RATIONAL AND IRRATIONAL INFLUENCES ON INVESTING DECISIONS

Dipendra Karki *, Rewan Kumar Dahal **, Ganesh Bhattarai *

* Faculty of Management, Tribhuvan University, Nepal Commerce Campus, Kathmandu, Nepal
** *Corresponding author*, Faculty of Management, Tribhuvan University, Nepal Commerce Campus, Kathmandu, Nepal
Contact details: Faculty of Management, Tribhuvan University, Nepal Commerce Campus, Kathmandu 44600, Nepal

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Abstract

This study analyzes rational and irrational influences on individual investors' investing decisions in the Nepalese stock market. By utilizing a sample size of 300 individuals, our research employs a dual-pronged approach involving exploratory and confirmatory factor analyses (EFA and CFA). One-dimensionality evaluation involves frequency and descriptive analyses, followed by the EFA and structural equation modeling (SEM). Principal component analysis (PCA), coupled with Varimax rotation, identifies five crucial factors (behavioral, accounting, firm image, attitude towards risk, and investing decisions) from the initial 32 variables. SEM revealed the significant influence of rational and irrational factors (Shefrin, 2016). The study has found some common behavioral aspects in most respondents; for example, most of them sell shares that have experienced an increase in value and avoid selling shares that have exhibited a decline in value. Likewise, most of them are heavily influenced by the opinions and actions of others. Accounting information and a firm's image have a considerable favorable influence on investing decisions (Sachdeva et al., 2023). The implications of this research extend to investors, practitioners, and regulators, encouraging informed decision-making and market stability. This research enhances our understanding of investment dynamics by integrating logical and irrational elements.

Keywords: Behavioral Factors, Risk, Firm's Image, Accounting Information, Decision-Making

Authors' individual contribution: Conceptualization — D.K.; Methodology — D.K. and G.B.; Software — D.K. and R.K.D.; Validation — D.K., R.K.D., and G.B.; Formal Analysis — G.B.; Investigation — D.K.; Resources — R.K.D. and G.B.; Data Curation — R.K.D.; Writing — Original Draft — D.K.; Writing — Review & Editing — D.K., R.K.D., and G.B.; Visualization — D.K. and G.B.; Supervision — R.K.D. and G.B.; Project Administration — G.B.

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1. INTRODUCTION

Under the assumption of market efficiency, conventional finance theory asserts that investors consistently make rational judgments by considering all relevant information at their disposal. On the other hand, behavioral finance believes that investors' choices are heavily impacted by their cognitive biases, emotions, and psychological limits (Almansour et al., 2023). The influence of non-financial (rational and irrational) factors on stock prices remains controversial between modern

finance and behavioral finance theory. Behavioral finance theory argues that cognitive and dynamic elements, such as fear and overconfidence, can profoundly affect stock prices (Abideen et al., 2023), while modern finance theory holds that stock markets are fully efficient, reflecting all available information. The stock market, a dynamic platform for conducting trade, enables rapid portfolio realignments, facilitating the movement of securities at predetermined prices. However, it is subject to various factors that can induce both overreactions and underreactions within the market (Karki, 2020). Several factors, including cognitive biases, affective biases, risk perception, social effects, and personality traits, influence investment decisions (Ahmad, 2024; Mundi et al., 2022). These factors have been extensively studied and found to contribute to poor investment decisions (Manandhar, 2022; Sachdeva et al., 2023; Sharma et al., 2021).

In the Nepalese context, the stock market serves as a promising avenue for investment, attracting a wide range of investors, with some investors heavily leaning on fundamental analyses (Merikas et al., 2004), while others, including those with limited capital (Afroze et al., 2015; Pokharel, 2018). The appeal of potentially high returns and the increasing financial literacy among individuals are driving factors behind the growing interest in the stock market. Research has indicated a shift towards investment diversification beyond traditional assets, with the stock market emerging as an accessible alternative (Karki et al., 2023).

Investors' decisions are guided by a complex interaction of rational and psychological factors (Gurung et al., 2023; Kengatharan & Kengatharan, 2014). As behavioral finance suggests, these psychological factors influence individuals' investing decisions in the financial market. These decisions often deviate from classical economic theories' predictions of rationality. The effect of emotions, perceptions, and cognitive behaviors on investing decisions is an evolving study area. Investors are influenced by market information, media coverage, recommendations from acquaintances, and financial advisors. The psychological dimension adds distinctions to investment decision-making, shaping behaviors that range from risk-averse to risk-seeking, as theorized by Shefrin and Thaler (1988).

Al-Tamimi (2006) emphasized the significance of various factors such as corporate earnings projections, marketability, past stock performance, and government holdings as influential determinants. However, exploring the complex stock market overwhelms investors with vast information, ranging from quantitative financial statistics to financial news and opinions from various media sources. The processing of enormous amounts of data, affected by factors such as stock index returns, media coverage, economic indicators, financial advisory services, and information gained from the internet (Francis & Soffer, 1997; Karki et al., 2024), presents a formidable challenge. The study is centered on the topic and seeks to address the subsequent research questions:

RQ1: What are the determinants of investment decisions?

RQ2: What are individual investors' perspectives and the scale of involvement in the Nepalese stock market?

Studies exploring the factors affecting investment decisions in the Nepalese equity market are limited (Kadariya, 2012). Insights into investor behavior and preferences are crucial for individual investors seeking optimal strategies and policymakers aiming to create a conducive investment environment. In this regard, So and Lei (2015) documented that investors' sentiment significantly impacts investment decisions, equity prices, and stock market performance. Regarding fundamental considerations, dividends and earnings per share have been proven to be more significant determinants of stock prices that impact investors' decisions (Karki, 2020). Hemalatha (2019) highlighted the diverse avenues individuals explore, including stocks, fixed deposits, government securities, insurance policies, corporate bonds, commodities, mutual funds, and real estate. According to Maharjan et al. (2022), people become price-conscious and prefer the superior entity at a lower price. Amid this diversity, the capital market emerges as an accessible investment platform for Nepalese investors, catering even to those with limited capital.

The research gap in this topic lies in the need to include rational and irrational factors while making investing decisions comprehensively. This research aims to bridge this gap by methodically examining the factors influencing individual investors' investing decisions in Nepal's Stock Exchange (NEPSE). It involves a comprehensive review of existing literature and leverages the evolving dynamics of the Nepalese stock market.

This study employs a multidimensional theoretical framework rooted in behavioral finance. It draws from the works of researchers like Shefrin and Thaler (1988), who have explored the behavioral factors in decision-making. In addition, it integrates insights from a few recent studies, such as those by Afroze et al. (2015) and Kimeu et al. (2016). The structured questionnaire is used in this study to collect primary data from 300 investors. The questionnaire measures various constructs, including behavioral factors, accounting information, firm image, attitudes toward risk, and investment decisions using a Likert scale. Data analysis involves descriptive analysis, correlation analysis, exploratory factor analysis (EFA), and structural equation modeling (SEM). Hypothesis testing examines the significance of these factors in shaping investment decisions and validates the pivotal role of rational and irrational factors in influencing investment decisions. Understanding the interplay of factors that lead to rational or irrational investment choices may offer essential guidance for investors, practitioners, and regulators.

The subsequent parts of the paper are organized in the following manner Section 2 comprehensively assesses the relevant literature. Section 3 provides a detailed explanation of the research methods used to conduct empirical research. The study results are presented in Section 4. Section 5 provides an in-depth analysis, while Section 6 serves as the article's concluding section.

2. LITERATURE REVIEW

This study encompasses a comprehensive review of the factors that impact individual investors' investment decisions, particularly in the context of the Nepalese stock market. This multidimensional structure reveals a complex interaction of rational and irrational factors that collectively influence investment decisions. Behavioral factors are at the core of this study, reflecting the complex interplay between psychology and finance that influences investor behavior. Sewell (2017) emphasized the importance of behavioral variables while making investing decisions and their ripple effect on stock markets. Behavioral models offer a lens through which investors' activities can be decoded, moving beyond traditional rationality assumptions. This journey commenced with Markowitz's (1952) portfolio theory, which initially focused on rational risk-return assessments. However, as Myers (2019) highlighted, a significant aspect has surfaced — the contextual factors influencing the investor. Individual behaviors are deeply linked with cultural and environmental factors as they evolve to shape investment decisions collectively. Customer satisfaction, company image, experience, and social media marketing significantly positively impact investment decisions (Ghimire & Karki, 2022). Beyond individual inclinations, external factors like ineffective governmental policies, inadequate infrastructure, and a pervasive lack of knowledge and skills among individuals significantly influence the decision-making process (Rajbhandari et al., 2020). This ripple effect extends beyond personal investment decisions, seeping into the corporate sector. Research by Bhattarai et al. (2020) and Ghimire et al. (2023) reveals the negative correlation between psychological contract violations and employee commitment. Furthermore, financial liberalization in the corporate sector motivated the increasing participation of institutional investors, encouraging the adoption of excessively risky and speculative strategies (Lizarzaburu et al., 2023). This linkage between individual and corporate sectors reinforces the interconnected nature of decision-making processes, where external factors echo in both personal and professional spheres.

When examining the complexities of behavioral aspects, a key component is heuristics, which facilitates easier decision-making in challenging situations (Dahal et al., 2023; Ritter, 2003). The pioneering work of Tversky and Kahneman (1974) introduced heuristics like representativeness, availability bias, and anchoring. Building on this, Luu (2014) found anchoring and overconfidence to affect individuals' investment decisions moderately, while mental accounting emerged as a dominant influence. This aligns with the insights of Kimeu et al. (2016), who recognize herding behavior as a powerful force guiding investing decisions. Ahmad (2024) examined how behavioral biases affect investing decisions in the Pakistan Stock Exchange (PSX). Investing decisions in Blue chip stocks are mediated by risk perception, not by herding bias or disposition impact.

H1: Behavioral factors significantly influence investment decisions.

Regarding investing decisions, a significant issue emerges around the role of firm image. Factors such as reputation, industry status, corporate earnings, and sentiments are all integral influencers (Dahal, 2021; Jagongo & Mutswenje, 2014; Joshi et al., 2023). This resonates with the findings of Al-Tamimi (2006), and Francis and Soffer (1997), reinforcing the impact of corporate earnings and marketability on investor choices. Manandhar (2022) discovered that firm image and advocacy opinions have an advantageous effect on investment decisions. Notably, the dynamic web of relationships encompasses customer satisfaction, company image, experience, and even social media marketing, as Ghimire and Karki (2022) revealed. These factors carry positive associations and are crucial in guiding investment decisions.

H2: A firm's image significantly influences investment decisions.

Accounting information appears to be a relevant consideration in decision-making; however, its impact seems limited. Afroze et al. (2015) emphasized its importance, while Merikas et al. (2004) observed its significant influence in the Greek context. This trend highlights investors' tendency to rely on behavioral aspects more than rigid financial analyses, echoing Shefrin and Thaler (1988), who emphasized how behavioral biases often overcome rational decision-making. Sachdeva et al. (2023) found three paramount factors significantly influencing investment decisions: the firm's image, accounting information, and the presence of neutral information.

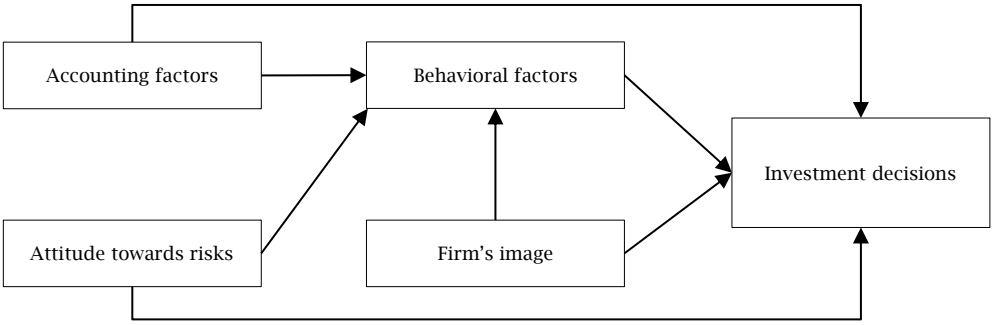
H3: Accounting information significantly influences investment decisions.

The impact of political risk on investing decisions cannot be underestimated, particularly in a country like Nepal with heightened political instability. These exogenous concerns significantly impact the performance of the stock market. This supports the results of Bhandari et al. (2021) and Kabra et al. (2010), who explore how contextual factors such as gender and age influence risk-taking capability. According to Mundi et al. (2022), individual differences in risk perception can explain the performance of investment decisions.

H4: Investors' attitude towards risk significantly influences investment decisions.

Kadariya (2012) and Karki (2020) provide crucial insights into the Nepalese context. Kadariya (2012) examined the importance of the media and friends' recommendations in influencing decisions. On the other hand, Karki et al. (2023) emphasized the role of economic factors and investors' sentiments in determining decisions. Hemalatha (2019) extends to demographic differences in investment perceptions, revealing a multifaceted investment environment with various avenues. This study aims to explore deeper into a network of influencing variables within the Nepalese investment context. It seeks to discover the complex interaction of rational and irrational factors that determine investment decisions, offering a holistic perspective that bridges psychology, economics, and finance. As the Nepalese capital market emerges as a dynamic platform for investment, this research seeks to shed light on the issues influencing investor decisions within this evolving paradigm. The study's research model, depicted in Figure 1, is based on prior works of literature.

Figure 1. Research model



3. RESEARCH METHODOLOGY

This research was precisely designed, employing a descriptive and correlational design, effectively addressing the research objectives. The strategic use of a descriptive research design facilitated a comprehensive understanding of population characteristics, opinions, and behaviors. Through this approach, the study aimed to extract factual insights, comprehensively depicting the characteristics of various variables within the research scope (Merikas et al., 2004). The correlational research design was simultaneously utilized to measure the complex relationship between two variables, quantifying their interdependence. This design aids in revealing the extent of the relationship between variables, ranging from perfectly positive to perfectly negative correlation, with the correlation coefficient guiding this assessment (Sunde & Sanderson, 2009).

While the existing research design fulfills its purpose, considering alternative approaches might have further enriched its methodological robustness. For instance, adopting a qualitative approach similar to that employed by Chakraborty and Bhattacharjee (2020), involving bibliometric and content analysis, could yield a more comprehensive understanding of the research topic. While the present study leans towards quantitative methods, incorporating such qualitative approaches would provide a complementary perspective. Additionally, the suggestion by Devkota et al. (2023) to apply cognitive behavioral theory to examine the impact of sector-related beliefs, values, and perceptions on individual behaviors and choices is noteworthy. This approach could have added valuable insights to the current research, improving the overall understanding of rational and irrational influences.

3.1. Population, sample, and procedure

Targeting the population involves deliberately selecting a specific cohort of persons from whom data would be gathered (Hair et al., 2015). This study encompasses a population of investors engaged in trading stocks in the Nepali stock market, directly or indirectly. This research is based on primary data collected through the distribution of structured close-ended questionnaires to 405 investors. The study used a snowball sampling approach and a convenient sampling technique to choose respondents from their peers or contacts, resulting in a collection of 300 valid responses and a response rate of 74%. The sample size is deemed adequate since it conforms to the recommendation from Hair et al. (1998) that at least 100 participants be used in quantitative research to accommodate for statistical data analysis methods. Additionally, the "ten times rule" of Barclay et al. (1995) supports the study's sample adequacy, as does the tenfold criterion proposed by Hair et al. (2017) that the sample size needs to be ten times greater than the maximum number of structural paths within the structural model that targets a specific latent construct. This method was complemented by distributing questionnaires directly to respondents and immediately collecting them upon completion. A questionnaire was also administered via Google Forms and emailed directly to participants, emphasizing the importance of using modern methods. Inclusivity was a priority, thus disseminating the questionnaire across diverse platforms like Facebook, Investors Forum pages, groups, and Viber to guarantee broader participation. The questionnaire, precisely designed, explored various facets, including demographic characteristics, investor attitudes toward risk, behavioral patterns, firm image, and factors influencing investment decisions (Afroze et al., 2015).

3.2. Survey instrument

A comprehensive literature review culminated in selecting 32 self-reported items for this study. Of the 32 survey questions, 29 were tailored to assess rational and irrational factors influencing investment decisions. The questionnaire consisted of distinct sections, each tailored for measuring a particular construct. These questions were mainly categorized into rational and irrational factors, with irrational factors encompassing behavioral biases such as heuristics, prospect theories, and herding behaviors. The remaining three queries evaluated the investment decision itself. The questionnaire comprised 15 items for behavioral factors, effectively capturing elements like heuristic factors, prospect factors, and herding behavior. Similarly, the survey allocated six items to investigate investor perspectives on risk, four to evaluate the impact of a firm's image, and four to assess the significance of accounting information. Each item in the questionnaire was rated on a five-point Likert scale, ensuring an adequate assessment of participant perspectives (Lusardi & Mitchell, 2011).

3.3. Exploratory factor analysis (EFA)

EFA was performed to analyze the questionnaire's intrinsic structure and determine the suitability of its items. This analysis not only aids in refining the questionnaire but also illuminates the interrelationships between variables. Before EFA, preliminary evaluations were conducted on the 32 survey items using descriptive statistics to ensure appropriateness. Normality checks were then performed, confirming the distribution's adherence to normality standards, a prerequisite for EFA. Subsequently, EFA was executed utilizing SPSS software, employing four endogenous factors in line with the study's objectives. Bartlett's test of sphericity and the Kaiser-Meyer-Olkin (KMO) sample adequacy measure were used to establish construct validity. Eigenvalues were crucial in finding the factor solution.

3.4. Structural equation modeling (SEM)

After confirming data normality, AMOS software was used to perform advanced statistical analysis using SEM, a robust method to evaluate the hypotheses within the study's conceptual framework.

Furthermore, internal consistency, a hallmark of reliability, was measured through Cronbach's alpha, demonstrating impressive values for each competency: 0.975, 0.976, 0.967, 0.962, 0.936, 0.973, and 0.921 respectively. This attests to the survey's reliability, ensuring that the items align consistently to reflect the underlying constructs (Boomsma, 1982). Moreover, the statistical tools employed, such as factor analysis, descriptive analysis, and correlation analysis, efficiently elucidated the data's intricacies. The synergy of these analyses reinforced the robustness of the findings (Kengatharan & Kengatharan, 2014). The insights gleaned from these analyses were then translated into clear and understandable interpretations, allowing for a cohesive understanding of the research outcomes.

4. RESULTS

The study evaluated the one-dimensionality by utilizing descriptive analyses and frequency measures, which specifically conducted variability, mean, percentage, and normality tests. The hypothesis was validated through the use of confirmatory factor analysis (CFA), discriminant validity analysis, average variance extracted (AVE), and SEM.

An online survey form yielded 348 valid responses for this research. Following an initial review of the test samples, 48 replies with z-scores more significant than (-3, 3) were removed to avoid deviations, yielding a final sample of 300 surveys. The demographic profile of the respondents was evaluated using frequency analysis. Fifty-nine percent of respondents were male (59%) between the ages of 25 and 40 years old (88%), had an undergraduate degree (49%), worked in the private sector (61%), and had monthly wages ranging from Nepalese rupees (NRS) 40 to 60 thousand (42%). Approximately 40% of research participants had one to three years of stock market experience and had a portfolio worth more than 500 thousand (37%).

Table 1. Descriptive statistics

Variables	*Mean statistic*	*Std. deviation*	*Skewness*	*Kurtosis*
Behavioral factors (*BF*)	3.433	1.062	-0.405	-0.550
Firm's image (*FI*)	2.963	0.739	-0.127	-0.241
Accounting information (*AI*)	3.867	0.877	-0.770	0.589
Attitude towards risks (*ATR*)	3.391	1.103	-0.329	-0.790
Investment decision (*ID*)	3.949	0.825	-0.641	-0.036

Table 1 demonstrates that the components that have the most significant influence on investment decision-making are *accounting information* (mean = 3.867), *behavioral factors* (mean = 3.433), *attitude towards risks* (mean = 3.391), and *firm's image* (mean = 2.963). According to Hair et al. (2014), skewness and kurtosis values between (-2) and (+2) are adequate for illustrating a normal univariate distribution.

Following that, the internal reliability of the constructs and scales was assessed employing Cronbach's alpha test. The alpha coefficient should be more than 0.7, according to Hair et al. (2014). EFA and CFA were used to evaluate the degree of adequacy. The results of the EFA using the Varimax rotation and the variable-specific Cronbach's alpha coefficients are illustrated in Table 2. After achieving the required outcomes, a CFA was conducted to examine the model's fitness, discriminant, and convergent validity. The causal relationships between the variables were then determined using SEM.

Table 2. Results for reliability analysis

Factors		*Eigen values*	*% of var explained*	*Factor loadings (Av.)*	*Extraction (Av.)*	*Variables*	*Cronbach's alpha*
Behavioral factors	Heuristic	3.872	93.885	0.969	0.939	X_1, X_2, X_3, X_4	0.975
	Prospect	4.597	91.931	0.959	0.921	X_5, X_6, X_7, X_8, X_9	0.976
	Herding	5.218	86.975	0.933	0.870	X_{10}, X_{11}, X_{12}, X_{13}, X_{14}, X_{15}	0.967
Firm's image		3.623	90.582	0.952	0.906	X_{20}, X_{21}, X_{22}, X_{23}	0.962
Accounting information		3.402	85.049	0.922	0.851	X_{16}, X_{17}, X_{18}, X_{19}	0.936
Attitude towards risks		5.389	89.823	0.948	0.898	X_{24}, X_{25}, X_{26}, X_{27}, X_{28}, X_{29}	0.973
Investment decisions		2.64	88.07	0.938	0.881	X_{30}, X_{31}, X_{32}	0.921

4.1. Factor analysis

The integrity of the factor analysis process was meticulously upheld through a two-fold assessment, incorporating both the significance of Bartlett's test of sphericity and the evaluation of sampling adequacy via the KMO test, as Hair et al. (2014) advocated. Following established standards, a KMO value exceeding 0.5 was deemed acceptable, ensuring a robust foundation for the analysis. Additionally, a threshold of 0.7 for factor loadings was adopted, as Hair et al. (2014) recommended for samples of 150 or more.

Factors were extracted well-structured, employing principal component analysis (PCA) in conjunction with Varimax rotation. The pivotal criterion for identifying the number of factors was expertly guided by the principle outlined by Kaiser and Rice (1974), suggesting that only common factors with eigenvalues surpassing one warrant consideration. This stringent criterion ensured that the retained factors were truly impactful in explaining the underlying structure of the data. The empirical outcomes of the data analysis presented the following findings.

Table 3. KMO and Bartlett's test

Bartlett's test of sphericity			*Kaiser-Meyer-Olkin measure of sampling adequacy*
Approx. Chi-square	*df*	*Sig*	
9,916.921	496	0.000	0.928

When these statistics were examined (Table 3), the sampling adequacy (KMO = 0.928) emerged as crucial. Ranging between 0 and 1, values close to 1 denote superior sampling adequacy. Notably, the value of 0.6 stands as the recommended minimum threshold. Significantly, KMO values within the range of 0.8 to 1 indicate satisfactory sampling adequacy. On the other hand, KMO values below 0.6 raise a red flag, indicating the need for corrective measures to enhance the sampling adequacy. Bartlett's test of sphericity, a vital part of this study, looks at the null hypothesis that the correlation matrix has an identity matrix. The substantial significance level achieved through this test reinforces the conclusion that the variables in the dataset are indeed interrelated, affirming the indispensable relevance of the undertaken factor analysis. These particular examinations and their insightful outcomes set the stage for the subsequent exploration of behavioral factors and investment decisions, exploring compelling patterns and relationships within the data.

4.2. Convergent validity

To assess convergent validity, this study computed factor loadings, composite reliability (CR), and AVE following the criteria outlined by Fornell and Larcker (1981). Convergent validity is measured using the CR. AVE calculates the variance shown by a construct compared to measurement error. The findings are shown in Table 4. The results of the validity tests and standardized loadings showed that all values were acceptable, proving that the convergent validity was sufficient (see Table 4).

4.3. Discriminant validity

Discriminant validity was assessed by computing the square root of AVE and contrasting it with the correlation between each variable. The results presented in Table 4 indicated that AVE values significantly exceeded the correlation coefficients, signifying robust discriminant validity.

4.4. Estimation of the measurement model

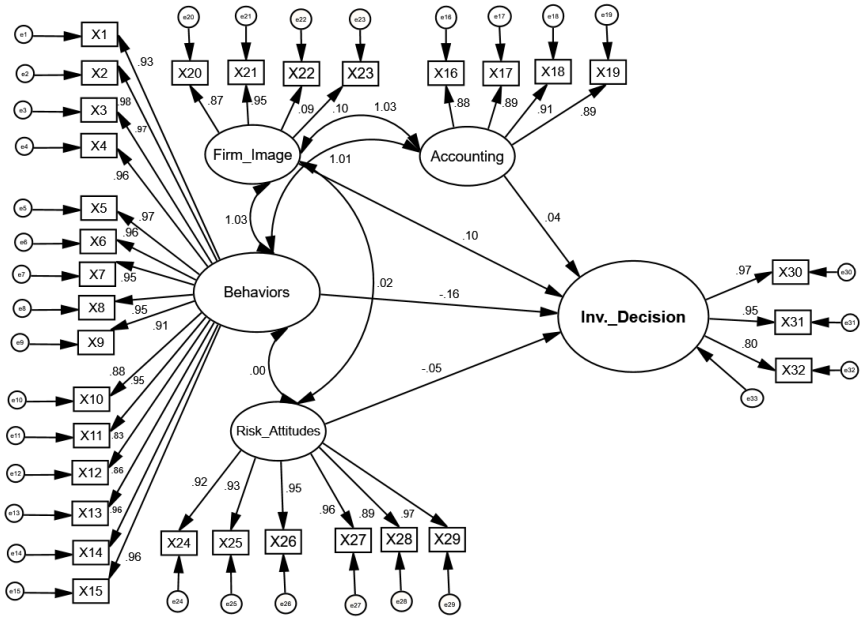
A thorough measurement model analysis was conducted using the 32 items selected for CFA. The degree of consistency attained in the estimated covariance matrix among the indicator variables was utilized to assess the efficacy of SEM. The model's fit was evaluated by carefully examining a series of indicators, as advised by Hair et al. (2014).

The measurement model fit satisfactorily, as illustrated by the following metrics: CMIN = 13.43 ($p < 0.01$), RMSEA = 0.079, RMR = 0.014, IFI = 0.932, CFI = 0.923, TLI = 0.907, PNFI = 0.657, PCFI = 0.671, and AGFI = 0.873. This group of measures shows that the estimated covariance matrix matches the actual data, demonstrating the model's reliability and ability to properly illustrate the complex relationships within it.

4.5. Structural equation model results: Path analysis

A complete path analysis, represented clearly in Figure 2 and Table 4, is the outcome of this research. These visual and tabular insights reveal the construct path estimates at this final analytical stage. A careful evaluation of the results confirms the substantial significance of hypotheses *H1*, *H2*, *H3*, and *H4*.

Figure 2. SEM for rational and irrational influences in investment decision-making



Source: Authors' calculations.

Table 4. Regression weights and the statistical test (M-L estimation)

Variables			*Standardized estimate*	*Unstandardized estimate*	*SE*	*CR*	*AVE*	*P*
Investment decisions	<---	*Behavioral factors*	-0.156	-0.166	0.221	0.751	0.597	0.0072
Investment decisions	<---	*Firm's image*	0.1	0.105	0.125	0.843	0.573	0.0073
Investment decisions	<---	*Attitude towards risks*	-0.054	-0.049	0.054	0.899	0.580	0.0037
Investment decisions	<---	*Accounting information*	0.037	0.051	0.067	0.764	0.586	0.0095

Note: <--- Shows influence-path.

Table 4 shows the influence coefficients' estimated value, the standard error is SE, and the critical ratio statistic is CR. It is the z-statistic for determining whether the estimate is statistically different from zero by dividing the parameter estimate by its standard error. The acceptable value of CR is 0.70 or greater (Hair et al., 2014). The CR values for *behavioral factors*, *firm image*, *attitude towards risk*, and *accounting information* are 0.751, 0.843, 0.899, and 0.764, respectively. This demonstrates the internal consistency of the scale's items. The AVE values corresponding to the employed factors exceed the standard, as shown in Table 4, where they are all bigger than 0.5. Convergent validity is established as the AVE is more significant than 0.5 (Fornell & Larcker, 1981).

Table 4 illustrates that the *behavioral factors* have the most significant effect on investment decisions (β = -0.156), followed by the *firm's image* (β = 0.10), *attitude towards risk* (β = -0.054), and *accounting information* (β = 0.037). Each of these has a statistically significant effect at $p < 0.01$, which implies that *behavioral factors*, *firm image*, *attitude towards risk*, and *accounting information* are all factors that significantly influence investing decisions in the Nepalese equity market. The overall importance of behavioral factors shows they have the most significant impact on decision-making. A key point of note is the negative sign, which shows how behavioral biases affect adversely on decision-making. Also, the careful evaluation of accounting information's relative weight shows that, despite its inherent rationality, it has a relatively low effect on decision-making. This is an excellent example of how rational and irrational factors interact in this investment context.

Table 5. Summary of hypotheses testing

Hypotheses	*Remarks*
H1: Behavioral factors significantly influence investment decisions.	Accepted
H2: A firm's image significantly influences investment decisions	Accepted
H3: Accounting information significantly influences investment decisions.	Accepted
H4: Investors' attitude towards risk significantly influences investment decisions.	Accepted

5. DISCUSSION

This study explored the complex dynamics of investment decision-making among individual investors in the Nepalese stock market. By incorporating various influential factors, encompassing rational and irrational elements, this research offers valuable insights into the complex dynamics between behaviors, perceptions, and cognitive biases that influence investment decisions. In Nepal's unique economic landscape, characterized by political instability and cultural diversities,

understanding the specific factors guiding investment decisions becomes paramount. The study's findings validate behavioral factors' pivotal role in influencing investing decisions. The divisions within behavioral factors, including heuristic factors, prospect factors, and herding factors, collectively significantly impact individual investors' choices. Notably, investors tend to exhibit risk aversion when confronted with potential losses, in contrast to their risk-taking propensity in the face of gains. The study generally underscores the dominance of behavioral factors, revealing a significant negative relationship between these biases and investment decisions. The study concurs with the assertion that psychological factors often diverge from classical financial theories' predictions of rationality, as discussed by Shefrin (2016). These findings align with earlier research by Kengatharan and Kengatharan (2014), who identified factors like herding and heuristics as influential in shaping investment decisions. This aligns with the broader literature highlighting the impact of psychological factors on financial choices, as observed in studies by Luu (2014) and Sewell (2017).

Moreover, the study underscores the distinct influence of a firm's image on investment decisions. Factors such as the firm's reputation within the industry and perceptions of its products and services hold control over investors' choices. The significance of firm-related considerations aligns with the prior research by Al-Tamimi (2006), and Francis and Soffer (1997), who highlighted corporate earnings and marketability as influential factors in investment choices. The attitude toward risk emerges as a crucial determinant of investment decision-making, in line with previous studies by Dahal et al. (2020) and Karki (2020). This study reveals that investors tend to focus more on potential losses than gains, which resonates with the insights provided by Shefrin and Thaler (1988) regarding investors' tendencies to be loss-averse. Additionally, the results highlight the impact of political risks and adverse events on investment decisions, aligning with the observations made by Obamuyi (2013) regarding external factors influencing investor behavior.

Interestingly, the analysis of accounting information as a determinant of investment decisions demonstrates that while it is a consideration, its significance appears to be relatively lower than other factors. This finding resonates with the broader literature emphasizing how behavioral biases often override rational financial analyses, as discussed by Shefrin and Thaler (1988). This suggests that investors in the Nepalese stock market leans more heavily towards behavioral aspects rather than strict fundamental analyses, a trend in line with the findings of Kadariya (2012), who observed similar inclinations in the context of the Nepalese stock market. This contextualizes the findings within Nepal's cultural and economic dimensions, where trust and perception play pivotal roles.

Investors' attitudes towards risk emerge as a crucial factor, particularly in a country marked by heightened political risk and uncertainty. The study acknowledges the significance of political risk in the Nepalese context, aligning with the findings of Bhandari et al. (2021) and Kabra et al. (2010). The multifaceted nature of risk perception, influenced by individual differences and contextual factors, adds a layer of complexity to decision-making in Nepal.

6. CONCLUSION

This study comprehensively explores investment decision-making in the Nepalese stock market, incorporating rational and irrational factors. The findings unequivocally emphasize the significant influence of these dimensions on investor behavior, shedding light on the complex world of investment choices. Investors' propensity for irrationality often outweighs the strict adherence to rational assessments, echoing the behavioral finance models proposed by Shefrin (2016). Understanding this interplay of rationality and irrationality is pivotal for effective investment decision-making within the Nepalese stock market. This research contributes to the existing body of literature and holds practical implications. It offers valuable insights for practitioners, investors, and policymakers. By acknowledging the substantial influence of behavioral factors, accounting information, firm image, and attitudes toward risk, stakeholders can make more informed decisions and foster an environment conducive to well-informed investment strategies.

The research extends the scholarship in a context where studies on the determinants of investment decisions are limited, and it fills a crucial gap by providing a comprehensive overview of the factors affecting investing decisions among Nepalese individual investors. As with any study, the scope and methodology have some limitations. Specifically, the study primarily focused on individual investors in the Nepalese market. This could be expanded in future research to include institutional investors and comparative cross-market analyses that would offer insightful findings. Such a comparison would enhance the external validity of the study's findings and provide a broader understanding of investor behavior in diverse market contexts. The study examines a range of factors influencing investment decisions, including additional control variables such as investors' financial literacy, investment experience, and risk tolerance, which would enhance the study. In addition, the study's findings are contingent on a particular period and market conditions. The dynamic nature of financial markets necessitates continuous research using longitudinal data to capture changing investor trends and behaviors. This would allow for identifying any changes in investment decision-making patterns over time and provide a more comprehensive understanding of the factors influencing investor behavior. These limitations offer opportunities for future research to build upon the foundations established by this study.

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