These factors contribute to issues such as overtrading, lack of diversification, and vulnerability to market manipulation. Addressing these challenges requires concerted efforts to enhance financial education, improve access to information, and strengthen regulatory frameworks, thereby empowering investors to make more prudent and informed decisions in Nepal's evolving stock market landscape. Hence, it is vital to explore the relationships among psychological factors, financial literacy and investment decisions in the context of the Nepalese stock market.

1. LITERATURE REVIEW AND HYPOTHESES

Investment decisions involve more than just maximizing returns; they also require an understanding of risk tolerance, asset allocation, and how economic factors impact various asset classes. The literature indicates that investment experience and risk tolerance are significant determinants of investment decisions, particularly during periods of economic uncertainty such as the COVID-19 pandemic (Ferli et al., 2022). Moreover, financial literacy is defined as an individual's understanding of financial concepts and their ability to apply financial knowledge, which plays a crucial role in shaping financial behavior and decision-making (Mehmood et al., 2019).

Studies show that people with higher financial literacy are more likely to plan for retirement and diversify their investment portfolios. This inclination not only helps in managing risk but also supports long-term wealth accumulation (Hastings & Mitchell, 2019). Additionally, financial literacy is vital for promoting economic stability on both personal and societal fronts, contributing to overall financial well-being and resilience, particularly in times of economic downturn (Van Rooij et al., 2011).

Investment decisions are typically intricate and influenced by numerous factors. Behavioral finance, a relatively recent study area, has revealed the significant role of psychological and cognitive biases in these decisions (Sattar et al., 2020). Behavioral finance challenges traditional finance theories by highlighting the often-irrational behavior of investors. Various studies have explored the psychological influences on investment decisions, emphasizing cognitive biases such as heuristics, framing effects, and overconfidence (Raheja & Lamba, 2011; Sattar et al., 2020; Sharma & Firoz, 2020). Heuristics cause investors to rely on mental shortcuts, leading to consistent judgment errors. Framing effects demonstrate that the way information is presented can influence investment choices, with different reactions depending on whether outcomes are framed as gains or losses. Overconfidence causes investors to overestimate their skills and the accuracy of their forecasts, leading to riskier decisions (Baker, 2014).

Behavioral biases, rooted in cognitive psychology, further impact decision-making processes. Loss aversion leads investors to strongly prefer avoiding losses over acquiring gains of similar magnitude (Kahneman &Tversky, 2021). This bias can result in risk-averse behavior, causing investors to sell assets prematurely during market downturns to avoid further losses rather than holding on for potential recovery. Overconfidence is another common bias where investors overestimate their ability to predict market movements or the performance of specific investments (Barber & Odean, 2021). Recognizing and addressing these psychological factors is crucial for investors striving to achieve long-term financial objectives. By acknowledging their own biases and

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emotions and adopting evidence-based investment strategies, investors can enhance their ability to make rational and well-informed decisions aligned with their goals.

Financial literacy is the individual's ability to make knowledgeable and effective decisions about managing and using money. This has become a central focus for many struggling economies seeking to increase financial inclusion. Improving financial literacy can help investors understand better and reduce their behavioral biases. Takeda et al. (2013) reported that individuals with high financial literacy levels tend to be less overconfident.

Financial literacy is now widely acknowledged as a vital skill in today's intricate economic environment, impacting how individuals make informed investment choices that match their long-term financial objectives. A survey conducted by the Global Financial Literacy Excellence Center revealed that a considerable number of adults globally lack fundamental financial knowledge, hindering their capacity to effectively manage personal finances and make prudent investment decisions (Lusardi & Mitchell, 2019). Research highlights the crucial role of financial education in helping individuals comprehend financial markets, evaluate investment risks, and optimize returns (Fernandes et al., 2014). A study by Fernandes et al. (2014) highlights the significance of financial education in enabling individuals to understand financial markets, assess investment risk, and maximize returns.

In today's complex financial environment, financial literacy is an essential skill for everyone. It enables people to make informed financial decisions, contributing to financial stability and security (Lusardi, 2019; Thabet et al., 2019; Handayani et al., 2022; Didenko et al., 2023). Financial literacy involves understanding and effectively using various financial concepts, such as budgeting, saving, investing, and debt management. Those with higher financial literacy levels are better prepared to navigate the challenges of an ever-evolving financial system, making wise decisions that positively impact their long-term financial well-being (Handayani et al., 2022; Yeboah, 2020; Thabet et al., 2019). Financial literacy also empowers individuals to make informed investment decisions, avoid financial mistakes, and plan for the future. Research shows that financially literate people are more likely to make prudent financial decisions after evaluating relevant information (Thabet et al., 2019; Handayani et al., 2022; Yeboah, 2020). Additionally, they better understand risk and diversification concepts, leading to more informed investment strategies.

Financial literacy is crucial in shaping individuals' investment decisions, influencing their ability to make informed choices and manage financial risk effectively. Recent studies underscore the significance of financial literacy in enhancing investment outcomes and reducing financial vulnerability. According to a report by the Organization for Economic Cooperation and Development (OECD), individuals with higher levels of financial literacy tend to exhibit more diversified investment portfolios, potentially mitigating market volatility risks (OECD, 2023). Moreover, a study highlighted that financial literacy positively correlates with retirement savings behavior, indicating that well-informed individuals are more likely to engage in long-term financial planning and secure their future financial well-being (Lusardi & Mitchell, 2011). Furthermore, the Federal Reserve Board's Survey of Consumer Finances revealed that households with higher financial literacy scores are more inclined to invest in assets that yield higher returns over time, such as stocks and mutual funds than those with lower literacy scores are (Federal Reserve Board, 2023). These findings underscore the pivotal role of financial literacy in fostering confident and prudent investment decisions, thereby promoting economic stability and resilience at both the individual and societal levels.

Understanding the intricate relationship between psychological factors and investment decisions remains a critical study area in contemporary behavioral finance. Recent research underscores how emotions, such as anxiety and euphoria, significantly influence investor behavior and market outcomes (Garg et al., 2023). Cognitive biases, such as the availability heuristic and confirmation bias, continue to distort risk assessment and investment choices, impacting portfolio diversification and performance (Sathya & Gayathiri, 2024). Moreover, individual psychological traits, including impulsivity and sensation seeking, shape investor decision-making processes and risk-taking behaviors (Liang et al., 2022). Integrative models incorporating these psychological insights alongside traditional financial theories

offer a more nuanced understanding of market dynamics and investor behavior, providing pathways to improve financial decision-making strategies (Shefrin, 2016). By addressing these psychological dimensions, financial advisors and policymakers can better support investors in navigating volatile markets and achieving long-term financial goals (Malmendier & Nagel, 2011).

The relationship between psychological factors and financial literacy is increasingly recognized as crucial in understanding individual financial behavior and decision-making. Psychological factors such as cognitive biases, emotional regulation, and personality traits significantly influence financial literacy levels and subsequent financial outcomes. For example, individuals prone to cognitive biases such as overconfidence or loss aversion may make suboptimal financial decisions despite possessing adequate financial knowledge (Lusardi & Mitchell, 2024). Moreover, emotional factors such as anxiety or impulsiveness can impair financial decision-making even among individuals with high financial literacy (Shim et al., 2019). Personality traits such as conscientiousness and openness to experience have also been linked to higher levels of financial literacy, suggesting a nuanced interplay between individual psychological characteristics and financial knowledge acquisition (Furnham & Cheng, 2024). Effective financial education programs often incorporate behavioral economics principles to mitigate biases and enhance decision-making skills (Fernandes et al., 2024).

Recent studies highlighted the mediating role of financial literacy in the connection between psychological factors and investment decisions (Adil et al., 2022; Ghasarma et al., 2017). Studies show that financial literacy enhances investors' market understanding and facilitates thorough security analyses, aiding informed decision-making. Akhtar and Malik (2023) demonstrated that personality traits significantly influence investor risk behavior, with financial literacy modifying these relationships. They concluded that genetic traits predispose individuals to behavioral impacts, which are further influenced by financial literacy. Similarly, Fikriyah and Suhartini (2023) reported that financial literacy affects the link between behavioral biases and investment decisions. Additionally, Khan et al. (2023) identified financial literacy as a moderator of the relationship between behavioral biases and investment decisions.

The impact of financial literacy on the relationship between psychological factors and investment decisions has been a focal point of recent research. Financial literacy involves understanding concepts such as savings, interest rates, risk diversification, and managing credit and loans, which are crucial for informed financial decisions (Mehmood et al., 2019). Psychological factors alongside financial literacy levels influence investment decisions (Ferli et al., 2022; Seraj et al., 2022), underscoring its pivotal role across studies in shaping investment outcomes. Baker et al. (2019) investigated the impact of financial literacy on behavioral biases and revealed a negative correlation between financial literacy and herd behavior and a positive correlation with mental accounting, overconfidence, and loss aversion. Similarly, Aren et al. (2016) demonstrated that financial literacy influences investors' risk perceptions. Investors with high financial literacy levels tend to conduct thorough analyses before investing, thereby reducing their risk perception. This finding indicates that as financial literacy increases, risk perception decreases and rational investment increases. Despite a substantial body of literature linking psychological factors to investment decisions and financial literacy to investment decisions, a notable gap exists in research, particularly concerning the use of financial literacy as a mediating variable.

This study aims to bridge this gap by examining how financial literacy affects the relationship between psychological factors and investment decisions among active individual investors from the Nepal Stock Exchange (NEPSE), as conceptualized in Figure 1. Based on the conceptual framework, the following hypotheses have been developed:

H_1: *Psychological factors significantly influence financial literacy.*

H_2: *Psychological factors significantly influence investment decisions.*

H_3: *Financial literacy significantly influences investment decisions.*

H_4: *Financial literacy mediates the relationship between psychological factors and investment decisions.*

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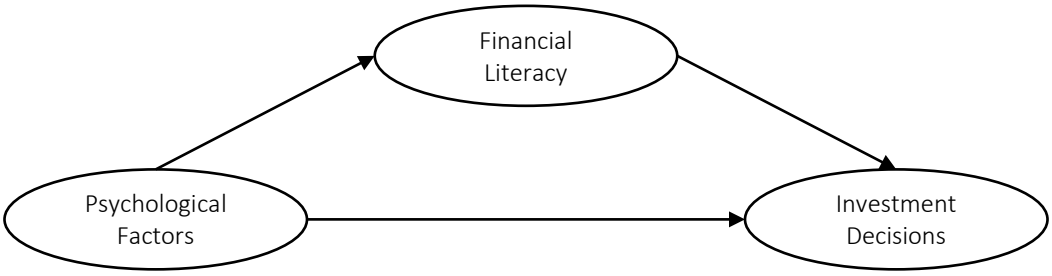

Figure 1. Conceptual framework

2. METHODS

This study employed a descriptive and casual comparative research design to achieve the stated objectives. The sample size for this study was 410 active individual investors of the Nepal Stock Exchange (NEPSE) selected randomly. The data were collected through an administered questionnaire on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). A total of 475 questionnaires were distributed, 435 of which were returned (the response rate was 91.6%). Finally, 410 responses were used for data analysis, and 25 were removed because of multiple nonresponses. According to Hoe (2008), a sample size exceeding 200 is suitable for multivariate data analysis. Furthermore, Krejcie and Morgan (1970) recommend a minimum of 384 samples for populations exceeding 2,50,000 at a 95% confidence interval. Psychological factors, investment decisions and financial literacy were measured as latent variables comprising 6, 7 and 5 items, respectively. In this study, Smart PLS 4.0 (partial least square equation modeling, PLS-SEM) was employed as the primary statistical tool for analyzing the structural relationships of the proposed theoretical model. To establish the internal reliability of the model, Cronbach's alpha and composite reliability were used. Convergent and discriminant validity were examined and validated using structural equation modeling (SEM) by bootstrapping techniques.

Table 1 shows the demographic characteristics of the respondents. Among them, 69.52% were male, and 30.48% were female. In terms of marital status, 79.27% were married, and 20.73% were unmarried. Approximately half of the respondents are aged between 36 and 50, followed by those over 50. In terms of education, 54.88% had completed a bachelor's degree, 39.51% had qualifications above a bachelor's degree, and 5.61% had completed only school-level education. In terms of income, 10.98% earned less than 30,000, 25.61% earned between 30,000 and 50,000, 47.8% earned between 50,000 and 70,000, and 15.61% earned more than 70,000. Investment habits showed that 45.85% invested 11-20% of their income in the stock market, 24.88% invested 21-30%, 19.76% invested up to 10%, and 9.51% invested more than 30%. The transaction frequency revealed that 11.95% conducted transactions daily, 49.27% conducted transactions weekly, 21.95% conducted transactions monthly, and 16.83% conducted transactions occasionally.

Table 1. Demographic profile of the respondents

Variables	Categories	Frequency	Percent
Gender	Male	285	69.52
	Female	125	30.48
Marital Status	Married	325	79.27
	Unmarried	85	20.73
Age	Below 25	25	6.1
	25-35	82	20
	36-50	210	51.22
	Above 50	93	22.68
Academic Qualification	School Level	23	5.61
	Bachelor Level	225	54.88
	Above Bachelor Level	162	39.51
Monthly Income	Below 30,000	45	10.98
	30,000-50,000	105	25.61
	51,000-70,000	196	47.8
	Above 70,000	64	15.61
Income Used for Investment	Up to 10%	81	19.76
	11-20%	188	45.85
	21-30%	102	24.88
	Above 30%	39	9.51
Frequencies of Investment	Daily	49	11.95
	Weekly	202	49.27
	Monthly	90	21.95
	Occasionally	69	16.83

3. RESULTS

The measurement model (Table 2) reveals robust reliability and validity across all the constructs. For the psychological factor (PF) construct, Cronbach's alpha (CA) was 0.907, the composite reliability (CR) was 0.908, and the average variance extracted (AVE) was 0.682 above the threshold point of 0.5 (Fornell & Larcker, 1981), indicating excellent internal consistency and convergent validity. Hair et al. (2011) state that CA and CR values should exceed 0.70. The item loadings for the PF construct ranged from 0.801 to 0.866, all surpassing the 0.7 threshold (Tabachnick & Fidell, 2007), which indicates strong reliability. The variance inflation factors (VIFs) for the construct PF were all less than 5, suggesting no multicollinearity issue among the variables (Hair et al., 1995).

Similarly, FL exhibited high reliability, with a CA of 0.919, CR of 0.920, and AVE of 0.756. The item loadings for this construct ranged from 0.840--0.902, all above the 0.7 threshold. The VIFs were also less than 5, indicating no multicollinearity issues (Smith, 2020). The ID construct had a CA of 0.912, CR of 0.918, and AVE of 0.657, further confirming excellent reliability and convergent validity. The item loadings for this construct ranged from 0.750--0.865, all exceeding the 0.7 threshold, with VIF values below 5, indicating that there is no issue of multicollinearity (Hair et al., 1995).

Furthermore, as shown in Table 3, the Fornell-Larcker (1981) criterion confirmed discriminant validity, as the square roots of the AVE values for the FL, ID, and PF constructs were 0.869, 0.810, and 0.826, respectively, each greater than the correlations between the constructs. The HTMT values were below the threshold of 0.9, further confirming discriminant validity.

Table 3. Discriminant validity (latent variable correlation and square root of the AVE)

	Fornell-Larcker Criterion			HTMT Results	
	FL	ID	PF	FL	PF
FL	0.869				
ID	0.647	0.810		0.702	
PF	0.609	0.742	0.826	0.664	0.811

Note: PF- Psychological factors, FL - Financial literacy, ID- Investment decision.

In conclusion, the measurement model exhibits strong reliability and validity, with high internal consistency and good convergent validity for all the constructs.

The structural model analysis showed substantial explanatory power for the endogenous constructs (Table 4). The coefficient of determination (R^2) for construct FL was 0.365, indicating that 36.5% of the variance in FL is explained by PF. The predictive relevance (Q^2) for FL was 0.343. For construct ID, the R^2 was 0.604, indicating that 60.4% of the variance in ID is explained by PF and FL, with a

Table 2. Measurement model

Construct	Item Code	Loading	Outer Weight	CA	CR	AVE	VIF
Psychological Factors (PF)	PF1	0.866	0.220	0.907	0.908	**0.682**	3.017
	PF2	0.841	0.201				2.686
	PF3	0.820	0.185				2.730
	PF4	0.809	0.194				2.254
	PF5	0.816	0.207				2.785
	PF6	0.801	0.203				2.637
Financial Literacy (FL)	FL1	0.840	0.240	0.919	0.920	**0.756**	2.354
	FL2	0.872	0.229				2.794
	FL3	0.906	0.224				3.701
	FL4	0.876	0.245				2.859
	FL5	0.852	0.212				2.674
Investment Decision (ID)	ID1	0.829	0.174	0.912	0.918	**0.657**	3.465
	ID2	0.865	0.196				3.612
	ID3	0.846	0.182				2.812
	ID4	0.778	0.160				2.085
	ID5	0.843	0.201				2.548
	ID6	0.754	0.156				2.583
	ID7	0.750	0.162				2.286

Note: Average variance extracted (AVE); Cronbach's alpha (CA); Composite reliability (CR).

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Q^2 of 0.538. According to Hair (2013), a Q^2 above 0.35 indicates a strong degree of predictive relevance. The model fit indices were satisfactory, with an SRMR of 0.066 and an NFI of 0.801, indicating a moderate fit (Hu & Bentler,1999, Schumacker, & Lomax, 2010). To conclude, the model fit indices suggest a good overall fit.

Table 4. Coefficients of determination (R2 and Q2) and model fit (SRMR-NFI)

Endogenous Latent Factors	R2	Q2
FL	0.365	0.343
ID	0.604	0.538
Model fit indices	SRMR	NFI
	0.066	0.801

The SEM path analysis results, as shown in Table 5, indicated that PF had a significant positive effect on FL (β = 0.609, t = 7.285, p < 0.001), supporting H_1. Furthermore, PF also had a significant positive effect on ID (β = 0.553, t = 5.897, p < 0.001), supporting H_2. Likewise, a significant positive effect of FL on ID (β = 0.310, t = 3.227, p = 0.001) was revealed, supporting H_3. The analysis also revealed a significant indirect effect of PF on ID through FL (β = 0.189, t = 2.604, p = 0.009), supporting H_4.

4. DISCUSSION

The findings underscore the significant influence of psychological factors on investment decisions in the Nepalese stock market, emphasizing the pivotal role of financial literacy as a mediating variable. In the context of Nepal, investment decisions are driven by emotional and cognitive biases, such as overconfidence, herd behavior, and risk aversion (Poudel et al., 2024). These psychological tenden-

Table 5. Hypotheses constructs

Hypotheses	Relationship	Path Coefficient	T Stat.	Remarks
Direct Relations				
H1	PF → FL	0.609	7.285**	Significant
H2	PF → ID	0.553	5.897**	Significant
H3	FL → ID	0.310	3.277**	Significant
Indirect Relations				
H4	PF → FL → ID	0.189	2.604**	Significant
	VAF	34 percent		

Note: ** signifies significance at the 1% level.

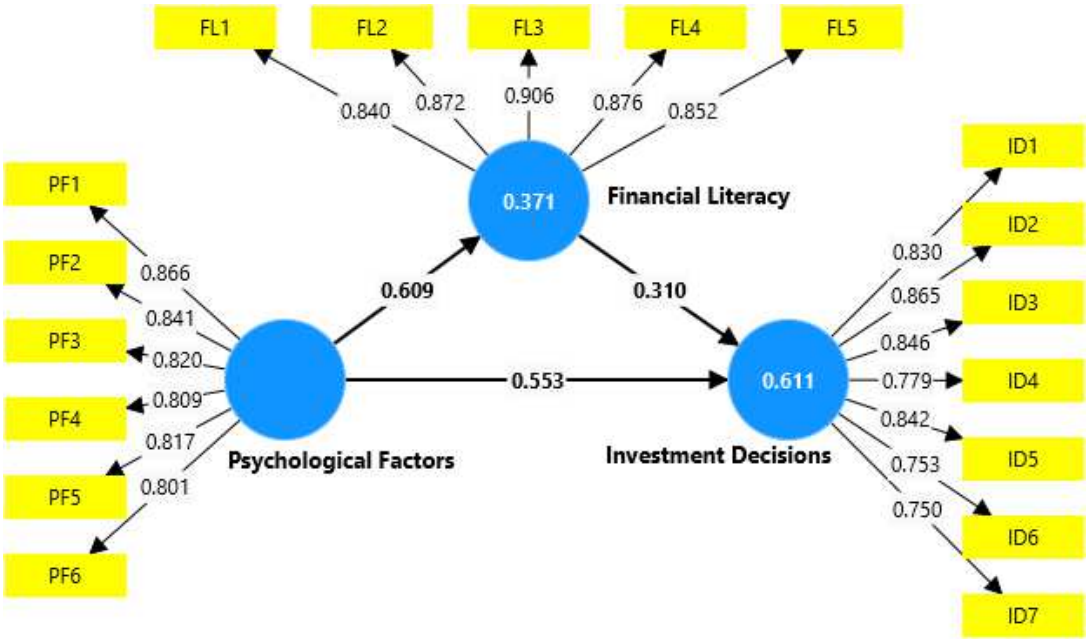

Figure 2. PLS-SEM showing positive relationships between variables

cies can lead to irrational investment choices, significantly affecting market outcomes. Financial literacy is a crucial mediator in this context, enhancing investors' ability to make informed and rational decisions.

However, the unique socioeconomic context of Nepal, characterized by limited access to financial education and resources, exacerbates these psychological influences, making the role of financial literacy even more crucial. Greater financial literacy has been shown to reduce the adverse effects of psychological biases by enabling investors to better understand financial products, market dynamics, and risk management strategies.

This finding aligns with previous research suggesting that financial literacy improves investment outcomes by promoting more rational decision-making processes (Lusardi & Mitchell, 2014). Baker and Wurgler (2006) demonstrated that investor sentiment, encompassing emotions such as optimism or pessimism, significantly affects stock prices. They found that high investor sentiment often leads to increased stock prices, whereas low sentiment has the opposite effect. Similarly, behavioral biases such as overconfidence, herd behavior, and loss aversion play crucial roles in market dynamics. Barber and Odean (2021) reported that overconfident investors tend to trade more frequently, often leading to greater market volatility and affecting overall stock performance. Additionally, Shiller (2000) discussed how herd behavior, where investors follow the actions of others rather than relying on their own analysis, can lead to bubbles and crashes in the stock market. Furthermore, Nofsinger (2005) discussed how psychological factors such as mood and emotions can affect trading decisions, leading to patterns such as the "Monday effect," where stock returns tend to be lower on Mondays because of negative sentiment over the weekend. Kahneman and Tversky's (1979) prospect theory also plays a crucial role in understanding investor behavior, explaining how individuals evaluate potential losses and gains, often leading to irrational investment decisions driven by fear and greed.

In contrast, some studies argue that even financially literate individuals are not entirely immune to psychological biases (Ackert & Deaves, 2010). This suggests that while financial literacy is a crucial factor, it is not a panacea. Emotional and psychological aspects are deeply ingrained in human behavior and can still influence decision-making despite a high level of financial understanding. Therefore, alongside financial literacy, other interventions, such as behavioral training and the use of decision aids, could be beneficial. Furthermore, the efficient market hypothesis (EMH), proposed by Eugene Fama, posits that stock prices fully reflect all available information, rendering it impossible to consistently achieve higher returns through market timing or stock picking. This theory suggests that psychological factors, such as investor sentiment and behavioral biases, should not have a lasting effect on stock prices. Studies supporting the EMH argue that any market anomalies caused by irrational behavior or psychological influences are quickly corrected as rational investors exploit these inefficiencies. Malkiel (2003) supports the notion that prices should follow a random walk in an efficient market, meaning that they are not predictable and are unaffected by investor psychology in the long run.

These studies underscore the importance of psychological factors in influencing market behavior and stock prices. In the context of Nepal, where the majority of investors lack formal financial education, targeted financial literacy programs could serve as powerful tools to enhance market efficiency and investor welfare. Such programs could include educational initiatives, workshops, and the integration of financial education into the national curriculum, aiming to build a foundation of knowledge that can mitigate the impact of psychological biases.

CONCLUSION

This study explores how psychological factors influence individual investors in the Nepalese share market, focusing on the mediating role of financial literacy. Investors in Nepal are often influenced by their emotions and biases, such as being too confident, following the crowd, or being overly afraid of losses. These psychological factors can lead to poor investment choices and can make the stock market more

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unpredictable. However, financial literacy, which involves understanding financial principles and concepts, can help individuals make rational financial decisions. When investors are financially literate, they are better at recognizing and controlling these psychological biases. This leads to better, more informed investment decisions. The study suggests that improving financial literacy among investors is crucial. If more people understand financial basics, they can make smarter decisions, which will make the market more stable and efficient. Therefore, it is important for Nepal to focus on financial education programs to help investors become more knowledgeable and less influenced by their emotions. This not only benefits individual investors but also contributes to the overall health of the share market.

This study has some limitations. The sample size and demographic constraints may not fully represent the diverse investor populations across different regions and socioeconomic backgrounds in Nepal. The self-reported nature of psychological and financial literacy assessments could also introduce bias. Future research could expand by incorporating longitudinal data to track changes over time and utilizing more robust, objective measures of financial literacy. Moreover, exploring the interplay between other factors, such as cultural influences, technological adoption in trading, and macroeconomic variables, can provide a more comprehensive understanding. Comparative studies with other emerging markets can also offer valuable insights and enhance the generalizability of the findings.

AUTHOR CONTRIBUTIONS

Conceptualization: Dhruba Prasad Subedi, Dilli Ram Bhandari.
Data curation: Dhruba Prasad Subedi, Dilli Ram Bhandari.
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Investigation: Dilli Ram Bhandari.
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Writing – review & editing: Dhruba Prasad Subedi, Dilli Ram Bhandari.

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APPENDIX A. QUESTIONNAIRE SURVEY

Dear Respondents,

We cordially request you to participate in our research on ***Impact of Psychological Factors on Investment Decisions in Nepalese Share Market: A Mediating Role of Financial Literacy***. Your participation in this research is entirely voluntary. The findings will not identify individuals, and all information obtained from the survey will be used only in aggregate form in compliance with research ethics. We would be grateful if you could spare a moment of your valuable time to complete the following questionnaire.

Authors

Part I: Please tick the appropriate bracket

Gender: Male ☐ Female ☐

Marital Status: Married ☐ Unmarried ☐

Age: Below 25 Year 25-35 ☐ Year 36-50 ☐ Year ☐ Above 50 Year ☐

Academic Qualification: School Level ☐ Bachelor Level ☐ Above Bachelor Level ☐

Income Per Month: Below Rs.30,000 ☐ Rs.30,000-50,000 ☐ Rs.51,000- 70,000 ☐ Above Rs.70,000 ☐

Income Used for Investment: Upto 10% ☐ 11-20% ☐ 21-30% ☐ Above 30% ☐

Frequencies of Investment: Daily ☐ Weekly ☐ Monthly ☐ Occasionally ☐

Part II. Questionnaire on Independent Variable (Psychological Factors (PF))

Please respond the questions below using 1-5 scale. (1- Strongly Disagree, 2-Disagree, 3- Neutral, 4 – Agree and 5 - Strongly Agree)

Code	Items	1	2	3	4	5
PF1	I am comfortable taking significant risks with my investments.					
PF2	I feel comfortable investing in stocks with high volatility.					
PF3	My investment decisions in stock are often influenced by the opinions of friends and family.					
PF4	News about the financial market significantly impacts my investment decision.					
PF5	I tend to follow the investment trends that many other people are pursuing.					
PF6	I am generally optimistic about the future performance of my investments in Nepalese stock.					

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Part III. Questionnaire on Dependent Variable (Investment Decision (ID))

Using 1-5 scale, please respond to the questions below:

Code	Items	1	2	3	4	5
ID1	I consider economic indicators (e.g., inflation, interest rates) in my investment decisions.					
ID2	I prefer to diversify my investments across different stocks and sectors to minimize risk.					
ID3	My investment decisions are influenced by my emotions, such as fear and excitement.					
ID4	I incorporate feedback from my investment experiences to improve my future decisions.					
ID5	I regularly monitor my investment portfolio and make adjustments as needed.					
ID6	I consider current market trends when making investment decisions.					
ID7	I conduct thorough research and analysis before investing in any stock.					

Part IV. Questionnaire on Mediating Variable (Financial Literacy (FL))

Using a 1-5 scale, please respond to the questions below

Code	Items	1	2	3	4	5
FL1	I am familiar with the rules and regulations governing the Nepalese stock market.					
FL2	I feel confident in my understanding of financial concepts and investment principles.					
FL3	I have the knowledge to develop and implement an effective investment strategy.					
FL4	I understand the characteristics and risks associated with different financial instruments.					
FL5	I am capable of analyzing market trends and economic indicators to inform my investment decisions.					

Thank you for your participation!