“Behavioral factors driving stock market investment decisions among individuals in Nepal”

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BEHAVIORAL FACTORS DRIVING STOCK MARKET INVESTMENT DECISIONS AMONG INDIVIDUALS IN NEPAL

Abstract

Investor behavioral factors determine the investment decisions of individual investors in the stock market. The study investigated behavioral factors driving investment decisions in Nepal's stock market, contributing to existing literature. The behavioral factors comprise heuristics, prospects, and herding as predictors and investment decisions as a response variable. Thus, the study adopted a descriptive and analytical research design to test the research hypotheses and resolve the research questions and issues. A survey was conducted among individual investors registered with Nepal's trading management system (TMS). A total of 526 structured questionnaires were distributed to targeted respondents, and only 350 useful questionnaires (66.54 percent) were received. The survey data of cross-sectional type were encompassed with a random clustering sampling method for this study. Further, the study employed descriptive statistics to depict the characteristics of respondents' profiles, correlation analysis to assess the association between predictors and response variables, and linear regression analysis to investigate the impact of predictors on response variables. Similarly, Cronbach's alpha was tested to observe reliability in the study. The survey findings showed a positive and significant association between heuristics and investment decisions ($\beta = 0.088$, $p < 0.05$). The prospect is positively linked with the individual's investment decision but found insignificant ($\beta = 0.011$, $p > 0.05$). Finally, herding found a positive and significant association with investment decisions ($\beta = 0.235$, $p < 0.05$). The findings of this study contribute to existing theory and can be a benchmark for decision-makers and policymakers, investors, and others.

Keywords herding, investment decision, prospect, stock market

JEL Classification E44, G11, G40, G41

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INTRODUCTION

The investment decision is a challenging step for each investor in the stock market. Individual investors are increasing rapidly in stock market businesses. The expectation of generating a better return on the invested capital is a key driving force that stimulates investors. Moreover, the trading of shares contributes to the creation of wealth, the growth of the economy, and the allocation of capital. An essential aspect of finance by personal endeavor does play a significant role in national economic development as it fosters long-term growth, income generation, diversification, and risk management.

Moreover, behavioral aspects in stock market investment decisions are extremely important since they serve as the foundation for making investment decisions. Similarly, behavioral finance primarily concerns psychological and emotional elements while making financial decisions (Fateye et al., 2024). Conversely, predicting individual investor's behavior is a major challenge in investing decision-making. In addition, the market dynamics substantially

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influence the cognitive decision-making process of investors, and the economic prosperity of the country is closely related to the expansion of the stock market (Gay, 2008; Rehan et al., 2021; Thi My Dung & Thi Thu Ggan, 2024).

Additionally, the investment sector comprising the share trading sector has a turbulent and rapid shift in its pricing mechanism, which is influenced by regulatory provisions, behavioral finance, market sentiment, and the advent of sophisticated technologies (Ababio, 2019; Ballis, & Drakos, 2022; Sungkawaningrum et al., 2022; Diem et al., 2023; Almansour et al., 2023). Importantly, several factors influence individuals' decisions to invest in the stock market. In particular, human preferences and choices follow different options throughout their lives; certain preferences and selection procedures of individuals reveal essential effects. However, many studies investigated the behavioral factors affecting the decision-making of individual investors in the stock market, but there are still inconsistencies in the findings, and need to be re-investigated in the Nepalese context (Sargent, 1993; Mahamood et al., 2020).

1. LITERATURE REVIEW

Heuristics are essentially recommendations that make difficult jobs easier to complete, such as estimating values and calculating likelihood. This is especially important in complex and uncertain scenarios. The four main elements of heuristics are overconfidence, availability bias, anchoring, and representativeness. They are an example of a learning-by-doing method in which people gain general guidelines from experience. This idea is applied to investor decision-making in the field of behavioral finance, which acknowledges that investors frequently pick up their own set of guidelines through trial and error. In such situations that are complicated and unpredictable, heuristics offer straightforward, practical guidelines to help with decision-making. This supports people in overcoming difficult obstacles and making wise decisions even in the face of incomplete knowledge (Kannadhasan, 2014). While these principles are frequently beneficial, they can also lead to systematic cognitive biases.

Therefore, people use heuristics, which are generalized concepts, to help them make decisions in situations that are unclear or complex (Ritter, 2003). Tversky and Kahneman (1974) identified representativeness, availability bias, and anchoring as the three fundamental heuristic dimensions. This approach has since been extended to include two more heuristics: overconfidence and the gambler's fallacy (Waweru et al., 2008). The degree of similarity between an event and the population is measured by representativeness. According to Ritter (2003), biases like the propensity to overemphasize current events and ignore long-term averages might result from representativeness. The "gambler's fallacy" is a prime example of this bias, which is the false notion that a particular random event is less likely to happen following a string of like results (Banz, 1981). When stock market speculators mistakenly predict the end of protracted market uptrends or downtrends, it is known as the gambler's fallacy. Because different starting points produce different results, anchoring happens when people base their estimates on initial values, which can result in skewed assessments (Tversky & Kahneman, 1974). The establishment of a reference point for value by recent data points is known as anchoring in financial markets. Self-confident people tend to overestimate their skills, knowledge, and information accuracy. This can result in an overestimation of their influence over circumstances and an overly optimistic outlook for the future (Camerer & Lovallo, 1999; Hirshleifer, 2001; Glaser & Weber, 2007). Additionally, availability refers to the overuse of easily accessible information by investors (Waweru et al., 2008). Prior research demonstrated a strong and favorable correlation between heuristics and investment choices (Barberis & Thaler, 2003; Abreu & Mendes, 2012; Pahlevi & Oktaviani, 2018; Mago & Thakur, 2020; Dao et al., 2021). The evidence revealed that individuals pursue heuristic behavior while making investment decisions and have a great role in stock investment decisions, mainly in uncertain environments. It shows that the behavioral role of heuristic behavior became indispensable for establishing more informed and intellectual stock market decisions for investment.

Next, individual decision-making is impacted by subjective elements, according to prospect theory. Decision-making processes can be impacted by mental states like regret aversion, loss aversion, and mental accounting (Christie & Huang, 1995). Importantly, prospect theory investigates how an investor's personal system of valuing affects their choices. It highlights a number of mental states that might influence personal decisions, such as regret aversion, loss aversion, and mental accounting (DeBondt & Thaler, 1995). Thus, a descriptive model of economic behavior, prospect theory offers an alternative to the normative rational choice model that is frequently employed in research on risk-averse decision-making. It includes a comprehensive method of decision-making that takes into account a range of viewpoints.

The prospect hypothesis, first stated by Tversky and Kahneman (1974), observed that people have an irrational proclivity to gamble less when winning than when losing. However, others disagreed with this notion, claiming that it more accurately depicts how people naturally respond when faced with uncertainty, risks, and insecurity. People tend to value certainty and choose results that seem more foreseeable. Investors frequently behave risk-averse in win situations and risk-seeking in loss situations. This risk preference isn't always applied in all circumstances (Lindblom, 2004). Filbeck et al. (2005) reflected that the former appears to provide insight into investors' subjective decision-making, whilst the latter focuses on relatively realistic and normal expectations. There are substantial distinctions between Prospect theory and EUT.

First, value maximization operates as a pure value in Prospect theory; in EUT, it is referred to as a utility (Langevoort, 1997). Traditional economic theory and prospect theory have differing definitions of wealth maximization. Prospect theory highlights the particular values connected to gains and losses, whereas traditional theory concentrates on the ultimate wealth position. Furthermore, individuals are risk averse in the area of gains, according to Tversky and Kahneman (1979) concave value function theory. The value function is convex for losses, on the other hand, suggesting that risk-seeking behavior occurs in the loss domain. It was discovered that, whereas wealth functions for profits and losses appear larger and have steeper slopes, they eventually have equal values. When faced with uncertainty and likelihood in the same setting, people react differently than when faced with obvious and secure results. This is especially true in terms of earnings and losses. Conversely, the psychological elements that affect a person's decision-making process, such as regret aversion, loss aversion, and mental accounting, are explained by prospect theory (Waweru, 2003). Additionally, when losses have a greater psychological impact than comparable gains, this is known as loss aversion. Losses can cause more emotional misery for people than the joy that comes with comparable gains (Barberis & Huang, 2001). Several studies have revealed that people experience greater anxiety and anguish when presented with the chance of losing rather than contemporaneous profits (Barberis & Thaler, 2003). Historically, both positive and negative returns have tended to promote unfavorable trends in selling factors and capital losses for investors (Lehenkari & Perttunen, 2004). Prospect theory and investment decision-making have a strong and positive correlation, according to empirical data from earlier studies. According to prospect theory, studies have demonstrated that people frequently stray from making logical decisions due to emotional and cognitive biases. These biases, which include the framing effect and loss aversion, can have a big influence on investment decisions and provide less-than-ideal results. Investors can make more logical and informed choices by being aware of these psychological aspects (Singh & Malhotra, 2016; Edirisinghe et al., 2017; Pahlevi & Oktaviani; 2018; Pertiwi et al., 2020; Rajeshwaran, 2020; Barno & Tuwei, 2020; Nguyenn & Nguyenn, 2020; Yadav et al., 2023). The empirical evidence of these previous researches depicted that prospect has significant implications in the decision-making of investment, especially in the stock market, as this aspect of behavior describes how a person entering into a share market makes decisions scanning risk and uncertainty for potential profit or challenges.

Humans generally display herding behavior because they tend to mimic the actions of others. This is characterized as those who conceal their ideas and base all of their investing decisions only on the market's collective behavior, even if they

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disagree with the projections (Christie & Huang, 1995). Herding could be the driving factor behind stock trading, providing momentum. Nonetheless, the effects of herding may reduce at some point since it may become more expensive to follow the herd to earn gradually higher abnormal returns. An individual investor's disposition effect, overconfidence, and herding behavior can all influence their investment selections (Waweru et al., 2008). These factors include buying, selling, selecting a company, holding it for a longer period, and the amount of stock they trade. These aspects include purchasing and selling, selecting a company, holding it for an extended period, and the volume of shares traded. Herding indicators were created by Christie and Huang (1995) to explain the observed propensity of mutual fund managers to mimic one another's investment choices, especially in times of high volatility or market uncertainty.

The propensity of investors to imitate the behavior of others in financial markets is known as the "herding effect." Stock prices may diverge from their actual worth as a result of investors prioritizing group knowledge above individual analysis. This issue may make it more difficult to find possibilities for investments that are undervalued. Because herding behavior may affect stock price volatility and the underlying assumptions of risk and return models, which may call into question the fundamentals of asset pricing theory, scholars investigate it (Tan et al., 2008). Several psychological biases, such as conformity, information cascades, and home bias, might affect herding behavior. Investors may participate in herding if they think it will lower uncertainty or give them useful information. Analysts and fund managers, among other financial professionals, are frequently judged in comparison to their colleagues. Because people may copy the tactics of their successful peers to improve their performance and reputation, this might encourage herding behavior (Kallinterakis et al., 2010).

Herding investors base their stock market judgments more on the actions of other investors than on their analysis. The behaviors of herding investors can lead to speculative bubbles and market inefficiencies, even though knowledgeable investors often oppose herd mentality. This behavior is comparable to early humans, who frequently lacked a thorough awareness of their surroundings and depended on community dynamics for survival. Due to the possibility of missing out on lucrative chances or purchasing overpriced assets, the herding tendency might result in less-than-ideal investing choices (Caparrelli et al., 2004). An investor's tendency to engage in herding behavior can be influenced by many factors, such as overconfidence, investment volume, and other psychological biases. Investors who are overconfident and more prone to trust their instincts are less likely to follow other people's lead. On the other hand, investors who have made large investments might be more likely to use the herd as a risk-reduction tactic. Furthermore, the degree of herding behavior may vary throughout investor types. For example, institutional investors, who frequently access more advanced analysis and resources, may be less vulnerable to herding than individual investors (Goodfellow et al., 2009). Herding behavior and investing decisions are positively and significantly correlated by empirical studies regularly. According to studies, investors frequently have a propensity to imitate the behavior of others, especially when there is uncertainty or market volatility. When investors follow the actions of others without doing their research, this herding behavior can result in information cascades and worse-than-ideal investing outcomes. For both investors and policymakers, it is essential to comprehend the elements that impact herding behavior and how it impacts market dynamics (Singh & Malhotra, 2016; Chen & Demirer, 2017; Rasheed et al., 2018; Pahlevi & Oktaviani, 2018). The evidence of the previous findings based on the role of herding behavior in the stock investment decision-making process depicted that herding is considered a tendency of investors to pursue the steps and decision-making mechanism of a larger group in the market linking with psychological and social factors comprising fear of mission out, incorrect decision or assuming that a larger group possesses superior information.

Moreover, investors' investment decisions refer to the commitment of resources exerted with the expectation of future benefit notwithstanding market uncertainty (Briston & Liverside, 1979). Additionally, this study suggests using investor satisfaction with investment choices to gauge the success of investments. Return on investment and

other metrics are typically used to assess the performance of investments. By taking into account both psychological and financial aspects, investor satisfaction might offer a more thorough evaluation of investment results, according to this study.

However, recent research on financial behavior demonstrates that people's emotional preferences, deeply ingrained cognitive patterns, and psychological biases influence their perception of reality and investment decision-making (Ritter, 2003). The structural model is then tested by utilizing various behavioral elements (heuristics, prospect, and herding) as independent variables and investing decision as the dependent variable. Investor decision-making and subsequent stock market investment outcomes are known to be significantly influenced by heuristics, investor sentiment, market dynamics, and herding behavior (Waweru et al., 2008). Based on the previous studies findings, the following research hypotheses have been developed for the study:

H_1: *There is a significant impact of heuristics on investment decisions.*

H_2: *There is a significant impact of prospects on investment decisions.*

H_3: *There is a significant impact of herding on investment decisions.*

The research framework clearly defines the study's dependent and independent variables. (Barberis & Huang, 2001). The following framework is a conceptual framework. In the framework, the predictors and response variables are categorized into two different groups. The predictors' variables are herding, heuristics, and prospects, whereas the response variable is an investment decision. Examining how investor behavior affects stock market investing decisions is the main goal of this research. Figure 1 presents the study framework, which offers an organized method for investigating this link.

The conceptual framework for investment choice is used to represent the links between predictors and response variables. The predictors in this study include heuristics, prospects, and herding.

2. METHODS

This study aims to examine how individual investors in the Nepalese market make judgments about their stock market investments based on behavioral characteristics. One can learn more about how investors make decisions by comprehending these elements. In particular, this study investigates how the prospect dimension, herding behavior, and heuristics affect investing choices. To test the research hypotheses and answer the research questions, descriptive and analytical research designs were employed in the study (Hvide, 2002). The study's target group consists of all Kathmandu-based individual investors who have opened a Trade Management System (TMS) account with a Nepalese brokerage house, either directly or via a broker (Lai, 2001). Recently, 90 registered broker companies have been operating stock trading services in Nepal (SEBON, 2024).

Source: Ritter, Ritter (2003).

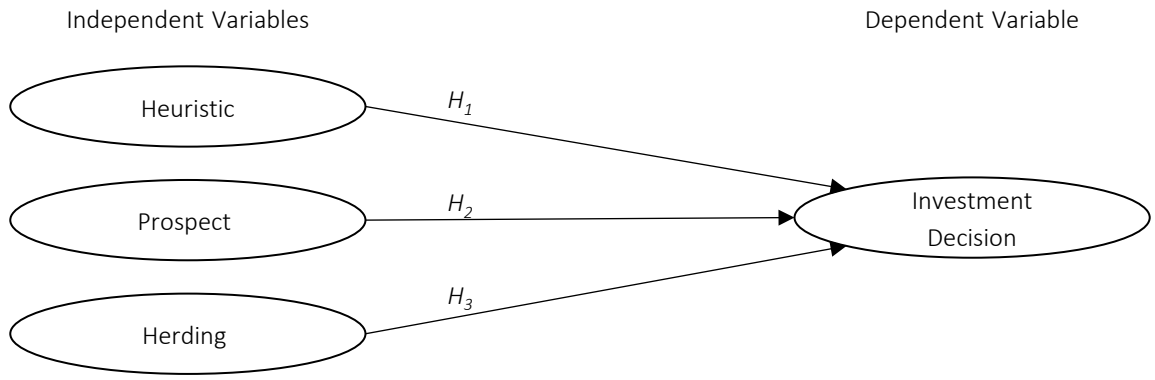

Figure 1. Research framework of the study

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The study purposefully undertook the general investors of the secondary capital market as the target population. General investors are those investors who invest in the secondary capital market (Gurung, 2020). There were 3,283,966 investors in the secondary market, the Nepal Stock Exchange (NEPSE) (SEBON, 2024). Slovin's formula was used to calculate sample size at a 5 percent level of significance as suggested by (Aziz et al., 2024). The sample was chosen using a random multi-stage cluster sampling technique. Structured questionnaires were sent to a randomly chosen group of brokerage firms in order to gather information from individual investors. 370 individual stock market investors were the expected sample size for this study.

Potential participants were given a total of 526 questionnaires; 350 of them were judged appropriate for analysis. Using a five-point Likert scale, a structured questionnaire was used to gather primary cross-sectional data. On the Likert scale, 1 represented "strongly disagree," and 5 represented "strongly agree." The statements of different predictors and response variables used in the study were adapted from different scholars. The predictors variable, herding, and heuristics were extracted from (Kahneman & Tversky, 1979), and statements of prospect were extracted from (Ritter, 2003). Furthermore, the response variable investment decision statement was adapted from (Ongeta & Nasution, 2021). Further, background factors were examined using descriptive statistics, such as frequency and percentage analysis. The associations between variables were examined, and the study hypotheses were tested using inferential statistical techniques such as multiple regression analysis and correlation analysis (Kahneman & Tversky, 1979; Ritter, 2003; Wisniewski, 2009).

Model Specification

$$ID = \alpha + \beta_1 HT + \beta_2 PRP + \beta_3 HD + e_i, \qquad (1)$$

where *ID* – Investment Decision, *HT* – Heuristics, *PRP* – Prospect, and *HD* = Herding.

3. RESULTS

The results of the reliability test are shown in Table 1. Based on five items, the heuristic construct's Cronbach's alpha coefficient is 0.675. In a similar vein, the prospect construct (four items) has Cronbach's alpha of 0.821, the herding construct is 0.644, and the investment decision construct is 0.770 (three items). Since the Cronbach's alpha coefficient values are higher than the usually recognized lower limit of 0.6, the reliability of the questionnaire items is considered satisfactory.

Table 1. Cronbach's alpha

Variable	Cronbach's Alpha	Number of Items
Heuristic	0.675	5
Prospect	0.821	4
Herding	0.644	4
Investment Decision	0.770	3

The demographic profile of 350 respondents is shown in Table 2. There were 172 (49 percent) female respondents and 178 (51 percent) male respondents in the sample. The majority of participants in the age group between 26 to 35 years was 125 (35.71 percent), and the least age group was above 55 years, a total of 8 (5.14 percent). Similarly, the leading group of survey participants were those who had completed a bachelor's degree, 160 people (45.71 percent), and the least was below tenth standard (SEE) 4 (1.14 percent). Moreover, the monthly income of survey respondents with a higher income level was between NRS 10,001 to 20,000, depicting 98 (28.00 percent), and the minimum earner below NRS 10,000 was 26 (7.43 percent). Finally, of those surveyed, 69 (19.71 percent) had more than ten years of trading experience, while the majority 198 (56.57 percent) had fewer than five.

Table 3 shows participants' knowledge of stock market movements, particularly bull and bear markets. The vast majority of respondents 321 (91.00 percent) showed that they were aware of these changes in the market. However, only a few 29 (9.00 percent) reported that they did not fully understand the technical elements associated with bull and bear markets.

Table 4 shows the respondents' knowledge of the stock market's transaction settlement processes. Eighty-nine percent 279 (89.00 percent) of those surveyed understood the transaction settlement process. Only 71 (11.00 percent) of respondents, on the other hand, reported being unaware of or having a poor comprehension of this procedure. It

Table 2. Profile of respondents

Demographic Variables	Classification	Frequency	Percentage
Gender	Male	178	51.00
	Female	172	49.00
Age Group	18-25	64	18.29
	26-35	125	35.71
	36-45	86	24.57
	46-55	57	16.29
	Above 55 Years	18	5.14
Education Level	Under SEE/SLC	4	1.14
	SLC	24	6.86
	10+2	60	17.14
	Bachelor	160	45.71
	Master and Above	102	29.14
Monthly Income (NRS)	Below 10,000	26	7.43
	10,001 – 20,000	98	28.00
	20,001 – 30,000	89	25.43
	30,001 – 40,000	45	12.86
	40,001 – 50,000	46	13.14
	Above 50,000	46	13.14
Trading Experience	Below 5	198	56.57
	5 to 10	83	23.71
	Above 10	69	19.71
Total		350	100.0

should be noted that investors must have a solid understanding of transaction settlement procedures in order to properly manage their investments and reduce any risks.

Table 3. Respondents' understanding of the stock market

Understanding of Bull & Bear Market	Frequency	Percentage
Yes	321	91.00
No	29	9.00
Total	350	100.00

Table 4. Awareness of respondents for transaction settlement

Awareness for Transaction Settlement	Frequency	Percentage
Yes	279	89.00
No	71	11.00
Total	350	100.00

The association between the response variable (investment decision) and the predictor factors (heuristics, prospect theory, and herding behavior) was evaluated using correlation analysis. The direction and intensity of the linear relationship between variables can be determined with the use of correlation analysis. Whereas a weak correlation implies a weaker relationship, a significant positive or negative correlation shows a substantial association between the variables. One can learn more about the elements influencing investment decision-making by comprehending these relationships.

Table 5. Correlation matrix

Variables	(1)	(2)	(3)	(4)
Heuristics	1.000			
Prospect	.434**	1.000		
Herding	.324**	.438**	1.000	
Investment Decision	.524**	.481**	.690**	1.000

Table 5 reveals Pearson's correlation coefficient which reflects the strength of the association between the predictors and response variables. It shows that there is a positive correlation between heuristics and investment decisions. It exhibits that as individuals' heuristic behavior rises, it accelerates investment decisions. Similarly, the association between prospect and investment decision was found to be positively associated. It displays that as prospects rise, it boosts individuals' investment decisions in stock market trading. Finally, herding and investment decisions found a positive relationship, depicting that an increase in herding leads to boosting investment decisions in a positive direction.

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Table 6. Regression coefficients

Coefficients	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Adjusted R^2	F	Sig
	B	Std. Error	Beta					
(Constant)	1.181	0.126		9.372	0.000	0.677	138.458	0.00
Heuristics	0.088	0.035	0.113	2.522	0.012			
Prospect	0.011	0.037	0.013	0.296	0.768			
Herding	0.235	0.041	0.283	5.740	0.000			

Note: a. Dependent Variable: Investment decision.

A regression analysis was performed to investigate the influence of the predictor variables (heuristics, prospect theory, and herding behavior) on the response variable (investment decision), and the findings are shown in Table 6. Data gathered from 350 respondents served as the basis for the analysis. This study aimed to look into the behavioral aspects of the Nepalese stock market that affect the choices made by individual investors.

Heuristics and herding behavior significantly influence investing decisions, according to the regression study, whereas prospect theory has no statistically significant effect. This implies that when Nepalese investors make investment decisions, they might mostly rely on social influence and basic guidelines. Heuristics' beneficial effects show that investors frequently use mental shortcuts and biases to make decisions instead of carrying out in-depth research. Likewise, herding behavior's strong influence implies that investors frequently imitate the behavior of others, particularly in uncertain times. This may result in information cascades, where investors may disregard their analysis and make irrational judgments based on the behavior of others.

Although this study did not find prospect theory to be a major predictor of investment decisions, it is crucial to remember that it is a complicated theory with many different aspects influencing decision-making. More investigation might be required to investigate the particular facets of prospect theory that might influence investing behavior in the Nepalese environment. Indeed, the study's conclusions emphasize how critical it is to comprehend the psychological aspects that affect investor behavior. Investors can make more informed and logical financial decisions by recognizing and resolving these biases.

Regression model

$$ID = 1.181 + \beta_1 0.088 + \beta_2 0.011 + \beta_3 0.235 + e_i, \quad (2)$$

4. DISCUSSION

This study aimed to look into how prospects, herding, and heuristics affect investing choices. The results showed that heuristics significantly improved investment choices, indicating that heuristic behavior positively influences stock market decision-making. This result is consistent with earlier research findings (Barberis & Thaler, 2003; Abreu & Mendes, 2012; Pahlevi & Oktaviani, 2018; Mago & Thakur, 2020; Dao et al., 2021). It reveals that heuristic behavior is vital in investment decision-making, especially during vague, complex, and turbulent financial market situations. It suggests embracing the cognitive procedure of investors as a rule of thumb in the financial investment decision-making process as this cognitive path benchmark in navigating the complexities of stock markets. Similarly, prospects positively affected investment decisions but were found insignificant. It indicated that prospect positively influences the investment decisions of individuals in the stock market. This finding is consistent with previous empirical findings (Singh & Malhotra, 2016; Pahlevi & Oktaviani; 2018; Pertiwi et al., 2020; Rajeshwaran, 2020; Barno & Tuwei, 2020; Nguyenn & Nguyenn, 2020; Yadav et al., 2023). It suggests that the behavioral aspect encompassing the prospect behavior of investors became another key influencing element in investment decisions in the stock market, which generally leads to avoiding excessive risk and securing capital. Further, understanding prospect behavior recommends mitigating the probable adverse effects, and stock market investors can draw more rational and beneficial investment decisions and parallel emphasis on emotional responses with analytical decision-making that manifest a path to achieve success in the long-term stock market. Finally, herding is positively and significantly associated with investment decisions, indicating the positive influence of herding on investment decisions among the in-

dividual investors of the share market. This finding aligns with previous studies' findings (Singh & Malhotra, 2016; Rasheed et al., 2018; Pahlevi & Oktaviani, 2018). It indicates that herding behavior reflects the investors' tendency to pursue the action of the majority instead of making independent decisions relying on the analysis of individual investors. Additionally, herding behavior can drive the benefits for the short term by capitalizing on trends in the market.

CONCLUSION

This study examined how individual investors in Kathmandu, Nepal, make decisions about their investments based on heuristics, prospects, and herding. Descriptive statistics were used to examine the respondents' general characteristics; linear regression analysis was used to quantify the impact of heuristics, prospects, and herding on investment decisions, correlation analysis was utilized to investigate the correlations between variables. The study's conclusions showed that individual investors in Kathmandu, Nepal, made much better investment choices when they used heuristic behavior. Heuristics have a big impact on investment decisions, according to the first research hypothesis, which is supported. The study also revealed a positive correlation between investment decisions and prospects, supporting the second research premise. This association, though, lacked statistical significance. Thus, it can be said that better prospects can have a favorable impact on individual investors' choices in the Nepalese stock market. The third research hypothesis is also supported by the findings, which show that herding behavior significantly and beneficially influences investing choices. This implies that when making investing decisions, Nepalese investors are impacted by the behavior of others.

The study's conclusions show that behavioral elements like herding, prospects, and heuristics have a big impact on individual investors' stock market investing choices. These elements are very important in determining investing choices. The study's conclusions are consistent with how individual stock market investors make decisions. Investors can make more intelligent and sensible financial choices by being aware of these behavioral characteristics. However, this study is not beyond its discovery limitations as it mainly analyzed the cross-sectional data of limited size. Moreover, the study employed a multistage random clustering sampling method with descriptive and analytical research design considering the deductive approach. Thus, future research can be done considering this research gap in the future in multiple geographical contexts. The future study can consist of more sample size and other factors directly influencing the investment decision with longitudinal data even comprising the inductive perspective of research.

AUTHOR CONTRIBUTIONS

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