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Stocks and Psychology: Decoding Investment Choices of Kathmandu's Youth

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Abstract

This research analyzes the multifaceted relationship between behavior dimensions and college students' stock investment decision, a more active and growing segment in financial markets. Standard financial theories hold rational investors accountable solely on the basis of objective facts making decisions. Behavioral finance is opposed to this as it considers psychological factors, which, most times, lead away from rational decision. This study examines profound behavioral biases such as overconfidence, herd behavior, risk aversion, and social media effect on the investment choices of university students. Overconfidence causes students to overestimate their expertise and predictive ability in stock selection, leading to unfavorable investment outcomes. Herd behavior driven by fear of loss causes students to follow others, which has a tendency to develop irrational market trends. Individual experience and financial literacy of students influence risk aversion, a central investment motivator, which determines students' risk tolerance for market volatility. In addition to this, the ubiquitous power of social media has created new perspectives for investment behavior, with information—both true and false—spreading fast and affecting decision-making. The study adopts a mixed-methods approach, combining quantitative surveys and qualitative interviews in an attempt to understand the behavioral factors in detail. The findings reveal that even though college students are increasingly participating in stock markets, their decisions are governed extensively by cognitive biases and extrinsic factors rather than being grounded in financial analysis. These findings underscore the need for greater financial education that will counteract such behavioral tendencies and equip young investors with more logical and better-informed investment decisions. By reaching this emerging generation of investors, the research contributes to the broader body of knowledge in behavioral finance and its applicability to investment practice, foremost among which is in an educational context.

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Keywords: Stock investment, decision making, overconfidence, herding, risk perception

1. Introduction

Traditional financial theories, such as the Efficient Market Hypothesis (Fama, 1970), assume that investors are rational decision-makers who act in ways that maximize utility based on available information. However, real-world observations have consistently contradicted this assumption, highlighting the impact of psychological and emotional factors on investor behavior. This recognition gave rise to behavioral finance, which explores how cognitive biases and emotional responses influence financial decisions, often leading to outcomes that deviate from rational expectations (Barberis & Thaler, 2003). Understanding these behavioral tendencies is especially important in developing countries like Nepal, where financial literacy is still evolving and youth participation in stock markets is increasing. Among college students in Kathmandu, the intersection of limited experience, growing exposure to capital markets, and socio-cultural influences makes investment decisions particularly susceptible to behavioral biases.

One of the most prominent behavioral factors affecting investment decisions is herding behavior. This refers to the tendency of individuals to imitate the actions of others rather than relying on their own analysis or judgment. In financial contexts, herding can contribute to market bubbles or crashes when investors collectively buy or sell assets based on group trends rather than fundamentals (Bikhchandani & Sharma, 2001). In Kathmandu, where students often rely on peer influence, online forums, and social media for investment cues, herding becomes a significant force. The collectivist nature of Nepalese society, where individuals frequently look to their community for direction, may further intensify this behavior (Lama et al., 2025).

Another key behavioral factor is loss aversion, a concept central to Prospect Theory. It posits that individuals feel the pain of losses more acutely than the pleasure of equivalent gains (Kahneman & Tversky, 1979). This bias can lead investors to make suboptimal choices, such as holding onto losing stocks for too long or avoiding risky but potentially profitable opportunities. For college students, many of whom invest limited personal savings or funds provided by family, the fear of losing money can significantly influence their investment decisions. Recent research in Nepal has indicated that students are often more emotionally impacted by losses than gains, leading to excessive caution and reluctance to explore new financial instruments (Chand, 2024).

Risk perception also plays a crucial role in shaping investment behavior. Unlike objective risk, which is based on statistical probabilities, perceived risk is influenced by individual experiences, emotions, and understanding. Students who lack adequate financial education may perceive high risk in relatively stable investments or underestimate the risk in volatile options (Weber, Blais, & Betz, 2002). In Kathmandu, where formal financial training is not yet widespread among students, this mismatch

between perceived and actual risk often results in poor investment decisions. Furthermore, the rapid spread of unverified financial information through digital platforms can distort students' perceptions of market dynamics (Shrestha & Bajracharya, 2024).

Lastly, overconfidence is a prevalent bias among young and educated investors. This bias leads individuals to overestimate their knowledge and predictive abilities while underestimating risks (Odean, 1998). College students who are newly exposed to investment concepts may develop a false sense of expertise, leading to excessive trading, disregard for professional advice, and limited portfolio diversification. In Nepal, studies have found that overconfident behavior among student investors often correlates with poor investment outcomes, as decisions are driven more by self-assurance than by analytical rigor (Shrestha, Bhatta, & Poudel, 2025).

In sum, the investment decisions of college students in Kathmandu are significantly influenced by behavioral factors such as herding, loss aversion, risk perception, and overconfidence. While these biases are universal, their manifestation among Nepalese students is shaped by contextual factors including cultural norms, financial literacy, and access to reliable information. As youth participation in Nepal's capital markets continues to grow, it is essential to understand these behavioral dimensions. This study aims to explore the influence of these behavioral biases on student investors in Kathmandu, with the goal of contributing to the literature on behavioral finance and offering insights for educational and policy interventions that promote more informed financial behavior.

2. Literature review and hypothesis development

Loss Aversion and stock Investment Decision-

making

This hypothesis is drawn from the idea in behavioral finance that many people overestimate their abilities when making decisions about investing (Barber & Odean, 2001). Because of this theory, people may determine they are better and more accurate than they really are which causes them to make inefficient investment choices. Prior research concludes that overconfidence has an effect on the way people decide on investments. Overconfident stock traders, Odean found, deal in more shares and often lose more on their investments when compared to those who are more modest. Being overconfident often leads investors to gamble in the market and maintain losers hoping for the situation to turn around. Following these observations, researchers believe that being overconfident affects how college students in Kathmandu choose their investments.

- H1: There is influence of Loss Aversion on stock Investment Decision-making.

Overconfidence and Stock Investment Decision-making

When an individual Herds, they follow what other people do instead of doing their own analysis. Herding leads some people to buy or sell shares, not because these stocks fit their requirements, but just because a lot of others are choosing to do the same. Earlier studies have proven that herding occurs in financial markets and led to this hypothesis (see Durand et al., 2007; Devenow & Welch, 1996). In addition, research focused on

college students and their habits when investing suggests they are more likely to fall victim to herding (Hanna & Lindamood, 2010; Jianakoplos & Bernasek, 1998).
H2: Overconfidence has impact on stock Investment Decision-making.

Herding and stock Investment Decision-making

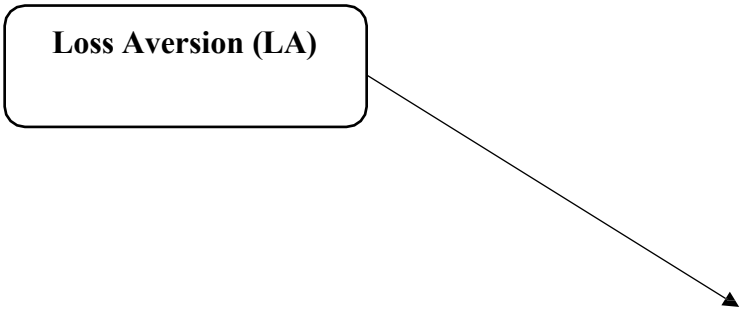
It proposes that the way college students interpret risks connected to investing in stocks influences their actual decisions to invest (Hanna & Lindamood, 2010). Before turning the hypothesis into a statement, you have to know the variables and the ways they are related in the study.
H3: Herding has impact on stock Investment Decision-making.

Risk Perception and stock Investment Decision-making

The influence of loss aversion on financial decisions is much affected by financial leverage. It is believed in behavioral economics that we feel more stung by losses than we enjoy gains of the same amount (Amador et al., 2013). Due to loss aversion such highly indebted companies tend to approach finances more conservatively, so as not to risk losing money that could put their debt repayment ability in jeopardy. A similar example is that highly indebted firms often decide to reduce their long-term efforts in product development and advertising, so that they have enough cash to pay their loans (Myers, 1977). Alternatively, studies suggest that companies using high leverage might attempt to earn large returns so they can pay off their debts more easily, shifting risk in the process (Jensen & Meckling, 2019). As a result, the use of financial leverage can either make the company act more sensibly or take on bigger risks. The effect of moderation has been proven by different research studies. They found that financial executives make their decisions based on loss aversion, mainly in companies that use more financial leverage (Graham, Harvey and Rajgopal 2005). As a result, the complicated relationship between financial leverage and loss aversion has a considerable influence on the financial policies and strategic choices made by corporations.
H4: Risk Perception has impact on stock Investment Decision-making.

Academic supervisors applied changes from existing valid studies and then checked the items in the questionnaire. These points were followed throughout the research: informed opinion of research participants and their privacy. Even though the results could be impacted by people's own accounts and how behaviors are measured, the researchers use strong analysis to guarantee the findings are reliable.

Independent Variables **Dependent Variables**



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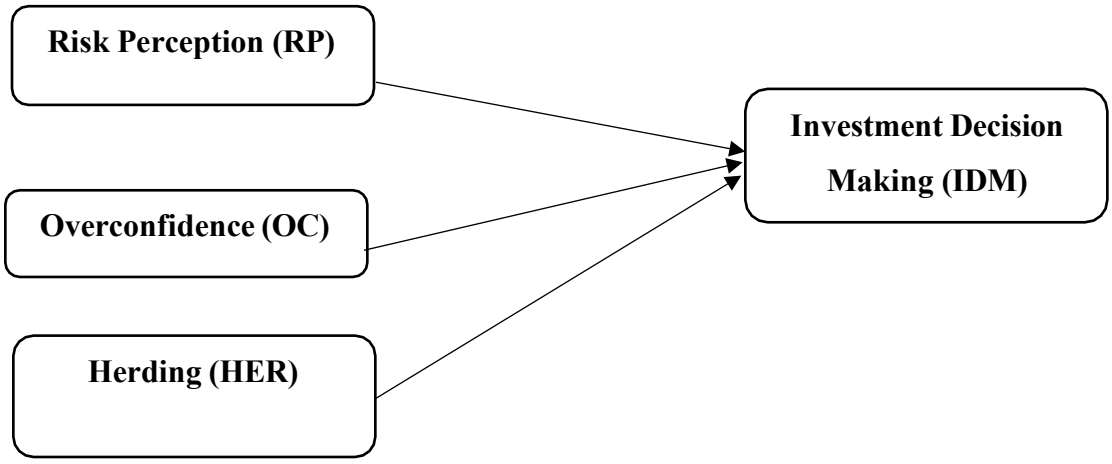

3. Methodology

Researcher used a quantitative approach to analyze the effect of behaviors factors on college students' investment decisions in Kathmandu. As presented by Ngaithe et al. (2016), research methodology focuses on making theoretical notions measurable so statistics can be used. Cross-sectional design was deployed to examine the attitudes and behaviors of young minds studying in Kathmandu.

A five-point Likert scale questionnaire was used to collect data from the respondents. There were 16 questions in the instrument and they test four behaviors: loss aversion, risk perception, overconfidence and herding. Login control was measured on a scale of 1 to 5, where 1 stood for completely disagree and 5 for completely agree. It also contains demographic information to help understand the behavioral feedback.

384 responses were gathered using purposive sampling technique to meet the requirement of the study. To discover any ambiguities, the instrument was tested with 40 students. Adjustments were made before use according to their comments and instructors' guidance. Students could participate in the collection of primary data by filling out the Google Form or picking up the forms in person.

Investment decisions and behavioral variables were evaluated together by doing data analysis in SPSS, using descriptive statistics, chi-square tests, ANOVA, paired-sample t-tests and regression analysis. Cronbach's Alpha, with a result over 0.70, was employed to judge the scale's ability to assess the same factor more than once (Tavakol & Dennick, 2011).

4. Results

Table 1
Correlation Coefficient between IDM and Independent Variables

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	Construct	LA	RP	OC	HER	IDM
LA	Pearson Correlation	1				
	Sig. (2-tailed)	.000				
RP	Pearson Correlation	.589**	1			
	Sig. (2-tailed)	.000	.000			
OC	Pearson Correlation	.654**	.671**	1		
	Sig. (2-tailed)	.000	.000	.000		
HER	Pearson Correlation	.527**	.653**	.529**		
	Sig. (2-tailed)	.000	.000	.000		
	Sig. (2-tailed)	.000	.000	.000		
IDM	Pearson Correlation	.712**	.628**	.672**	.659**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000
n = 440						

Table 1 depicts correlation coefficient between independent variables and investment decision of students in Kathmandu. The correlation coefficient between loss aversion and IDM was found to be 0.712 which is highly positively correlated. It's p value was recorded to be 0.000 which is les than 0.01. Thus, it can be concluded that there is a positive and significant relationship between loss aversion and IDM ($r = 0.712$, $p = 0.000 < 0.01$). The correlation coefficient between risk perception and IDM was recorded to be 0.628 which is moderately positively correlated. It's p value wwas also found to be 0.000 which is less than 0.01. Therefore, it can be concluded that there is a positive and significant relationship between risk perception and IDM ($r = 0.628$, $p = 0.000 < 0.01$).

Likewise, the correlation coefficient between overconfidence and IDM was found to be 0.671 which is moderately positively correlated. The p value was also obtained to be 0.000 which is less than 0.01.

Table 2 Multiple Regression *Analysis*

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.519	.563		2.698	.007
	LA	.217	.055	.173	3.943	.000
	RP	.096	.058	.073	1.641	.101
	OC	.155	.059	.119	2.617	.009
	HER	.261	.055	.211	4.727	.000

Dependent Variable: IDM

Table 2 deals with the multiple regression analysis. The results show that 1 unit change in loss aversion leads to bring 0.217 unit change in student investment decision. It's p value was recorded to be 0.000 which is less than 0.01. Therefore, it can be concluded

that loss aversion has a significant impact on investment decision of students in Kathmandu ($\beta = 0.217$, $t = 3.943$, $p = 0.000 < 0.01$).
Likewise, there is no significant influence of risk perception on investment decision ($\beta = 0.096$, $t = 1.617$, $p = 0.101 > 0.05$). The beta value of overconfidence was found to be 0.155, meaning that 1 unit change in overconfidence brings 0.155 unit change in investment decision of students in Kathmandu. It's p value was obtained to be 0.009 which is less than 0.01. Thus, it can be overconfidence has a significant impact on investment decision of students in Kathmandu ($\beta = 0.155$, $t = 2.617$, $p = 0.009 < 0.01$).

Finally, the beta value of herding behavior was recorded to be 0.261, meaning that 1 unit change in overconfidence leads to bring 0.261 unit change in investment decision. The p value was found to be 0.000 which is less than 0.01. Hence, it can be concluded that herding behavior significantly influences investment behavior of students ($\beta = 0.261$, $t = 4.727$, $p = 0.000 < 0.01$).

5. Conclusion and Discussion

The objectives of the study was to examine the influence of different factors affecting investment decision of young minds in Kathmandu. This study found that loss aversion, overconfidence, and herding behavior significantly affect investment decision-making (IDM) among Kathmandu college students, while risk perception does not. These findings support behavioural finance's key claims that investors are not rational decision-makers (Barberis & Thaler, 2003; Statman, 2014). Instead, the study confirms that psychological and emotional elements strongly influence young, inexperienced investors' real-world judgments, particularly in emerging economies like Nepal.

Kahneman and Tversky (1979) found that people are unhappy about losing money more than joyful about getting it, which supports loss aversion. This emotional asymmetry may cause Kathmandu student investors to be conservative, reject riskier but possibly successful investments, or hold onto losing investments longer than necessary to avoid losses. Such behavior can hurt portfolio performance. Students' loss aversion indicates their low financial cushion and emotional willingness to absorb financial failures, especially when investing with family savings or borrowed funds. Loss aversion was a powerful behavioral predictor of investment hesitation in young Nepalese investors (Chand, 2024).

Another key cognitive bias is overconfidence, which causes students to overestimate their financial knowledge, forecasting accuracy, and market beating ability. Overconfidence causes excessive trading, insufficient diversification, and market trend misjudgment (Odean, 1998; Barber & Odean, 2001). Due to growing access to internet trading platforms, financial influencers on social media, or shallow market news, Kathmandu students may wrongly believe they are experts. Overconfident Nepalese student investors made impetuous trading judgments without strong analysis (Shrestha, Bhatta, & Poudel, 2025). Overconfidence can empower, but it distorts judgment, reduces openness to expert counsel, and increases danger. Herd behavior emphasizes

Nepalese student investment behavior's social and cultural aspects.

Herding is the tendency to follow others, especially peers, even when it goes against one's own beliefs (Bikhchandani & Sharma, 2001). In a collectivist society like Nepal, where approval peer is important, and students may feel pushed to invest like friends, influencers, or groups, especially during market booms or collapses. This communal action, while soothing in difficult times, often causes market inefficiencies, speculative bubbles, or synchronized losses (Banerjee, 1992). Groupthink in investment clubs and online forums in Nepal affected most student investors' more than technical or fundamental analysis (Shrestha & Bajracharya, 2024). In contrast, risk perception has little effect on investment decisions, which is fascinating but consistent with other developing demographic groups. An individual's subjective judgment of investment uncertainty and losses is called risk perception (Weber, Blais, & Betz, 2002). These characteristics did not significantly alter Kathmandu student investors' decisions, suggesting that they are more motivated by emotions and social impulses than risk assessments. Lack of financial education, investment experience, or a tendency to use heuristics rather than analytical skills may explain such behavior. Statman (2014) noted that rookie investors use "stories" or intuition rather than risk-return tradeoffs. These findings show that Kathmandu's student investors make financial decisions based on behavioral biases rather than rational considerations. Market efficiency and investor protection are hampered by emotional and social effects over rational reasoning. These findings highlight the need to include behavioral finance in university curricula to assist students recognize and correct cognitive errors. Investment platforms and regulators should also include behavioral nudges, warnings, and feedback mechanisms to alert young investors to biased decision-making. This study adds to the growing body of evidence that loss aversion, overconfidence, and herding behavior shape investment behavior among young, inexperienced investors, while risk perception may not be as influential due to financial knowledge or experience gaps. These findings are crucial for educators, financial institutions, and legislators seeking to improve investment habits in developing nations.

6. Implications

According to the study, risk perception has no statistically significant effect on students' investing decisions in Kathmandu, but loss aversion, overconfidence, and herding behavior do. These findings have a number of significant ramifications for financial institutions, legislators, and educators.

First of all, the substantial impact of behavioral biases like overconfidence and loss aversion indicates that psychological inclinations frequently influence students' investment choices more so than risk assessment or logical reasoning. This emphasizes the need for improved financial education initiatives that target common cognitive biases in particular and assist novice investors in creating more logical and informed decision-making techniques.

Second, the significant influence of herding behavior suggests that students could be more likely to follow social cues or peer trends than to make their own assessments.

This highlights how crucial it is to encourage critical thinking and financial independence in academic programs in order to lessen the impact of groupthink. Finally, the negligible influence of risk perception raises the possibility that students are underestimating or lack a thorough understanding of financial dangers. In order to properly educate students for complicated financial situations, this identifies a need in risk literacy and advocates for focused risk awareness training, whether through simulations or real-world investment experiences.

In order to promote healthy investing practices among young adults in Kathmandu, the results emphasize the significance of incorporating behavioral finance principles into student education and investment training. Additionally, interventions that target emotional and cognitive biases should be developed.

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