Factors Influencing Investment Decisions in Nepalese Stock market

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Abstract

The purpose of the study is to determine the factors influencing investment decision in Nepalese stock market, with a focus on company-related variables (CRV), risk-return related variables (RRV), and market-related variables (MRV). Utilizing a descriptive and analytical research design, primary data were collected through questionnaires from 151 investors in Butwal. The analysis reveals that while all three factors positively correlate with investment decisions, market-related variables have the strongest and most significant impact. Further, the demographic profile shows that Nepalese share market investors in this sample are predominantly middle-aged, well-educated males, with a notable portion being person either not involved in any job or students. Also, they are new to investing, often depend on borrowed or inherited funds, and are influenced by both formal and informal information sources. They Prefer sectors lean towards dynamic and emerging industries rather than traditional or manufacturing sectors.

Keywords: Investment decision, company related variable (CRV), market related variable (MRV), risk and return related variable (RRV).

Introduction

Investment decisions play a crucial role in shaping the financial well-being of individuals and fostering the economic development of a nation. In developing economies like Nepal, where the capital market is gradually evolving, understanding the factors that influence investors' decisions has become essential for policymakers, financial institutions, and market participants. Challenging the assumptions of traditional finance theories, scholars argue that investors do not always behave in a uniform manner. Instead, their decisions are shaped by their awareness of a variety of factors that can change over time (Baghdadabad et al., 2011). When making investment choices, stock market participants consider their needs, goals, objectives, and constraints. They evaluate multiple factors such as a firm's image, accounting information, and the availability of unbiased market data before committing funds. Returns from stocks can be generated either through capital appreciation when stock prices rise over time or through dividends distributed by companies (Mishkin & Eakin, 2012).

The financial literature broadly categorizes investment decision-making approaches into three methodologies: fundamental analysis, technical analysis, and behavioural finance. Fundamental analysis focuses on evaluating variables such as price per share, price-to-earnings ratio, and dividend per share, which are influenced by the micro and macroeconomic environment of a company (Xu & Wu, 2006). Technical analysis, on the other hand, assumes that all available market information is already reflected in stock prices, with factors like trading volume and price movements used to forecast future trends (Blume, Easley, & O'Hara, 1994). Tools such as moving averages, relative strength index, commodity channel index, and stochastic oscillators are employed to interpret market patterns and guide decisions.

Every investor enters the capital market with specific financial objectives, aiming to balance risk and returns while maximizing profits. In Nepal, the stock market provides opportunities for achieving these goals with relatively low capital compared to other investment avenues. However, investment decisions are influenced by a combination of factors, including risk-return trade-offs, company performance, and market-related variables. Despite increasing participation in the Nepalese stock market, there is still limited understanding of what truly drives these decisions. Therefore, identifying the key determinants of investment decision, exploring how investors make these choices, and assessing the influence of risk, returns, and market variables remain crucial areas for study.

Objectives of study

The main objective of this study is to analyze the factors influencing investment decision in Nepalese stock market. The others specific objectives are as follows:
• To identify the determinants of investment decisions in the Nepalese stock market.
• To examine the extent to which the identified factors affect investments decision in the Nepalese stock market.

Hypothesis of the Study

Hypothesis is a reasonable statement or guess based upon the available evidence, which the researcher seeks to prove through the study. Hypothesis stated for this study as are:
H1: There is a significant relationship between Company Related Variables and Investment Decision.
H2: There is a significant relationship between Risk and Return related Variables and Investment Decision.
H3: There is a significant relationship between Market Related Variables and Investment Decision.

Literature Review

Literature refers to available all sources of data which are relevant to a particular topic. It plays an important role in providing researchers the theoretical and conceptual context of the study. Brief literary reviews of the studies on factors influencing investment decisions of investors are given below:

Investment Decision (ID)

An investor is an individual or entity that allocates capital with the expectation of financial returns. Investment securities include stocks, bonds, mutual funds, derivatives, commodities, and real estate. Investors vary widely in terms of risk tolerance, capital, investment styles, preferences, and time horizons. Some prefer low-risk investments with steady returns, such as certificates of deposit and secure bonds, while others are willing to take on higher risk for the potential of greater returns, investing in currencies, emerging markets, or stocks with frequent trading (Lamichhane, 2024). An investment decision is a determination of which assets to acquire or capital to spend in order to accomplish one's investment strategy or objective. In a securities law context, it generally refers to an investor's decision to acquire a security in exchange for consideration, based on the total mix of information relied upon to judge whether or not to invest in the offered securities (Datasite,2025).

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Company related variables (CRV)

These variables represent attributes intrinsic to the firm itself and include management team quality, financial performance metrics (such as earnings per share, dividend per share), firm size, and dividend payout ratios. These internal firm characteristics are considered critical by investors when making investment decisions. In the context of Nepal, CRV has been found to have the strongest and most consistent impact on investment choices (Shrestha, 2020).

Risk and return related variables (RRV)

RRV encompasses metrics that capture both expected and historical investment performance, and the associated risk. This includes expected return, past return, firm-specific risk levels, and liquidity of securities. These factors help investors assess the trade-off between risk and reward fundamental to portfolio decisions (Shrestha, 2020). Moreover, theoretical models like the Capital Asset Pricing Model (CAPM) explain this relationship by linking systematic risk with expected returns.

Market related variables (MRV)

MRV pertains to broader market-level information impacting investment decisions. Examples include market price per share, dividend growth trends, availability of market information, and other securities-related data. In Nepal, MRV factors such as stock price trends and access to market information are known to influence investor behavior, though they are generally less influential than CRV (Shrestha, 2020).

Theoretical Review

The theoretical framework that would underlie this study is the Efficient market hypothesis, Heuristics theories and Expected utility theory and others relevant theories which relate the investment decision of the investors.

Efficient Market Hypothesis (EMH), assuming rational behaviour of the investor, EMH equals the expected cash flows of future (fundamental value) to security price without any frictions with availability of accurate information and sensible preferences (Barberis & Thaler, 2003). It assumes that fundamental values are reflected by actual prices believing that prices are rightly determined with sensible preferences by the agents obeying Bayes' law. Assuming rationality in behaviour by all investors, the EMH theory believes that the whole markets is rational. This theory cannot explain the theoretical and empirical challenges completely with evidences from behaviour finance of the belief that financial markets lacks of having proper information efficiency (Ritter, 2003).

Heuristics theories eases decision making in uncertain & complex environments by evaluating probabilities and supporting judgments in less time and might lead to biases also. (Ritter, 2003). Expected Utility Theory (EUT) aids decision-making by focusing on present day investors and, Prospect theory emphasis on subjective decision-making (Kim & Nofsinger, 2008). Behavioural finance theory psychology suggests that decision processes of humans is subject of cognitive illusions (Ritter, 2003).

When conventional financial theories like efficient market hypothesis (EMH), fails to explain investors decision making strategies, behavioural finance steps into the scene. Volume of trading, volatility in the finance market, dividend, equity premium prices and predicating the

future perspectives are the major areas where classical theories fail (Thaler, 1999). Decision is significantly impacted and influenced by psychological behaviour of the decision makers. Individual differences are found to impact decision-makings. Cognitive errors typically result into, anchoring, information availability bias, information confirmation bias, disposition effect, framing and reference dependence, illusion of control, optimism bias, overconfidence bias, overreaction, representativeness and underreaction (Flynn, 2008).

Empirical Analysis

For the investment in capital market there are many variables which investors need to understand and analyze to take rational decision. A large number of scholars have studied about the factors which affect in investment decision of investors inside and outside Nepal. Al-Tamimi (2006) analysed the factors which influenced the behaviours of individual investors in Dubai Financial Markets and Abu Dhabi Securities of United Arab Emirates stock marketsin 2006. Five groups containing total of 34 questions revealed "estimated corporate earnings, getting rich quickly, marketability of stocks, firm's stock performance in the past, government holdings and organised financial markets creations" were reported as major influential factors.

Verma (2008) analysed demographic and personality impacts on investment decisions among Indian investors. His study identified that amongst professionals, students and self-employed groups, mutual funds were quite popular. Retired personals avoided investments in mutual funds and equity shares because of the high risks involved. Understanding level of the inverter about complexities in investment was found improved with education. People with graduation and higher qualification were found easy to invest in equity shares and mutual funds. Mittal and Vyas (2007) demonstrated that gender, age, income, education & occupation effects mentality of Indian investors in his study on demographics and investment choice of Indian Investors. Men in gender, population in the age group of 18-25, professionals and service class preferred equities; women in gender & people with less income preferred post office deposits, population above the age group of 45 people and with high income preferred derivatives; post graduates preferred mutual fund investments; and housewife preferred Real estates in their analysis during.

Shanmugasundaram and Balakrishnan (2010) found that majority of decisions are rational and are frequently impacted by information about government policies, economic prospects, and herd behaviour observed among particular classes of society, where investing culture is ingrained over time. Rebellow and Suri (2019) empirically assessed relevance of demographic factors on decisions of corporate investors. The demographic factors were found to affect significantly all decision-making styles considered above with global implications.

Shrestha (2020) conducted study focuses on the factors influencing investment decisions of Nepalese investors in the stock market. The factors influencing investing decision are grouped into three main variables i. e. company related variable (CRV), risk and return related variable (RRV), and market related variable (MRV). This study concluded that majority of investor

prefer to buy stock from primary market, investor analyze the company before making investment decision, investor monitor their portfolio occasionally, and most of the investor use own saving for making investment in stock. Finally, this study concluded that investment decision of Nepalese investor is more influenced by company related variable (CRV) than market related variable (MRV) and risk and return related variable (RRV).

Mehraj (2021) in their study on assessment of behavioural impact on investment decisions in Jammu and Kashmir, India stated that behaviour of an investor is influenced by variety of factors viz. returns, safety of principal amount, progressive amount, tax savings, family, friends and expert opinion. The risks and return fears varies with the variation of the factor. The risk and return is different for different factor. The 29 investor finds it easy to invest if his principal amount is safe or income is stable. The author claims to facilitate the analysis of behavioural patterns of potential investors and investors to safeguard their profits on investment in share markets.

Lamichhane (2024) carried out the study for examining factors influencing investment decisions in the Nepali stock market. The research employs a thorough review methodology, drawing on past research across various stock market conditions. By analyzing relevant concepts, findings, and conclusions from these studies, it provides insights specific to the Nepali context. Key factors identified include market environment, investment motives, information availability, third-party opinions, the company's reputation, and herding behavior. The study highlights the importance of aligning investment strategies to achieve both long-term gains and short-term profits. It emphasizes the need for diversification by building an investment portfolio to mitigate risks and enhance returns in the Nepali stock market.

Theoretical Framework

Based on the literature review, the relationship between independent variables (CRV, RRV and MRV) and Dependent variable (ID) can be conceptualized and depicted in Figure 1.
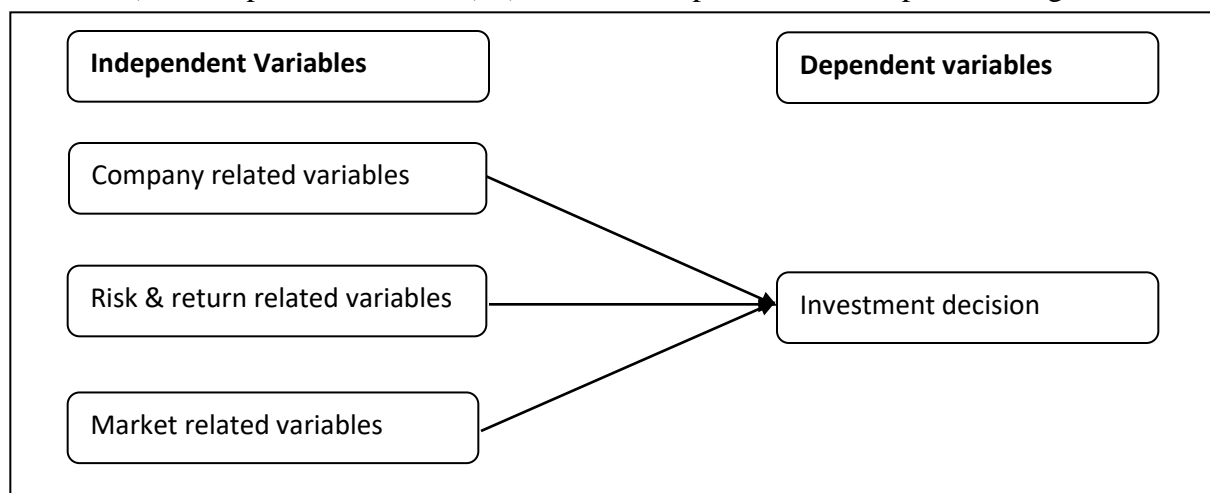
Figure 1: Theoretical framework

Research Methodology

The fundamental goal of this study is to analyze the factors influencing investment decision in Nepalese stock market. Thus, this study follows descriptive and analytical research design. This study follows the descriptive research design to describe the various issues raised and it follows the analytical research design to analyze the impact of CRV, RRV and MRV on investment decision on Nepalese stock market.

This study is mainly based on the primary source with convenient sampling technique. Primary data was collected by distributing self-administered questionnaires. Multiple choice questions and questions based on Likert type scale questions were included in the questionnaire. One hundred eighty questionnaires were distributed to the respondents of Butwal on July 2025 to the person who has invested in stock market. Out of them one hundred fifty-one respondents have returned complete and usable questionnaires. Thus, the response rate is 83.89 % which is good for survey. The scientific methods of data analysis of all the collected information have been done to get the reliable and realistic results.

Data Analysis

In this research, data from the replied questionnaires were evaluated using percentages. The information gathered was checked for consistency and then the frequencies and percentages used to demonstrate distribution reactions. The outcomes were provided in the form of tables and graph. The tools used in data analysis are: Descriptive analysis, Multi-collinearity test, Correlation Analysis and Regression analysis.

Profile of the Respondents:

This section presents demographic components i. e. age, gender, education background and profession of the respondent.

Table 1 Profile of Respondents Based on Personal Characteristics

Basis of classification		Frequency	Percentage(%)
Gender	Male	90	59.6
	Female	61	40.4
Age	16-25 years	37	24.5
	26-35 years	45	29.8
	36-45 years	54	35.8
	46-55 years	14	9.3
	Above 55 years	1	0.7
Education	Intermediate and below	29	19.2

	Bachelor	88	58.3
	Masters and above	34	22.5
Profession	Student	31	20.5
	Employed	34	22.5
	Entrepreneur	30	19.9
	Unemployed	56	37.1
Total		151	100

Sources: Field survey, 2025

Table 1 shows that the sample consists of more males (59.6%) than females (40.4%). This suggests that men currently dominate share market participation in the study area, which may reflect traditional gender roles in financial decision-making or greater risk-taking tendencies among males. Most respondents are in the working-age bracket, with the largest group being 36–45 years (35.8%), followed by 26–35 years (29.8%). This indicates that the market is primarily engaged by middle-aged individuals, likely due to their higher disposable income and investment capacity. A significant portion of respondents hold at least a bachelor's degree (58.3%), while 22.5% have completed a master's or higher. Only 19.2% have education at intermediate or below. This shows that the investor group in the Nepalese share market is relatively well-educated, which could influence their ability to understand financial products and assess investment risks. The largest segment of respondents is unemployed (37.1%), followed by employed individuals (22.5%), students (20.5%), and entrepreneurs (19.9%). The high percentage of unemployed participants may include retirees, homemakers, or individuals relying on investment returns as a primary income source. This distribution can influence the type of investments preferred and the risk tolerance of the sample.

Perception of the investor on the various aspects of stock market

To analyze perception of the respondent regarding the various aspects of stock market respondent were asked to present their response on preferred company for investment, source of information, analysis of company before making investment, investment horizon, source of investment money etc. Their responses regarding these issues are presented in Table 2.

Table 2 Perception of the investor on the various aspects of stock market

Basis of classification		Frequency	Percentage (%)
How long you have been investing in stock market?	Less than a year	34	22.5
	1-2 years	53	35.1
	2-4 years	44	29.1

	4-6 years	13	8.6
	Above 6 years	7	4.6
Source of Investment money:	Own savings	28	18.5
	Inherited money	60	39.7
	Borrowed money	63	41.7
Source of Information:	Companies' annual reports	27	17.9
	Electronic media	32	21.2
	Family & friends	30	19.9
	Newspapers	31	20.5
	Brokerage houses	31	20.5
Reason for Investment:	Dividend income	29	19.2
	Expected bonus & right shares	29	19.2
	Share price increment	28	18.5
	Lack of opportunities	30	19.9
	Fun & excitement in investing	35	23.2
Preferred Sectors for investment:	Bank and Financial Institutions	22	14.6
	Hotels	26	17.2
	Hydropower	23	15.2
	Insurance companies	25	16.6
	Manufacturing companies	22	14.6
	Trading companies	33	21.9

Sources: Field survey, 2025

Table 2 shows that most respondents have limited experience in the stock market, with 35.1% investing for 1–2 years and 29.1% for 2–4 years. Only 13.2% have been investing for over four years. This indicates that the majority are relatively new participants, possibly influenced by recent stock market growth or awareness campaigns. The largest proportion of investors rely on borrowed money (41.7%), followed by inherited money (39.7%), and only 18.5% invest using their own savings. Heavy dependence on borrowed and inherited funds could mean higher

pressure for returns, potentially leading to more aggressive investment strategies. This reliance might also suggest lower levels of financial planning among some investors. Information sources are fairly evenly distributed: electronic media (21.2%), brokerage houses (20.5%), newspapers (20.5%), family & friends (19.9%), and company reports (17.9%). This balance shows that investors use a mix of formal and informal channels. However, the relatively low use of company reports might indicate limited engagement with detailed financial analysis. The most common motivation is fun and excitement (23.2%), followed closely by lack of other opportunities (19.9%), dividend income (19.2%), and expected bonus/right shares (19.2%). This suggests that many investors are driven by psychological or situational factors, not solely by calculated financial analysis, reflecting elements of behavioral finance. Trading companies are the most preferred sector (21.9%), followed by hotels (17.2%), insurance companies (16.6%), hydropower (15.2%), and banks/financial institutions (14.6%). Manufacturing companies are least preferred (14.6%). This distribution reflects a preference for sectors perceived as having higher growth or quick returns, possibly influenced by market trends or media coverage.

Descriptive statistics

Table 3 shows the descriptive statistics of the response of participants towards the employees' performance and work environment.

Table 3: Descriptive statistics

Variables	N	minimum	maximum	mean	S.D.
CRV	151	2.40	5.00	3.7338	0.46632
RRV	151	1.20	5.00	3.5588	0.62836
MRV	151	1.00	5.00	3.8642	0.56843
ID	151	1.75	5.00	3.9619	0.59564

Correlation Analysis

Correlation is the measure of relationship between two or more characteristics of population or sample. If two quantities vary in a related manner so that a movement an increase or decrease in one tends to be accompanied by a movement in the same or opposite direction in the other, they are called correlated.

Table 4: Results of Pearson's Correlation

Variable	CRV	RRV	MRV	ID
CRV	1			
RRV	.434**	1		
MRV	.613**	.429**	1	
ID	.513**	.364**	.666**	1

** Correlation is significant at 0.01 levels (2-tailed)

The table 4 shows the correlation result between all the variables under study. The coefficient of correlation between independent variables CRV, RRV& MRV and dependent variables ID is 0.513, 0.364 and 0.666 respectively. All correlations are positive and significant at the 1% level, suggesting that company-related, risk-return, and market-related variables are all interrelated and contribute to shaping investors' decisions in the Nepalese share market. However, market-related factors appear to have the highest direct influence on investment decisions in your sample.

Regression Analysis

When two or more sets of data are closely related, one often wants to know both the form of the association or relationship and the strength of the relationship. The measurement of the form of relationship between variables is called regression analysis. Thus, regression is the average relationship between dependent variable and independent variables.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.682[a]	.465	.454	.44027	42.516	0.000

a. Predictors: (Constant), CRV, RRV, MRV and ID

The table 4 shows the model summary of regression analysis between dependent variable employee performance and independent CRV, RRV, MRV and ID. The value of R^2 is 0.465 which means that 46.5 % variance in investment decision is explained by company related variable, risk & return related variables and market related variables. The P value shows the model is significance at 0% level of significance.

Table 5: Multiple Regressions for predictors of Employees' Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	.818	.310		2.635	.009
CRV	.191	.101	.149	1.899	.060
RRV	.060	.065	.064	0.926	.356
MRV	.574	.082	.547	6.071	.000

a. Dependent Variable: Investment decision

The regression analysis from table 5 in this study tries to analyse the impact of CRV, RRV and MRV in ID. The beta coefficient of independent variables CRV, RRV and MRV are 0.191, 0.060 and 0.574 respectively. It denotes a unit change in CRV brings 0.191unit change in investment decision. Similarly, a unit change in RRV brings 0.060 unit change in

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investment decision. Furthermore, a unit change in MRRV brings 0.574 unit change in investment decision. Only market related variable is found to be significant predictor of the investment decision at 5% level of significance.

The fitted model is:
$$ID = \alpha + \beta_1\,CRV + \beta_2\,RRV + \beta_3\,MRV + \varepsilon$$

The fitted model for analysis is
$$ID = 0.818 + 0.191\,CRV + 0.061\,RRV + 0.574\,MRV + \varepsilon.$$

Where, α= Constant, ε= Stochastic error, $\beta_1, \beta_2, \beta_3$ = Beta coefficient

Conclusion

In conclusion, this study examined the key factors influencing investment decisions in the Nepalese stock market, focusing on company-related variables (CRV), risk-return related variables (RRV), and market-related variables (MRV). The findings reveal that all three categories are positively correlated with investment decisions, underscoring their combined importance. However, regression analysis highlights that market-related variables hold the most significant influence over investors' choices, followed by company-related variables, while risk-return factors appear to have a lesser, statistically insignificant effect. This suggests that Nepalese investors rely heavily on broader market conditions and trends when making investment decisions, rather than focusing solely on firm-specific financial indicators or traditional risk-return assessments.

Overall, the results contribute valuable insights into the behavior and decision-making patterns of Nepalese investors, many of whom are relatively new to the stock market and often use borrowed or inherited funds. The reliance on market information and the appeal of certain sectors reflects both psychological and situational drivers of investment behavior, consistent with behavioral finance theories. For policymakers and financial institutions, these findings highlight the need to improve market transparency, investor education, and access to reliable market data. Future research could build on this study by exploring the behavioral biases in more detail and assessing how demographic factors further shape investment choices in emerging markets like Nepal.

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