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Financial literacy and investment decisions of individual investors in the Nepal Stock Exchange

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Inspired by

"The number one problem in today's generation and economy is the lack of financial literacy."

— Alan Greenspan

Abstract

The main objective of this study is to explore the level of financial literacy among individual investors and its impact on investment decision-making at the Nepal Stock Exchange (NEPSE).

This study employed a mixed-methods approach, using both qualitative and quantitative methods to provide a comprehensive understanding of the research questions. A structured survey questionnaire was used, and semi-structured interviews were conducted as the primary method. The data was analysed using the statistical software SPSS for quantitative data and NVivo for qualitative data.

The study found that individual investors in the NEPSE market have a moderate level of financial literacy. The statistical analysis of the quantitative data revealed an overall average financial literacy knowledge of 63.83% (average mean 5.7440 out of 9 maximum levels). The study also identified various factors that influence investment decisions, including economic indicators, interest rates, market liquidity, market sentiment, market trends, a company's financial performance, and financial statement analysis. Further, there is a significant positive correlation between financial literacy and investment decisions.

This study fills a significant gap in our knowledge about the level of financial literacy and the factors that affect individual investors' decisions in NEPSE. The study recommends policy, practice, and future research, emphasising the involvement of diverse stakeholders in policy formulation, the provision of certified trainers, and focused research on specific industries. This knowledge is critical for policymakers, financial institutions, and investors themselves as they work to improve the investment climate and ensure NEPSE's continued growth.

Key Words: *NEPSE, Individual Retail Investors, Financial Literacy, Investment Decision, Mixed Methods.*

Declaration

I hereby affirm that I conducted the research presented in this thesis in accordance with the University of Gloucestershire's regulations. Unless otherwise stated in a specific reference within the text, the work is original. None of the content in this thesis has previously been submitted for any other academic recognition. This thesis has not been shared with any other educational institution, either in the United Kingdom or abroad. The viewpoints expressed in this thesis are solely those of the author and do not reflect the opinions of the University of Gloucestershire.

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List of Abbreviations

EMH	:	Efficient Market Hypothesis
FL	:	Financial Literacy
FSDS	:	Financial Sector Development Strategy Paper
GDP	:	Gross Domestic Product
GDPR	:	General Data Protection Regulation
IPO	:	Initial Public Offering
LDC	:	Least Development Countries
NEPSE	:	Nepal Stock Exchange
NOTS	:	NEPSE Online Trading System
NRB	:	Nepal Rastra Bank
SEBON	:	Securities Board of Nepal
TMS	:	Trading Management System
UNCDF	:	United Nations Capital Development Fund

Chapter One

Introduction

1.1 Background of the Study

In Nepal, the capital market is currently at an early developmental stage, and the investment culture associated with the capital market is still evolving. Traditional investment avenues like real estate, land, and precious metals such as gold and silver have historically been the preferred choices for many Nepalese investors. However, with the emergence of the internet-savvy younger generation and an increasing number of young adults joining the workforce, there is a noticeable surge in interest in capital market investments. As the sole stock exchange in Nepal, the Nepal Stock Exchange (NEPSE) experienced unprecedented growth between 30th June 2020, and August 2021, soaring to an all-time high of over 3200 points, reflecting a 180% increase in just 14 months—the highest and fastest growth ever witnessed in NEPSE's 30-year history (NEPSE, 2023; SEBON, 2023).

The implementation of the online Trading Management System (TMS) and Mero Share facilities for IPO applications, the economic impact of COVID-19, which resulted in a lack of alternative investment avenues and increased market liquidity with a lower interest rate environment, and the policy of ensuring a minimum allotment of 10 shares to individual investors during company IPOs were all factors that contributed to this surge. These innovations and circumstances have revolutionised investment behaviours in NEPSE, leading to a dramatic increase in the number of Demat and Mero Share accounts; almost all IPOs were oversubscribed, as well as increased daily trading volumes in the secondary market (NEPSE, 2023; SEBON, 2023). According to SEBON (2023), the combination of technological advancements, excess market liquidity, and inclusive share allotment policies during IPOs has significantly expanded the scope for the growth and sophistication of Nepal's capital market, ushering in a new era of investment opportunities.

Since NEPSE opened its trading floor, individual retail investors have largely dominated stock market investing. This demographic often lacks the appropriate understanding of market dynamics and financial instruments that might be more common in mature markets (Gyanwali & Neupane, 2021; Lusardi & Mitchell, 2023; Van Rooij et al., 2011). Financial literacy is important among retail investors about the NEPSE market to understand the market dynamics and for efficient market performance (Chalise, 2020; Prajapati, 2021; Thapa & Kc, 2020). Therefore, the purpose of this study is to assess the current level of financial literacy among individual investors in the NEPSE. It seeks to understand the extent of their knowledge and competence in navigating the complexities of the NEPSE market. Additionally, the study delves into the various factors that influence these investors' decisions, encompassing both investing and trading activities within the NEPSE. A critical aspect of this research is to elucidate the relationship between financial literacy and the investment decisions made by individual investors in the NEPSE.

1.2 Research aims and objectives

1.2.1 Aim of the research

The main aim of this study is to investigate the financial education level of Nepalese active retail investors, to determine the characteristics which influence their investment decision-making process in the Nepal Stock Exchange (NEPSE).

Through the achieving this aim, the study intends to examine several characteristics including age, gender, marital status, employment status, educational background, size of investment portfolio and years of experience determine the financial literacy level and impact individual investors' investment decision making process (Kodaya et al., 2017). To achieve this, the following research objectives are addressed:

1.2.2 Research objectives

The main objective of this study is to explore the level of financial literacy among individual investors and its impact on investment decision-making at the Nepal Stock Exchange (NEPSE). The specific objectives of this study are as follows:

1. To assess the financial literacy levels of individual retail investors in the NEPSE market.
2. To identify factors that influence investment decisions among NEPSE individual retail investors.
3. To analyse the relationship between financial literacy and the factors influencing the investment decision-making of individual retail investors at NEPSE.

1.2.3 Research Questions

To fulfil the above research objectives, the following research questions were devised.

1. What is the level of financial literacy among individual investors in the NEPSE market?
2. What are the factors that influence individual investors' investment decision-making processes at NEPSE?
3. What are the characteristics that link the relationship between financial literacy and the investment decision-making process at NEPSE?

1.3 Problem Statement

The Nepal Stock Market has experienced significant growth over the past three decades, with the majority of this market, roughly 80%, being comprised of individual investors. Recent regulatory changes in 2019 mandated a minimum allocation of 10 shares to the public during initial public offerings (IPOs), and the development of digital systems since 2020 has further expanded participation in the NEPSE market (SEBON, 2023). However, this increased participation has brought to light a critical issue: a substantial proportion of individual investors lack the essential understanding and knowledge required for effective trading and investment activities within NEPSE (SEBON, 2023). As a result of this lack of financial literacy, many investors do not possess the necessary risk management strategies, leading to a scenario where risk is inadequately managed. Instead, many of these investors heavily rely on informal sources such as friends, family circles, and unverified information from social media. There is a conspicuous absence of a culture of conducting independent research and in-depth analysis before making investment decisions in the NEPSE (NEPSE, 2023; NRB, 2023). Consequently, this study seeks to address the critical need to assess the financial literacy levels of individual retail investors and comprehensively examine the multifaceted factors influencing their investment decision-making processes within the NEPSE, with the ultimate goal of contributing to the enhancement of the financial literacy landscape in this rapidly growing stock market investment culture in Nepal.

1.4 Rational of the study

In the last 30 years of NEPSE history since its inception in 1994, 2020 marked a pivotal turning point. The COVID-19 pandemic severely impacted other sectors of the economy, but it also led to the emergence of alternative investment options in Nepal. The year 2020 saw the full-fledged introduction of the online trading platform TMS, which catered to individual retail investors who contribute about 80% of the NEPSE trading and investing volume (SEBON, 2023). This marked a significant shift in Nepal's stock market investment culture, as broader awareness of NEPSE increased, drawing in more participants.

To support the influx of individual retail investors since 2020, regulatory provisions such as the minimum allotment of 10 shares to the public have been in place since 2019. This resulted in all of the country's IPOs being oversubscribed in 2020 and 2021. The regulatory provisions, combined with the economic conditions created by the pandemic and the advent of the online system, resulted in a dramatic increase in the number of individual DEMAT accounts, rising from 1.5 million to over 5.5 million within a short span (SEBON, 2023). In Nepal, the proliferation of online social media discussions, such as those on Clubhouse, became a daily engagement for individual investors.

This surge in individual investor numbers opened up new investment opportunities in the country. However, many of these investors lacked adequate financial knowledge and understanding, especially regarding the intricacies of the capital market, like NEPSE. They often relied on their social circles, friends, and family rather than seeking professional advice, which led to a lack of thorough understanding of the stock market's inherent risks, significantly impacting their investment decision-making process.

Several studies have been conducted on financial literacy and investment decisions in the Nepalese capital market, including those by Subedi (2023), Khadka (2023), Lamichhane (2022), Thapa and KC (2020), Dangol and Shakya (2017), and Thapa and Nepal (2015). These studies shed some light on the subject, but they were mostly quantitative in nature and covered specific areas of the population, failing to provide a comprehensive understanding of individual retail investors' independent investment experiences. Therefore, there is a need for independent research to investigate the practical reality of financial literacy and individual investors' investment decisions on the Nepal stock exchange..

1.5 Thesis Structure

This thesis is divided into six chapters, covering everything from the introduction to the recommendation. These chapters are divided considering the standard guidelines of the university. The detailed description of each chapter is as follows:

Chapter One is an introductory chapter that covers the background of the study, the aim and objective of the study, the problem statement, the rationale of the study, the contribution of this study to the real practice of the NEPSE market, and then highlights the thesis structure.

Chapter Two covers a detailed critical review of the existing literature on financial literacy and the investment decisions of individual investors. The chapter starts by tracing the historical evolution of financial literacy, delving into its definitions and understandings as found in the literature, and then contextualising these within the setting of the NEPSE market. It then progresses to review various theories that are relevant to financial literacy and investment decision-making.

This chapter also comprehensively addresses the three research objectives by exploring related literature. It discusses measurement methodologies, particularly focusing on the application of the 'Big3' and 'Big5' question frameworks, along with extended tests. Finally, the chapter culminates by presenting a comprehensive conceptual framework that encapsulates the study, guiding the investigation of financial literacy's impact on individual investment strategies within the NEPSE market.

Chapter Three gives a detailed description of the research context of Nepal about financial literacy and investment decision practice. This chapter has been divided into different sub-sections, like the profile of the country, the economic and political environment, the overall literacy rate of the general public in the country, the historical development of the capital market in Nepal, regulatory bodies related to the NEPSE market, and the financial literacy position of adults. The main objective of this chapter is to give a detailed background on Nepal to show the relevancy of this research.

Chapter Four explains the research methods that were used in the study. It starts with an overview of the three research goals and then goes on to talk about the research philosophies, especially the pragmatic approach, which combines positivism and constructivism. The chapter further details the adoption of a concurrent mixed-methods approach, explaining its relevance and implementation in the study. The chapter further discusses the criticality of sampling techniques, along with a rationale for the chosen sample size and presenting the layout and logic behind the online survey questionnaires.

Additionally, the chapter describes the key demographics of participants engaged in the in-depth, semi-structured interviews. It proceeds to discuss the reliability and validity measures employed, including the pre-testing aspects of the online survey. This chapter emphasises the importance of ethical considerations in conducting the research, ensuring that the participants' rights and confidentiality are respected throughout the study. Overall, Chapter Four lays a strong foundation for the research methodology, providing a clear and transparent framework for data collection and analysis.

Chapter Five is structured into two main sections to detail the research findings. The initial section delves into the quantitative aspects of the findings, starting with an overview of the participant demographics. It then addresses the findings related to each of the three research objectives, which include assessing the financial literacy levels of individual investors, identifying the determinants affecting investment decisions in NEPSE, and exploring the link between financial literacy and investment choices using chi-square tests and multiple regression analysis.

The latter section of the chapter focuses to the qualitative research findings, discussing the results obtained through thematic analysis and outlining the methodology for coding, clustering, and the development of sub-themes and themes throughout the study. The chapter concludes by affirming, through a combination of quantitative and qualitative insights, that the financial literacy level among individual investors in the NEPSE market has a moderate level of financial literacy.

Chapter Six offers a thorough synthesis and discussion of the findings derived from quantitative and qualitative assessments. It starts by giving a thorough summary of the findings, then makes a critical comparison of the current study's findings with those from prior literature, highlighting their implications. The chapter proceeds to acknowledge the strengths and weaknesses of the research, ensuring a balanced and reflective analysis. It then articulates the overarching conclusions drawn from the research, alongside pertinent recommendations for policy formulation, practical application, and avenues for future research.

Overall, Chapter Six serves as a comprehensive conclusion to the research, highlighting the key findings, comparing them with other studies, and providing valuable recommendations and implications for policy, practice, and future research. The chapter solidifies the significance of the study's contribution to the field of financial literacy and investment decision-making and offers valuable insights for stakeholders in NEPSE and beyond. The chapter culminates by reflecting on the significant impact the research journey has had on the researcher, identified as AB, highlighting the personal and professional growth experienced throughout the study.

Chapter Two

Literature Review

2.1 Introduction

This chapter begins with an exploration of the foundational aspects and evolution of financial literacy, tracing its global progression and delving into the present landscape of financial inclusion in Nepal, as well as the developmental trajectory of the NEPSE market. In addition, the chapter integrates various theoretical frameworks, including capital market theory, behavioural finance, expected utility theory, information processing theory, and human capital theory. Given the expansive scope of the study, it acknowledges that no singular theory can fully encompass the entire spectrum of the research. Instead, these diverse theories are employed collectively to shed light on the nuances of financial literacy and the investment decisions of individual investors in NEPSE. Moreover, to address all three objectives of the research, this chapter reviews the previous relevant literature relating to accessing the financial literacy of individual investors, factors influencing investment decisions in the NEPSE, and the characteristics that link the relationship between financial literacy and the investment decision-making process in the NEPSE market.

2.1.1 Background and Concept of Financial Literacy

This part of the research illustrates the evolution of financial literacy over time, the concept of financial literacy, different interpretations of financial literacy discovered during a literature review, and the status of financial literacy in Nepal, specifically among individual investors in the Nepal Stock Exchange (NEPSE).

2.2.1.1 Historical development of financial literacy

The concept related to financial literacy has progressed over the time, as the economic activities change over the time and reshape the financial system, the way individual to institutions access and manage their financial resources differently. Some of the key milestones in the term of the historical development of financial literacy has developed such as, (a) in the early 20th century, where in the early 1900s, the philosophy of "thrift" was popular among the individual for saving and their financial management (Podkalicka & Potts, 2014). Where the concept of "thrift" is related to economical uses of the financial resources, where Anderson and Nevitte (2006) insist that the closer meaning of "thrift" is more saving less consumption. Also, this saving behaviour delays the consumption process however in endeavours able to maintain and accumulate the wealth for long-term through saving and investment (Ratchford et al., 2021).

Further, (b) in mid-20th century (Sherraden, 2017; Thukral, 2017; Woodyard & Robb, 2012), the post second world era was the development and growth of financial services industry and use of consumer loan and credit. Same time, the government involvement increases in order to promote the financial regulation and stability. Furthermore, (c) the late 20th century (Faulkner, 2015; Gunawan & Chairani, 2019; Murphy, 2013), the evolution of new technologies such as online banking, use of credit cards etc. made financial products or services more accessible to large range of population. At the same time, due to increasing financial fraud and mis-management of the public fund, public's demand for consumer protection and their rights, which led towards more emphasis on financial education.

Additionally, (d) early 21st century (Hapsari et al., 2019; Liu et al., 2021; Schug & Lopus, 2008), the age of digital economy reshape most of the economic activities and after math of the financial crisis of 2008-2009, many individuals became unable to pay their debt and led to overall financial instability. Therefore, carried renewed attention to the importance of financial literacy. In response, financial institutions, central banks, governments, and other non-profit making organizations started focusing again on educating and counseling financial literacy particularly the most vulnerable individuals (Lusardi & Mitchell, 2014). Today financial literacy is recognised as important and essential life skill which helps individual to manage their finance wisely and informed investment decision in terms of borrowing, investment and planning related to their retirement (Lusardi & Messy, 2023).

2.2.2.2 What is financial literacy concept

The understanding and definition of financial literacy vary widely in academic research. Huston (2010) noted that out of 71 studies reviewed, over 50 failed to define financial literacy, and among the 20 that did, eight different meanings were observed. Similarly, Hung et al. (2009) found a range of definitions, from those focusing solely on financial knowledge to more expansive ones including experiences and competent use of knowledge. Researchers like Knoll and Houts (2012); Leora Klapper (2020) see financial literacy as general knowledge on financial topics, while others like Moore (2003); Purwidianti and Tubastuvi (2019) and Remund (2010) emphasise its multi-faceted nature, encompassing knowledge, experiences, self-confidence in decision-making, and informed decision-making.

Similarly, Zaimovic et al. (2023) highlights that financial literacy encompasses a range of competencies, including understanding and effectively applying financial knowledge, skills, and attitudes. The study emphasises the importance of financial literacy in making informed financial decisions and its impact on individual well-being and economic growth.

Moreover, Banthia and Dey (2022); Chaulagain (2015); Zaimovic et al. (2023) highlighted financial literacy is normally divided into four dimensions such as financial knowledge, skills, attitude and behaviour. The first two are basic starting and second two are gradual dimensions. Where financial knowledge is about awareness, the information and basic understanding of financial matters. Financial skills are about how individuals use their basic financial knowledge to financial decision making such as how person can calculate their investment return and how rational decision s/he should take. Further, financial attitude is related to how individuals critically judge to accept the best investment decision. And financial behaviour is the overall the psychological matter how individuals behave with finance in their regular lives (Abdullah & Chong, 2014). Therefore, the goal of the financial understanding and behaviour will be financial well-being of the person.

The term 'financial literacy' is often used interchangeably with 'financial knowledge,' which can be problematic since some view knowledge as just one aspect of literacy (Lusardi, 2019). Recent efforts by organisations like the President's Advisory Council on Financial Literacy, Financial Literacy, Entrepreneurship & Career Education, and Jump$tart.org have aimed to standardise the definition of financial literacy, focusing on the ability to use knowledge and skills for effective financial management over a lifetime, which could lead to more consistency in future research.

2.2.2.1.1 Definition of the financial literacy

There is no universal definition or consistency in defining financial literacy. According to the Oxford Dictionaries (2021), financial literacy is defined as the ability to effectively manage and understand one's financial resources in order to make informed decisions about personal financial matters. Moreover, the Centre for Financial Inclusion defines financial literacy as the combination of skills, attitudes, knowledge, and ultimately behaviours that translate into sound financial decisions and appropriate use of financial services (Khan et al., 2022). Further, according to the USA president’s advisory council on financial education, the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

A working definition of financial literacy is essential for measuring and operationalizing it, but it has often been imprecisely and inconsistently defined. However, various definitions have been identified in academic literature, as shown in Table 2.1.

Table 2. 1: Financial literacy definition summary

Studies by	Definition
Author (2023)	Financial literacy is the appropriate and sufficient financial understanding necessary to make an informed investment decision.
(OECD, 2021)	...financial literacy as encompassing knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions and achieve individual financial well-being.
(Philippas & Avdoulas, 2021)	…as the ability to understand and effectively manage one's financial resources in order to meet life's financial obligations and achieve financial goals.
(NFEC, 2021)	....possessing the skills and knowledge on financial matters to confidently take effective action that best fulfils an individual's personal, family, and global community goals.
(Jump$tartCoalition, 2020)	Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.
(Klapper et al., 2015)	...the knowledge of basic financial concepts and the ability to use them in financial decision-making
(Kalekye & Memba, 2015)	…financial literacy as ‘the combine understanding of individual investors or customers in relation to financial products or services associates’ risks and opportunity where individual take appropriate action to improve their financial wellbeing and make informed financial decision making’

(Lusardi & Mitchell, 2014)	…financial literacy is the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions.
(Fernandes et al., 2014)	...the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions.
(Atkinson & Messy, 2012)	…financial literacy as a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.
(Huston, 2010)	…financial literacy as not just the ability to read financial literature but also the capacity to apply financial knowledge in making decisions about saving, investing, borrowing, and more
(Remund, 2010)	…definition that includes knowledge of financial concepts, the ability to communicate about financial concepts, and the aptitude to manage personal finances, including budgeting, investing, and risk assessment.
(Lusardi, 2009)	Understanding basic financial concepts, such as interest compounding, the difference between nominal and real values, and the fundamentals of risk diversification.
(Hogarth & Hilgert, 2002)	"Financial knowledge and experience"
(Authority, 2003)	The understanding ordinary investors have of market principles, instruments, organisations, and regulations.
(Bernheim et al., 2001)	…financial literacy as the ability to understand financial concepts and to use financial information to make informed decisions.

(Chen & Volpe, 1998)	…financial literacy as the ability to make informed judgements and to take effective actions regarding the current and future use and management of money.

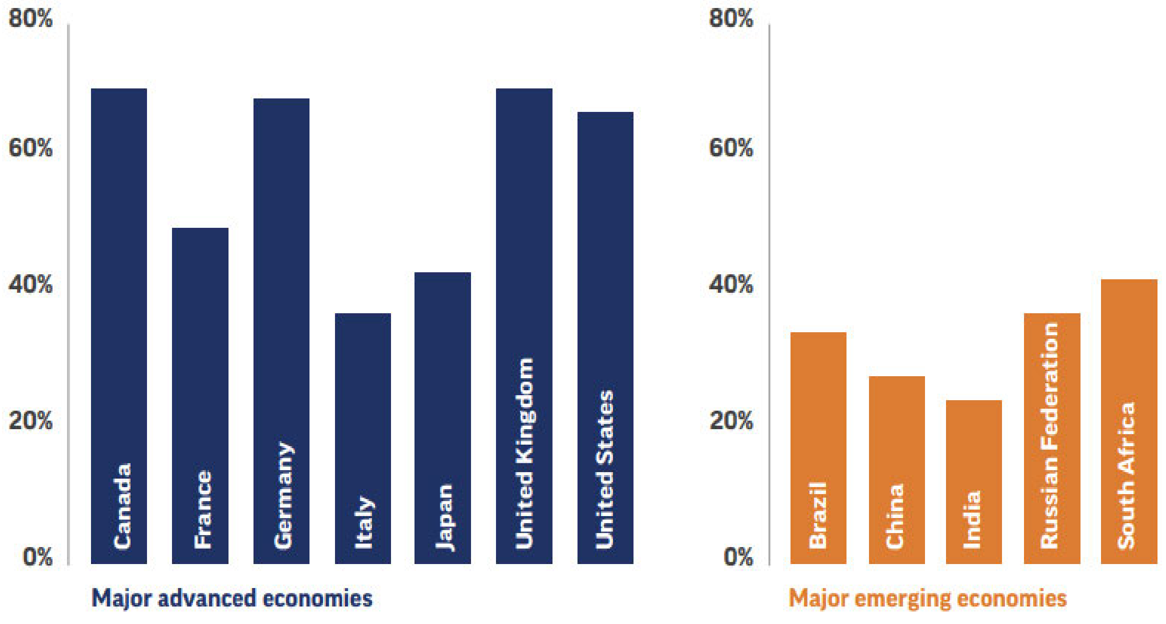
In this study, financial literacy is defined according to Klapper et al. (2015) as "the knowledge of basic financial concepts and the ability to use them in financial decision-making," focusing on the understanding and application of financial principles in making informed choices. This perspective is particularly relevant to the Nepal Stock Exchange (NEPSE) market, where the researchers, with over a decade of personal investment experience, have observed first hand its early developmental stage characterised by limited financial instruments, primarily focused on stock trading and investment. The researchers' deep familiarity with the NEPSE market dynamics, enriched by pre-testing insights, underscores the significance of understanding both the level and practical application of financial knowledge. This study aims to assess the financial literacy among individual investors in NEPSE, focusing on how they utilise their financial knowledge in making investment decisions. By doing so, it seeks to explore and identify the critical factors influencing investment decisions, offering a nuanced understanding of the interplay between financial literacy and investor behaviour in the evolving landscape of NEPSE. This approach is instrumental in addressing the specific needs and characteristics of the market, contributing to more targeted and effective financial education and policy-making in Nepal.

2.2.2.3 Financial literacy around the world

Studies like "Financial Literacy Around the World: Insights from the S&P Global FinLit Survey," conducted by (Klapper et al., 2015), have been instrumental in providing invaluable data. This extensive survey, recognised as one of the most significant studies on a global scale, involved interviewing over 150,000 adults aged 15+ across 140 countries to comprehend the state of financial literacy worldwide. So far, this researcher has found this study to be the most comprehensive in its scope. The findings from such surveys are critical for policymakers, regulators, the private sector, and academics to develop and implement effective financial education policies and programs.

The survey aimed to assess financial literacy by measuring respondents' understanding of four fundamental financial concepts: basic numeracy, interest compounding, inflation, and risk diversification. The findings revealed significant disparities in financial literacy rates, with countries such as Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the United Kingdom demonstrating the highest financial literacy rates, where approximately 65 percent or more of adults were financially literate. In contrast, South Asian countries exhibited some of the lowest financial literacy scores, with only a quarter of adults—or even fewer—being financially literate. Globally, just one-third of adults displayed an understanding of basic financial concepts (see details, figure 2.1).

Figure 2. 1 : Financial Literacy Around the World
(% of the adults who were financially literate)



Source: Adapted from S&P Global FinLit Survey (2015)

Financial literacy was found to be higher among wealthier, well-educated individuals who actively use financial services. However, billions of people worldwide remained unprepared to navigate the rapid changes in the financial landscape. As credit products with high interest rates and complex terms became more readily available, governments emphasised increasing financial inclusion by expanding access to financial services. Yet, without the necessary financial skills, these opportunities could lead to high debt, mortgage defaults, or insolvency. This predicament was especially true for vulnerable groups such as women, the poor, and the less educated, who suffered from low financial literacy and frequently became the target of government programmes aiming to promote financial inclusion (Klapper et al., 2015; Leora Klapper, 2020) .

Furthermore, Faulkner (2022) also conducted a study on "Financial Literacy Around the World: What We Can Learn from the National Strategies and Contexts of the Top Ten Most Financially Literate Nations." The study focused on the unique financial contexts of each nation and explored possible financial literacy best practises. For instance, Australia planned to target parents and students in school financial literacy programmes, raising the question of whether libraries could include financial literacy content for parents as well. The Finnish strategy emphasised preventing financial challenges through education, suggesting that libraries could expand programming to target populations before they encounter financial difficulties. Lastly, the UK strategy identified particularly vulnerable populations often overlooked, such as elderly individuals suffering from cognitive decline, sandwich generations caring for both children and ageing parents, and children in foster care. These findings provided valuable insights into effective strategies and practises for promoting financial literacy in different countries, offering possibilities for enhancing financial education and inclusion on a global scale.

2.2.2.4 Financial Literacy in Nepal

Understanding the level of financial literacy will be discussed in Chapter 3, Section 3.5, this section provides information on financial literacy from a policy perspective.

2.2.2.4.1 With policy prospective

In terms of financial literacy policy, Nepal is currently in transition phase because after promulgated of new constitution in 2015, where the number of financial acts and policies are either in the process of formulated a new or in the process of amendment. However, in 2017 the Government of Nepal introduce Nepal's Financial Sector Development Strategy Paper (FSDS 2017), the main objective of this paper is "to develop an inclusive financial system which make financial products or services easily available to all group of people and increase financial literacy in financial services and instruments and protect the interest of the financial clients. Similarly, to support this government objectives Nepal Rastra Bank (NRB) the central bank of Nepal further introduces Financial Inclusion Roadmap (2017-2022). Also, this paper is one of the significant documents, which was designed as the part of the making access possible (MAP) Nepal initiative.

Where MAP Nepal initiative is supported by the ministry of finance and central bank of Nepal. According to the United Nations Capital Development Fund (UNCDF) (the UN's capital investment agency which represents the world's 48 least developing countries) MAP program consists of a unique analytical framework, which establishes the image of the market demand on the basis of the individual and household income in relation to economic activities and usages of the financial services in the various area of the countries. The aim of this MAP program is to provide financial products and services to those segments of the people which are currently not served. Also, this MAP program helps policymakers and regulators to understand the current state of the underserved population in relation to financial education and provides ideas in relation to possible modalities to provide the financial products and services.

The main objective of the Financial Inclusion Roadmap (2017-2022) is to strength the financial inclusion in Nepal. It also likes to upgrade the current Least Development Country (LDC) status by 2022 and becomes a middle-income country by 2030, where all this should achieve the UN sustainable development goals 2030. And other objectives of this roadmap are to integrate various financial literature in relation to financial literacy policies and guidelines which were currently implemented, also to avoid duplication of the work. Also, in relation to policy and guidelines for financial inclusion in Nepal, this roadmap is form of strategic framework for implementation.

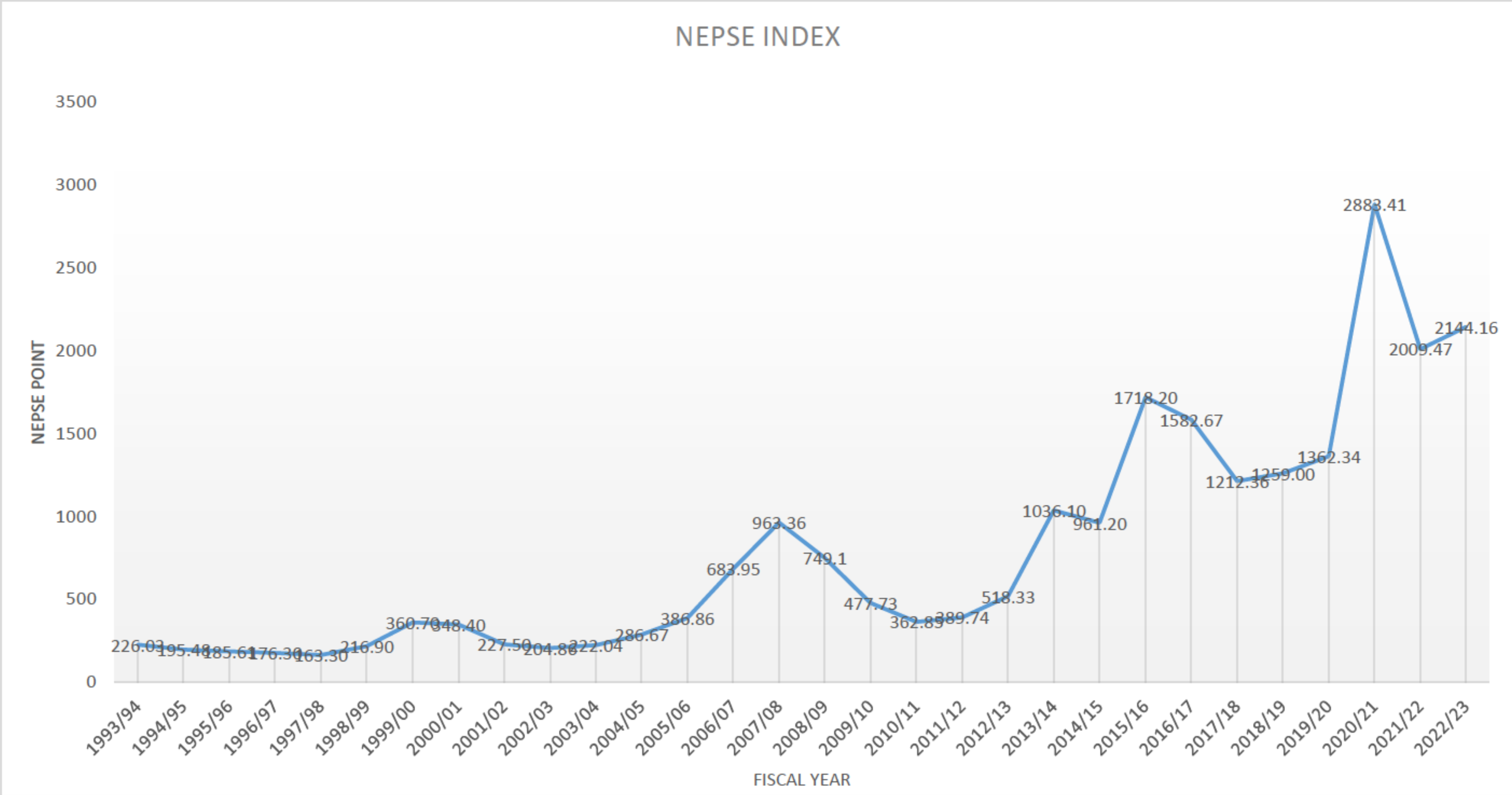
2.2.2.5 Overall development/performance of the NEPSE and individual investors participation

Since its inception in January 1994, the Nepal Stock Exchange (NEPSE) has undergone various market trends, as evident from yearly historical data (for details see figure 2.3). For approximately five years, from 1993 to 1998, NEPSE remained in bearish territory. This was followed by a bullish phase lasting about two years, from 1999 to 2000. However, another bearish period emerged from 2001 to 2003, during which political instability and the Maoist insurgency significantly impacted NEPSE's performance. The situation changed positively from fiscal year 2003/04, with NEPSE entering a bullish trend. The turning point was the Maoist conflict that began on 13th February 1996, as the CPN (Maoist) initiated an insurgency to overthrow the Nepalese monarchy and establish a people's republic. The comprehensive peace accord signed on 21st November 2006, marked the end of the two-decade-long conflict, creating a new political and economic environment in the country. During the year 2007/2008, just before the global financial crisis, NEPSE reached around 1000 points.

However, after a parliamentary election resulted in the Maoists becoming the largest party and forming the government, investors became sceptical about their ability to manage the economy. A prominent political figure from the Ministry of Finance publicly criticised the stock market, contributing to a loss of investor confidence, and NEPSE hit its lowest point of 283 during 2008. Further, after a few years, when another party came into power, NEPSE started moving into positive territory. The period between 2008 and 2012 was considered one of the darkest moments in NEPSE's history, coinciding with the global financial crisis. Since 2012/2013, NEPSE has once again entered a bullish phase and reached around 1800 points during 2015/16. However, there were another 3–4 years of bearish trends between 2016 and 2019. In December 2019, NEPSE stood at 1100 points, but within a short four-month period, it surged to 1600 points.

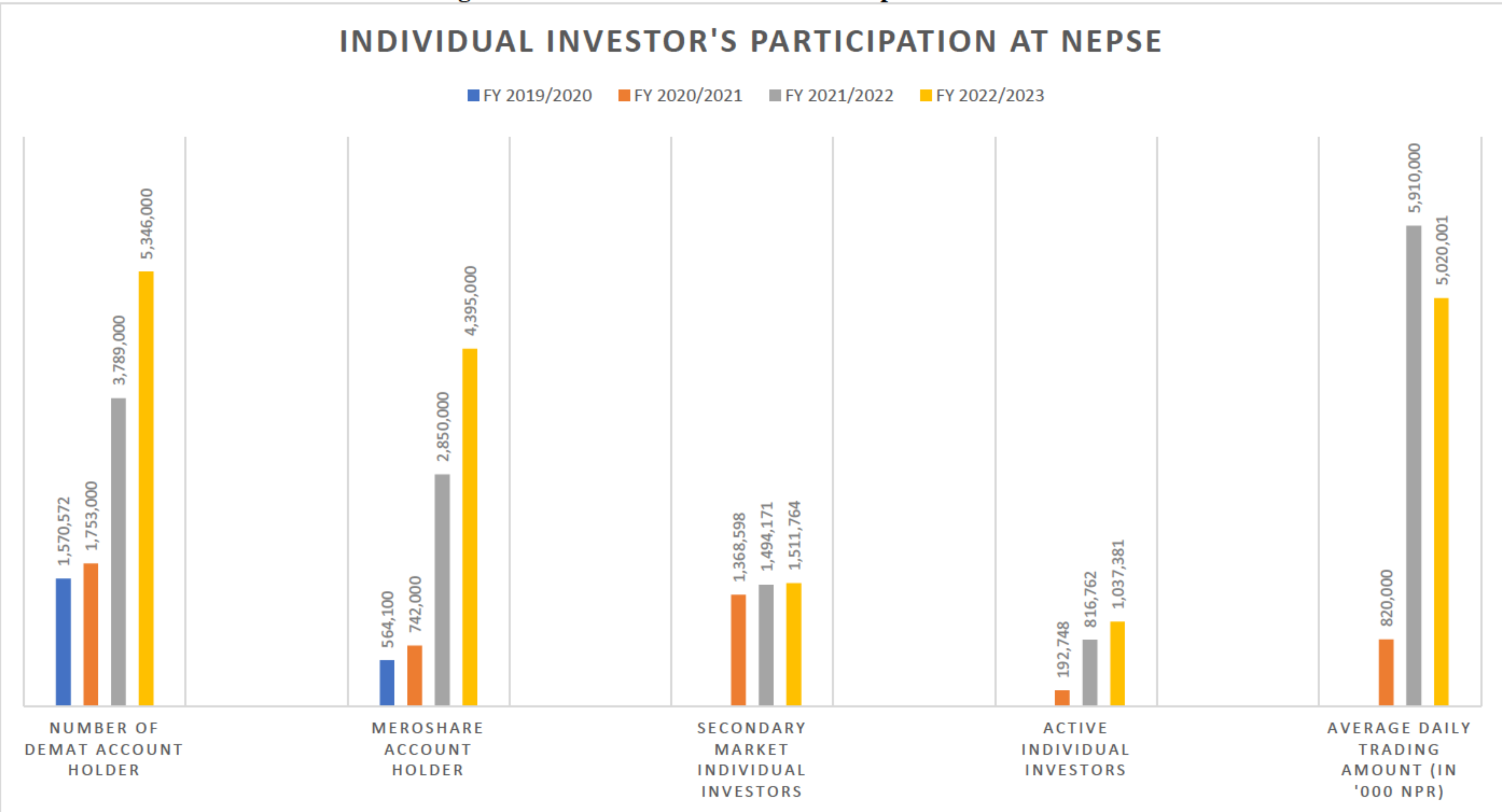
Moving on, the onset of the COVID-19 pandemic in March 2020 led to NEPSE's bottom point of 1150 on 29th June 2020. Nevertheless, from 30th June 2020, to 19th August 2021, NEPSE marked an all-time high of above 3200 points—an exponential growth of 180% from its low of 1150 in just 14 months, the highest and fastest growth ever witnessed in NEPSE's 30-year history. The driving force behind this remarkable growth was the development of the NEPSE online trading system known as the Trading Management System (TMS), which revolutionised the culture of NEPSE investing. As a result, the number of demat account holders, meroshare account holders, secondary market individual investors, and daily average trading volume skyrocketed, far exceeding expectations (for details, see figure 2.4). This digitalisation of NEPSE has opened up unprecedented opportunities for growth and development in the Nepalese capital market, paving the way for a promising future.

Figure 2. 2: Yearly NEPSE Index performance in the last 30 years



Source: Created by Author (2023), adapted from SEBON (2023)

Figure 2. 3: Individual Investor's Participation at NEPSE



Source: Created by Author (2023), adopted from SEBON (2023)

2.2.2.6 Current debate in the studies of Financial Literacy

In terms of current debate in the studies of financial literacy some researcher such as (Dewi et al., 2020; Hung et al., 2009; Lusardi & Messy, 2023; Lusardi & Mitchell, 2014; Van Rooij et al., 2011) argue that being a financial literate leads towards to better financial decision making and resulted into financial well-being of the individual. Where also being financially literate individual has high level of financial knowledge, and confidence (Lusardi & Messy, 2023; Lusardi & Mitchell, 2011b; Van Rooij et al., 2011), therefore in overall which impacted their investment behaviours. Other researcher such as Lee et al. (2020); Nanda and Banerjee (2021); Singla and Mallik (2021) argue that being financial literacy alone may not be sufficient to improve financial well-being of the individual because it vary as per individual's financial circumstances such as income level, education level and accessibility to available financial products or services.

Furthermore, another ongoing current debate in the studies of financial literacy is that how the financial literacy can be measured effectively, what are the indicators which are most significant to understand the financial well-being of the individual (Björklund & Sandahl, 2021; Ouachani et al., 2021; Rieger, 2020). Many researchers such as Kimiyaghalam and Safari (2015); Remund (2010) argue that financial literacy can be measured by knowledge based tests, while other researcher such as Altman (2012); Fraczek and Klimontowicz (2015); Gondaliya (2022); Lusardi and Mitchell (2014); Lyons and Kass-Hanna (2021); Van Rooij et al. (2011) argue that it is related to human psychology and behaviours aspect of the individual therefore it can be measured by analysing individual's understanding related to saving, consumption and investment decision behaviour.

Additionally, financial literacy becomes important discipline of the study, because it is associated with the economic decision making behaviour of the individual (Hastings et al., 2013; Lusardi & Messy, 2023; Mitchell & Lusardi, 2015). Currently from government agencies to private institution, university researcher to private individuals either in developed or emerging or developing or least developing economy all praising the importance of financial literacy, because of its direct relationship with economic decision-making process (Goyal & Kumar, 2021; Lusardi, 2009; Mitchell & Lusardi, 2015). From the theoretical prospective initially financial education started with efficient market hypothesis which assume all investors are rational and assets price of the stock reflect all the relevant information and which is easily available to all class of investors and its free from error or biased. However, in recent years many policy makers to academia believe financial literacy evaluate the behavioural aspect of the individual investors. Which is also helpful in understanding individual's psychology and thought process therefore which varies individual to individual.

The ongoing discourse surrounding financial literacy has gained heightened significance in light of the world's entrance into the era of AI, quantum computing, and blockchain technology (Abramovich & Connell, 2021; Chambers-Jones, 2021). As these advanced technologies reshape various facets of human existence, the imperative for enhanced financial literacy becomes even more pronounced. The convergence of AI and quantum computing is poised to revolutionise data processing, analysis, and decision-making across industries, including finance. Blockchain, with its decentralised and secure nature, is also transforming transactional processes and the very foundation of financial systems. This impending transformation underscores the urgent need for individuals to possess a solid foundation in financial literacy, enabling them to navigate complex algorithms, interpret data-driven insights, and make informed choices in the rapidly evolving landscape of capital markets (Abramovich & Connell, 2021).

Furthermore, the pervasive influence of social media further emphasises the significance of financial literacy as it shapes communication, information dissemination, and consumer behaviour (Jiao et al., 2020; Shvaher et al., 2021; Yanto et al., 2021). As individuals become increasingly exposed to financial content through these digital platforms, the ability to critically evaluate and apply financial knowledge becomes paramount. In essence, the confluence of AI, quantum computing, blockchain, and the pervasive impact of social media accentuate the relevance of financial literacy as an indispensable tool for personal financial well-being and effective participation in the modern economic landscape.

2.2 Reviewing theories related to financial literacy and investment decisions

The main focus of this study is on individual investors' financial literacy and investment choices in the NEPSE market. The study finds out individual retail investors' financial literacy levels, factors that affect investment decisions, and how financial literacy and investment choices in the NEPSE market affect each other. Therefore, this section is related to the most relevant theories related to financial literacy and investment decisions. Given the study's comprehensive scope, no single theory can wholly encapsulate all aspects of the research. However, below theories collectively provide relevant insights.

2.2.1 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) is a fundamental financial theory proposing that asset prices fully reflect all available information at any given time. EMH, which Eugene F. Fama first proposed in the 1960s, contends that it is impossible to consistently achieve higher returns on investment than the average market return on a risk-adjusted basis because prices on traded assets like stocks already incorporate and instantly reflect all known information (Guerrien & Gun, 2011; Sewell, 2011; Yen & Lee, 2008). The hypothesis suggests that stocks always trade at their fair value, making it impossible for investors to either purchase undervalued stocks or sell stocks for inflated prices (Fama, 1970). It means under EMH there is an assumption that mostly all the investors are rational (Yen & Lee, 2008). As such, it should be impossible to outperform the overall market through expert stock selection or market timing, and the only way an investor can possibly obtain higher returns is by purchasing riskier investments (Degutis & Novickytė, 2014; Rossi & Gunardi, 2018).

EMH is typically divided into three forms:

1. Weak Form: Suggests that all past trading information is already reflected in stock prices, and therefore, technical analysis cannot be used to predict and beat the market.

2. Semi-Strong Form: Asserts that all publicly available information is fully reflected in stock prices, not just past data. According to this form, neither fundamental nor technical analysis can be employed to achieve superior gains.

3. Strong Form: Claims that all information, public and private, is fully accounted for in stock prices. Therefore, no one can have monopolistic access to information to consistently outperform the market.

While EMH has been the bedrock of financial economics, it faces criticism and scepticism, particularly from proponents of behavioural finance who point out various market anomalies and irrational behaviour that cannot be explained by EMH. Despite its controversies, EMH has profoundly influenced financial policies and practices, emphasising the importance of portfolio diversification, index funds, and the hypothesis's role in understanding market reactions and movements.

2.2.1.1 The relevance of EMH in the context of the NEPSE markets

The relevance of the Efficient Market Hypothesis (EMH) in the context of individual investors' financial literacy and investment decisions on the Nepal Stock Exchange (NEPSE) can be debated, with arguments suggesting that EMH may not be entirely applicable. Some critics say that EMH's assumptions about how information gets spread and how rational investors act might not be true in emerging markets like NEPSE, where there is more market inefficiency, less information flow, and more irrational investor behaviour (Loredana, 2019; Yen & Lee, 2008). These characteristics can create opportunities for investors to achieve abnormal returns, contrary to the implications of EMH. Additionally, individual investors in NEPSE, who may have varying levels of financial literacy, often rely on personal networks, rumours, or speculative trends rather than purely informational efficiency, further deviating from the idealised rational decision-making of EMH. Because NEPSE is affected by unique social, economic, regulatory, and market factors, EMH might not fully explain the complexities and behaviours of its investors. This means that other theories, maybe from behavioural finance or local market studies, might give a more accurate picture of how investments work and how decisions are made in Nepal.

2.2.2 Behavioural finance

With respective to historical development Bikas et al. (2013) insist that the behavioural finance it emerged as distinct field of financial study during 1980s and 1990s when traditional finance theory such as EMH, Capital assets pricing model (CAPM) and Modern portfolios theory (MPT) unable to address the changing micro and macro-economic environment (Kapoor & Prosad, 2017; Muhammad & Maheran, 2009; Özen & Ersoy, 2019; Suresh, 2021). Where theory such as EMH, CAPM and MPT assume the market is efficient, information is sufficient, and investors are rational and act within an ethical background however in reality situation is different. Therefore, behavioural finance identified that investors are often influences by various range of human biases and heuristics which could lead to irrational investment decision making (Young et al., 2012). Early 1900s psychologists such as Watson and Thorndike were the pioneer of the behavioural finance studies Altman (2012); (Gewirtz, 2001), who started studying the relationship between human behaviour and investment decision making process (Abramson, 2013). Where they found that individual investors tend to make many irrational investment decisions based on the various human cognitive biases.

Further, later on during 1970s other psychologists such as Amos Tversky and Daniel Kahneman developed another financial theory related to human behaviour is called prospect theory (Kahneman & Tversky, 2013; Kai-Ineman & Tversky, 1979). Where (Kahneman & Tversky, 2013) refers that Amos Tversky and Daniel Kahneman argue that individual investors does not always make investment decisions based on risk and reward of the financial assets. Where individual investors influences by cognitive bias such as loss aversion, overconfidence, lack of information therefore which lead to irrational investment decision making. Furthermore, (Earl, 2018) state that during 1980s and 1990s economists such as Robert Shiller and Richard Thaler studies market anomalies which was not address by traditional financial theories (Muhammad & Maheran, 2009; Muradoglu & Harvey, 2012). Where they found that investors investment decisions were influences by news spread in the market, personal preference and familiarity with particular financial asset, and other human individual psychological behaviour.

Additionally, Thaler (2008) in terms of the development of behavioural finance another significant contribution made by Richard Thaler, who introduced the concept of "mental accounting," According to this concept, people tend to divide their money into separate mental accounts based on the source of the funds or the intended purpose. As a result, people may make different decisions with the same amount of money depending on which account it comes from or the purpose for which it is intended (Shefrin & Thaler, 2004). Furthermore, under behavioural finance Bikas et al. (2013); Joo and Durri (2015) refers that one of the key finding which highly impact investment decision making process is human emotions such as greed, fear, and regret. For example, fear may lead to panic buying and selling of the financial assets, similarly greed may lead to take higher risks with pursuit of the higher expected returns.

2.2.2.1 The relevance of behavioural finance in the context of the NEPSE markets

Behavioural finance emerges as a closely relevant theory for understanding the financial literacy and investment decisions of individual investors on the Nepal Stock Exchange (NEPSE). This theory, which delves into psychological influences on investor behaviour, provides a more nuanced explanation of the market dynamics observed in NEPSE. Psychological biases like overconfidence, herd mentality, and loss aversion frequently influence individual investors' behaviour, which can result in irrational decision-making and market anomalies (Kartini et al., 2021; Loerwald & Stemmann, 2016).

Behavioural finance helps us understand why investors might not follow the rational, profit-maximising assumptions of traditional finance theories like the Efficient Market Hypothesis (EMH) in an emerging market like NEPSE, which has its own unique socio-economic background and changing financial landscape (Ingale & Paluri, 2022; Sabri et al., 2020). It accounts for the observed tendencies of individuals to make decisions based on limited information, personal beliefs, the influence of social networks, or a culture of not seeking professional advice, all of which are crucial in understanding the investment patterns and financial literacy impacts in NEPSE (Paul & Pokharel, 2020; Prajapati, 2021). By focusing on the human and psychological elements of investing, behavioural finance provides a framework that closely aligns with the realities of individual investors in NEPSE, making it a pertinent theory for examining and enhancing financial literacy and investment strategies within this market.

2.2.3 Information processing theory

Information Processing Theory is a cognitive approach that focuses on how humans perceive, analyse, and respond to information. It suggests that human cognition is similar to the operations of a computer and occurs in a series of stages, including input (perception), processing (thinking), and output (action). The theory is used to understand how people make sense of complex information, solve problems, and make decisions (Kahneman, 1973).

One of the foundational academic references for information processing theory is George A. Miller's work, particularly his famous 1956 paper "The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacity for Processing Information." In this seminal work , Miller discusses the cognitive limitations of the human mind and how they affect the processing of information. His findings highlight the human capacity to process approximately seven chunks of information at a time, which influences how information is presented and taught to align with cognitive processing capabilities (Miller, 1956).

Another key reference is the work of Atkinson and Shiffrin (1968), who developed the multi-store model of memory, an influential idea in information processing theory. This model outlines three distinct memory systems: sensory register, short-term memory, and long-term memory, each playing a crucial role in the processing of information.

Information Processing Theory has been applied across various fields, including education, psychology, and computer science, to design better teaching methods, understand decision-making, and create more intuitive user interfaces. It's a foundational theory for understanding human cognition and continues to be a critical area of research and application (Kahneman, 1973; Miller, 1956; Simon, 1955).

2.2.3.1 The relevance of information processing theory in the context of the NEPSE markets

Information Processing Theory is particularly relevant in understanding the financial literacy and investment decision-making of individual investors on the Nepal Stock Exchange (NEPSE). This cognitive approach explains how individuals perceive, process, and act upon information, which is crucial in the complex and fast-paced environment of capital markets. In the context of NEPSE, where investors are continually bombarded with diverse and often complex financial information, understanding how they process this information becomes essential. Information Processing Theory suggests that the efficiency and manner in which investors gather, interpret, and use market and financial data directly influence their investment choices and outcomes. It takes into account the limitations of human memory, attention, and cognitive biases, which can significantly affect financial literacy and decision-making processes. By applying this theory, one can better understand why certain investment behaviours occur among NEPSE's individual investors, including how they respond to market news, social media, interpret economic indicators, or follow market trends. This theory underscores the need for enhancing financial literacy to improve the cognitive skills necessary for effective information processing, leading to more informed and rational investment decisions in the NEPSE market.

2.2.4 Human Capital Theory

Human Capital Theory is a concept in economics and labour economics that views human beings as capital, meaning that investing in humans (through education, training, medical treatment, etc.) can increase their productivity and efficiency. This theory, largely developed and popularised by economists such as Theodore Schultz and Gary Becker in the 20th century, has been fundamental in understanding the relationship between education, workforce training, and economic growth (Becker, 2009; Schultz, 1961). Furthermore, Lusardi and Mitchell (2014) argued in their study the importance associated with the importance of economic and financial literacy. Where the study of Lusardi and Mitchell (2014) highlighted investment in financial education is a kind of investment in human capital.

2.2.4.1 The relevance of information processing theory in the context of the NEPSE markets

Human Capital Theory, when applied to the context of individual investors and their financial education and training on the Nepal Stock Exchange (NEPSE), emphasises the importance of investing in knowledge and skills to enhance investment decisions and financial outcomes. By investing in their financial literacy and skills, investors are essentially increasing their 'capital' value, leading to more informed decision-making, efficient market participation, and improved risk management in the investment process. This approach encourages the development of initiatives and programmes aimed at increasing financial literacy among the populace, implying that a well-informed investor base is instrumental in achieving a more robust and efficient market. Therefore, human capital investment in the form of financial education and training is seen as a pivotal strategy for elevating the overall health and functionality of NEPSE through empowered individual investors.

2.2.6 Summary of the theories

This study employed an inductive approach to explore new insights into the practical realities faced by Nepalese individual investors, rather than testing existing theories. Therefore, this study reviews a comprehensive range of essential theories to understand the evolving mindset of individual investors on the Nepal Stock Exchange (NEPSE) as economic development and financial literacy progresses. It incorporates key capital market theories like the Efficient Market Hypothesis, which posits that stock prices reflect all available information. Additionally, it delves into behavioural finance, addressing human cognitive biases and emotional responses through Prospect Theory. Additionally, it includes information processing theory, which explains how individuals perceive, interpret, and act on information, as well as human capital theory, which emphasises the importance of increasing financial knowledge. Collectively, these theories offer a framework to comprehend the evolving decision-making and strategy of individual investors in NEPSE, particularly as they acquire financial literacy and navigate through changing economic environments. They illustrate a transition from traditional to more sophisticated and informed investment approaches, reflecting the dynamic interplay between financial education, market behaviour, and economic development.

2.3 Operationalization of Financial literacy with investment decision in the literature

In the literature, the operationalization of financial literacy often involves defining and measuring this concept using various indicators, questions, or scales. Financial literacy encompasses a broad range of knowledge and skills related to financial concepts and practices. To operationalize it, researchers often use specific questions or assessments to gauge an individual's level of financial literacy. Common elements used to operationalize financial literacy include:

2.3.1 Demographic and Socioeconomic Factors:

The impact of demographic and socioeconomic variables on financial literacy is often assessed. Where financial literacy levels exhibit disparities within various demographic groups, encompassing factors such as gender, age, education, employment status, income, marital status, wealth, and more. Numerous studies, including those by (Hassan Al-Tamimi & Anood Bin Kalli, 2009; Klapper et al., 2015; Okamoto & Komamura, 2021; Potrich et al., 2018; Rink et al., 2021) have delved into this phenomenon. This study also wants to look at how financially literate people are and how that relates to different demographic factors for individual investors in NEPSE. The significance of this research lies primarily in its implications for policymaking. It enables policymakers to tailor their strategies to specific demographic segments when developing financial literacy policies. The collective findings of these studies consistently highlight that financial literacy indeed varies across education, gender, marital status, age groups, occupation, experience, and size of portfolio.

Age

When examining financial outcomes, **age** often serves as a control variable alongside other demographic factors like gender, income, and education. In general, research commonly indicates that financial literacy tends to be highest among individuals in middle age rather than among younger or older age groups. Klapper et al. (2015)'s study, "Financial Literacy around the World," conducted across 140 countries, discovered that the highest percentage (63%) of financially literate individuals were typically found in the 35 to 50 age group in advanced economies. Following them were people between the ages of 15 and 35 and 50 and 65, with people over 65 having the lowest percentages. On the other hand, when taking a global perspective, Klapper et al. (2015) discovered that the 15 to 35 age group had the highest percentage (38%) of financially literate people, followed by those aged 36 to 50, 51 to 65, and those over 65. This implies that younger generations tend to have higher levels of financial literacy compared to older generations across these 140 countries.

In the context of Nepal, Nepal Rastra Bank, the country's central bank, conducted a comprehensive national survey involving 9,361 individuals age above 18 years general public. The results of this survey indicated that younger generations, particularly those between 18 and 30 years of age, demonstrated higher levels of financial knowledge compared to other age groups. Specifically, the financial literacy score for individuals aged 18 to 30 was 63.2 percent, signifying a strong understanding of financial concepts. In contrast, individuals aged 60 years and older exhibited a lower financial literacy score of 27.9 percent, indicating a comparatively lower level of financial knowledge among this age group. This difference supports the idea that younger people in Nepal are better at understanding money. This could be because they have access to more up-to-date educational materials, spend more time in digital financial environments, or experience other age-related factors that help them learn about money.

In contrast, Thapa and Kc (2020)'s study, which focused on the financial literacy of Nepalese stock market investors, examined data gathered from 83 respondents in the Kathmandu Valley. The study's findings presented a different perspective, indicating that the highest levels of financial literacy were observed among individuals in the age group of 50 to 60 years. This finding suggests that in the context of the Kathmandu Valley, an older demographic, specifically those in the 50–60 age bracket, exhibited a more significant understanding of financial matters. It's worth noting that regional variations and specific study contexts may contribute to these differing outcomes regarding age and financial literacy.

Several factors may explain why younger and middle-aged individuals tend to exhibit higher levels of financial literacy. One plausible explanation is that younger individuals are more accustomed to the digital economic landscape and may receive more support through their education in understanding financial matters. Meanwhile, middle-aged individuals are often in the midst of their careers, which provide a stable income. This economic stability and their familiarity with employment may stimulate their active participation in financial markets and decision-making. Additionally, income and education levels are critical factors influencing financial literacy, and middle-aged individuals may have greater access to resources and financial education. In conclusion, age affects financial literacy along with things like education, income, and exposure to financial concepts. It is important to understand these interactions in order to understand and fix differences in financial literacy.

Gender

Furthermore, concerning **gender** differences, Lusardi's 2015 study titled "Financial Literacy around the World," conducted across 140 countries, reveals that on a global scale, 35 percent of men demonstrate financial literacy, while only 30 percent of women exhibit the same level of financial knowledge. Notably, while women tend to provide fewer correct responses to financial literacy questions, they are also more likely to respond with "I do not know." This pattern is consistently observed in other studies, as noted by Lusardi and Mitchell in 2014.

Findings from worldwide research, including studies conducted by (Bucher-Koenen et al., 2021; Hassan Al-Tamimi & Anood Bin Kalli, 2009; Okamoto & Komamura, 2021; Potrich et al., 2018; Rink et al., 2021), consistently highlight that women tend to possess lower levels of financial literacy in comparison to men, illustrating a pervasive global gender gap in this regard. In the context of NEPSE Bibek's 2022 study, it is also identified that a majority of investors are male, particularly in the age group of 26 to 45. This can be attributed to the fact that men typically have more access to stock markets and tend to be more inclined towards taking financial risks.

Furthermore, considering the broader societal demographics, where male dominance and decision-making prevail in various aspects of life, including financial decisions, this knowledge gap between genders can be exacerbated. Contributing factors include limited educational opportunities, deeply ingrained social norms, and unequal access to financial resources for women.

In the context of Nepalese societal demographics, males frequently dominate financial decision-making within families. This gender bias extends to participation in financial markets, where men significantly outnumber women, including activities at the Nepal Stock Exchange (NEPSE). This trend aligns with traditional roles and expectations, positioning men as the primary financial decision-makers due to their relatively better access to financial opportunities and higher risk tolerance. While this phenomenon isn't unique to Nepal and reflects a global trend, addressing it requires focused efforts to enhance financial literacy and inclusion among women, aiming to create a more balanced financial landscape.

Marital Status

Several empirical studies have indicated that married individuals tend to have higher financial literacy compared to their single counterparts. Research among US adults has shown that single respondents generally exhibit lower financial knowledge (Hogarth & Hilgert, 2002). Married or coupled women typically have lower levels of financial literacy than their male counterparts, according to a Aguiar-Díaz and Zagalaz-Jiménez (2022) study on financial literacy in Spain that considered marital status. This gender difference may be attributed to the fact that men often take on the role of making financial decisions within the family, while women are more frequently responsible for other domestic duties. A similar trend was observed in Brazil, where women generally exhibited lower financial literacy than men, with a more pronounced effect among single women (Potrich et al., 2018). One plausible explanation for the relatively higher financial literacy of married women is their responsibility as parents, necessitating investments for their children's future needs, such as education, housing, and healthcare.

On the contrary, a study by Kadoya and Khan (2020) examining the determinants of financial literacy in Japan found that marital status itself doesn't significantly impact financial literacy. However, having a spouse can provide more opportunities for social learning and sharing experiences, which, in turn, could enhance financial literacy. Moreover, the education level of one's spouse is positively linked to financial literacy, suggesting that having a capable spouse can contribute to higher financial literacy levels.

In the Nepalese context, a study by Thapa and Kc (2020) focusing on factors affecting investment decisions doesn't directly investigate the relationship between financial literacy and marital status. Nevertheless, the study does mention a direct association between the size of investment and the marital status of individuals. It's noteworthy that the study highlights that most unmarried individuals have invested a significant portion of their funds.

These findings suggest a complex relationship between marital status and financial literacy, influenced by cultural and societal factors as well as individual circumstances.

Education

Educational level is widely recognised as a prominent factor influencing an individual's financial literacy. Among the adult population in the United States, research by (Hogarth & Hilgert, 2002) established a strong correlation between lower levels of educational attainment and diminished financial knowledge. Additionally, the United States Government Accountability Office identified education as a pivotal factor affecting financial literacy, especially among those with limited proficiency in English (Cackley, 2010). They also reported a statistically significant relationship between respondents' education levels and their financial knowledge, a finding further supported by (Behrman et al., 2012), who observed a positive association between education and wealth when considering its interaction with financial literacy.

This link between education and financial literacy is substantiated by research conducted in various countries. Studies by Stella et al. (2020) in Italy, Mouna and Anis (2017) in Tunisia, and Aggarwal and Gupta (2014) in India have all confirmed this relationship. Additionally, Bhushan and Medury (2013) concurred with Vig (2017) that education was one of the most significant factors influencing financial literacy among Indian investors. They added gender, income, nature of employment, and place of work to the list of factors influencing financial literacy.

Furthermore, a study by Hastings et al. (2013) on financial literacy, financial education, and financial outcomes, although not explicitly discussing the relationship between financial literacy and education, mentions that higher levels of education are linked to increased financial literacy. This implies that formal education, in particular, equips individuals with the fundamental knowledge and skills necessary for financial literacy. Additionally, financial education programmes in schools have the potential to teach students about essential financial concepts. Furthermore, Lusardi (2019) indicates a positive association between educational achievement and financial literacy. However, Lusardi (2019) underscores that education alone is insufficient for ensuring financial literacy. This means that while higher educational attainment is linked to improved financial literacy, being well-educated doesn't guarantee financial acumen.

In the context of Nepal, studies like Manandhar (2018) have found a direct link between an individual's educational background and their financial literacy. Those with university degrees exhibit more confidence in making investment decisions at NEPSE. Likewise, Thapa and Nepal (2015) study on financial literacy among college students revealed a connection between education and financial literacy. The research discovered that the extent of financial knowledge among college students is influenced by the field of study they pursue. Students from different academic disciplines may exhibit different levels of financial literacy. This implies that the educational path chosen by students can have an impact on their financial knowledge and comprehension. Furthermore, Thapa and Kc (2020) underscores the role of education alongside demographic variables in understanding the level of financial literacy, emphasising that educational background remains a cornerstone for individual knowledge and comprehension of the NEPSE market.

Occupation

Regarding the correlation between financial literacy and occupation, research by Fornero and Monticone (2011) reveals that the self-employed, including small business owners and freelancers, tend to have a heightened level of financial literacy. This can be attributed to their relatively greater wealth or the necessity of making numerous financial decisions, especially regarding their businesses. In the Netherlands, Van Rooij et al. (2012) observe that self-employed individuals who lack employer pension plans are nearly twice as likely to engage in retirement planning. This leads them to seek more information about investments and stay attuned to the current financial landscape. In Romania, the self-employed exhibit higher financial literacy compared to the employed, and they also tend to save more (Beckmann, 2013). Ćumurović and Hyll (2019) establish a robust connection between entrepreneurship and financial literacy. The relationship operates bidirectionally, with self-employed individuals having stronger motivations to acquire financial literacy. Simultaneously, enhanced financial literacy, which encompasses the ability to assess business and financial risks and locate financing sources at a lower cost, can serve as an incentive to choose self-employment.

Furthermore, Kadoya and Khan (2020) study on determinants of financial literacy in Japan emphasises that occupation significantly influences financial literacy. Occupations that require an understanding of economic and financial aspects provide individuals with more opportunities to attain financial literacy. Specifically, the study highlights "finance and insurance" as an occupation that positively impacts financial literacy. Respondents with work experience in the financial sector tend to be more financially literate than their counterparts.

Working in the finance and insurance fields facilitates the acquisition of financial literacy through exposure to financial matters.

Similarly, research by Jana et al. (2024) uncovers a favourable relationship between financial literacy and occupation. The study indicates that occupation exerts a significant positive influence on the level of financial literacy among individuals working in the unorganised sector. This implies that individuals with occupations characterised by higher standards tend to possess elevated levels of financial literacy.

Experience

Based on prior research, its a common finding that individuals with longer periods of experience in financial matters tend to have higher levels of financial literacy. This experience often translates into a greater ability to take on financial risks and manage larger investment portfolios. It's worth noting that this trend is more prevalent among male individuals.

Awais et al. (2016)'s study focuses on the impact of financial literacy and investment experience on risk tolerance and investment decisions in Pakistan. Awais et al. (2016)'s argument is that financial literacy and investment experience are important factors that can help investors manage their risk-bearing capacity and make healthy investments. Additionally, experienced investors are better equipped to handle risky situations and manage their investments efficiently. The study also heightened individual investors experience, enabling them to gauge the inherent risks associated with various investment options and make informed decisions based on their risk tolerance.

In essence, as individuals gain more experience handling financial affairs over time, they tend to become more knowledgeable about various financial concepts and are better equipped to make informed investment decisions. This experience is often associated with a willingness to take on more financial risks and potentially hold larger and more diverse investment portfolios.

This finding highlights the importance of financial education and experience in improving one's financial literacy and, subsequently, their ability to navigate the complexities of investment and financial decision-making. It's important to note that this trend can be influenced by various factors, including cultural and societal norms, access to financial resources, and educational opportunities.

Portfolio size

While reviewing previous studies, portfolio size continues to be a crucial factor closely associated with the financial literacy and investment decisions of individual investors. Research by Chu et al. (2017) indicates that investors with larger portfolios generally possess greater experience and understanding of capital market investments, including those in NEPSE. These investors, with a substantial grasp of the risks and returns, tend to make more informed investment choices. Conversely, Li et al. (2020) notes that smaller portfolio holders can also exhibit a solid understanding and financial acumen, contributing to sound investment decisions. However, investing and trading in markets like NEPSE inherently involve risks, making risk management an essential skill, especially for long-term investment success. As individuals gain experience and understand market trends, they are likely to grow their portfolio size, reflecting an enhanced capacity for making informed financial decisions. This gradual increase in portfolio size is often indicative of a deepening understanding of the financial markets and investment strategies.

Van Rooij et al. (2011) in their study "Financial Literacy and Stock Market Participation," found that individuals with higher financial literacy are more likely to participate in the stock market and tend to have larger and more diversified portfolios. They suggest that as financial literacy improves, individuals gain the confidence and skills necessary to make more complex investment decisions, leading to larger portfolio sizes. Furthermore, a study by Hilgert et al. (2003), "Household Financial Management: The Connection between Knowledge and Behaviour," confirms that a higher degree of financial knowledge is associated with a wider range of investment products in one's portfolio.

Another study by Peng et al. (2022) found a strong association between financial literacy and the diversification of investment portfolios. They concluded that investors with higher financial literacy are more likely to hold diversified portfolios, indicating more sophisticated investment strategies and potentially larger portfolio sizes. Additionally, a study by Christelis et al. (2011) titled "Stockholding: Participation, Location, and Spillovers" emphasises the role of financial literacy in increasing stock market participation and portfolio size. Their findings suggest that as individuals become more financially literate, they are more confident and capable of making a variety of investment decisions, leading to larger and more diversified portfolios.

2.3.2 Measuring financial literacy

This section describes test based measurements of financial literacy found in the literature. This section also highlights critiques of the test based measurements.

2.3.2.1 BIG 3 and BIG 5 Questions

When assessing financial literacy, a significant portion of researchers globally employ a set of questions known as the "BIG 3" and "BIG 5". These questions, detailed in Table 2.2 and 2.3, serve as a common tool to gauge the financial literacy levels of individual investors. The "BIG 3" questions, designed by (Lusardi & Mitchell, 2011a), are outlined in Table 2.2. The first question primarily evaluates numerical comprehension, focusing on the ability to calculate interest rates and grasp the concept of compound interest within the framework of the time value of money. The second question delves into understanding the relationship between interest rates and inflation, while the third question assesses knowledge concerning risk diversification and the risk management strategies employed by individual investors. The formulation of these questions was guided by four key criteria set by the authors, (Lusardi & Mitchell, 2011a): (i) simplicity, ensuring that the questions measure fundamental knowledge; (ii) relevance to the practical aspects of everyday financial management; (iii) brevity, with a preference for a concise set of questions; and (iv) the capability to effectively differentiate between various knowledge levels.

Table 2. 2: "BIG3" Financial literacy test questions introduced by (Lusardi & Mitchell, 2011a)

1. Suppose you had $100 in a saving account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: **a) more than $102,** b) exactly $102, c) less than $102, d) do not know, e) refuse to answer.
2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would be able to buy: a) more than, b) exactly the same as, **c) less than today's money in the account,** d) do not know, e) refuse to answer.

3. Do you think that the following statement is true or false? ‘‘Buying a single company stock usually provides a safer return than a stock mutual fund’’. a) true, **b) false,** c) do not know, d) refuse to answer
*Correct answers in bold

Source: Adapted from (Lusardi & Mitchell, 2011a)

Furthermore, in the 2009 National Financial Capability Survey, an expansion to the "Big 3" was introduced, incorporating two additional questions. These supplementary questions, displayed in Table 2.3, serve to further gauge financial literacy. The fourth question evaluates one's understanding of the inverse correlation between interest rates and bond prices, while the fifth question assesses comprehension of interest in the context of mortgage payments.

Table 2. 3: Additional financial literacy test questions introduced by called “BIG5”

4. If interest rates rise, what will typically happen to bond prices: a) they will rise, **b) they will fall,** c) they will stay the same, d) there is no relationship, e) do not know, f) refuse to answer
5. Do you think that the following statement is true or false: A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest over the life of the loan will be less.

a) true, b) false, c) do not know, d) refuse to answer
*Correct answers in bold

2.3.2.2 Extended Tests

Beyond the renowned "Big 3" questions, it becomes evident that these questions, although widely used, may not offer a sufficiently comprehensive assessment of financial literacy. Consequently, numerous alternative tests and indices have been devised. Some incorporate the "Big 3" questions, while others employ entirely different sets of questions. For instance, the DNB household survey conducted among the Dutch population in 2007 by Van Rooij et al. (2011) employed a more extensive questionnaire. This comprehensive questionnaire encompassed 16 questions divided into two categories: basic literacy questions (termed the "Big 5") and sophisticated literacy questions (consisting of 11 questions). Notably, respondents encountered more difficulty with the advanced literacy questions, with response rates like "do not know" ranging from 3% to 8% for basic financial literacy questions and extending from 11% to 38% for the more complex literacy questions. In 2008, the Health and Retirement Study introduced a specialized module of ten questions covering various aspects such as knowledge of capital markets, risk diversification, mutual fund fees, and numeracy. While this expanded the scope of assessment, the overall literacy outcomes remained relatively consistent with studies that employed the "Big 3" and "Big 5" questions. Additionally, Lusardi and Mitchell (2017) introduced an extra set of eight intricate questions focused on assessing the financial literacy of individual investors concerning the capital market. Consequently, an analysis of these extended tests revealed significant heterogeneity, both in the length of the financial literacy tests and the dimensions they assessed. Table 2.4 offers a summary of the various researchers who employed "BIG3" and "BIG5" questions, including an additional set of questions for their study purposes.

Table 2. 4: Overview of the financial literacy measurement

Researcher	Country/target population	Sample Size	Type and length of questionnaires	Dimension measurement
Chen and Volpe (1998)	USA college students	924	36 MC	N, FL, ID
(Bernheim, 1996)	USA general population	806	13 MC	FL
(Beal & Delpachitra, 2003)	Australia, college students	789	26 MC	N, FL, ID
(Authority, 2003)	USA, Individual investors	1086	10 MC	ID
(Lusardi & Mitchell, 2011a)	USA, general population	1269	BIG3	FL
(Almenberg & Säve-Söderbergh, 2011)	Sweden, general population	1300	BIG3	FL
(Bucher-Koenen & Lusardi, 2011)	Germany, general population	1059	BIG3	FL

(Crossan et al., 2011)	New Zealand, general population	850	BIG3	FL
(Boon et al., 2011)	Malaysia, general population of Klang Valley	160	BIG3 and BIG5	FL
(Brown & Graf, 2013)	Switzerland, general population	1500	BIG3	N, FL, ID
(Clark et al., 2017)	USA, general population	1300	10 MC + BIG5	N, FL, ID
(Grohmann, 2018)	Thailand, general population	491	BIG3	FL
(Mouna & Jarboui, 2015)	Tunisia, Individual investors	256	11 MC + BIG5	N, FL, ID
(Arif, 2015)	Pakistan, Individual Investors	154	18 T/F	N, FL, ID
(Ateş et al., 2016)	Turkey, general population	596	20 MC + BIG5	N, FL, ID

(Sivaramakrishnan et al., 2017)	India, individual investors	506	14 MC + BIG3	N, FL, ID
(Hsiao & Tsai, 2018)	Taiwan, general population	2523	8 MC, one from BIG5	N, FL, ID
(Agyei, 2018)	Ghana, general population	398	21 MC + BIG5	N, FL, ID
(Bianchi, 2018)	France, bank clients	511	7 MC + BIG3	N, FL, ID
(Lusardi & Mitchell, 2017)	USA, general population	989	BIG3 + BIG5 + 8 Sophisticated financial literacy question	N, FL, ID

MC = Multiple choice, T/F = True/False, N = Numeracy, FL = Financial Literacy knowledge test, ID = Investments Decision, Source: Created by Author (2023)

The above table 2.4 provides insights into the prevalence of distinctive approaches, some of which align with the theme of this study. The "Big 3" questions serve as an example of a category of investigations that gravitate towards fundamental or general financial principles. These inquiries are embraced due to their broad relevance. For instance, the concept of compound interest significantly impacts both investors by augmenting their wealth and borrowers, who must deal with the interest accrual. Likewise, the question regarding inflation holds relevance across various financial domains, encompassing spending, saving, investing (as it erodes future purchasing power and contributes to nominal rates of return), and borrowing (as it diminishes the real value of debt). According to Nicolini et al. (2013), such an approach proves particularly effective when the goal is to gauge financial behaviours such as stock market participation, savings rates, insurance purchases, and more.

Additionally, the "Big 3" and "Big 5" questions had an impact on the questionnaire's design, particularly the section that assessed financial literacy in relation to NEPSE investment. However, one question related to mortgage payments was excluded from this design, primarily because such a financial instrument is not prevalent within the context of Nepal. The comprehensive set of survey questions and their underlying rationale are expounded in Chapter 4. Multiple questions were meticulously developed to align with the research objective of evaluating the financial literacy of individual retail investors participating in NEPSE. This approach allowed for a thorough exploration of the financial literacy landscape specific to NEPSE investments.

2.3.2.3 Critique of test-based measurement

The utilisation of test-based measures for assessing financial literacy has indeed been widespread. However, it's crucial to recognise the inherent limitations of this approach. One notable constraint, as highlighted by Hastings et al. (2013), is the absence of incentives for participants to provide accurate answers in item tests. Additionally, during typical survey testing, individuals do not have access to resources such as the internet, financial advisors, or the opportunity for social interaction that they would under real-world circumstances. It's also important to acknowledge the presence of framing bias in test questions. Lusardi and Mitchell (2011a) discovered that merely rephrasing a question could double the percentage of correct answers. Another significant concern is the potential for guessing, which can introduce measurement errors. One suggested solution is to minimise true/false questions, as they are relatively easy to guess correctly. Furthermore, Hill and Perdue (2008) emphasise the importance of including a "do not know" response option. This inclusion enables researchers to distinguish between incorrect answers stemming from guessing and genuine gaps in knowledge, thereby reducing the risk of either overestimating or underestimating financial literacy levels. These limitations of test-based measurement approaches should be taken into account when interpreting the results.

In order to address the concerns associated with critiquing the testing of financial literacy, the survey questionnaires in this study were thoughtfully designed. One notable addition was the inclusion of a "do not know" response option in multiple-choice questions. Moreover, questions related to the factors influencing investment decision-making were crafted using a scoring scale that ranged from 1 to 5. This design choice is expected to enhance the accuracy of assessing the knowledge levels and the various factors impacting individual investors' decision-making at NEPSE. To further strengthen the robustness of the findings and facilitate a more in-depth interpretation of the results, semi-structured interviews were incorporated. These interviews will provide additional clarity and validity to the research outcomes while allowing for a critical analysis of the data.

2.3.3 Factors influencing investment decisions in the stock market

To comprehensively understand the factors that influence investment decision-making at NEPSE, this section of the study undertakes a systematic review of previous research endeavours. Notably, research conducted by scholars such as Obamuyi (2013) titled "Factors That Influence Investment Decisions in the Nigerian Capital Market: A Study of Individual Investors in Nigeria" contributes valuable insights. Obamuyi's study is geared towards identifying the key determinants affecting investors' decisions and examining their correlations with the socio-economic characteristics of investors in the Nigerian capital market. This research encompassed individual investors, employing a convenient sampling method to collect data from 297 respondents using a modified questionnaire developed by (Hassan Al-

Tamimi & Anood Bin Kalli, 2009). The analysis incorporated independent t-tests, analysis of variance (ANOVA), and post hoc tests.

The findings of Obamuyi's study revealed that the most influential factors on investment decisions in Nigeria were associated with the past performance of the company's stock, expectations of stock splits, capital increases and bonuses, dividend policies, anticipated corporate earnings, and the allure of quick financial gains. Conversely, the least influential factors included religious considerations, rumours, loyalty to the company's products and services, the influence of family members' opinions, and expected losses in alternative investments. Moreover, the study demonstrated that the socio-economic characteristics of investors, including age, gender, marital status, and educational qualifications, had a statistically significant impact on their investment decisions in Nigeria.

Significantly, the evaluation of past stock performance as a determinant varied between groups of investors, with different segments of the group regarding it as the most or least important factor. Since the most influential factors often revolve around wealth maximisation, the study's recommendations underscore the importance of creating an investor-friendly environment and market conditions. These could be achieved by developing innovative programs and policies that directly influence investors' decisions, ultimately enhancing the value of firms and augmenting investors' wealth.

Hassan Al-Tamimi and Anood Bin Kalli (2009) studied the financial literacy level of UAE individual investors and found the top four most influencing factors on investment decision were reputation of the firm, religions reasons, diversification purpose and perceived ethics of the firm. The least four influencing factors were family member opinions, rumours, friend recommendations and ease of obtaining borrowed funds. Also, investment decisions were mostly affected by religious factor, social, political, and economic culture of the UAE.

Additionally, in terms of most influencing factor in relation to capital market investment is news spreading in the social media, which also results into many stock crashing and creating hype for investment therefore resulted into stock market volatility (Bukovina, 2016a; Jiao et al., 2020). A survey studies by Reuters Institute (2016) found that 51 % of respondents rely on social media news. Further, Bukovina (2016b) study the relationship between social media big data and its impact on capital market investment decision making, where they highlighted people from all over the world are connected in virtual community through social media and the news spreading in social media has highest degree of impact on individual investors investment decision making process (Jiao et al., 2020).

The study conducted by Thapa and Kc (2020) aims to assess the financial literacy status of Nepalese stock market investors. The primary objective of their research is to identify the variables that influence stock market investors and analyse the relationships among these variables. They have employed a descriptive research design for this study and gathered data from 83 respondents in the Kathmandu valley.

Their analysis, using the Chi-square test, reveals that the level of financial literacy among Nepalese investors is notably low. The study indicates that the overall financial literacy of the respondents falls below 60%, signifying a significant gap in financial knowledge among Nepalese investors. Notably, gender and educational level are two variables that significantly affect financial literacy. In contrast, factors such as age, marital status, volume of investment, income level, caste and ethnicity, and family type do not exhibit a substantial relationship with financial literacy.

Furthermore, Thapa and Kc (2020)'s research highlights that both basic and advanced financial literacy levels among Nepalese investors do not meet the desired standards. Topics such as risk diversification and knowledge related to investment options like stocks, bonds, or mutual funds are of critical importance for investors. Unfortunately, many Nepalese investors lack substantial knowledge in these areas. Some are even unfamiliar with the primary functions of stock markets. Interestingly, a significant number of respondents were able to correctly identify assets with higher price fluctuations, which could be attributed to the volatility of Nepal's secondary market. However, knowledge concerning mutual funds and bonds remains poor among these investors.

This study significantly contributes to the existing body of research on financial literacy. Its findings provide valuable insights into the low level of financial literacy among Nepalese investors, emphasising the importance of education and awareness in the financial markets. Policymakers and regulatory agencies can utilise these findings when formulating policies and strategies to improve financial literacy among investors in Nepal's stock market.

Rana (2019) study factors affecting individual retail investors investment decision making at NEPSE. Where Rana (2019) conducted questionnaire survey among 106 individual retail investors from NEPSE during January to April 2019. Where study also employs exploratory factor analysis technique to extract common factor impacting NEPSE investment decision making. The six factors such as corporate governance, goodwill of the company, earning, market share price, industry competition, size of the company were the common factors which determine the investment decision making process.

Chhetri (2022) study, "Decision-Making Behaviour of Individual Stock Investors in Nepal," has the primary goal of investigating the factors that impact the decision-making behaviour of individual investors in the Nepalese stock market. The study also aims to assess the relative significance of these factors concerning demographic and socio-economic characteristics. This research employs a quantitative approach and utilises exploratory and descriptive research designs. Data were collected through a survey conducted from March to May 2021, resulting in 505 usable responses.

The study employed factor analysis to uncover the influential factors. It was discovered that the factor labelled "accounting and stock market information" holds the highest influence on the decision-making behaviour of individual stock investors. Interestingly, the impact of "public and economic information" was found to be significantly different between male and female investors but not among different age groups. Moreover, variations in the factor "accounting and stock market information" were noted among investors with various educational qualifications.

The research highlights that classical rational criteria such as expected dividends, expected corporate earnings, dividends paid, and the condition of financial statements significantly affect investment decisions. However, most respondents appeared to lack awareness of contemporary issues like environmental records, the firm's role in solving community problems, and the perceived ethics of the firm. This suggests a need for educational campaigns to raise awareness about the importance of social, ethical, and environmental factors in investment decisions.

Fundamental analysis, expected earnings, and dividends were found to be crucial to individual investors in Nepal, although multiple variables influenced their stock investment decisions. Notably, religious reasons seemed to have little influence on investors, possibly due to the limited relevance of religious factors in Nepal. Additionally, the lack of awareness about contemporary issues indicates a traditional mindset among Nepalese individual investors regarding emerging concerns.

Another interesting study by (Chapagain et al., 2022), called "Factors Affecting Investment Decisions of Employees Working in Financial and Non-Financial Sectors: A Case of Pokhara

Metropolitan City, Nepal," looks at the things that affect the investment choices of people who work in both financial and non-financial sectors. The research employed a social survey design and gathered data from 280 participants using a structured questionnaire and a convenience sampling approach. This study was specifically conducted within the confines of Pokhara Metropolitan City in Nepal.

In order to reach its research goals, the study used a wide range of statistical methods, such as descriptive statistics, chi-square tests, t-tests, ANOVAs, confirmatory factor analysis, and structural equation modelling. The findings of this investigation revealed that there was no significant disparity in investment behaviours related to herding, market, heuristics, and demographic aspects between individuals working in the financial and non-finance sectors.

Moreover, the path analysis conducted within this study demonstrated that several key factors, including the market environment, herding behaviours, individual knowledge, and economic conditions, exerted positive influences on investment choices. These findings carry implications for regulatory bodies and associated institutions, emphasising the need to equip investors with knowledge encompassing both economic and behavioural factors to facilitate well-informed investment decisions. This insight underlines the importance of education and support structures for individuals engaged in financial and non-financial sectors within Pokhara Metropolitan City, Nepal, enhancing their capacity to make astute investment choices.

The Vaidya (2021) study, titled "Qualitative Analysis on Investment Decisions of Nepalese Stock Market Investors," delves into the experiences of investors within the Nepalese secondary market. Nepalese investors' decision-making processes are carefully looked at in this study. The research uses grounded theory to get useful information from semi-structured interviews with stock market investors who have studied management in school.

The study's findings provide a multi-faceted perspective on Nepalese investors' attitudes and behaviors. It is clear that these investors have a strong desire to invest in the stock market, primarily because they want better trading experiences on the NEPSE market. However, the study unveils a spectrum of opinions regarding the comprehension of macroeconomic factors and their role in influencing investment choices. Some investors assert that there is no discernible link between their investment decisions and macroeconomic conditions, while others recognise a more direct or indirect connection between the national economy and the stock market.

An important revelation from the research is the predominant focus of Nepalese investors on fundamental aspects of listed companies when making investment selections. Simultaneously, these investors also resort to technical analysis and follow market trends when engaged in short-term trading activities on the NEPSE floor.

The study underscores the significant challenges faced by Nepalese investors in their stock market journey. These challenges encompass a politically unstable environment and the issue of insider trading. Furthermore, the inundation of information related to listed companies, whether accurate or not, significantly impacts investment decisions and occasionally leads investors down erroneous paths.

Vaidya's study thus provides valuable qualitative insights into the world of Nepalese stock market investors, shedding light on their aspirations, decision-making processes, and the hurdles they encounter. These findings contribute to a more comprehensive understanding of investment behaviour in the context of the Nepalese stock market.

Moreover, in another study Kadariya (2012) study factors which influences investors decision making in the context of Nepalese capital market. Where he examines market reactions in relation to tangible and intangible information and analyse the opinion of 185 active stock trading investors from the NEPSE, however response rate was only 27 percent. And mainly he found that factor such as capital structure, average pricing methods, political environment, media coverage, financial education and stock market trends analysis predominantly influences their investing behaviour. Further both tangible (earnings, dividend, book to market price ratio, number of equity) and intangible (political and economic environment) information plays crucial role whilst making investment decision. The most influencing factors for investment decision making are media, friends, and family.

2.3.4 The relationship between financial literacy and investment decision

Van Rooij et al. (2011) study the relationship between financial literacy and stock market participation in Netherland using the 2005 De Nederlandsche bank's household survey. Where Van Rooij et al. (2011) measure the financial literacy level of household by conducting various questionnaires on numeracy, inflation, interest compounding, time value of money and money illusion. Where majority of the respondents are aware of the basic financial concept however in relation to investment portfolio and capital market participation, they are less knowledgeable.

Further, Van Rooij et al. (2011) focused on the stock ownership which trends to increase sharply with education level increases and very few those with lower education own stocks, however even the majority of those having university degree do not participate in the stock market investment. Also, stock ownership is concentrated among age those 40 and above and less ownership among women than men. Stock market participation increases strongly with both financial literacy and wealth level. Moreover, Van Rooij et al. (2011) found that the respondents who are not financially strong and not knowledgeable about stocks, bonds and not familiar with financial market activities stay away from capital market. It means financial education directly impacts the decision power of the individual investor.

Additionally, Mitchell and Lusardi (2015) study the links between financial literacy, saving and investment behaviour, the financial knowledge and training helps to gain access to higher return assets and identify better performing assets, respectively. Also, the large number of people responds does not answer the risk diversification question such as in the USA 34 percent, Germany 32 percent, Netherlands 33 percent, Sweden 18 percent and Switzerland 13 percent, respectively. Again, Lusardi and Mitchell (2011b) studied the financial literacy patterns based on age. Lusardi and Mitchell (2011a) survey data confirmed that it is lowest among the young and the old. Also, women are less active in financial market trading activities. It means financial education is important and essential skills to all works of life people which support them to take appropriate investment decision in this time of complex economic global environment.

Mate and Dam (2017) study the financial literacy of stock market participants from Bombay Stock Exchange (BSE), India. Where they both argue that investing in stock market in India is not that much popular because of the lack of financial literacy and its complicated nature. Similar results are found as per the study performed by Dangol and Shakya (2017) in case of Nepal. Where Dangol and Shakya (2017) highlighted that there is always a strong relationship between financial education and stock market investment activities. Those people who have some basic level of financial knowledge are only ready to accept some level of risk to invest at stock market. It means people who like to invest in stock market are risk taker and optimistic by their human nature. It means financial education, capital market involvement, and decision making all links to each other.

Moreover, Mate and Dam (2017) argue that financial literacy consists of information and investment behaviour of the investors. Where various factors such as age, gender, education, income, and years of experience determine the financial literacy of the individual. Also Mate and Dam (2017) found about 28% of the respondents were from age group between 31-35 years, which support their above argument of risk taker and optimistic behaviour. Likewise, Mate and Dam (2017) argue younger generation possess more capacity to understand and ready to perform more stock market investing activities. Also, employment play another important role, where salaried employees having regular income are more likely to prefer invest at stock market. However, Van Rooij et al. (2011) found that more mature person will perform better than younger at stock market because of their experience level.

In another study by Fong et al. (2021) study the relationship between financial literacy and financial decision-making at older ages in Singapore. Similar to Mitchell et al. (2017) and Scholnick et al. (2013) study this study also found older age population has more wealth and resources and more experience as compared to younger people, therefore as the age of individual investors grow their investment decision making are more rational than younger generation. Also, Fong et al. (2021) highlighted being financially educated means rational financial decision maker and ultimately trends to financial freedom to the individual investors.

Furthermore, Jariwala (2015) studies the financial literacy level of retail individual investors at Gujarat State, India, and its impact on investment decision. Where performance tests were applied through various questionnaires to measure the financial literacy level. And it was found that out of 385 respondents, 39.2% were considered as high financially literate investors and 60.80% were considered as relatively low financially literate investors. Also, to depicts the relationship between financial literacy and investment decision Hypothesis: Financial Literacy level of the individual investors does not have significant effect on their investment decision was framed. And it was found that financial literacy does have a statistically significant effect on the investment decision of individual investors.

Das (2019) analyse the relationship between financial knowledge and investment decision of individual investors at Chittagon Stock Exchange (CSE), Bangladesh. He also investigates the significant factors related to financial skills, which influences the stock market participation.

Moreover, he refers to Remund (2010) that the literature on financial literacy are mainly dominated by knowledge related to financial concepts, skills related to making appropriate financial decisions, ability of communicated in relation to financial concepts, ability to manage personal financial affairs, and confidence in planning efficiently related to future financial needs. Furthermore, from this study of Das (2019) found that CSE was mainly dominated by individual retail investors

In another study based in Pakistan, by Arif (2015) examined the financial literacy level of the individual investors at Karachi Stock Exchange (KSE) and try to understand the relationship between financial literacy and factors which influences investment decisions. In Arif (2015) study, the 154 respondents of KSE were taken for data collection, and the results indicates that the financial literacy level of the participation were below average Arif (2015) found, in last few years, the topic financial literacy is becoming more interesting due to today's diversified world economic environment. In the study Arif (2015) also highlighted the importance of financial education is more crucial in developing economies because people have limited resources in terms of financial products or services, accessibility, and education. Due to lack of financial knowledge investors investment is mostly at high risk, therefore, to safeguard and accelerate the investment portfolio financial knowledge play vigorous role. Moreover, Arif (2015) also found that older age and married male investors are more dominant, active and take careful decision whilst investing at KSE. Similar finding was supported by Van Rooij et al. (2011) that higher age people are more experience and more likely to invest in capital market. Because the number of the years of the experience play important role.

Moreover, Mouna and Anis (2013) conducted the research survey from the Tunisian perspective, on financial literacy and decision making in an organisation. Where their study is based upon qualitative research, the first part of the study covers the attitude of the decision makers at various organisational level and their proficiencies in relation to financial literacy.

And they found that in an average 73.17% of the total population i.e. the sectors included were primary, secondary, tertiary, government & parastatal and academic responded to the questionnaires distributed. Where about 85.66% of the respondents agreed or strongly agree that having financial knowledge will mitigate the risks involved in relation to financial decision making. Also, 77.33% of the participator agreed or strongly agreed that financial literacy is the lifelong learning continuous process, which will take the shape as per circumstances changes with learning curve improved.

Further, around 80.66% of the respondent agree or strongly agree that having financial knowledge to member of the organisation more likely to achieve competitive advantages. And just above half 54% of the respondents strongly agree or agree that most of the manager level staffs does not understand their firm's financial statements. On the other hand, to examine the relationship between financial literacy and its impact on financial behaviour. Those people who had high level of understanding in relation to financial instruments and services can reply on professional financial advisors, (Van Rooij et al., 2011), (Calcagno & Monticone, 2015) and which is about quarter i.e. 26% of the total respondents' population. Having average financial knowledge people should more reply on media, internet, and other sources of news, which represents 54%. In reference to their research question and their finding they highlighted that for sound investment decision making process the financial literacy is basic requirement.

Furthermore, Mouna and Anis (2013) emphasise that basically individual's financial decisions are based on their financial knowledge level and which will help to improve their competitive advantages. Where they believe financial literacy is the integrated knowledge of the individual human behaviour and the information system. Which means different individual has different perspective of the decision-making process as per their individual thinking process and the financial knowledge they hold.

Dangol and Shakya (2017) investigate the investment pattern of financially literate 314 individual investors in Nepal. Where about 60% of respondents were male and 40% were female, also around half of the participants were from the age group of 20-30 years and followed by age group 31-40 years. Likewise, about 90% of the respondents have either bachelor or master's degree and working either in private or government firms. On the other hand, where around 36% of the respondents were earning below NPR 20,000 per month and small percentages of the participators are earning more than NPR 50,000. So, it was clearly shown that education level and income level were the main driving factors which drive the investment decision making behaviour.

Moreover, the outcomes of Dangol and Shakya (2017) study suggest that the other driving force of the individual investors patterns of investment were investment objectives, investment preferences, industry awareness level, sources of investment advices and investment tenure. Where it was highlighted all these driving forces were determined by person's education level and income level. It was also clearly demonstrated that the male individual age group between 20-30 and income level of above NPR50,000 per month had the highest level of financial education and they are more actively involved into the investment activities than other investors.

Additionally, Dangol and Shakya (2017) categories 314 respondents into two class of investors with having high financial literacy and low financial literacy, which was similar to Bhushan (2014) study. Also, which was determine as per the median scores i.e. financial literacy scores above or greater than median scores are considered as high financial literate group. Further these group were divided into three major dimensions such as financial knowledge, financial behaviour and financial attitudes. They also found 56% of the respondents were able to score more than median score, it means more people are financially educated in terms of financial knowledge, attitude and behaviour. In other words, majority of the participators were financially competent to make sensible investment decisions.

Likewise, in another study conducted by Nepali (2018) analysed the family structure of individual investors from NEPSE and its impact on their decision making. Where she portrait the relationship between economic freedom and financial knowledge with marital status, gender, and presence of children in terms of investment decision making. And it was found that majority of investors at NEPSE are male and youth below 25 years. The pattern of their trading is not regular where only very a smaller number of individual trades regularly. Also, there is positive correction between economic freedom and investment decision making as well as financial knowledge and investment decision making. Further, without consultation with family members the major financial decisions were not possible. Therefore, the family structure and other family members knowledge in relation to financial matter are always important.

2.4 Research Gap

In the context of developing economies like Nepal, the subject financial literacy and investment decision making process is interesting due the changing economic environment in the country. Also whereas Nepal is geographically situated between two emergency economic superpower China and India. Where stock market investment culture is much more mature and attracted the global institutional and retail investors. As Nepal continues to develop its capital market, there is a need for increased financial education and awareness to help individuals make informed investment decisions. However, there have been very few academic studies conducted on Nepalese capital market retail investors to understand their investment behaviour, with none conducted at the doctorate level.

While previous studies Dangol and Shakya (2017); (Khadka, 2023); Lamichhane (2022); Manandhar (2018); Rana (2019); (Thapa, 2015; Thapa & Kc, 2020) shed some light on the subject, they were quantitative in nature and did not give a comprehensive understanding of the behaviour or experiences of independent Nepalese retail investors. In order to address this gap, this study will utilise mixed methods approach quantitative and qualitative methods. In terms of quantitative study will employ online survey questionnaires among individual retail investors from NEPSE. Further in terms of qualitative aspect semi-structured interviews with selected experienced individual investors from the Nepal Stock Exchange (NEPSE) was performed, to gain a deeper understanding of the factors that impact their investment decision-making. Through this research, the study aims to provide critical insights into the level of financial understanding and literacy among independent Nepalese retail investors. Also, study, investigate new knowledge, and provide new critical insight into independent Nepalese retail investors with the goal of finding a relationship between financial literacy and the factors impacting investment decision-making and ensuring that future investors are equipped with the necessary financial education.

As Nepal continues to develop its capital market, there is a need for increased financial education and awareness about investment options and strategies to help individuals make informed investment decisions. Moreover, there is a need for academic studies to be conducted as to Nepalese capital market retail investors', and then to understand their investment behaviour, to date there have been very few studies conducted. There is no study conducted at doctorate level. Of those studies, shed some light on the subject, they were quantitative in nature and did not give a comprehensive understanding of the behaviour or experiences of independent Nepalese investors. Therefore, this study intends to address this gap, investigate new knowledge and provide a new critical insight into independent Nepalese retail investors as to their level of financial understanding and literacy, with the purpose to inform policy makers in Nepal to ensure that future investors are provided with the correct financial education.

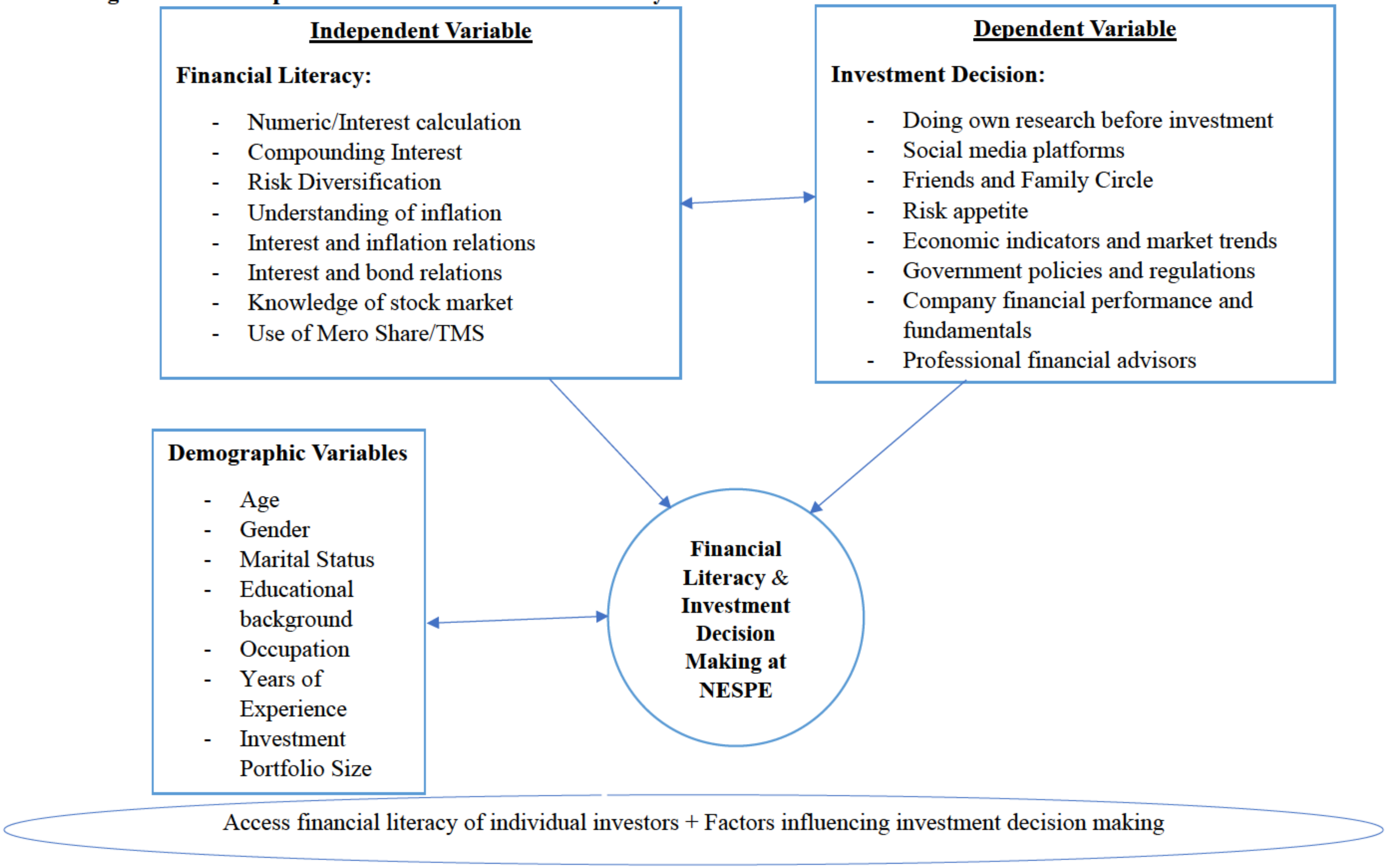
2.5 Conceptual frameworks

The below conceptual framework is designed based on reviewing theories related to finance literacy and investment decisions and providing support to fulfil the above research gap. The conceptual framework detailed in Figure 2.6 illustrates the intricate relationship between financial literacy and investment decision-making in the context of the Nepal Stock Exchange (NEPSE). The framework identifies financial literacy as an independent variable encompassing aspects such as numeric/interest calculation, understanding of compound interest, risk diversification, understanding inflation, its relationship with interest and bonds, knowledge of the stock market, and the use of tools like Mero Share and TMS.

These components of financial literacy are posited to influence the dependent variable, investment decision-making, which is characterised by activities such as conducting research, using social media platforms, consulting friends and family, assessing risk appetite, and considering various financial indicators, including economic trends, government policies, company fundamentals, and the advice of financial advisors.

Additionally, demographic variables such as age, gender, marital status, educational background, occupation, years of experience, and investment portfolio size are recognised as influencing factors in the process of financial literacy and investment decision-making in NEPSE. The framework provides a comprehensive framework that aims to assess the financial literacy of individual investors and the factors influencing their investment decision-making in the context of the NEPSE market.

Figure 2. 4: Conceptual Framework – Financial Literacy and Investment Decision of Individual Investors in the NEPSE



2.6 Chapter Summary

This chapter offers a thorough review of financial literacy and investment decisions among individual investors, underscoring the varied definitions of financial literacy found across different studies. It reviews a diverse array of theories and critically analyses their relevance in terms of the financial literacy and investment decisions of the individual investors in the NEPSE. The chapter then delves into how financial literacy is operationalized in relation to investment decisions in existing literature. It further explores demographic factors such as age, gender, marital status, occupation, education level, experience, and the size of the investment portfolio and their correlation with financial literacy and investment decisions. Additionally, the chapter discusses the utilisation of the Big Three and Big Five question sets for measuring financial literacy, as seen in various studies. It also examines the literature on the determinants affecting investment decisions and the nexus between financial literacy and investment choices. While laying out the research's conceptual framework, this chapter sets the stage for the subsequent presentation of the study's research strategy, methodology, and tools related to the concept of financial literacy.

Chapter Three

Research Context: Nepal

3.1 Introduction

This chapter offers a detailed exploration of the research context concerning the financial literacy and investment decision practices of individual investors within the Nepal Stock Exchange (NEPSE). It is systematically divided into various subsections, each providing an in-depth look into critical aspects of Nepal relevant to the study. These include a profile of the country, an examination of the economic and political environments, an overview of the general public's literacy rate, the historical evolution of the capital market, the regulatory bodies overseeing the NEPSE market, and the current state of adult financial literacy. The primary aim of this chapter is to present a comprehensive background on Nepal, highlighting the significance and relevance of this research within the NEPSE context.

3.2 Country Profile

Nepal is a landlocked country nestled mainly in the Himalayas, between India to the south, east, and west, and China to the north. Nepal is known for its vast altitudinal range, stretching from the lowland Terai plains to the towering Himalayan peaks, including Mount Everest, the world's highest point. This diversity results in a variety of climates, ecosystems, and landscapes within a relatively small area. Nepal covers an area of approximately 147,516 square kilometres, making it the 93rd largest country by land area (Kalugampitiya & Ojha, 2023). The country is divided into seven provinces and further subdivided into 77 districts and 753 local units. According to the Central Bureau of Statistics' 2021 national population census, Nepal has a population of around 29.17 million people, with 95.59 male per 100 female. The median age in Nepal is around 25 years, reflecting a relatively young population (Chalise, 2023).

3.2.1 Political Environment

Nepal's political environment underwent significant transformation following the 1990 People's Movement, which effectively ended the nearly 30-year rule of the single-party Panchayat system and transitioned the country into a multi-party democracy. This pivotal change ushered in a new era of political freedom, civil liberties, and governance, marking the establishment of constitutional monarchy, which later ended in 2008 (Kumari, 2022). Alongside these political shifts, Nepal adopted a free market economy, moving away from the isolationist policies of the Panchayat era and opening up to global trade and investment. Although political unpredictability, economic difficulties, and the ongoing pursuit of sustainable development and social equity have characterised the journey since these changes, they have set the stage for a more participative and competitive political landscape and a more open and dynamic economic environment.

Nepal is a federal democratic republic. It has undergone significant political changes in recent decades, including the end of a civil war, the abolition of the monarchy, and the establishment of a new constitution in 2015 that restructured the country into seven provinces.

3.2.2 Economic Environment

Based on data from the World Bank (2022), Nepal's Gross Domestic Product (GDP) stands at USD 40.83 billion, with a GDP per capita amounting to USD 1336.5. Based on the 2021 national population census by the Central Bureau of Statistics, 65.5% of Nepal's population aged above 10 years is economically active, with 78.6% being male and 61.3% female. This statistic reflects the proportion of the population that is engaged in or available for work, providing a snapshot of the country's labour force participation rate.

Nepal has a chronic trade deficit, importing significantly more than it exports. Its main trade partners are India, China, and the United States. The country imports petroleum products, vehicles, and machinery and exports textiles, carpets, and agricultural products. The economy is characterised by its agrarian base, a growing services sector, and increasing industrial activity. Agriculture still dominates the Nepalese economy, employing a large portion of the population. However, services and industry, particularly tourism, energy, telecommunications, and capital markets investment are growing sectors. The financial sector in Nepal is growing, with a rising number of banks, insurance companies, and other financial institutions and in recent years, there has been a notable increase in the culture of stock market investment within the country.

Nepal's economic environment presents a diverse and evolving landscape, characterised by various sectors that contribute to its Gross Domestic Product (GDP) and overall economic development. Agriculture remains the backbone of the economy, employing a significant portion of the population and providing the bulk of the country's GDP, despite the challenges of small landholdings and varying climatic conditions (Chaudhary, 2018; Khanal et al., 2020). Hydropower stands out as a key sector with immense potential, given Nepal's abundant water resources and mountainous terrain, offering opportunities for both domestic use and export (Bhatt, 2017; Sharma & Awal, 2013). Tourism is another critical sector, capitalising on the country's natural beauty and cultural heritage and attracting trekkers, mountaineers, and cultural enthusiasts from around the world (Badal, 2019; Gautam, 2011).

Remittances contribute significantly to Nepal's economy, accounting for around 25–30% of the GDP (Basnet et al., 2021; Uprety, 2017). With a large number of Nepalis working abroad and sending money home, contributing significantly to household incomes and the national economy. Financial institutions, including banks and microfinance entities, are expanding, although access to finance remains a challenge in many rural areas (Dhungana, 2019).

Education is steadily improving with increasing literacy rates and educational reforms, yet quality and access disparities persist (Shrestha et al., 2017; Thapa, 2020).

The capital market, centred around the Nepal Stock Exchange (NEPSE), is growing, reflecting increasing interest among domestic investors, although it remains small and underdeveloped compared to global standards. In essence, while Nepal's economy has the potential for robust growth across various sectors, it continues to face challenges such as political instability, infrastructure deficits, and the need for regulatory reforms to harness its full economic potential effectively.

3.2.2.1 Gross Domestic Saving (% of GDP) in Nepal

According to data from the World Bank, Nepal exhibited a remarkably low gross domestic savings rate, standing at a mere 5.8% of its gross domestic product (GDP) in the year 2022. A graphical representation of this trend over the past three decades is presented in picture 3.1. This statistic essentially signifies that Nepal has grappled with a persistent liquidity crisis, with a substantial portion of its income allocated towards basic necessities and household consumption.

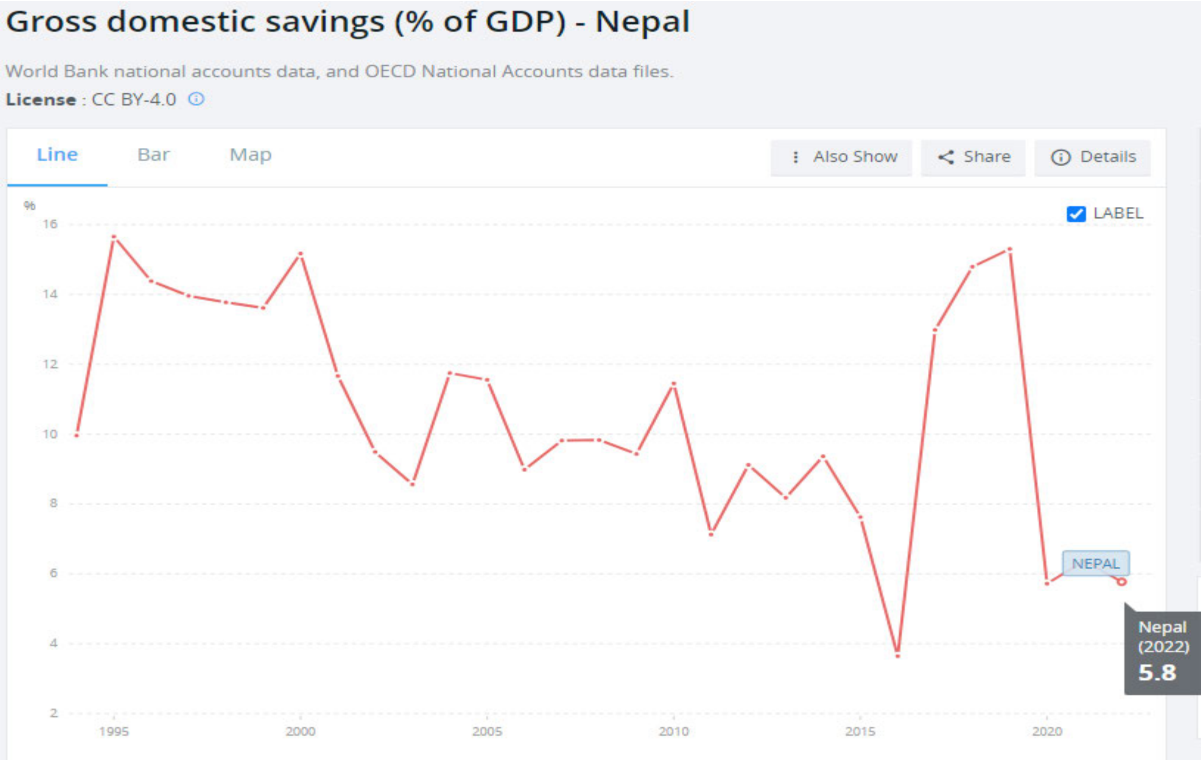


Figure 3. 1: Gross Domestic Saving (% of GDP) in Nepal
Source: Adapted from World Bank (2023)

Market liquidity holds pivotal importance within financial markets, carrying substantial implications for investors, scholars, and regulatory bodies. It's noteworthy that a lack of liquidity has frequently been identified as a central catalyst behind financial crises, as evidenced during the global financial turmoil of 2007–2009 (Rösch & Kaserer, 2014). Historically, emerging markets have generally exhibited lower liquidity levels in comparison to their more developed counterparts (Fong et al., 2017). Nevertheless, this paradigm may have undergone changes as these markets have progressively integrated with the global financial landscape (Ma et al., 2018).

In the context of Nepal, the level of market liquidity stands as a critical determinant, intertwined with the financial literacy of individual investors. A thorough examination of the past three decades of the Nepal Stock Exchange's (NEPSE) performance reveals a recurrent pattern: when there is an abundant supply of liquidity in the market, NEPSE tends to perform exceptionally well. This trend was notably prominent during the COVID-19 pandemic in 2020 and 2021.

During this period, given the limited alternative investment avenues, NEPSE witnessed an unprecedented upsurge in its performance. In a mere 14 months, NEPSE surged from 1150 points to an impressive 3200 points. This rapid transformation serves as a compelling testament to the profound impact of liquidity shortages on the Nepalese capital market (SEBON, 2023).

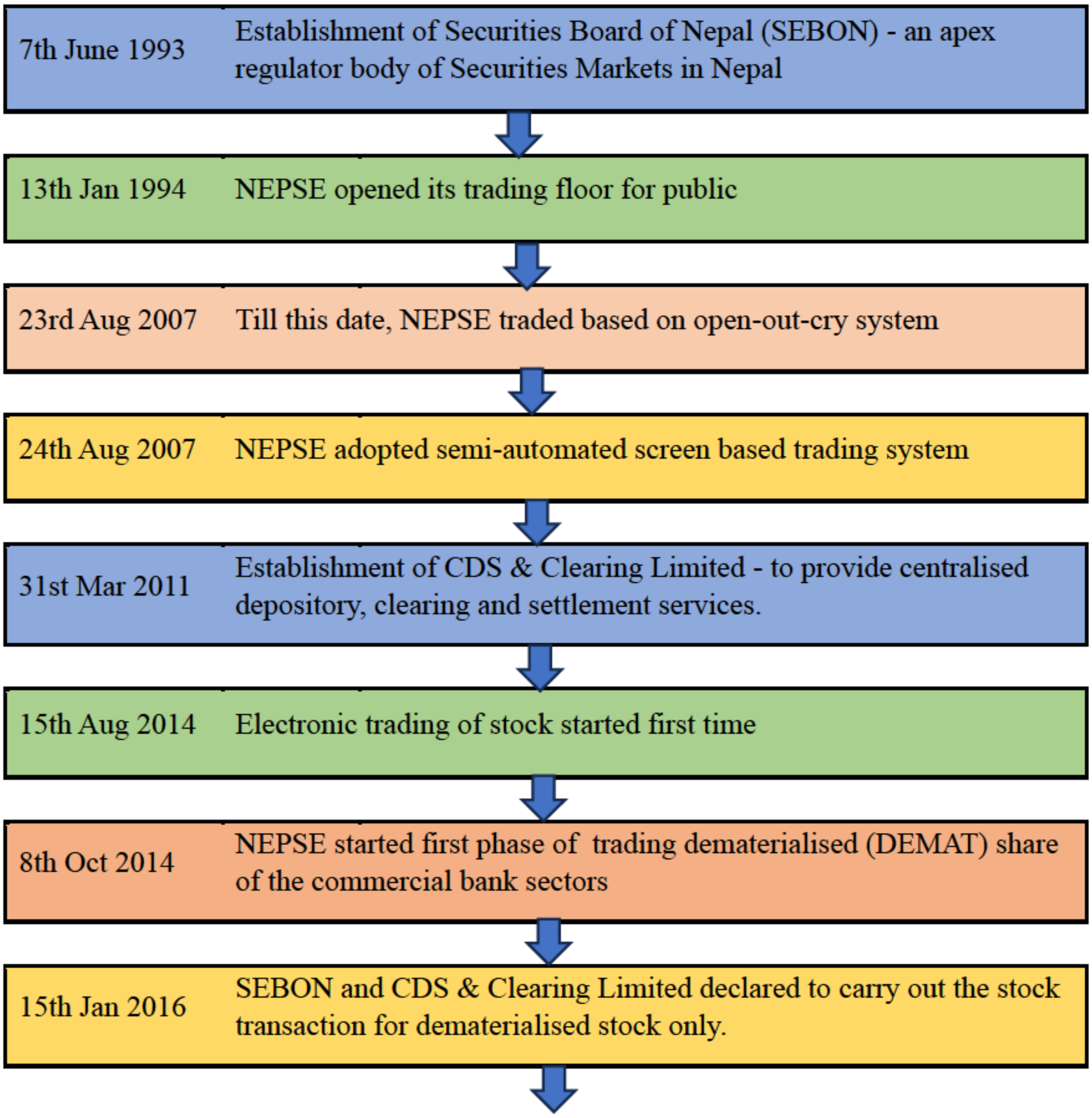
3.3 Historical development of capital market in Nepal

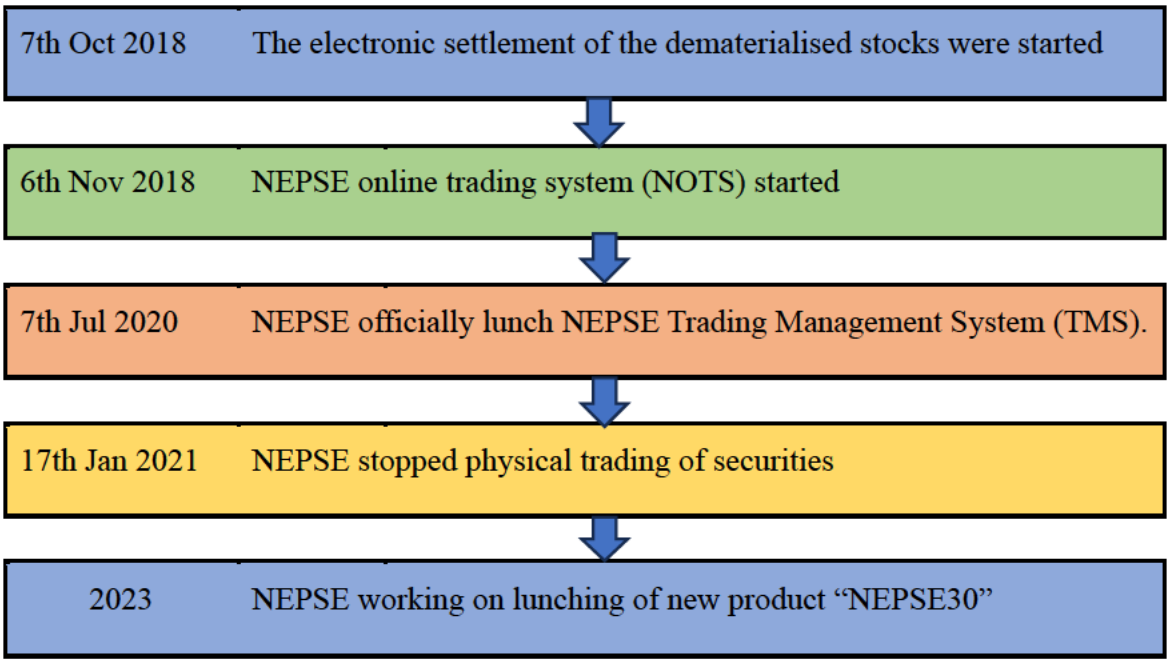
The history of the Nepalese securities market dates back to 1937, when Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. issued shares. The introduction of the Company Act in 1964 and the issuance of the first government bond in the same year were significant developments relating to the capital market. In 1976, the Securities Exchange Centre Ltd. was established with the aim of facilitating and promoting the growth of the capital markets. It was the only institution responsible for brokering, underwriting, managing public issues, market-making government bonds, and other financial services. The Nepal government, under a reform programme to develop capital markets, converted the Securities Exchange Centre into the Nepal Stock Exchange in 1993 (Adhikari, 2013; Bhandari, 2009).

Further, the history of the Nepalese stock market is not very long, with its development beginning after the 1990 political people's movement, which eliminated the almost 30-year rule of the single-party Panchayat system and transformed it into a multi-party democracy. Nepal adopted a free market economy after the political regime change. The Nepal Stock Exchange (NEPSE) is the sole financial stock exchange market in Nepal. It was established under the Companies Act 2006 and operates under the Securities Act 2007 (NEPSE, 2023).

The Nepalese stock market opened for trading on January 13, 1994. At the beginning of 1994, organised and full-fledged stock market trading began with the conversion of the securities exchange centre into the Nepal Stock Exchange. Before 2007, NEPSE was based on the opencut-cry system. The NEPSE adopted a semi-automated screen-based trading system in August 2007, which was later replaced by a fully internet-based automated trading system in November 2018. However, the online trading system introduced by NEPSE in 2018 was not working properly due to technical issues. Specifically, there were problems with the system's matching engine, which caused delays and errors in trade execution. This led to frustration among investors and traders, and some even called for a return to the previous semi-automated system (NEPSE, 2023).

Figure 3. 2: NEPSE Development Timeline (Stages)



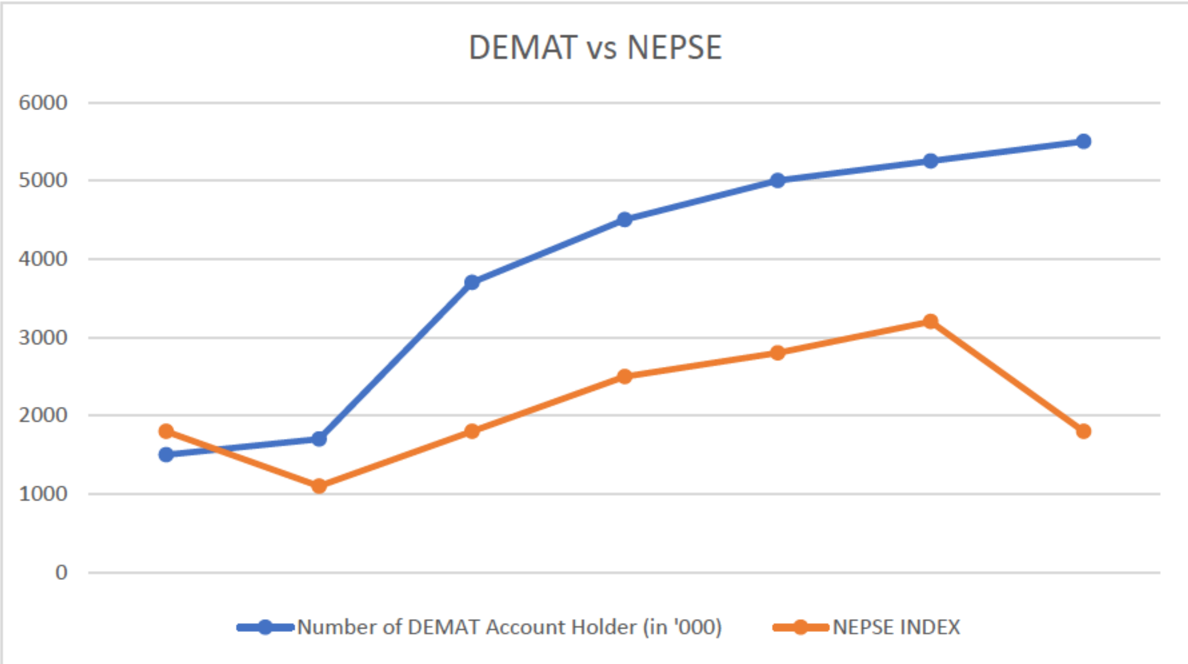


Source: Created by author (2023), Adapted from (SEBON, 2023)

During the COVID-19 pandemic, Nepal was no exception to the lockdown measures implemented worldwide, and the Nepalese government also implemented a nationwide lockdown in March 2020 to control the spread of the virus. As a result, many businesses and institutions, including the Nepal Stock Exchange (NEPSE), were temporarily closed. NEPSE was closed on March 24, 2020, due to the COVID-19 pandemic and remained closed for about four months until July 6, 2020 (SEBON, 2023). During the closure, NEPSE worked on developing an online trading system, as the closure of the exchange had a significant impact on the stock market's liquidity and trading volume. The online trading system was developed to enable investors to continue trading even during the pandemic and provide them with a more convenient and efficient way to invest in the stock market.

The NEPSE Online Trading System (NOTS), also called the NEPSE Trading Management System (TMS). The NEPSE TMS was officially launched on 7th July 2020, with the full rollout of the platform to all investors in the Nepalese stock market (NEPSE, 2023). The launch of the NEPSE TMS was a major milestone for the Nepalese securities market, as it brought the benefits of online trading to investors for the first time. The introduction of NOTS has revolutionised the Nepalese stock market by providing investors with the convenience of online trading, real-time trading information, and increased transparency in trading. NOTS has also reduced the costs associated with traditional offline trading, such as travel expenses, broker fees, and paperwork. Additionally, the system has increased investor participation in the Nepalese stock market, by making it more accessible to a wider range of investors (Giri, 2021).

Figure 3. 3: Comparison between NEPSE index and Number of DEMAT account holder



Source: Created by author (2023)

According to the Central Depository System and Clearing Limited (CDSC), the number of DEMAT accounts has increased since 2020, from around 1.5 million before NOTS to more than 5.5 million as of April 2023.

3.3.1 Listed companies and sectors

According to the Securities Board of Nepal (SEBON) annual report 2023, the Nepal Stock Exchange (NEPSE) has a total of 234 companies listed, spanning across eight major sectors including banking and financial institutions, hydropower, insurance, manufacturing and processing, investment, hotels, trading, and others. Notably, a significant majority of these, over 60%, or 146 companies, belong to the financial sector, encompassing banks, financial institutions, and insurance companies. The hydropower sector is the second largest, with 51 companies representing about 22% of the total listings.

Table 3. 1: Summary of NEPSE listed companies and sectors

S.N.	Sectors	Listed Companies	Percentage
1.	Commercial Banks	26	11.11
2.	Development Banks	16	6.84
3.	Finance	20	8.55
4.	Micro-finance	54	23.08
5.	Life Insurance	12	5.13
6.	Non-life Insurance	18	7.69
7.	Manufacturing and processing	19	8.12
8.	Hotel and Tourism	5	2.14
9.	Trade	4	1.71
10.	Hydropower	51	21.79
11.	Investment	6	2.56
12.	Others	3	1.28
Total		234	100

Source: Adapted from (SEBON, 2023)

The predominance of finance-related industries among the listings means that regulatory changes by the central bank of Nepal, Nepal Rastra Bank (NRB), can have a direct and significant impact on NEPSE's market dynamics and, consequently, on the investment decision-making process of individual investors in the market. The concentration of companies in the financial sector underscores the importance of regulatory policies, interest rate changes, and other financial directives from the NRB, which can influence everything from stock prices to investor sentiment within NEPSE.

3.4 Regulatory bodies associated with NEPSE

Several important organisations in Nepal uphold the regulatory framework of the Nepal Stock Exchange (NEPSE), each of which contributes to the market's overall integrity, effectiveness, and transparency.

Ministry of Finance: The Ministry of Finance stands at the forefront of this regulatory framework, orchestrating economic and financial policies, developing fiscal strategies, and overseeing the financial sector's legislative environment. It plays a crucial role in shaping the economic direction of the country, including tax policies, budgeting, and economic reforms that directly or indirectly affect the capital market.

Nepal Rastra Bank (NRB): The Nepal Rastra Bank (NRB), as the central bank, is instrumental in implementing monetary policies, regulating the banking sector, and maintaining financial stability. Its functions extend to licencing banks, setting interest rates, managing foreign exchange reserves, and ensuring the overall health and liquidity of the financial system. By monitoring banking activities and financial institutions, the NRB contributes significantly to creating a stable environment conducive to healthy trading and investment activities in NEPSE.

Securities Board of Nepal (SEBON): The Securities Board of Nepal (SEBON), specifically established to regulate the securities market, plays a critical role in supervising and developing the capital market. It regulates the issuance and trading of securities, oversees market intermediaries, and works to protect the interests of investors by ensuring fair play and transparency in the market. SEBON's regulations and guidelines are vital in maintaining market integrity, promoting investor confidence, and ensuring that the practices of issuing companies and market participants meet the required legal and ethical standards.

Together, the Ministry of Finance, Nepal Rastra Bank, and Securities Board of Nepal create a comprehensive regulatory framework that supports the stability and growth of the capital market. Their collaborative efforts ensure that the NEPSE operates within a structured and supervised environment, fostering a climate of trust and efficiency that is crucial for attracting investment and facilitating economic growth. Their ongoing adaptations and reforms in response to evolving market needs highlight their commitment to nurturing a resilient and dynamic capital market in Nepal.

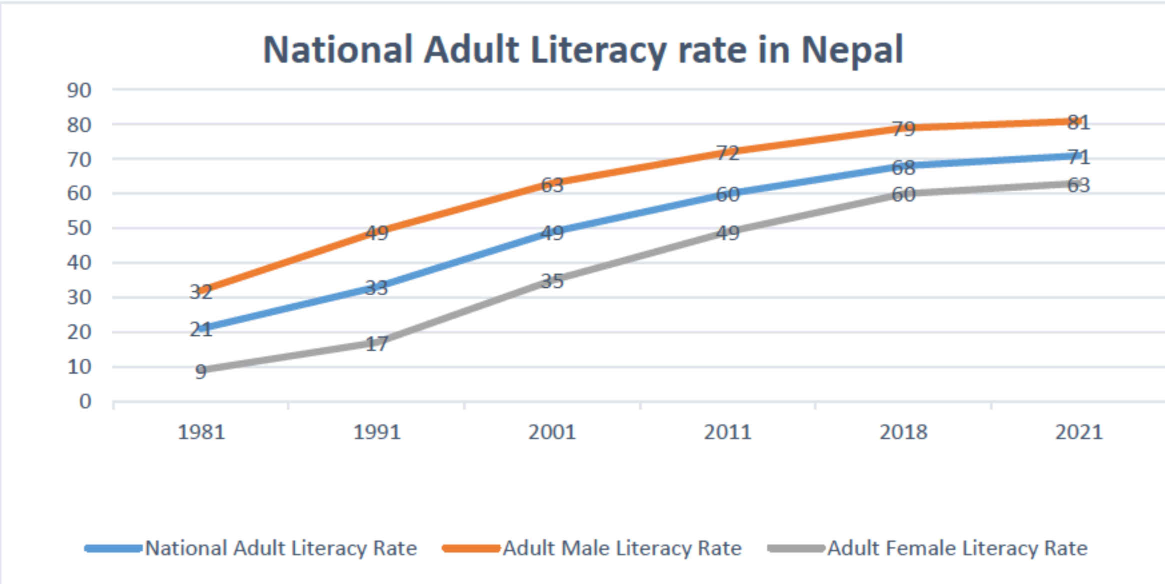
3.4.1 Other stakeholders of the NEPSE

Other key stakeholders in the Nepal Stock Exchange (NEPSE) include a diverse array of participants who contribute to and derive benefit from the functioning of the market. Banks and financial institutions are integral, often acting as underwriters, lenders, and investors and playing a significant role in providing capital and liquidity. Brokerage firms are essential intermediaries, facilitating trading and providing advice and services to investors. Business news portals offer timely information and analysis, influencing investor perceptions and market trends. Market experts, including analysts and economic advisors, contribute insights and forecasts that guide investment strategies. Lastly, the core of the market is composed of individual and institutional investors who invest in stocks, bonds, and other securities, driving the demand and supply that determine the market's movement. Collectively, these stakeholders form a dynamic ecosystem, each adding value and contributing to the vibrancy and efficiency of NEPSE.

3.4 National literacy rate

According to the World Bank (2021) data (Figure 3.4), the adult literacy rate in Nepal has seen a notable increase over the years. As of 2021, the national adult literacy rate is reported to be 71%. This represents a significant rise from earlier years, with the rate being 21% in 1981 and gradually increasing in each subsequent census. When broken down by gender, the 2021 data shows the adult male literacy rate at 81% and the adult female literacy rate at 63%, indicating persistent but narrowing gender disparities in literacy. This upward trend reflects the country's efforts to improve education access and quality over the past four decades.

Figure 3. 4: National adult literacy rate in Nepal

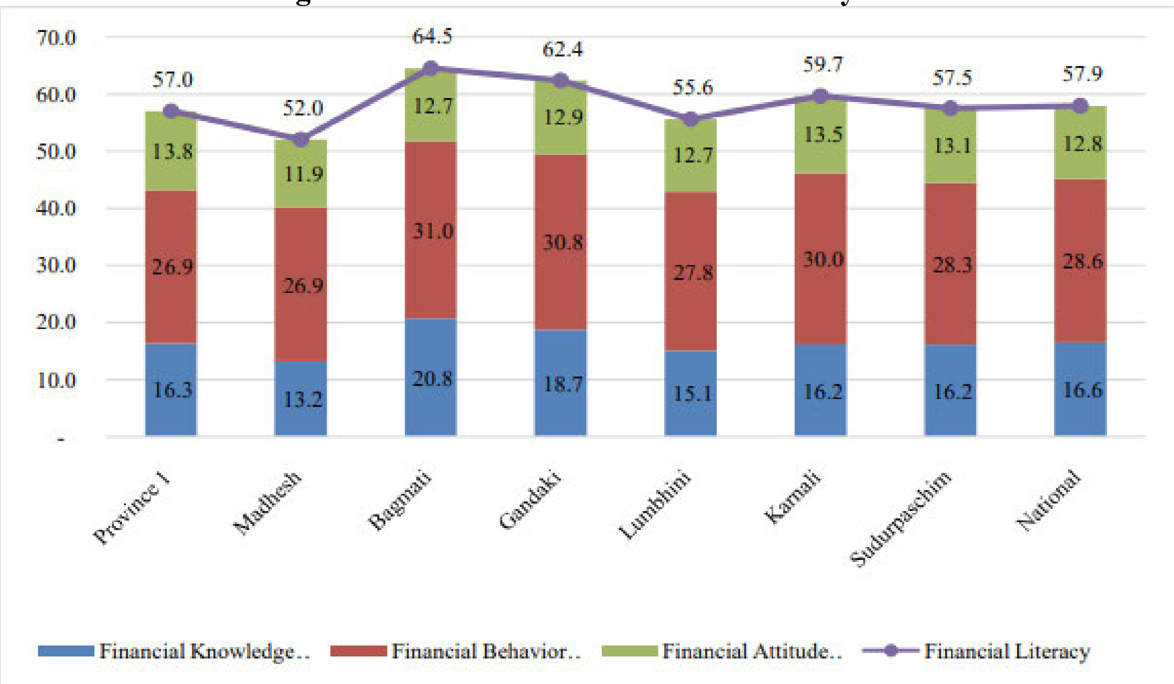


Source: The World Bank (2021)

3.5 Financial Literacy in Nepal

The central bank of Nepal, Nepal Rastra Bank (NRB), recently conducted a nationwide survey to assess the state of financial literacy and financial inclusion in Nepal. The study utilised the OECD/INFE Toolkit 2022, which was customised to fit the Nepali context. A total of 9,361 Nepalis over the age of 18 were selected for the survey using a multistage sampling method. The survey found that the overall national financial literacy rate was 57.9% (Figure 3.5), with individuals scoring an average of 11.59 out of 20. The financial knowledge score was 47.3%, the financial behaviour score was 63.5%, and the financial attitude score was 64.1%. Only 27.5% of adults scored the minimum target score in all financial literacy components, while 36.5% scored the minimum target score in financial knowledge, 56.6% in financial behaviour, and 95.4% in financial attitude. Bagmati Province had the highest financial literacy score, while Madhesh Province had the lowest. The study also found that financial literacy and its components had an inverse relationship with age, with younger individuals (18–30 years old) having better financial knowledge scores.

Figure 3. 5: Province wise financial literacy score



Source: adapted from (NRB, 2022)

Additionally, higher levels of formal education and employment in the formal sector had a positive impact on financial literacy scores. The survey also revealed that only 17.6% of the adult population had taken out a bank loan, while 46.34% had used credit products. Approximately 71.82% of adults in Nepal continue to depend on their family and friends for borrowing or saving to fulfil their financial needs. This reliance is more pronounced in Karnali and Sudurpaschim Provinces. In contrast, metropolitan cities, highly literate groups, students, and professional workers exhibit lower levels of reliance on family and friends.

3.5.1 Financial literacy and Investment decisions

Financial literacy and investment decision-making are closely related and can be seen as two sides of the same coin in the realm of personal finance and investing (Baihaqqy & Sari, 2020; Lusardi, 2015).

On one side of the coin, we have financial literacy, which encompasses the knowledge and understanding of financial concepts, products, and risks. It involves the ability to effectively manage personal finances, including budgeting, investing, and planning for the future. Financial literacy equips individuals with the skills and confidence to understand complex financial instruments and markets (Raut, 2020).

On the other hand, one's level of financial literacy has a significant impact on investment decision-making. Decisions about where, how, and when to invest are deeply rooted in an understanding of financial principles. Knowledgeable investors are typically better equipped to evaluate risks and returns, diversify their portfolios, and align their investment strategies with their long-term financial goals (Sivarajan, 2018).

In essence, financial literacy equips individuals with the knowledge and skills needed to make sound investment decisions. It empowers them to assess investment opportunities, understand potential risks, and ultimately make choices that align with their financial goals and risk tolerance.

The relationship between financial literacy and investment decision-making, especially in the context of the Nepal Stock Exchange (NEPSE), has been the focus of several studies. A study by (Subedi, 2023), "Financial Literacy and Investment Decisions in the Nepalese Share

Market," explores how financial literacy directly correlates with investment decision-making in NEPSE. This study highlights a positive link between aspects of financial literacy, such as personal saving habits and risk tolerance, and the quality of investment decisions. It also emphasises the negative impact of low financial literacy on saving and investment behaviours.

Another study by (Gyanwali & Neupane, 2021), "Individual Investors Psychology and Investment Decisions in NEPSE," examines the effect of psychological factors, including cognitive and emotional biases, on investment decisions. This study identifies specific biases, like overconfidence and herding, as influential in shaping investment decisions.

Additionally, Pandit (2016) explores factors influencing investment decisions in NEPSE, identifying key elements such as company dividend ratios and other financial indicators as significant influencers of investment choices. These studies collectively underscore the importance of financial literacy and psychology in making effective investment decisions in the NEPSE market.

3.6 Motivation behind this research

Conducting doctorate of business administration (DBA) research on the financial literacy and investment decisions of individual investors on the Nepal Stock Exchange (NEPSE) holds substantial importance due to several factors, especially within the unique context of Nepal's emerging market. Nepal presents a compelling case for study due to its rapidly evolving economic landscape, increasing market participation, and the transitional nature of its investment culture. As the country continues to develop economically, understanding the financial literacy levels of individual retail investors in NEPSE becomes crucial. This research aims to assess the extent of their knowledge and skills in financial concepts and their application in real-world investing. This is particularly important in a market like NEPSE, which is characterised by a variety of investors, including those newly introduced to capital markets.

Furthermore, identifying factors that influence investment decisions among NEPSE's individual retail investors is vital for understanding market dynamics and investor behaviour. This includes examining how external factors like economic indicators, market trends, and regulatory changes, as well as internal factors such as risk tolerance and personal financial goals, shape investment strategies. By doing so, the study contributes to a more nuanced understanding of what drives investment choices in emerging markets like Nepal.

Additionally, analysing the relationship between financial literacy and investment decision-making is pivotal. This part of the research seeks to reveal how well-equipped investors are to navigate the complexities of the market and how their level of financial understanding affects their investment choices and outcomes. This insight is particularly relevant for policymakers and educational institutions aiming to enhance financial literacy and investor competence in Nepal.

Undertaking this DBA research in the context of Nepal is significant due to the country's unique economic, cultural, and regulatory environment. As an emerging market with a growing number of individuals participating in the stock exchange, Nepal offers a distinctive setting to explore these aspects. The findings can provide valuable implications not only for individual investors and market practitioners in Nepal but also for similar markets globally. It contributes to the academic literature on financial literacy and investment decisions in emerging markets and offers practical insights for enhancing investor education and making more informed policy decisions to foster a more robust and inclusive financial environment in Nepal.

3.7 Summary

This chapter provides a comprehensive overview of Nepal's country profile, including its political and economic environment, and a detailed analysis of the Nepal Stock Exchange (NEPSE). The chapter offers a thorough examination of the number and distribution of companies listed on NEPSE, giving readers a clear understanding of the market's composition. Additionally, the chapter highlights the key regulatory bodies in Nepal, such as the Securities Board of Nepal (SEBON) and the Nepal Rastra Bank (NRB), and their roles in educating and protecting individual investors, as well as regulating market activities.

The chapter also discusses the national literacy rate in Nepal, with a focus on general and financial literacy, and how it affects the population's ability to participate effectively in the financial markets. The chapter stresses the importance of financial education in enhancing financial decision-making capabilities.

The chapter concludes by emphasising the significance of this study in understanding the interplay between financial literacy and investment decisions in shaping a robust and inclusive financial market in Nepal. The study's findings aim to contribute to the body of knowledge on financial markets in Nepal and provide valuable insights for investors, policymakers, and academicians.

Chapter Four

Research Methodology

4.1 Introduction

This chapter delves into the research methodology and approaches that pertain to the examination of financial literacy among individual investors and its impact on investment choices within the Nepal Stock Exchange (NEPSE). It commences by revisiting the research objectives and research philosophies that guide this study. The research methodological considerations give rise to the adoption of a mixed-methods approach. Within this blended methodology, the research unfolds in a dual manner. For the quantitative dimension, which revolves around online surveys, a positivist paradigm serves as the guiding philosophy. Conversely, a constructivist paradigm provides the foundation for the qualitative phase, which is mainly characterized by semi-structured interviews.

Furthermore, this chapter places emphasis on several crucial components, including the pre-testing study's implementation, the administration of online survey questionnaires, the method employed for recruiting participants, the procedures for participant sampling, the instruments used for data collection, the process of data gathering, and the subsequent data management and analysis. Ethical considerations are also addressed, highlighting how participant confidentiality and anonymity have been safeguarded throughout the research.

4.2 Research Objectives Summary

The following are the three main objectives of this study:

1. **Assessing Financial Literacy Levels:** The initial objective is to evaluate the financial literacy levels of individual investors actively participating in the NEPSE market. Financial literacy, understood as the knowledge and competence required for making sound financial decisions, plays a fundamental role in the complex realm of investments. This includes

comprehending financial concepts, recognizing financial instruments, and demonstrating the ability to make informed and rational financial choices. Within the context of NEPSE, it is imperative to gauge the extent to which individual investors possess the essential financial literacy necessary for successful investment decision-making.

2**. Identifying Influencing Factors of Investment Decision:** The second objective strives to identify and comprehend the multifaceted factors that exert influence on investment decision-making among NEPSE investors. Investment choices are rarely straightforward; they are shaped by a multitude of factors. These factors can span the spectrum from personal characteristics to economic variables and may even encompass complex psychological elements. Understanding the intricate interplay of these factors is pivotal for enhancing investment strategies and ensuring that individual investors are equipped to make informed choices that align with their financial objectives.

3. **Analysing the Relationship between Financial Literacy and Investment Decision:** The third and equally significant objective revolves around analyzing the nuanced relationship between financial literacy and the multitude of factors influencing investment decision-making. It seeks to unveil the dynamics between an investor's level of financial literacy and the decisions they make. A central question underpinning this objective is whether individuals with higher financial literacy levels make distinctly different investment decisions compared to those with comparatively lower financial literacy levels. This objective endeavours to shine a light on the intricate interrelationship between financial literacy and investment decision-making.

4.3 Research Philosophies

In terms of research philosophy, Saunders et al. (2009, 2019) described it as the nature of knowledge and the growth of knowledge. Moreover, Žukauskas et al. (2018) assert that research philosophy is a system of assumptions and beliefs associated with the production of knowledge in a certain subject. Knowledge development should either solve an existing issue in a specific organization or create new knowledge. Where Saunders et al. (2019) emphasized that every researcher follows their own assumptions to do the study, and these assumptions are always driven by their research procedures, methodologies, and tactics. That indicates that there is always a direct link between research philosophy and methodology. As a consequence, selecting a suitable research philosophy leads to the selection of relevant research techniques, which results in meaningful research findings (Silverman, 2021). Figure 4.1, below shows that there is a clear link between belief and assumptions and research philosophies and research design.

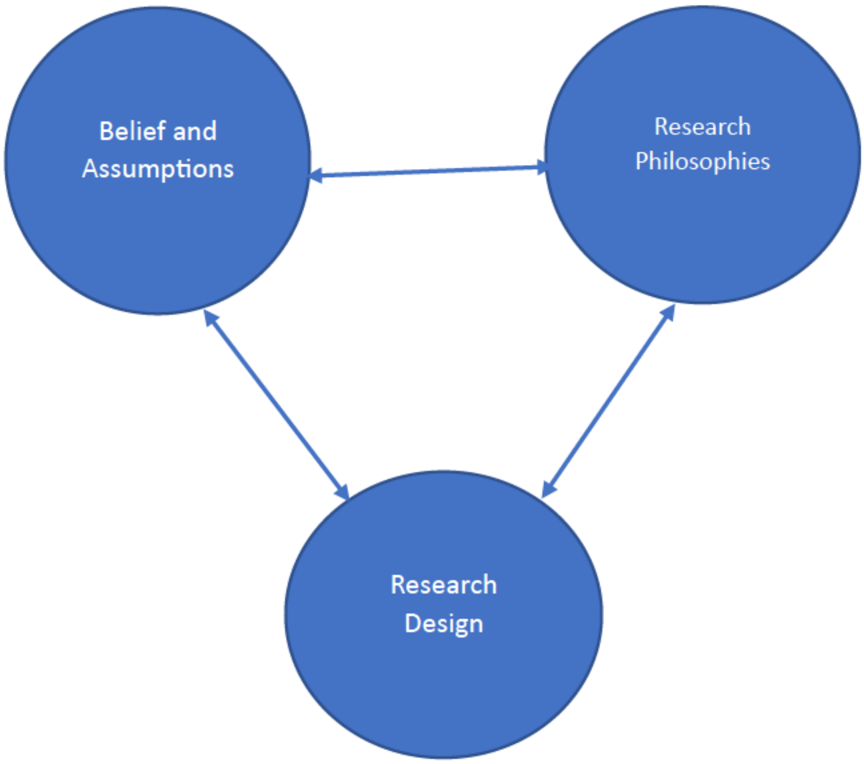


Figure 4. 1: Research philosophies and approaches

Source: Created by author and adapted from Saunders et al. (2019).

In general, human activities are motivated by their current knowledge and understanding to view the world. Similarly, academics or researchers begin their research projects based on their prior knowledge or comprehension of the world (Silverman, 2021). This sort of belief or knowledge distinguishes the various methods, and it may be explicit or implicit (Greene & Hall, 2010). It suggests that the study was mostly determined by pre-existing beliefs and assumptions about the subject matter, which were then further influenced by research design and philosophy.

Moreover, research philosophy refers to the particular researchers' thinking processes and assumptions in connection to the degree of information they have on the subject area. In other words, the assumptions represent the individual's perceptions and knowledge base. To substantiate this claim, Holzhauser (2008) asserts that research should begin with an assumption. According to Cohen et al. (2017), different researchers have different assumptions about the same issue because they are influenced by accessible information and ideology. Similarly, research philosophy is a system of thinking developed by the research investigator in order to examine a new or extra contribution to knowledge. Where appropriate research strategy, relevant data collection, analysis methods, and overall processing are involved (Žukauskas et al., 2018).

4.4.1 Research philosophies for this study

In the realm of research philosophies, this study adopts a pragmatic perspective, recognising the diverse and multifaceted nature of the research objectives. Pragmatism, as a philosophy, integrates elements of both positivism and constructivism, providing a pragmatic and flexible framework that best suits this study's research questions (Bernstein, 2010; Jaszczolt, 2018).

The pragmatic approach is highly appropriate as it allows for the integration of quantitative and qualitative methods. On one hand, it facilitates the objective measurement of financial literacy levels among individual retail investors at the Nepal Stock Exchange (NEPSE). This aligns with a positivist perspective, emphasising empirical data and the quantifiable aspects of the research (Jaszczolt, 2018; Legg & Hookway, 2008). Such an approach is essential when assessing the levels of financial literacy, as it requires concrete measurements and statistical analysis.

Conversely, the pragmatic philosophy also accommodates the interpretive and subjective nature of the qualitative segment of the research. It recognises that factors influencing investment decision-making are deeply rooted in personal experiences, emotions, and subjective perceptions. By embracing constructivist principles, the study can delve into the intricate world of investors' worldviews and motivations, shedding light on the nuanced aspects of their investment choices (Nørreklit, 2017) .

This pragmatic philosophy serves as the linchpin for a well-rounded and comprehensive exploration of the relationship between financial literacy and investment decision-making among individual retail investors at NEPSE. It ensures that the research methodology is flexible enough to accommodate the research questions, allowing for the best-suited approaches in both the quantitative and qualitative realms. Ultimately, this approach enables the study to provide a holistic understanding of how financial literacy interplays with the myriad factors influencing investment decisions, contributing valuable insights to the field and offering practical implications for investors and policymakers in Nepal.

4.4.1.1 Research Paradigm

In the realm of research paradigms, this study takes a multifaceted approach by embracing both positivism and constructivism, each guiding a specific research methodology within the mixed-methods design (Davies & Fisher, 2018).

For the quantitative segment involving online surveys, a positivist paradigm is adopted. This paradigm aligns with traditional principles that emphasise objectivity, measurability, and empirical validation. These qualities make it particularly apt for the quantitative assessment of financial literacy among individual investors. Here, the research seeks to establish concrete measurements and identify patterns in the data. The positivist approach allows for a structured and systematic examination, focusing on the quantifiable aspects of financial literacy (Myers, 2019). It provides a reliable foundation for understanding the extent of financial knowledge and its variations among investors on the Nepal Stock Exchange (NEPSE).

Simultaneously, the study employs a constructivist paradigm to underpin the qualitative phase, mainly consisting of semi-structured interviews. In the constructivist paradigm, the research perspective shifts towards a more interpretive and subjective exploration of investors' worldviews and experiences. This approach acknowledges the complexity of human behaviour and decision-making, striving to unearth deeper meanings and motivations behind investment choices (Chandra & Shang, 2017). It is well-suited for capturing the nuanced and intricate aspects of financial decision-making, as it delves into the subjective experiences and perceptions of individual investors in NEPSE.

By integrating these two paradigms, the study achieves a comprehensive and holistic understanding of the research questions. The positivist paradigm ensures rigorous, empirical data collection and quantitative analysis, facilitating the measurement of financial literacy levels and the identification of correlations. On the other hand, the constructivist paradigm enriches the research by offering a qualitative perspective, uncovering the multifaceted factors influencing investment decisions. It acknowledges that individual beliefs, emotions, and contextual factors have a significant impact on the world of investing in addition to numbers and figures.

4.4 Research Method

To address these objectives, a mixed-methods is employed. This method is chosen to provide a comprehensive and holistic view of the research questions. It acknowledges that financial literacy is a multi-dimensional construct that cannot be fully understood through a single method or mono-method so there is need to explore the answer of what (descriptive analysis) and why or how (exploratory analysis) related to the study variables.

4.4.1 Quantitative Methods

The quantitative aspect of this research centres around the administration of online surveys to a substantial sample of NEPSE investors which has supported to quantify the data as well as statistical analysis of data. This approach is instrumental in assessing the financial literacy levels of these investors. Financial literacy is the cornerstone of making informed and successful investment decisions, as it involves the understanding of complex financial concepts and instruments and the ability to apply this knowledge to financial decisions.

Online surveys provide several advantages for this study. First, they enable the efficient and cost-effective collection of a large volume of data. With NEPSE's growing community of investors, it is crucial to obtain data from a diverse and substantial sample to generalise findings. Online surveys are also known for their structured and standardised format, which facilitates data analysis and comparison (Evans & Mathur, 2018).

However, the quantitative method has its limitations. While it can quantify financial literacy levels and collect demographic data, it might not unearth the intricate motivations and reasons behind certain investment decisions. Factors like emotions, psychological biases, and personal experiences are challenging to capture through standardised measurements. So it has adopted the mixed method to explore the hidden fact through the qualitative method.

4.4.2 Qualitative Methods

To address these intricacies, the qualitative aspect of this research relies on semi-structured interviews conducted with a subset of NEPSE investors. These interviews aim to delve deep into the experiences, perceptions, and factors that significantly influence the investment decisions of individual investors.

Qualitative methods, like interviews, offer distinct advantages. They allow participants to express themselves in their own words, providing rich and detailed insights into their thought processes and motivations. This is crucial when examining the complex world of investment decision-making, which is subject to significant subjective influence (Myers, 2019).

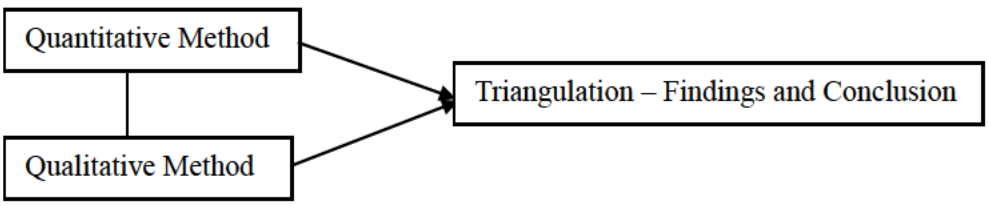
Nonetheless, qualitative methods come with their own set of challenges. They are resource-intensive and time-consuming, both in data collection and analysis. Interview data can be complex and require meticulous organization. Furthermore, findings from qualitative research might not be easily generalised to a broader population but it is important to logically justified the findings of quantitative data. In this study, the quantitative findings are triangulated with the empirical analysis of qualitative data.

4.4.3 Mixed-Methods

According to Creswell and Clark (2017) mixed methods research is defined as research approach where the investigator systematically gathers and analyses data, combines the resulting insights, and draws conclusions by employing both qualitative and quantitative techniques within a single study or a broader programme of inquiry. As a mixed-methods researcher, a crucial consideration is whether mixed methods can offer greater value than a single method. Mixed-methods research has been in practice since the 1950s but formally gained prominence in the late 1980s, becoming increasingly popular among researchers (Almeida, 2018; Heyvaert et al., 2013; Pelto, 2015).

The growing adoption of mixed methods warrants an exploration of their perceived value compared to purely quantitative or qualitative studies. Assessing the perceived value of integrating two distinct methodologies is essential, given the additional resources, time, and expertise required for conducting mixed-methods research. While mixed-methods research demands more time and resources due to the collection and analysis of two different types, it offers enhanced robustness, detail, and validity in the findings (McKim, 2017). Therefore, in this study, which aims to investigate the financial literacy of individual investors in NEPSE and explore factors influencing investment decisions, the choice of mixed methods is justified for its potential to yield comprehensive insights.

Recognising that both quantitative and qualitative methods hold distinct advantages, this study has adopted a mixed-method, striking a balance between the two. Specifically, the concurrent triangulation design is selected, facilitating the simultaneous collection and analysis of data from both approaches. This design ensures that findings from these distinct sources can be compared and integrated, yielding a more comprehensive and nuanced perspective on the research questions. The study followed the following process of concurrent mixed-method (Figure 4.2):



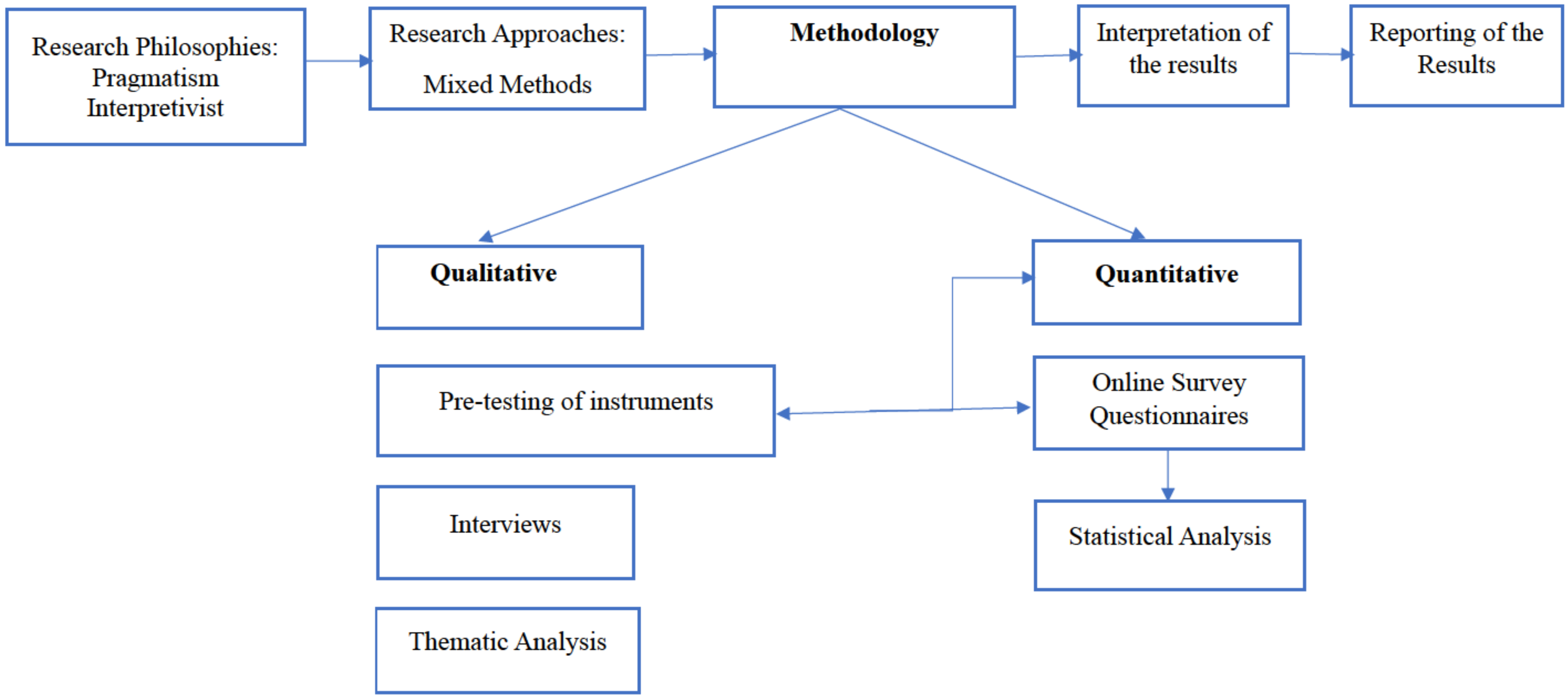


Figure 4. 2: Process of concurrent mixed-method

The mixed-methods approach employed in this study combines two distinct data collection methods: online surveys and semi-structured interviews. This approach was carefully chosen to comprehensively explore the financial literacy of individual investors at the Nepal Stock Exchange (NEPSE) and its influence on their investment decision-making.

The online survey component offers a quantitative lens, allowing for the collection of a large and diverse dataset. It is an efficient and cost-effective method, well-suited to assess the financial literacy levels of a substantial sample of NEPSE investors. Additionally, with the growing accessibility of the internet and mobile phones in Nepal, online surveys provide a practical means of reaching a broad cross-section of the population.

Complementing this quantitative approach, the semi-structured interviews provide a qualitative dimension to the study. Through these interviews, researchers gain deeper insights into the intricate factors that underpin the investment decisions of individual investors. This qualitative aspect allows for a richer understanding of the real-world experiences, perspectives, and motivations of NEPSE investors.

By integrating both methods, this mixed-methods aims to provide a holistic view of financial literacy and investment decision-making among individual investors at NEPSE. It acknowledges the complexity of the subject matter and ensures that the research findings are both statistically robust and contextually grounded. This comprehensive approach enhances the depth and validity of the study's conclusions, contributing valuable insights to the field of financial literacy and investment decision-making at NEPSE.

This study utilises a mixed-methods approach that thoughtfully combines both quantitative and qualitative methods to yield a comprehensive understanding of the financial literacy levels of individual investors on the Nepal Stock Exchange (NEPSE) and how these levels influence their investment choices.

The research design employed is a concurrent triangulation design, as described in detail in figure 4.2 above. In this design, an online survey is conducted among individual retail investors from NEPSE to gather socio-demographic information, assess their financial literacy, and delve into the factors affecting their investment decisions. Online surveys offer convenience and the ability to reach a broad and diverse audience. Through such surveys, researchers can collect data on various facets of investors' decision-making processes, such as risk tolerance, investment strategies, and their perceptions of market dynamics. Opting for online surveys in this study allows for a more extensive sample of individual NEPSE investors, facilitating the investigation of financial literacy levels and the factors influencing their investment decisions. This method also enables the inclusion of participants from different geographic locations, contributing to a more comprehensive perspective.

In addition to the quantitative survey targeting individual investors in NEPSE to evaluate their financial literacy levels and establish correlations between financial literacy and investment choices, qualitative interviews were carried out. These interviews involved individual investors with a minimum of 3 years of experience in the NEPSE market and a diverse group that encompassed individuals such as the CEO of a brokerage firm, business journalists, market experts, business person and entrepreneur, bankers, certified chartered accountants, and venture capital fund managers. These interviews were thoughtfully designed to offer a holistic perspective on the intricate relationship between financial literacy and investment decision-making in the NEPSE context. The inclusion of this wide array of participants serves a twofold purpose: it not only validates the results obtained from the quantitative survey but also enriches the research findings by providing qualitative insights into the multifaceted connection between financial literacy and investment decisions within the unique context of NEPSE.

It employs a mixed-methods approach that strategically combines quantitative and qualitative methods to provide a comprehensive understanding of the financial literacy levels of individual investors in NEPSE and the consequential influence on their investment decisions.

4.5 Research Approach

There are two primary research approaches commonly utilized in research, namely deductive and inductive methods, as outlined by Trochim (2006). Induction involves progressing from specific instances to generalizations, while deduction commences with general principles and concludes with specific instances. Arguments grounded in experience or observation are most effectively conveyed through inductive reasoning, whereas arguments based on widely accepted principles or laws are better expressed deductively. According to Creswel (2007); Creswell and Clark (2017), a deductive researcher operates in a 'top-down' fashion, moving from theory to hypotheses, then collecting data to either support or contradict the theory. In contrast, an inductive researcher follows a 'bottom-up' approach, utilizing participants' perspectives to construct broader themes and formulate a theory that interconnects these themes.

This research has employed an inductive approach to investigate novel concepts through the observation and analysis of data within the domain of financial literacy and investment decision-making practices in NEPSE. Following Cresswell's (2014) perspective, the inductive process involves a continuous interaction between identified themes and the database until a comprehensive set of themes is established. The study's process encompasses formulating questions and procedures, collecting data in the participants' settings, and analytically progressing from specific details to general themes, ultimately interpreting the data's significance(Cresswell, 2014). A mixed-methods approach was adopted for data collection, and subsequent to data analysis, the researcher explored responses to overarching research questions, drawing inductive conclusions that yielded fresh insights within the NEPSE context.

4.6 Research Design

The research design employed in this study is cross-sectional, as data was collected through a one-time field visit (Spurrier et al., 2008). This design allows for a snapshot of the variables under consideration at a specific point in time. Additionally, the study adheres to a descriptive research design, emphasising the depiction of the descriptive status of study variables by addressing the 'what' question. Specifically, the study delves into a detailed description of financial literacy levels and the decision-making processes of investors, shedding light on influencing factors.

Simultaneously, an exploratory research design is incorporated as the study raises 'why' and 'how' questions to unravel the intricate relationships between variables and their reciprocal effects (Ponelis, 2015). This exploration extends to scrutinising the correlation between financial literacy and investment decisions. The study employs regression models to analyse the impact of various demographic factors on both financial literacy and investment decisions, providing a deeper understanding of these dynamics.

Moreover, the study embraces a mixed-methods approach involving the analysis of quantitative data. The validation process is enriched by logical triangulation, where qualitative findings validate and complement the quantitative results. This multifaceted methodology ensures a comprehensive exploration of the subject matter, combining the strengths of both quantitative and qualitative approaches for a more holistic understanding.

4.7 Sampling Design

Many studies have highlighted the critical role of sampling in research. As Tashakkori and Teddlie (2021) point out, "sampling is destiny." This statement underscores the importance of representative samples for making meaningful generalisations in research, which directly impacts the external validity of any research project. The field of statistics distinguishes between two primary sampling techniques: probability sampling, involving a random selection process, and nonprobability sampling, which doesn't rely on random selection. While probability sampling is generally perceived as superior due to its representativeness and reduced selection bias, nonprobability sampling can be more suitable in specific research scenarios, such as case studies or phenomenological research (Acharya et al., 2013; Etikan & Bala, 2017).

In the context of this study, data was collected through online survey questionnaires and semi-structured interviews to achieve its research objectives. The study's target population comprises individual retail investors active in both the primary and secondary markets at the Nepal Stock Exchange (NEPSE). While the total number of demat and secondary market TMS account holders is substantial at 5.6 million and 1.5 million, respectively, it's essential to recognise that these figures are inflated due to family members, including children, holding these accounts. Official figures from the Securities Board of Nepal (SEBON) indicate 1.6 million active account holders.

Sample size is a crucial consideration, striking a balance between result accuracy and the size of the sample. To determine the sample size, the following formula was used:

$$\frac{Nx}{(N-1)E^2 + x}$$

Where

$$Z\left(\frac{c}{100}\right)^2 r(100-r)$$

And

$$Sqrt\left[\frac{(N-n)x}{n(N-1)}\right]$$

Where, population size (N), the margin of error (E), sample size (n), Z(c/100) is critical value for the confidence level (c), and the fraction of responses of interest (r). This formula was applied using a sample size calculator developed by Raosoft Inc.

Table 4.1 presents the recommended sample sizes for various margins of error and confidence intervals. Given a population of 1.6 million adult active individual investors and a modelled response distribution of 50% employing a 5% margin of error and a 95% confidence interval, which are common choices in research (in bold font), the sample size employed in this study is clearly more than sufficient to ensure its representativeness and reliability.

Table 4. 1: Appropriate sample size under various confidence intervals

Margin of error	5%	**5%**	5%	1%	1%	1%
Confidence interval	90%	**95%**	99%	90%	90%	95%

Required sample size	271	**385**	664	6761	9598	16569

Source: Created by Author

The study has collected data from respondents of different clusters having with the different caste, culture, geography, and language so it has taken design effect = 1.5 to minimize the measurement error of data. Therefore, the total sample size after applying the value of design effect is determined as 577 (385 x 1.5). To ensure the quality of data (goodness to the fit) by mitigating the measurement errors, the study collected responses from more than 647 participants. After thorough data cleaning processes, the final dataset consists of 592 valid responses. Hence, the study considers this cleaned dataset of 592 responses from the online survey questionnaires as the final sample for quantitative data.

Similarly, in the case of qualitative data, data saturation (repetition of information) was considered during the data collection. The scholar conducted key informants interview with various stakeholders of the NEPSE such as CEO of the venture capital firm, CEO of brokage firm, Business journalist who cover the NEPSE market, banker, certified accountant, business person and entrepreneur, university lecturer, and house wife of Sixteen experience individual investors from NEPSE. persons. After completing the interview with these sixteen Individual , the information started to repeat and similar kinds of information and experiences were being shared by the respondents then scholar stopped the interview. In this condition, total sixteen key informants' interviews were included in the qualitative data.

4.8 Online Survey Questionnaires Administration

A questionnaire, a valuable research instrument, comprises various sets of questions that are administered to individuals for the purpose of collecting information. These surveys can be conducted in various manners, such as in-person interviews, over the phone, or through online platforms. In the digital age, online data collection methods have gained significant prominence in social research due to their efficiency in rapidly reaching a broad and diverse audience at a relatively lower cost. Online surveys provide additional advantages, including the option for respondents to remain anonymous and the elimination of the necessity for researchers to be physically present during data collection.

Questionnaires typically feature two main types of questions: closed-ended and open-ended. In the context of an online survey study, close-ended questions are predominantly employed, whereas open-ended questions come into play during semi-structured interviews (Dalati & Marx Gómez, 2018).

The pre-testing phase plays a pivotal role in refining online survey questionnaires (Yu et al., 2019). During this phase, semi-structured interviews were conducted with experienced individual investors, each boasting over three years of market experience. These interviews provided valuable insights, which were used to meticulously review and fine-tune the online survey questions. Extensive discussions with the project supervisor further enriched the questionnaire development process. It's important to note that the questions used in the survey are not randomly generated but have been drawn from previous studies, a fact that is duly acknowledged in the literature review chapter.

The pilot study also served to gauge the practical aspects of questionnaire administration. In this pre-study exercise, the online survey questionnaires were selectively sent to 50-60 individual retail investors affiliated with NEPSE. The aim was to estimate the time required to complete the survey and assess the willingness of potential participants to engage in the main study.

Regarding the content of the online survey questionnaires, the survey is divided into three core parts: the first section gathers respondents' demographic information; the second section is dedicated to evaluating their financial literacy; and the third section seeks to uncover the various factors influencing the investment decision-making process of individual investors.

Further, diving deeper into the structure of the online survey, it is segmented into three distinct parts. The first section captures respondents' demographic information, delving into factors such as age, gender, years of experience at NEPSE Market, occupation, size of the investment portfolios, and educational background. This demographic data is crucial for contextualising the survey responses and identifying potential patterns among different groups of investors.

The second part is dedicated to evaluating the financial literacy of the participants. It aims to assess the extent of their knowledge regarding various financial concepts and instruments. These questions are particularly important in the context of the study, as financial literacy is a foundational element in investment decision-making. Understanding the level of financial literacy among individual investors is vital for drawing meaningful conclusions about the factors influencing their choices in the stock market.

The third section of the survey seeks to delve into the intricate factors that impact investment decision-making. This is where the study gets into the heart of the matter, exploring the psychological and economic factors that drive investment decisions. Questions in this section probe into elements such as risk tolerance, investment strategies, and the perception of market dynamics. By collecting data in this manner, the study aims to draw connections between financial literacy, these influencing factors, and investment choices.

4.9 Questionnaires Layout and Rationale

There's no one-size-fits-all rule dictating the ideal length for a questionnaire, but research has shown a notable correlation between a questionnaire's length and the response rate. A longer questionnaire tends to discourage participation and can result in a phenomenon known as "response fatigue," where respondents may provide repetitive or less thoughtful answers (Bansak et al., 2018; Jepson et al., 2005; Peytchev & Peytcheva, 2017). Given these factors, the primary goal was to design a questionnaire that could be completed comfortably within a brief timeframe of 7 to 10 minutes by the respondents. This was a strategic choice to mitigate response fatigue. The questions included in the questionnaire weren't solely based on the recall of easily accessible facts, as is common in many surveys. They were also intentionally crafted to assess the respondents' understanding of financial concepts and their practical application, particularly in the context of investment decision-making at NEPSE.

Comprising 27 closed-ended questions, the questionnaire is presented in its entirety below (see table 4.2). There is a brief explanation of each question's inclusion, the specific knowledge domain it evaluates, and the source from which it originated. This structured approach to questionnaire design is intended to ensure that the questions are focused, relevant, and effectively capture the required data.

Table 4. 2: Survey Questionnaire

A. Basic Demographic
1. Where is your current residence? a) Koshi Province b) Madesh Province c) Bagmati Province d) Gandaki Province

e) Lumbini Province
f) Karnali Province
g) Sudurpaschim Province
h) Abroad

2. What is your age group

a) 18-24
b) 25-35
c) 36-50
d) Above 50

3. Gender

a) Male
b) Female
c) Prefer not to say

4. Marital Status

a) Married
b) Unmarried
c) Prefer not to say

5. Educational Background

a) SLC/+2
b) Bachelor
c) Masters
d) Doctorate
e) Professional Qualification
f) No academic qualification

6. What is your main current occupation?

a) NEPSE trading and investment only

b) Employed
c) Business or Entrepreneur
d) Self-employed other than business
e) Student
f) Retired
g) Not Employed at all

7. How many years of trading and investment experience do you have at NEPSE?

a) Less than a year
b) 1-3 years
c) 4-6 years
d) 7-10 years
e) More than 10 years

8. **What is the size of your investment portfolio at NEPSE?**

a) Less than NPR 1,00,000
b) Between NPR 1,00,000 and 5,00,000
c) Between NPR 5,00,000 and 10,00,000
d) Between NPR 10,00,000 and 20,00,000
e) Between NPR 20,00,000 and 50,00,000
f) Above NPR 50,00,000

B. Testing Financial Literacy Knowledge

Questions	What financial literacy dimension is measured?	Sources and rationale for including in this study
9. How would you rate (between 1 and 10) your knowledge and	Self-assessed financial literacy	Created by authors to test the knowledge and

understanding in terms of trading and investment activities at NEPSE? (Self-ranking between 1 and 10, from beginner to Expert)		understanding in terms of investing at NEPSE, also compare the result with financial literacy score resulted from questionnaires
10. Suppose you had NPR 1,000 in a saving account and the interest rate was 6% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: **a) More than NPR 1,060** b) Exactly NPR 1,060 c) Less than NPR 1,060 d) Do not know	To test the knowledge in relation to interest rate and numeracy	Created by author and adapted from one of the "Big Three" questions prepared by (Lusardi & Mitchell, 2011a)
11. Imagine that the interest rate on your savings account was 6% per year and inflation was 8% per year. After 1 year, would be able to buy: a) More than today b) Exactly the same	Understanding of interest rate and inflation relationship	Adapted from one of the "Big Three" question prepared by (Lusardi & Mitchell, 2011a; Mottola & Kieffer, 2017)

c) Less than today d) Do not know		
12. Please tell me whether this statement is true or false. Buying a single company's stock usually provides a safer return than a stock mutual fund. a) True b) **False** c) Do not know	Risk Diversification	Adapted from one of the "Big Three" questions by (Lusardi & Mitchell, 2011)
13. When interest rates rise, what will be the existing bond price in the market? a) Rise b) **Fall** c) Stay the same d) There is no relationship a) Do not know	Understanding bond versus interest rate relationship	Adapted from one of the "Big Five" question (Katkov, 2021)
14. Which of the following statements describes the main function of the stock market? a) The stock market helps to predict stock earnings. b) The stock market results in an increase in the price of stocks. **c) The stock market brings people who want to buy stocks together with those who want to sell stocks.**	Functioning of Stock Market	Sophisticated financial literacy questions prepared by (Lusardi & Mitchell, 2017)

d) None of the above e) Do not know		
15. Which investment would result in the highest future value, assuming all other factors are equal? a) A one-year investment at a 6% annual interest rate with quarterly compounding. b) A one-year investment at a 6% annual interest rate with annual compounding. c) A one-year investment at a 6% annual interest rate with semi-annual compounding. d) **A one-year investment at a 6% annual interest rate with monthly compounding.** **f) Do not know**	Testing the knowledge and understanding related to compounding interest	Adapted from compounding interest question (Van Rooij et al., 2011)
16. Which of the options below is most likely to cause a loss in purchasing power equivalent to the inflation rate? b) Equity c) Bonds d) Real estate e) **Cash** e) Do not know	Understanding the role of inflation	Adapted from (Katkov, 2021; Levišauskait, 2010; Rustagi, 2021)

17. In longer term which investment option gives the higher return? a) Fix-Deposit Saving Account b) Buying Life Insurance Policy c) Bonds d) **Stocks** e) Do not know	Understanding risk-reward profiles of various asset classes	Adapted from (Jump$tartCoalition, 2020) and question test whether participants understand whether stocks provide the highest rate of return over the long-term.
18. In the case of company bankruptcy, what kind of financial instrument holders have priority in receiving the invested funds? a) Common shareholders b) Preferred shareholders c) **Bondholders** d) Creditors (Unsecured) e) Do not know	Understanding risk-reward profiles of various asset classes	Created by authors and adapted from (Field, 2021; Katkov, 2021)
*from Q10 to Q18 the highlighted answer are correct answer		

C. **Factors Impacting Investment Decision Making**

19. **In terms of your understanding of using the Mero Share platform for IPO applications, where would you place yourself on a scale of 1 to 5?**

Scoring Scale:

1 = Not Confident at All,

2 = Slightly Confident,

3 = Moderately Confident,

4 = Confident,

5 = Full Confident

(Not confident at All) 1 2 3 4 5 (Full Confident)

20. **In terms of your understanding of using the TMS (Trading management System) for trading and investment at NEPSE, where would you place yourself on a scale of 1 to 5?**

    Scoring Scale:

    1 = Not Confident at All,

    2 = Slightly Confident,

    3 = Moderately Confident,

    4 = Confident,

    5 = Full Confident

    (Not confident at All) 1 2 3 4 5 (Full Confident)

21. **In terms of seeking advice from friends and family for your investment decisions at NEPSE, where do you place yourself on a scale of 1 to 5?**

    Scoring Scale:

    1 = Never Seek Advice,

    2 = Rarely Seek Advice,

    3 = Sometimes Seek Advice,

    4 = Frequently Seek Advice,

    5 = Always Seek Advice

    (Never Seek Advice) 1 2 3 4 5 (Always Seek Advice)

22. **Where do you rank yourself on a scale of 1 to 5 in terms of how much social media influences your investment decisions at NEPSE?**

    Scoring Scale:

    1 = Never Influenced,

    2 = Rarely Influenced,

    3 = Sometimes Influenced,

4 = Frequently Influenced,

5 = Always Influenced

(Never Influenced) 1 2 3 4 5 (Always Influenced)

23. **In terms of risk diversification in your investment portfolio at NEPSE, where do you place yourself on a scale of 1 to 5?**

Scoring Scale:

1 = Not Diversified at All,

2 = Minimally Diversified,

3 = Moderately Diversified,

4 = Fairly Diversified,

5 = Highly Diversified

(Not Diversified at All) 1 2 3 4 5 (Highly Diversified)

24. **In terms of your risk appetite for investment decision-making at NEPSE, where would you place yourself on a scale of 1 to 5?**

Scoring Scale:

1 = Very Risk-Averse,

2 = Moderately Risk-Averse,

3 = Neutral (Moderate Risk-Appetite),

4 = Moderately Risk-Seeking,

5 = Very Risk-Seeking

(Very Risk-Averse) 1 2 3 4 5 (Very Risk-Seeking)

25. **In terms of conducting your own research before making investment decisions at NEPSE, where would you place yourself on a scale of 1 to 5?**

Scoring Scale:

1 = I Rarely Conduct My Own Research,

2 = I Sometimes Conduct My Own Research,

3 = I Conduct My Own Research Occasionally,

4 = I Often Conduct My Own Research,

5 = I Always Conduct Thorough Research

(Rarely Conduct My Own Research) 1 2 3 4 5 (Always Conduct Thorough Research)

26. **To what extent do the following sources of information influence your investment decision-making at NEPSE? Please rate each source on a scale from 1 to 5.**

Scoring Scale:

1 = Not Influential,

2 = Slightly Influential,

3 = Moderately Influential,

4 = Very Influential,

5 = Highly Influential

	1	2	3	4	5
Professional financial advisors and experts					
Online business news portals and other websites					
Company annual reports and financial statements.					
Social media platforms and online investment forums					
Recommendations from friends and family					

27. Please assess the degree of influence each of the following factors holds over your investment decision-making process at NEPSE. Rate these factors on a scale from 1 to 5.

Scoring Scale:

1 = Negligible Influence,

2 = Slight Influence,

3 = Moderate Influence,

4 = Strong Influence,

5 = Significant Influence

	1	2	3	4	5
Economic indicators and market trends					
Government policies and regulations					
Company financial performance and fundamentals					
Technical analysis of the particular stock and NEPSE index.					
News, Social media and peer recommendation					

The design of the questionnaire follows Jackson's initial systematization of the construct method, also known as the substantive method, in 1971. This method takes a deductive approach to constructing questionnaires, commencing at the theoretical level where a comprehensive theoretical framework, often termed a nomological network, is established (Oosterveld, 1996).

This network includes constructs that need to be operationalized, along with specific variable specifications. In the context of this study, the questionnaire's structure reflects this method. The questionnaire comprises three key sections: the first section is focused on collecting demographic data from the respondents; the second delves into assessing their financial literacy; and the third aims to uncover the multifaceted factors influencing the investment decision-making processes of individual investors. This comprehensive design was meticulously crafted, considering insights gained during a pre-testing study and through consultations with the project supervisor to ensure its relevance and effectiveness.

Additionally, the questionnaire conforms to the "BRUSO" questionnaire framework, which is explained in Peterson (2000)'s work. In line with this framework, the questions were intentionally designed to be **b**rief, ensuring they could be easily read on a single screen, whether on a mobile device or computer. They were constructed to be highly **r**elevant, aligning with the research topics under investigation. The questions were formulated to be **u**nambiguous, an attribute meticulously refined during an extensive pilot study and discussed in detail later. **S**pecificity was another cornerstone, with questions tailored to assess domains of knowledge directly related to this study. Importantly, the questions were structured to be **o**bjective, directly addressing the research objectives. The questionnaire predominantly features closed-ended questions to ensure the precision and efficiency of data collection.

4.10 Key Informants Interview

Key informants for this research were selected based on their expertise and experience in the NEPSE market. Participants included the CEO of a venture capital firm, the CEO of a brokerage firm, a business journalist, a banker, a certified accountant, a businessperson, an entrepreneur, a university lecturer, and a housewife (Appendix C). This diverse group was chosen to provide diverse perspectives and ensure relevance to the research objectives. The selection criteria included a minimum of three years of experience at NEPSE Market, as well as their expertise, accessibility, and willingness to participate. The phenomenological approach employed in the semi-structured interviews aimed to capture and understand the lived experiences of the respondents, providing rich and comprehensive qualitative data (Alase, 2017). For qualitative data, the principle of data saturation (Braun & Clarke, 2021), where the repetition of information indicates saturation, was taken into account during the data collection process. In total, 16 semi-structured interviews were conducted among these stakeholders (Appendix C).

4.10.1 Advantages and limitations of semi-structured interviews

Conducting semi-structured interviews with a diverse range of stakeholders in the NEPSE market offers several benefits. First, it allows for in-depth exploration of the participants' expertise and experience, providing rich qualitative data. The flexibility of this interview format enables the researcher to probe deeper into specific areas of interest, adapting questions based on responses to gain comprehensive insights. Engaging with individuals from various professional backgrounds, including CEOs of brokerage firms, business journalists, bankers, entrepreneurs, housewives, and university lecturers, ensures a broad spectrum of perspectives, enhancing the overall understanding of the NEPSE market dynamics. This method also facilitates the capture of lived experiences, aligning with the phenomenological approach to uncover nuanced, context-specific information that might not emerge from more structured survey methods.

However, there are limitations to using semi-structured interviews with such stakeholders. Personal experiences and perceptions may influence responses, introducing biases due to the subjective nature of the collected data. The variability in how different interviewers might pose questions and interpret answers can affect the consistency and reliability of the data. Additionally, the time-consuming nature of conducting and transcribing interviews, particularly with high-profile participants, can be a significant constraint. Accessibility and willingness to participate may also limit the pool of respondents, potentially skewing the diversity of perspectives. Despite these limitations, semi-structured interviews remain a valuable tool for capturing detailed, qualitative insights in this research.

4.11 Study Variables and Its Operational Definition

Study variables are those variables which are used to measure the research problem of this study. There are mainly three types of variables are measured: independent variables i.e. financial literacy, dependent variable i.e. investment decision, and demographic variables i.e. gender, age, marital status, education, occupation, year of experience and size of portfolio. There are sub-variables under the independent and dependent variables. The study has defined the operational definition of key study variables to ensure the face validity of these variables. The operational definition of key variables are as follows:

Financial literacy: Financial literacy is the understanding of various financial concepts and the ability to apply such knowledge in making informed decisions regarding saving, investing, and managing money. In this study, financial literacy is defined according to Klapper et al. (2015) as "the knowledge of basic financial concepts and the ability to use them in financial decision-making," focusing on the understanding and application of financial principles in making informed choices.

Investment decision: An investment decision is the process of determining where, how, and when to allocate resources or capital to achieve desired financial returns and objectives. In the case of this study, investment decisions are based on the financial literacy of individual investors in the NEPSE market.

NEPSE: The Nepal Stock Exchange (NEPSE) is the sole stock exchange in Nepal, serving as the primary platform for securities trading in the country.

Trading and investment activities: In the context of this study, trading and investment activities refer to the participation in buying and selling financial assets such as stocks and bonds on the Nepal Stock Exchange (NEPSE), with the objective of generating returns or preserving capital over time.

Investment portfolio: In this study, an investment portfolio is understood as a diversified collection of financial assets, such as stocks, held by individuals to achieve specific financial objectives while aligning with their risk tolerance. Questions have been specifically designed to assess how individual investors on the NEPSE understand and apply the concept of risk diversification in their investment portfolios.

Risk Diversification: In this study, understanding the concept and practice of risk diversification among individual investors on the Nepal Stock Exchange (NEPSE) is crucial. Recognising it as a strategy to spread investments across various stocks or sectors to minimise overall risk exposure in an investment portfolio, the study incorporates questions aimed at assessing how investors in NEPSE diversify their risks. These questions on risk diversification are adopted from the "big three" questions by (Lusardi & Mitchell, 2011a), which are widely regarded for their effectiveness in measuring financial literacy, including the comprehension of risk and its management.

Risk Appetite: Risk appetite refers to the amount and type of risk that an individual or organisation is willing to accept in pursuit of its financial objectives. Similarly, to gauge the overall risk management strategies employed by individual investors in the NEPSE, the study includes questions specifically designed based on the study by (Danielsson et al., 2010). This approach aims to ascertain how Nepalese individual investors approach and implement risk management in their investment decision activities.

Inflation rate: In order to understand inflation, its impact on the economy, and its relationship with interest rates, the study employs an online survey designed to gauge participants' comprehension of inflation. The survey questions are adopted from significant works in the field: the "big three questions" by (Lusardi & Mitchell, 2011a), which are widely recognised for assessing financial literacy, including knowledge of inflation, and a study examining the role of inflation in purchasing power by (Katkov, 2021). Lusardi's questions provide a foundational understanding of key financial concepts, while Katkov's work delves into the specific implications of inflation on an individual's purchasing power. Together, these studies form the basis of survey questions aimed at evaluating participants' awareness and understanding of inflation, its relationship with interest rate, and its broader economic effects.

Interest rate: In this study, to measure the understanding of interest rate calculations and the concept of compounding interest among individual investors in the context of the Nepal Stock Exchange (NEPSE), the research employs questions adapted from widely acknowledged financial literacy assessments. The "big three questions" by Lusardi and Mitchell (2011a) provide a framework for assessing basic knowledge of interest rates as part of broader financial literacy. Additionally, the study incorporates an understanding of compound interest based on the methodologies from a study by (Van Rooij et al., 2011), which specifically examines how individuals grasp the concept of compounding and its effect on investments and savings over time. Together, these scholarly works contribute to the survey instruments designed to evaluate the financial literacy levels of individual investors, particularly focusing on their proficiency in interest rate calculations and understanding of compound interest in the NEPSE market.

Social media: In the course of reviewing literature and conducting pre-testing for this study, the researcher identified a prevalent culture of seeking informal advice in the context of investment decision-making within the Nepal Stock Exchange (NEPSE). Results from Subedi (2023) study, which shed light on the informal networks and sources that investors frequently rely on for information and guidance, support this observation. Consequently, the study includes specially designed questions aimed at understanding this informal advisory culture. Specifically, it looks into the influence of platforms like Clubhouse, where discussions about the NEPSE market occur, and YouTube, which serves as a learning and information source for many investors. These informal channels are recognised as significant in shaping the investment decisions and financial literacy of individual investors in the NEPSE context.

Friends and family circle: Similarly, the study recognises other informal sources that significantly influence investment decisions in the NEPSE market. The study by Vaidya (2021) highlights the substantial role of friends and family circles in shaping individual investors' choices, a finding corroborated during the pre-testing phase of the current research. The influence of close social networks, offering advice and insights, is identified as a key factor driving the investment strategies of individual participants in the NEPSE market. Accordingly, the study includes questions specifically designed to understand how the advice and opinions of friends and family impact the decision-making processes of individual investors. This approach aims to provide a comprehensive understanding of the various informal influences that contribute to the investment dynamics within the NEPSE environment.

Economic indicators and market trends: In the context of this study, "economic indicators and market trends" refer to the participants' understanding of the overall health of the Nepalese economy and the demand and supply dynamics influencing market sentiment on the Nepal Stock Exchange (NEPSE).

Company Financial statement: In this study, a company financial statement is understood as the formal record detailing the financial activities, position, and performance of a business entity listed on the NEPSE. Olayinka (2022) reinforces the importance of these financial statements and company performance as critical factors influencing individual investors' decisions. Accordingly, the study includes specific questions designed to gauge the depth of understanding and significance attributed to these financial statements by individual investors when making investment choices in the context of NEPSE. This aspect aims to shed light on how well investors comprehend and utilise company financial information in their investment strategies.

Financial advisor: In the context of the NEPSE, given the prevailing culture of seeking informal advice, the study includes questions aimed at understanding the frequency with which individual investors rely on financial advisors while making investment choices. This inquiry is designed to gauge the extent of dependency on professional advice compared to informal sources, providing insights into the investment behaviour and decision-making patterns of individual investors within NEPSE.

Government policies and regulations: Investment decisions, particularly in the capital market, are inherently forward-looking, with individual investors making choices based on anticipated future returns (Dhankar, 2019). Therefore, to comprehend the perceptions and strategies of individual investors in the context of the Nepal Stock Exchange (NEPSE), questions have been designed to capture their outlook and expectations. Additionally, in this study, "government policies and regulations" are understood as the assortment of fiscal policies, annual directives, and regulations formulated and implemented by the government of Nepal and regulatory authorities such as the Securities Board of Nepal (SEBON) and Nepal Rastra Bank (NRB).

4.12 Reliability and Validity Test of Research Instruments

Questionnaires must demonstrate both reliability and validity to ensure their effectiveness in collecting accurate data. Reliability refers to the consistency of results over time and the accuracy of the survey in representing the entire population under study (Thanasegaran, 2009). There are two primary types of reliability: test-retest reliability, which assesses the consistency of performance or scores over time, and internal consistency, which evaluates how well survey items measure what they were designed to measure. However, the test-retest method is often considered impractical due to potential biases, external influences, and small sample sizes (Golafshani, 2003).

Internal consistency is evaluated using two methods: split-half reliability (also known as Spearman Brown prediction) and Cronbach's alpha. While split-half reliability assesses the consistency of a test by dividing it into two parts and correlating the scores, Cronbach's alpha is a more commonly used method that measures the extent to which all items in a test measure the same concept or construct. Developed by Lee Cronbach in 1951, Cronbach's alpha is considered a more appropriate method for evaluating internal consistency in the context of the financial literacy test, as it takes into account the interrelatedness of items within the test (Tavakol & Dennick, 2011). The design of the financial literacy test, which includes different difficulty levels and content, makes Cronbach's alpha a more suitable choice over split-half reliability.

4.12.1 Pre-testing of research instruments

Pre-testing or pilot studies are an important part of a well-organized research methodology because they test instruments, look for problems in the research protocol, and see how well sampling frames and techniques work (De Vaus & de Vaus, 2013; Xuan et al., 2020). In the context of this study, pre-testing studies were integral and conducted prior to the main research study. The main objective of pre-testing of instruments to ensure the reliability and validity of data. It checks the readability and understandability of the instruments. It is important to ensure that whether respondents can read the question and understand the face meaning of each question/statement as raised by researcher. It ensures the face validity of data (Broder et al., 2007).

As the literature review unfolded, several significant themes surfaced. To delve into these themes and introduce a level of flexibility to explore emerging topics, a decision was made to undertake a pre-testing by distributing the survey questionnaire for their review and feedback as well as taking semi-structured interviews based on the main thematic area of study variables. The central themes addressed in the pre-testing were threefold: assessing the level of financial literacy among retail investors from NEPSE, identifying determinant factors influencing retail investors' decisions, and examining the relationship between financial literacy and investment decisions.

The criteria for choosing participants for pre-testing of instruments were based on immediate access. This led to the inclusion of four people from different backgrounds who all had a deep understanding of the NEPSE market and individual investors. The participants included the CEO of a brokerage firm, a university lecturer, a banker, and a chartered certified accountant. Details of their profiles are provided in Appendix C. This pre-testing played a pivotal role in refining the research approach and ensuring the robustness of the subsequent main study.

4.12.2 Cronbach's Alpha Test

In this study, the internal consistency and reliability of the survey data were assessed using Cronbach's alpha test. This statistical method is recognised for its effectiveness in evaluating the reliability of survey questionnaires and ensuring the uniformity of the collected data. Upon applying Cronbach's alpha to the survey dataset, a notable result emerged, yielding a value of 0.784 (for more details, see table 4.3). It's important to highlight that Cronbach's alpha values range between 0 and 1, with higher values indicating greater internal consistency. It is essential to note that Cronbach's alpha values typically range between 0 and 1, where a higher value indicates greater internal consistency. In this instance, the obtained value of 0.784 surpassed the threshold of 0.70, which is widely accepted as indicative of acceptable internal consistency (Katkov, 2021). This result instills confidence in the reliability of the survey data, indicating that the responses obtained from participants are consistent and coherent. It underscores the careful construction of the survey instrument and affirms the reliability of the collected data for subsequent analyses and interpretations.

Table 4. 3: Reliability test – Cronbach's Alpha Test

Reliability Statistics	
Cronbach's Alpha	0.784

4.12.3 Factor Analysis

Factor analysis is a statistical method employed to uncover the underlying structure among a set of variables by identifying common factors that explain the observed correlations. It serves as a valuable tool in data reduction and exploratory data analysis, assisting in simplifying datasets while preserving essential information (Hair, 2009).

The loading factor, also termed factor loading, gauges the strength of the relationship between a variable and a factor identified through factor analysis. It quantifies the extent to which a variable contributes to a specific factor. Loading factors exceeding 0.5 are generally deemed robust, signifying a substantial association between the variable and the factor. In this study, the data presented in Table 4.4 illustrates loading factors mostly surpassing 0.5, implying strong relationships between the variables and their respective factors. Also, one-sample t-tests were conducted to assess the significance level of each statement. The statistical analysis of the one-sample t-test revealed that all the statements were found to be significant. This outcome ensures the validity of the data, confirming that the sample size and data are representative of the larger population or the hypothesised population. Factor analysis was conducted using SPSS to visualise the data, as detailed in Table 4.4.

Table 4. 4: Summary of factor analysis

Statements	Factor Loading value	Mean	One Sample Test		
			t	df	Sig. (2-tailed)
In terms of your understanding of using the Mero Share platform for IPO applications?	.593	3.72	73.679	591	.000

In terms of your understanding of using the TMS (Trading Management System) for trading and investment at NEPSE?	.701	3.32	65.827	591	.000
In terms of seeking advice from friends and family for your investment decisions at NEPSE?	.697	2.96	63.446	591	.000
In terms of making investment decisions at NEPSE influenced by social media?	.688	2.80	60.817	591	.000
In terms of risk diversification in your investment portfolio at NEPSE?	.748	2.88	65.639	591	.000
In terms of your risk appetite for investment decision-making at NEPSE?	.672	2.78	67.583	591	.000
In terms of conducting your own research before making investment decisions at NEPSE?	.739	3.11	61.470	591	.000
Professional financial advisors and experts	.721	2.51	47.318	591	.000
Online business news portals and other websites	.546	2.63	60.052	591	.000
Company annual reports and financial statements	.787	3.28	61.254	591	.000
Social media platforms and online investment forums	.822	2.49	51.156	591	.000
Recommendations from friends and family	.808	2.57	49.436	591	.000
Economic indicators and market trends	.888	3.41	60.604	591	.000
Government policies and regulations	.907	3.59	65.808	591	.000
Company financial performance and fundamentals	.898	3.52	66.659	591	.000
Technical analysis of the particular stock and NEPSE index	.488	2.84	57.358	591	.000
News, Social media and peer recommendation	.799	2.69	52.168	591	.000

4.13 Data Management and Analysis Procedures

Data management and analysis are inter-related because the collected data only get its meaning and value when it is analysed. Quantitative data in the study were analysed using various statistical models, including frequency distribution, mean, chi-square test, correlation, and regression (ANOVA) analysis. Factor analysis was employed to calculate the factor loading values for each statement designed on a 5-point Likert scale. One-sample t-tests were conducted to assess the significance level of each statement.

To describe the status of study variables, the study utilised frequency distribution and mean values. Chi-square tests and correlation analyses were performed to explore the relationships between financial literacy and investment decisions. Regression analysis was employed to measure the impact of independent variables on dependent variables.

In this study, demographic variables were considered as independent variables to measure the effect on financial literacy by using the multiple-regression model. Additionally, both demographic variables and financial literacy were used as independent variables to measure their effects on investment decisions by using the multiple-regression model. It has calculated the Correlation Coefficient value, R Square, and Adjusted R Square to find the effect of independent variables on dependent variables, and also has analysed the coefficient of individual variable.

The quantitative data was followed by the qualitative as the process of concurrent mixed-method. So, it has followed the phenomenological approach during the qualitative data collection phase through semi-structured interviews. This approach focused on capturing and understanding the lived experiences of the respondents (Alase, 2017). Under qualitative research data analysis provide accumulated understanding of the collected data which follow the systematic process for searching and arranging the interview transcripts or other research notes (Wong, 2008). The process predominantly involves categorising and coding the data which provide to identify the significant patterns and draw the meaningful insight of the information. Coding and categorising are most important aspect of the data analysis because it segmented the available raw data and help to identify collective meaning.

Zamawe (2015) insist that traditionally coding’s were done manually however in recent days computer software were in use, which largely reduces technical sophistication and making the whole data analysis process relatively efficient and easier. Therefore, this study employed SPSS and NVivo software alone with manual approach to analyse the data, with SPSS being used for the quantitative segment and NVivo alone with manual coding being used for the qualitative segment.

Statistical model was used to analyse the quantitative data, these model such as frequently distribution, mean, chi-square test, correlation and regression test. Besides that, the study has used the factor analysis to calculated the factor loading value of each statement design on 5 point liked scale. And also run the one sample t-test to check the significance level of each statement. The study has calculated the frequency distribution and mean value to describe the status of study variables similarly chi-square test, correlation was done to explore the relationship between financial literacy and investment decisions. The Regression analysis was done to measure the effect of independent variables on dependent variables. In this study demographic variables were used as an independent variable for financial literacy as dependent variables. Additionally, demographic variables and financial literacy were used independent variables to measure its effect on investment decisions as dependent variables.

With respect to qualitative part, similar to Sivarajan (2018) study, this research has analysed data following the Braun and Clarke (2006) thematic analysis Where thematic analysis manages available qualitative data orderly and logical way. As interpretivist researcher study has used thematic analysis for exploring and interpretation of the phenomenon. Furthermore, Braun and Clarke (2006) demonstrate different six stages of thematic analysis as follows:

(i) Familiarization with data: which includes making notes of initial ideas, reading and re-reading the data, transcribing the data.

(ii) Generating initial code: which includes systematically coding the interesting and important features from the overall data set.

(iii) Identifying themes: Identifying and provide the code to potential themes.

(iv) Reviewing themes: re-checking the themes across the data set.

(v) Naming Themes: Refine and confirmed the final theme code.

(vi) Producing Report: Selection of vivid and relate analysis with research questions

Additionally, this study has used NVivo software for coding the semi-structured interviews and which has also helped to analyse the transcribed data. Because this software allows meaningful understanding of collected information beyond coding and sorting the data.

4.13.1 Financial literacy measurement methods

In determining the measurement of financial literacy, this study adopts the equal weighting (correct answer count) method, a widely employed approach to assessing financial literacy (Katkov, 2021). This method entails assigning equal weights to each question or item in a financial literacy test or questionnaire and subsequently calculating the number of correct answers out of the total number of questions. The resulting score is then employed to ascertain the level of financial literacy.

Lusardi and Mitchell (2011) used a 20-question financial literacy questionnaire, with each question carrying an equal weight of 1, to test people's understanding of basic financial ideas such as inflation, risk diversification, and compound interest. Similarly, van Rooij, Lusardi, and Alessie (2017) employed a financial literacy questionnaire with 25 equally weighted questions covering various financial aspects.

The equal weighting method boasts several advantages. It is straightforward to administer and score, offering a comprehensive measure of financial literacy by encompassing multiple knowledge and skill dimensions. Additionally, it facilitates comparability across different populations and studies, ensuring consistency with the use of the same questions and weighting scheme.

However, this method has limitations. It may not fully capture the intricacies of financial literacy, considering variations in question difficulty and importance. Moreover, it might not account for individuals who acquire financial literacy skills through experience rather than formal education.

In summary, while the equal weighting (correct answer count) method is widely accepted and utilised in financial literacy assessments due to its simplicity and comprehensiveness, researchers need to be mindful of its limitations in fully capturing the nuanced nature of financial literacy.

4.13.2 Measurement of investment decision

The second important variable of this study is investment decision which stands as a dependent variable for this study. The variable is measured by using the Five-point Likert's scale – 1 belongs to highly negative and 5 belongs to highly positive response. The statistical calculation was done to measure its prevalence from frequency distribution and strength and effect was measured from the correlation and regression test.

4.14 Ethical Considerations and Procedures

Before doing any study, research ethics must be taken into account. Since this study issue includes individual NEPSE investors, it is critical to ensure that ethical standards are maintained throughout the research procedure. The study also adheres to the University of Gloucestershire Handbook of Research Ethics, as well as the UK GDPR guidelines, to ensure that the research is carried out ethically. All research participants were informed in advance of the study's aims and objectives, as well as the purpose of the interviews. All interviews are conducted voluntarily, with written information consent obtained from all participants, who may withdraw at any moment. All participants were notified that their withdrawal from the study had no effect on the research. The anonymity and privacy of all participants were respected. This includes ensuring that any data obtained is kept secure and confidential, and that the identity of participants are not revealed without their explicit consent. It also ensures that any data gathered is solely utilised for research purposes and is not shared or used for other purposes. Before data transcription and processing, the obtained data were anonymized and securely kept. All data collected, including any financial disclosure, was securely kept with a password and controlled access.

4.15 Limitation of the research approaches adopted

This study has adopted a concurrent mixed methods approach. For the quantitative component, an online survey was conducted, with approximately 50% of the collected data coming from the Bagmati Province only. Another notable limitation is that only 18% of the participants were female out of a total of 647 respondents. Additionally, the study was conducted under time constraints, which limited the ability to achieve a geographically and gender-diverse participant pool across Nepal.

For the qualitative component, semi-structured interviews were conducted with experienced individual investors. However, selecting participants who were willing to participate proved challenging. In many cases, individuals initially agreed to participate but later changed their minds, causing frustration for the researcher. Furthermore, once participants agreed, the conversations often lasted longer than expected, making the process highly time-consuming. Conducting and transcribing these interviews, especially with high-profile participants, posed significant constraints due to their demanding nature.

4.16 Chapter Summary

In this chapter, the main focus is on the research methodology and methods employed for conducting quantitative and qualitative research. Where mixed method was used by using structured survey questionnaire and with semi-structured interviews being adopted as the primary method. The research problem is analysed using different research philosophies, such as ontology, epistemology, axiology, and methodological approaches. The aim and objectives of the research are viewed from different philosophical perspectives, including realist, interventionist, and constructionist, and the appropriateness of the Pragmatic philosophy is justified for this particular research topic. The pragmatic philosophy is a perspective that values practicality, problem-solving, and real-world application. It emphasizes the importance of outcomes and consequences, often leading to a flexible and inductive approach to research design and methodology. It allows to adopt the mixed-method as relevant to the study. Additionally, the chapter covers research design, including study participants, their recruitment and sampling, data collection tools and processes, data management and analysis. The data was analysed using statistical software SPSS for quantitative data and NVivo software for qualitative data. Finally, the chapter discusses how research ethics have been maintained during the online survey and semi-structured interview process.

Chapter Five

Findings

5.1 Introduction

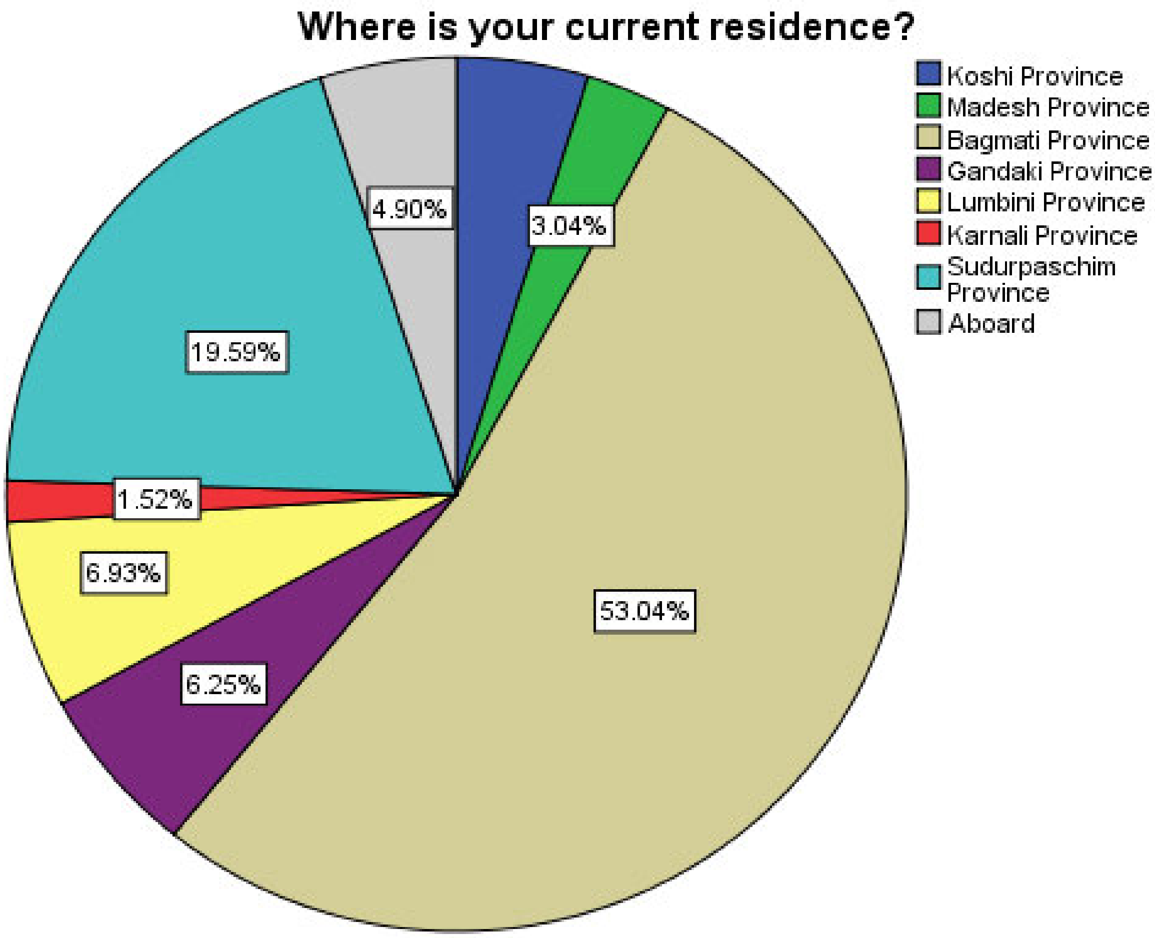
This chapter is primarily divided into two sections, A and B. Section A delves into the results from the quantitative study, while Section B presents the findings from the qualitative study. Following a mixed-methods approach, the study concurrently collected the quantitative and qualitative data. The overarching focus of this chapter is to comprehensively address all three research questions that have been identified.

5.2 Section A: Quantitative results

Within this section, the initial focus was on presenting the demographic information of the respondents. Following this, the discussion was turned to addressing the first, second, and third objectives of the research. The demographic information provides a contextual background for the study participants, setting the stage for a deeper understanding of the subsequent objectives. This sequential approach aims to provide a structured and comprehensive exploration of the research findings.

5.2.1 Demographic information of respondents

In the context of presenting the demographic details of the respondents obtained through the online survey, figure 5.1 illustrates the distribution. Notably, the Bagmati province stands out, encompassing the majority of participants, exceeding 50% compared to other regions. This concentration is attributed to the significant population of individual investors residing in the capital city of Nepal, Kathmandu. Additionally, the subsequent sections provide detailed tables regarding other demographic variables, including age, gender, marital status, occupation, education, experience, and the size of the investment portfolio. These tables offer a nuanced exploration of the participant characteristics for a comprehensive understanding.



Source: Field Survey 2023

Figure 5. 1: Respondents participation as per their residency

Table 5.1 displays the cross tabulation results depicting the relationship between the age group and the current residence of the survey participants. Notably, participants falling within the age group of 25–35 constitute the highest percentage at 40.5%, closely followed by those in the age group of 36–50. This observation indicates that a substantial proportion of individual investors in NEPSE belong to the middle age group. The prevalence of this age category aligns with their active participation in NEPSE, and it also underscores the significance of age as a control variable in conjunction with other demographic factors such as gender, experience, occupation, marital status, size of investment portfolio, and education. The involvement of this working-age cohort in NEPSE activities is a notable factor shaping the demographic composition of retail investors in the market.

Table 5. 1: Crosstabulation between age group and current residency

		Current residence of Respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Age	18-24 Years	28.6%	11.1%	14.6%	8.1%	9.8%	11.1%	25.0%	10.3%	16.2%
	25-35 Years	46.4%	55.6%	33.4%	48.6%	53.7%	66.7%	41.4%	62.1%	40.5%
	36-50 Years	14.3%	27.8%	38.9%	32.4%	34.1%	22.2%	31.9%	27.6%	34.5%
	Above 50 Years	10.7%	5.6%	13.1%	10.8%	2.4%		1.7%		8.8%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey 2023

Table 5.2 illustrates the cross-tabulation results regarding gender and the current residence of the participants. The data reveals a clear gender disparity, with the majority, comprising 81.6% of individual investors, being male, while only 18.4% are female. This discrepancy can be attributed to the prevailing societal demographics in Nepal, where financial decision-making within families is predominantly led by males. This gender-based influence extends to participation in financial markets, notably at the Nepal Stock Exchange (NEPSE), where men significantly outnumber women. Such a pattern aligns with traditional gender roles and expectations, positioning men as the primary decision-makers in financial matters. This dominance is fuelled by men's relatively better access to financial opportunities and their often higher risk tolerance compared to women.

Table 5. 2: Crosstabulation between gender and current residency

		Current residence of Respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Gender	Male	92.9%	66.7%	80.9%	94.6%	82.9%	66.7%	80.2%	79.3%	81.6%
	Female	7.1%	33.3%	19.1%	5.4%	17.1%	33.3%	19.8%	20.7%	18.4%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey 2023

Table 5.3 displays the cross-tabulation outcomes concerning marital status and the current residence of the participants. The data indicates that married individuals make up 61.7%, while unmarried individuals constitute 37.2%. This suggests a significant presence of individuals engaged in the stock market, with a notable proportion being married.

Table 5. 3: Crosstabulation between marital status and current residency

		Current residence of Respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Marital Status	Married	39.3%	55.6%	67.5%	67.6%	58.5%	33.3%	58.6%	41.4%	61.7%
	Unmarried	60.7%	33.3%	31.2%	32.4%	41.5%	66.7%	40.5%	58.6%	37.2%
	Prefer not to say		11.1%	1.3%				0.9%		1.2%

Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0 %	100.0 %

Source: Field Survey 2023

Table 5.4 presents the cross-tabulation findings related to education and the current residence of the participants. The data indicates that 59.8% have educational qualifications up to a bachelor's degree, while 40.2% have educational qualifications beyond a bachelor's degree. This implies that students or individuals with lower educational backgrounds are more likely to be involved in activities related to the Nepal Stock Exchange (NEPSE).

Table 5. 4: Crosstabulation between education and current residency

		Current residence of Respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Education	Up to Bachelor Level	71.4%	72.2%	51.0%	78.4%	56.1%	100.0%	66.4%	79.3%	59.8%
	Above Bachelor Level	28.6%	27.8%	49.0%	21.6%	43.9%		33.6%	20.7%	40.2%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0 %	100.0 %

Source: Field Survey 2023

Table 5.5 illustrates the cross-tabulation results concerning occupation and the current residence of the participants. Notably, students are the second-largest group at 18.1%. This indicates that individuals with employment standing at 39.4% are more likely to engage in the Nepal Stock Exchange (NEPSE) market, given their self-sufficiency with income from employment, enabling independent participation in NEPSE investments. Additionally, since the implementation of the online system in 2020, a significant number of students have joined the market, primarily participating in initial public offerings (IPOs) and engaging in NEPSE trading and investment activities within the secondary markets.

Table 5. 5 Crosstabulation between occupation and current residency

		Current residence of Respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Occupation	NEPSE trading and investment only	21.4%	16.7%	12.4%	8.1%	9.8%	11.1%	1.7%	6.9%	10.1%
	Employed	32.1%	55.6%	37.9%	48.6%	36.6%		37.9%	62.1%	39.4%
	Business or entrepreneur	10.7%	5.6%	11.5%	18.9%	19.5%	33.3%	14.7%	3.4%	12.8%
	Self-employed other than business	10.7%	5.6%	17.8%	13.5%	9.8%		6.0%		12.8%
	Student	21.4%	11.1%	14.3%	5.4%	17.1%	44.4%	28.4%	27.6%	18.1%
	Retired			4.5%						2.4%
	Not employed at all	3.6%	5.6%	1.6%	5.4%	7.3%	11.1%	11.2%		4.4%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey 2023

Table 5.6 showcases the cross-tabulation outcomes related to the years of trading and investment experiences and the current residence of the participants. Notably, 61.5% of individuals fall into the category of having up to 3 years of trading and investment experience, while 38.5% have experience beyond 3 years. These findings align with the observation that the number of participants increased during the COVID-19 period, coinciding with the introduction of the online

IPO application system and the Trading Management System (TMS) in the secondary market. The data suggests that, due to fewer investment opportunities during this period, a larger number of individual retail investors were drawn to NEPSE investing.

Table 5. 6: Crosstabulation between trading and investing experience and current residency

		Current residence of respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Experience	Up to 3 years	78.6%	77.8%	49.7%	51.4%	63.4%	77.8%	81.0%	89.7%	61.5%
	Above 3 years	21.4%	22.2%	50.3%	48.6%	36.6%	22.2%	19.0%	10.3%	38.5%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey 2023

Table 5.7 displays the cross-tabulation between the size of the investment portfolio and the current residency of the participants. The data reveals that above 60% of the participants reported having a portfolio of less than NPR 1 million. This indicates that a significant number of participants in the NEPSE are in the initial stages of their stock market investment practices, showing a preference for investing in the primary market through initial public offerings (IPOs) of companies. This pattern is a clear indication that the majority of participants may not be willing or able to take significant risks and manage the risk appetite aspect of their investments.

Table 5. 7: Crosstabulation between portfolio size and current residency

		Current residence of respondents								Total
		Koshi Province	Madesh Province	Bagmati Province	Gandaki Province	Lumbini Province	Karnali Province	Sudurpaschim Province	Aboard	
Size of investment portfolio	Upto NPR 10,00,000	73.7%	73.3%	50.8%	31.0%	68.6%	88.9%	92.9%	64.0%	62.7%
	Above NPR 10,00,000	26.3%	26.7%	49.2%	69.0%	31.4%	11.1%	7.1%	36.0%	37.3%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Field Survey 2023

5.2.2 Financial literacy levels of individual retail investors in the NEPSE market

As various definitions and perspectives emerged in defining financial literacy literature, as discussed in Chapter Two, the pre-testing or pilot study for this research identified a gap in financial knowledge and investment decision-making within the context of the NEPSE market from the perspective of retail investors. Therefore, the first objective was established: to assess the financial literacy levels of individual retail investors in the NEPSE market. Questions 10 to 18 were designed to gauge the financial knowledge aspect of individual investors and semi-structured interviews were conducted with experienced NEPSE market participants, as detailed in the second part of this chapter. Concerning investment decisions, questions 19–27 were made to find out what factors affect the choices that individual retail investors make. More on this will be discussed when the second goal of this thesis is discussed.

Regarding financial literacy in terms of financial knowledge, the study found that the overall average financial literacy knowledge is 63.83% (refer to Table 5.8 for more details). In assessing lower, moderate, and higher levels of financial literacy knowledge, all questions from Q10 to Q18 were given equal weight, resulting in a total value of 9. Individuals who correctly answered at least 1/3 of the questions were grouped into the lower financial literacy category. Similarly, those who answered at least 2/3 of the questions correctly were categorized as having a moderate level of financial literacy, while those who scored above 2/3 of the questions were considered to have a higher level of financial literacy among individual retail investors from NEPSE. The study evaluated the overall level of financial literacy among 592 participants, detailing lower, moderate, and higher levels in Figure 5.2.

Table 5. 8: Level of Financial Literacy

	Minimum	Maximum	Mean	Std. Deviation
Financial Literacy Total	1	9	5.7440	2.28776

Source: Field Survey 2023

Additionally, figure 5.2 showcases the distribution of individual investors' ability to answer financial literacy questions. It reveals that 122 individuals (20.6%) answered 1 to 3 out of 9 questions, indicating a low level of financial literacy. Meanwhile, 219 individuals (37%) correctly answered 3 to 6 questions, representing a moderate financial literacy level. The highest level of proficiency was observed in 251 individuals (42.4%) who managed to answer more than six questions, demonstrating a higher level of financial literacy. Detailed breakdowns are available in table 5.9 for further reference.

Table 5. 9 Financial literacy summary

Financial Literacy	Frequency	Percent	Cumulative Percent
Low level of financial literacy	122	20.6	20.6
Moderate level of financial literacy	219	37.0	57.6
High level of financial literacy	251	42.4	100.0
Total	592	100.0	

Source: Field Survey 2023

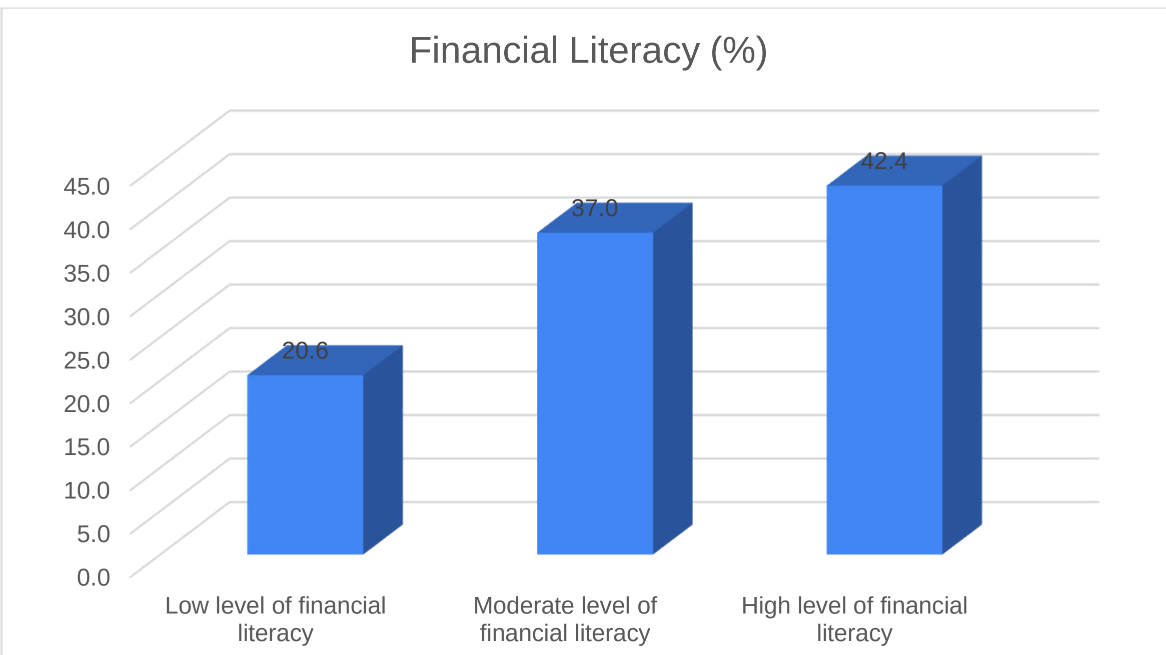


Figure 5. 2: Financial litereacy knowledge summary

Additionally, when conducting a Pearson chi-square test between gender and financial literacy from a knowledge perspective, the study found a significant p-value at the 0.05 significance level.

The p-value of the Pearson Chi-Square test is 0.004, which is less than 0.05, indicating a significant association between gender and the level of financial literacy. Males exhibit a higher level of financial literacy compared to females (see Table 5.10).

Table 5. 10: Cross Table Financial Literacy vs Gender

<table>
<tr><td colspan="3" rowspan="2"></td><td colspan="2">Gender</td><td rowspan="2">Total</td></tr>
<tr><td>Male</td><td>Female</td></tr>
<tr><td rowspan="3">Financial Literacy</td><td colspan="2">Low level of financial literacy</td><td>18.6%</td><td>29.4%</td><td>20.6%</td></tr>
<tr><td colspan="2">Moderate level of financial literacy</td><td>36.0%</td><td>41.3%</td><td>37.0%</td></tr>
<tr><td colspan="2">High level of financial literacy</td><td>45.3%</td><td>29.4%</td><td>42.4%</td></tr>
<tr><td colspan="3">Total</td><td>100.0%</td><td>100.0%</td><td>100.0%</td></tr>
<tr><td colspan="6">Chi-Square Tests</td></tr>
<tr><td colspan="2"></td><td>Value</td><td>df</td><td colspan="2">Asymp. Sig. (2-sided)</td></tr>
<tr><td colspan="2">Pearson Chi-Square</td><td>10.987[a]</td><td>2</td><td colspan="2">.004</td></tr>
<tr><td colspan="6">a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 22.46.</td></tr>
</table>

Source: Field Survey 2023

The study also found an interesting p-value at the 0.05 significance level when it used a Pearson chi-square test to look at the link between age group and financial literacy from a knowledge point of view. The p-value of the Pearson Chi-Square test is 0.002, falling below the 0.05 threshold, thereby signifying a substantial association between the age group and the level of financial literacy (see Table 5.11). The study reveals that a higher age group corresponds to a higher level of financial literacy, and this association aligns with other demographic factors such as years of experience and occupation. However, it is not correlated with educational background.

Table 5. 11: Cross Table Financial Literacy vs Age Group

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Financial Literacy	Low level of financial literacy	21.9%	21.7%	20.6%	13.5%	20.6%
	Moderate level of financial literacy	35.4%	40.0%	39.7%	15.4%	37.0%
	High level of financial literacy	42.7%	38.3%	39.7%	71.2%	42.4%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.542[a]	6	.002

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 10.72.

Source: Field Survey 2023

Furthermore, when conducting a Pearson chi-square test to investigate the correlation between educational background and financial literacy from a knowledge perspective, the study uncovered a significant p-value at the 0.05 significance level. However, with a p-value of 0.246, which does not fall below the 0.05 threshold, it suggests that there is no substantial association between education and the level of financial literacy (see Table 5.12). Nevertheless, the study emphasizes that individual investors with a higher education level, such as those with education beyond a bachelor's degree, tend to exhibit a higher level of financial literacy.

Table 5. 12: Cross Table Financial Literacy vs Education

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Financial Literacy	Low level of financial literacy	22.9%	17.2%	20.6%
	Moderate level of financial literacy	36.2%	38.2%	37.0%
	High level of financial literacy	41.0%	44.5%	42.4%
Total		100.0%	100.0%	100.0%

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.804[a]	2	.246
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 49.05.			

Source: Field Survey 2023

Moreover, in the course of conducting a Pearson chi-square test to explore the relationship between occupation and financial literacy from a knowledge perspective, the study identified a significant p-value at the 0.05 significance level. With a p-value of 0.001, falling below the 0.05 threshold, it suggests a substantial association between occupation and the level of financial literacy (see Table 5.13). Additionally, the study highlights that individual investors who are solely involved in NEPSE trading and investing activities, those engaged in business activities, and those who are self-employed other than in business tend to possess a higher level of financial literacy.

Table 5. 13: Cross Table Financial Literacy vs Occupation

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Financial Literacy	Low level of financial literacy	21.7%	19.7%	13.2%	19.7%	24.3%	7.1%	42.3%	20.6%
	Moderate level of financi	28.3%	40.8%	40.8%	26.3%	42.1%	7.1%	38.5%	37.0%

	al literacy								
	High level of financial literacy	50.0%	39.5%	46.1%	53.9%	33.6%	85.7%	19.2%	42.4%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.290[a]	12	.001
a. 1 cells (4.8%) have expected count less than 5. The minimum expected count is 2.89.			

Source: Field Survey 2023

Moreover, in performing a Pearson chi-square test to explore the relationship between years of experience and financial literacy from a knowledge standpoint, the investigation identified a noteworthy p-value at the 0.05 significance level. With a p-value of 0.000, falling below the 0.05 threshold, this signals a meaningful association between years of experience and the level of financial literacy (see Table 5.14). The study suggests that a higher number of years of experience corresponds to a higher level of financial literacy.

Table 5. 14: Cross Table Financial Literacy vs years of experience

		Experience		Total
		Up to 3 years	Above 3 years	
Financial Literacy	Low level of financial literacy	26.4%	11.4%	20.6%
	Moderate level of financial literacy	40.7%	31.1%	37.0%
	High level of financial literacy	33.0%	57.5%	42.4%
Total		100.0%	100.0%	100.0%

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.508[a]	2	.000
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 46.99.			

Source: Field Survey 2023

When examining the correlation between the size of the investment portfolio and the years of experience in the NEPSE market using the Pearson Chi-Square test, this study obtained a significant p-value at the 0.05 significance level. The p-value of the Pearson Chi-Square test is 0.000, falling below the 0.05 threshold, indicating a substantial association between financial literacy and the size of the investment portfolio (see Table 5.15). The study's findings also underscore that a portfolio size above NPR 1 million stands for higher financial literacy levels, which means a larger portfolio size individual investors have a better understanding of the NEPSE market. Furthermore, the study also highlighted that individual investor with lower portfolio size has a lower level of financial literacy. This trend can be attributed to the fact that a larger number of individual retail investors prefer engaging in primary market investment activities than secondary market investing.

Table 5. 15: Cross Table Financial Literacy vs Size of Investment Portfolio

		Size of your investment portfolio		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Financial Literacy	Low level of financial literacy	27.9%	10.7%	21.5%
	Moderate level of financial literacy	37.4%	35.0%	36.5%
	High level of financial literacy	34.7%	54.2%	42.0%
Total		100.0%	100.0%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.539[a]	2	.000

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 38.09.

Source: Field Survey 2023

Similarly, Table 5.16 summarises the findings from Q10 to Q18, where questions assess the relationship between various demographic variables and various aspects of financial knowledge, such as understanding of calculating interest rates and numeracy, comprehension of the relationship between interest and inflation rates, risk diversification, understanding of bonds vs.

interest rates, compounding interest, understanding of the highest return financial instruments, and understanding the risk-reward profiles of various asset classes.

Further, the study delves into the significance of financial knowledge as a measure of financial literacy, employing the p-value from the Pearson Chi-Square test. The findings underscore the fact that experience exerts the most substantial influence on the financial literacy of individual investors. The study accentuates a noteworthy relationship between years of experience and financial literacy among individual investors in the NEPSE. P-values for all financial knowledge dimensions from questions Q10 to Q18, except for knowledge about the operation of the stock market, register less than 0.005, supporting this assertion. Another pivotal determinant identified is the size of the investment portfolio, demonstrating a significant relationship with financial knowledge dimensions, except for areas such as numeracy, interest rate calculation, and understanding risk-reward profiles. However, the study notes that marital status, except for understanding bond vs. interest rate, does not significantly impact financial literacy knowledge tests. For a comprehensive presentation of these relationships and associated p-values, refer to Table 5.16 below.

Table 5. 16: Summary of Pearson Chi-Square value between Various Demographic variables and financial literacy

Financial literacy knowledge test questions	Individual investors understanding with financial knowledge prospective	Pearson Chi-Square Value						
		Age	Gender	Marital Status	Education	Occupation	Experience	Portfolio Size
Q10	Understanding of individual retail investors knowledge in terms of interest rate calculations and numeracy	0.956	0.832	0.905	0.028	0.031	0.023	0.430
Q11	Relationship between understanding of interest and inflation rate with financial literacy	0.054	0.002	0.473	0.006	0.008	0.000	0.000
Q12	Risk Diversification	0.022	0.005	0.639	0.223	0.009	0.000	0.000
Q13	Understanding bond versus interest rate relationship	0.002	0.000	0.000	0.388	0.050	0.000	0.000
Q14	Functioning of Stock Market	0.149	0.019	0.787	0.409	0.000	0.109	0.000
Q15	Compounding interest	0.037	0.321	0.062	0.289	0.021	0.000	0.000
Q16	Impact of inflation rate	0.015	0.000	0.070	0.312	0.179	0.001	0.008
Q17	Understanding of the highest return assets	0.142	0.008	0.013	0.042	0.005	0.000	0.000
Q18	Understanding risk-reward profiles of various asset classes	0.296	0.048	0.769	0.038	0.053	0.009	0.017

Source: Field Survey 2023

5.2.2.1 Understanding of individual retail investors' knowledge in terms of interest rate calculations and numeracy

The study also reveals that, when analysing the understanding related to internet calculation and the compounding interest effect, a majority of the respondents provided correct answers. This trend is observed across all age groups, genders, and educational backgrounds, with over 85% showing good knowledge (for details, see Appendix E). Additionally, individuals involved in business and entrepreneurship, particularly those with more extended periods of experience, demonstrate a higher level of understanding of interest calculation and the compounding effect. However, marital status, whether married or unmarried, does not seem to on affect the understanding related to interest calculation and the compounding effect.

5.2.2.2 Understanding of the relationship between interest and inflation rate with financial literacy

Likewise, in terms of understanding about inflation and interest rates majority of the respondents above 70% respondents able to provide correct answers (for details, see Appendix E). When analyzing finding from age perspective, above 50 years age group participants shows a higher level of knowledge as compared with 18-24 years. With prospective of gender, male shows a higher understanding in terms of inflation and interest rate relationship. With education, prospective higher education level holder shows higher understanding as compared to lower education level.

5.2.2.3 Understanding of Risk Diversification

Similarly, concerning the understanding of risk diversification, respondents in higher age groups demonstrate a good understanding. From a gender perspective, males exhibit a higher level of understanding compared to females. However, there is no notable difference in risk diversification based on educational levels. Furthermore, respondents with a background in business and self-employment, excluding business ownership, exhibit a good understanding of risk diversification. Regarding experience, respondents with more extended periods of experience tend to have a higher understanding. Interestingly, marital status does not seem to influence understanding in terms of risk diversification among the respondents (for details, see Appendix E).

5.2.2.4 Understanding of the Relationship between Bonds and Interest rate

Furthermore, respondents' understanding of the relationship between bonds and interest rates is below 50%, indicating a lack of knowledge among individual retail investors in this aspect. From an age perspective, the higher age group, especially those above 50, shows a better understanding compared to the lower age group. In terms of gender, males exhibit a higher understanding of the relationship between bonds and interest rates, and a higher educational background corresponds to a better understanding. From an occupational standpoint, students show a lower understanding of the bond and interest rate relationship compared to those who are self-employed other than in business and those engaged solely in NEPSE trading and investing. Additionally, more experienced and married respondents demonstrate a higher understanding of the relationship between bonds and interest rate changes (for details, see Appendix E).

5.2.2.5 Understanding of the main function of the stock market

Regarding the understanding of the main function of the stock market, the majority, approximately 2/3 of the respondents, demonstrate a good understanding. Across all age groups and genders, there are similar levels of understanding. However, individuals with higher educational backgrounds, a business or entrepreneurial background, and more experienced respondents exhibit a higher level of knowledge. Interestingly, unmarried participants show a higher understanding compared to married individuals (for details, see Appendix E).

5.2.2.6 Compounding interest knowledge

Furthermore, the overall understanding of respondents regarding compounding interest is approximately 66.2%, indicating a moderate level of comprehension. Concerning the age group, there is an observed increase in understanding as age advances. Regarding gender, no significant difference is noted. However, individuals with higher educational levels, particularly those who are married, exhibit slightly higher understanding. In terms of occupation, retired individuals, those self-employed other than in business, and those exclusively engaged in NEPSE trading and investing activities demonstrate higher knowledge. Additionally, respondents with more experience show a higher level of understanding (for details, see Appendix E).

5.2.2.7 Understanding of Inflation

Similarly, the overall comprehension of respondents regarding purchasing power and inflation is below 50%, indicating that individual retail investors have a lower understanding of inflation in practice. Across age groups and marital status, there is a consistent level of understanding. However, in terms of gender, males exhibit a higher understanding of inflation than females. Regarding educational background, individuals with higher levels of education demonstrate a better understanding compared to those with lower levels. In terms of occupation, individuals engaged in business, employment, and self-employment other than in business, and those exclusively involved in trading and investment exhibit similar levels of understanding regarding inflation in practice. Additionally, participants with more experience at NEPSE show a higher level of understanding about inflation (for details, see Appendix E).

5.2.2.8 Understanding of Higher Return Financial Instrument

Furthermore, regarding the understanding of the investment product that provides higher returns in the long term, the majority of respondents, around 70%, were able to answer correctly. In terms of age, there is an increase in understanding as age increases. Similarly, males with higher education levels and married individual investors demonstrate a higher level of understanding. Moreover, individuals with more years of experience and those engaged in professions related to NEPSE trading and investing activities, business, and self-employment other than business background show a higher understanding, exceeding 70%, in terms of the investment product for long-term prospects (for details, see appendix E).

5.2.2.9 Understanding of risk and reward profiles of various asset classes

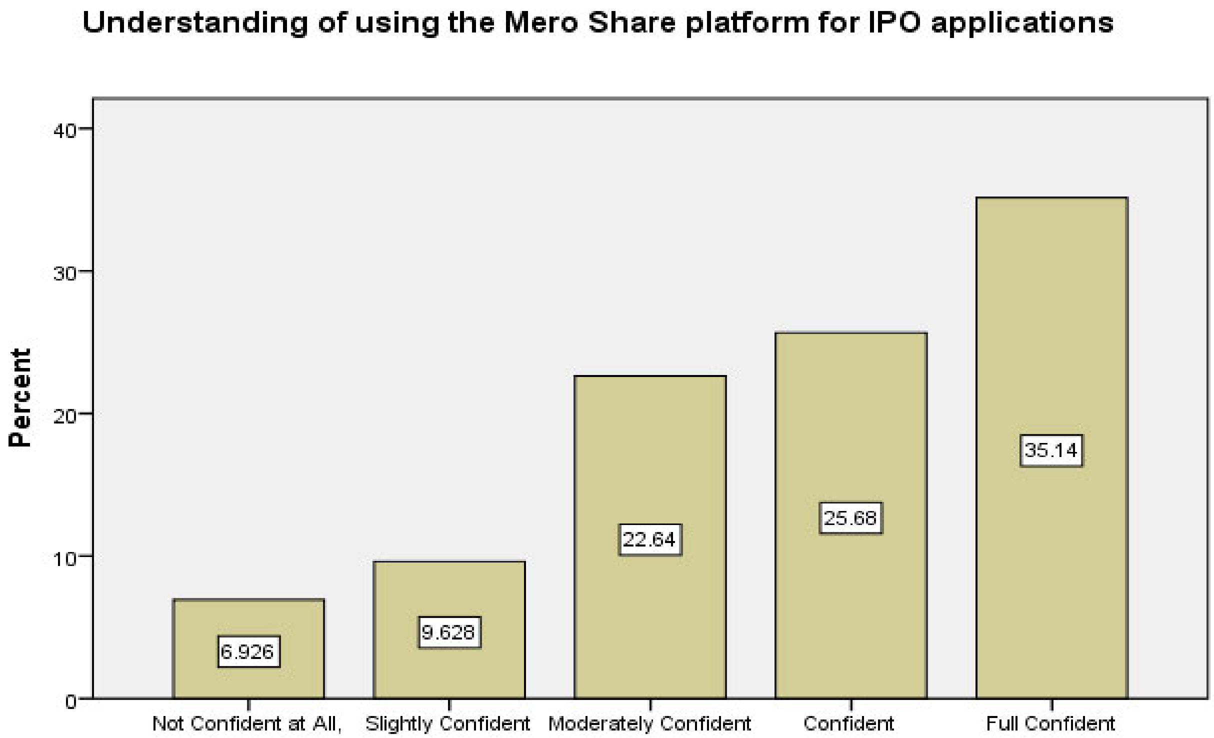
Regarding the understanding of respondents about the risk and reward profiles of various asset classes, a lower number of respondents, only about 28%, were able to answer correctly. It appears that individual investors lack knowledge about the priority of investors' invested funds in the case of bankruptcy of any publicly listed company. Concerning age, as the age increases, the understanding of respondents also increases. In terms of gender, males, and individuals with higher education levels show a higher level of understanding. However, there is no significant difference based on marital status. More experienced individual investors engaged in NEPSE trading and investing activities only, retired individuals, and employed respondents show an understanding of above 30% to the risk-reward profiles of financial instruments (for details, see Appendix 5.5).

5.2.3 To identify factors that influence investment decision-making among NEPSE individual retail investors.

This section of the study illuminates the factors influencing the investment decisions of individual retail investors in the NEPSE. Such as

5.2.3.1 Mero Share platform for IPO applications

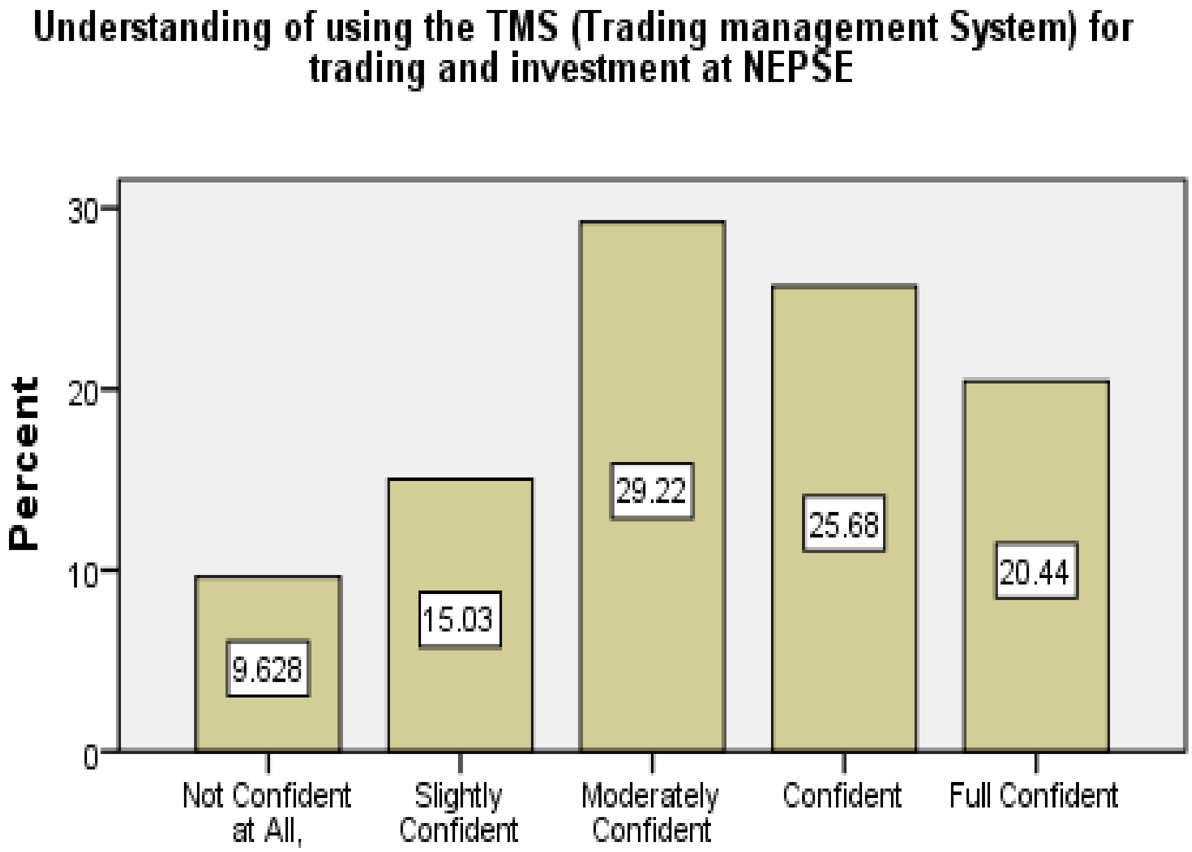
Regarding the understanding of the Mero Share platform for IPO applications, the majority of the participants demonstrated a high level of understanding (Figure 5.3). This is attributed to a larger number of individual investors preferring to invest in the primary market, where there is often a certain level of return available with lower associated risks. In terms of age, the higher age group—male, unmarried, and respondents with more experience—exhibits full confidence in using the Mero Share platform. From the perspective of the profession, respondents engaged in NEPSE trading and investing activities exclusively have a higher level of understanding compared to other professions, where employed individuals, business owners, and self-employed individuals other than business owners show a similar level of understanding.



Source: Field Survey 2023
Figure 5.3: Understanding of using of the mero share platform for IPO applications

5.2.3.2 Trading Management System (TMS) for trading and investment activities

The majority of respondents exhibit a moderate level of confidence in understanding the use of the Trading Management System (TMS) for trading and investment activities at NEPSE (details in Figure 5.4). This is attributed to a larger number of individuals preferring to invest in the primary market due to the lower level of associated risk. This observation underscores that individual investors are in a learning phase, providing strong evidence of a lack of financial literacy among individual retail investors from NEPSE. In terms of age, males in the higher age group demonstrate a higher level of understanding. From an occupational perspective, respondents exclusively engaged in NEPSE trading and investment activities exhibit a higher level of understanding. Additionally, it is found that as the number of years of experience increases, the use of the TMS platform moves towards full confidence.

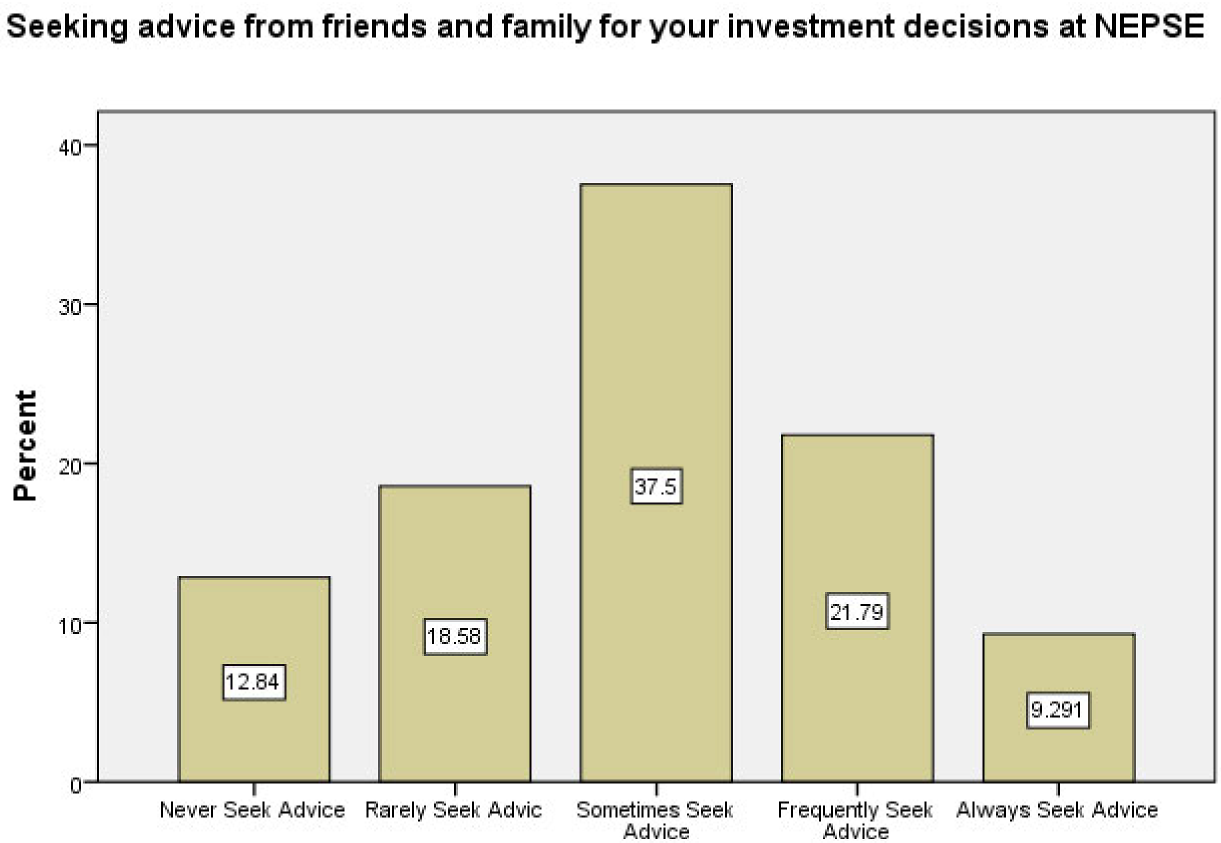


Source: Field Survey 2023

Figure 5.4: Understanding of using TMS for trading and investment

5.2.3.3 Seeking advice from friends and family circles

In terms of investment decisions and seeking advice from friends and family circles, the study reveals that the majority of respondents mentioned that they sometimes seek advice, followed by those who frequently seek advice (see Figure 5.5). This practice is prevalent in Nepal, where friends and family exert a certain level of influence in various aspects of life, including financial decisions. As the stock market investment culture develops in Nepal, it has become common to seek advice from close connections. From the perspective of age groups, the study found that individuals across all age groups seek advice from friends and family. Similarly, concerning gender, marital status, and occupation, individuals seek advice from friends and family. However, concerning experience, it was observed that as experience increases, respondents are less inclined to rely on friends and family for investment decisions.

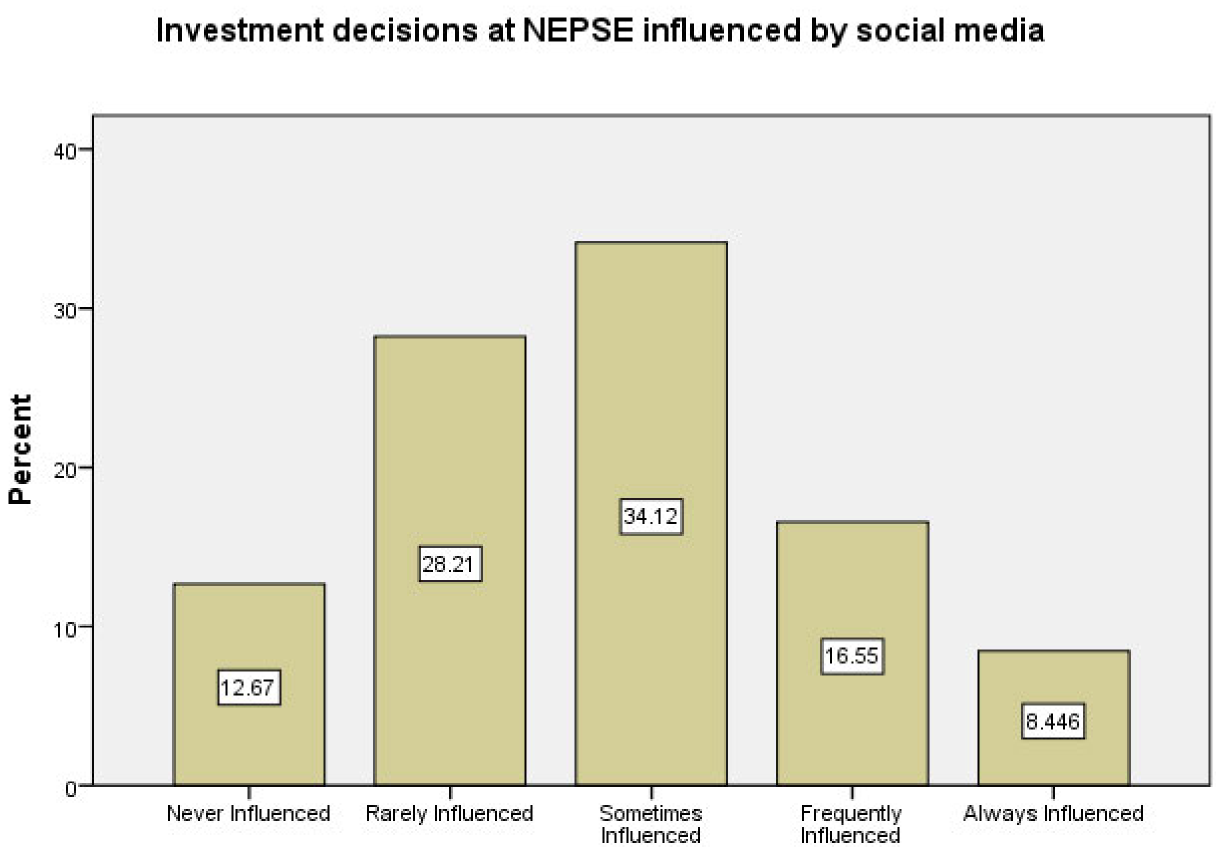


Source: Field Survey 2023

Figure 5.5: Seeking advice from friends and family for investment decisions

5.2.3.4 Social Media Influences

Social media emerges as a significant influencing factor in investment decision-making, especially in the context of the increasingly digitized global economic environment that fosters closer connections. The study indicates that the majority of respondents are sometimes influenced by social media (refer to details in Figure 5.6). Analysing the impact based on age groups, it is observed that the younger age group, along with those with less experience, and educational background, with less than NPR 1 million investment portfolio tends to be more influenced by social media. In terms of gender, females and unmarried individuals are more frequently influenced by social media when making investment decisions at NEPSE. Similarly, regarding occupation, unemployed individual investors demonstrate a higher level of influence from social media in their investment decisions at NEPSE.

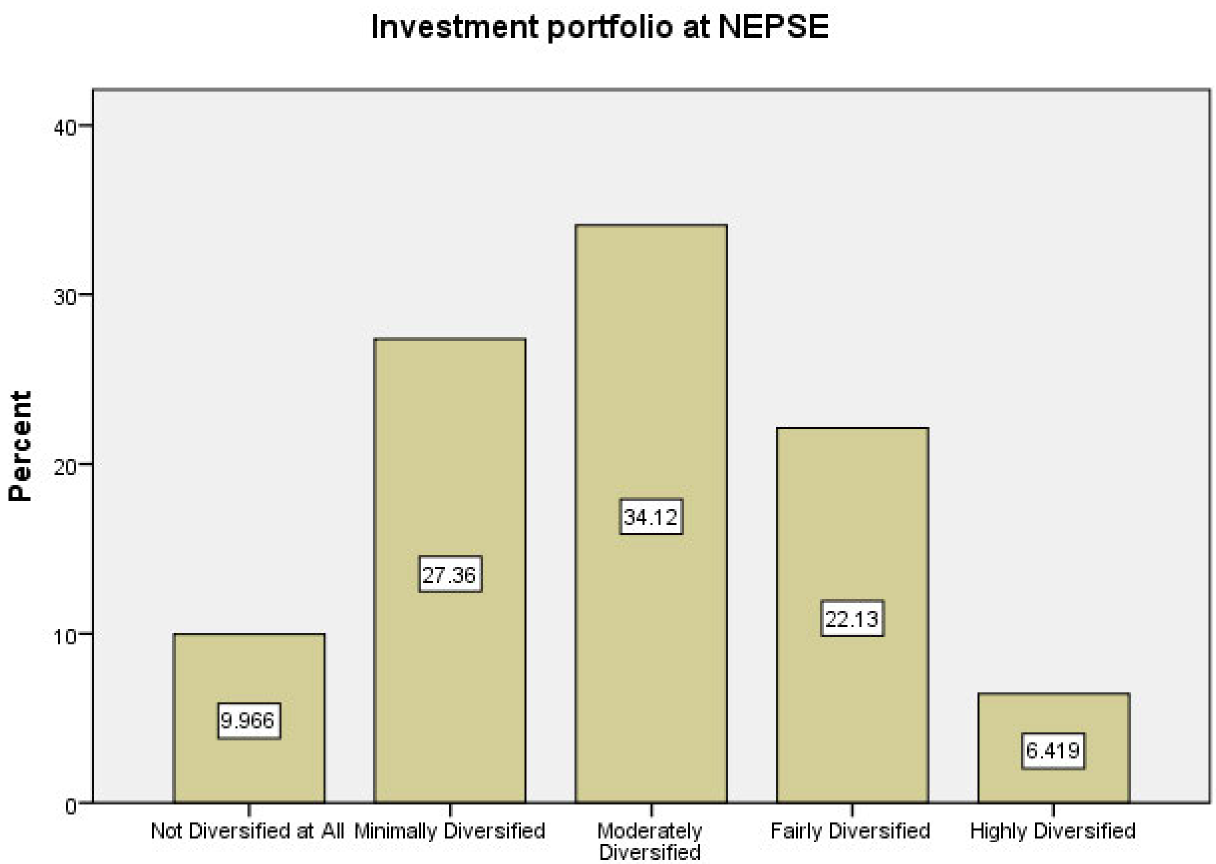


Source: Field Survey 2023

Figure 5.6: Social media influence in investment decision

5.2.3.5 Risk diversification in investment portfolios

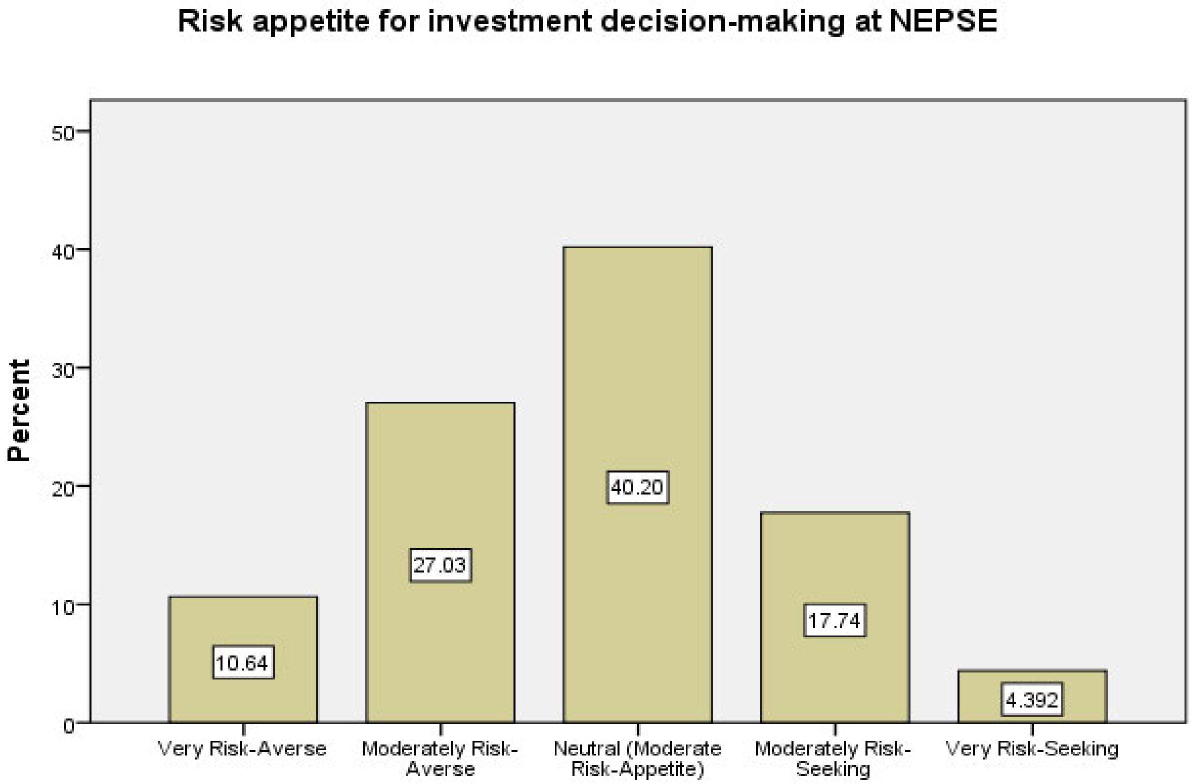
The study reveals that, in terms of risk diversification in investment portfolios, the majority of respondents exhibit moderately diversified portfolios, followed by minimally diversified investment portfolios (see Figure 5.7). This indicates a lower level of risk diversification among the respondents, suggesting that a significant number of individual investors from NEPSE do not diversify their investment portfolios. Examining the results based on age groups, it is evident that the lower age group and females tend to have less risk diversification in their portfolios compared to the higher age group, including unmarried individuals. In terms of experience, individuals with less experience, portfolio size less than NPR 1 million, including students and those not employed, exhibit less diversification in their investment portfolios from a professional perspective.



Source: Field Survey 2023
Figure 5.7: Risk Diversification in investment portfolios

5.2.3.6 Risk appetite approach for investment decisions

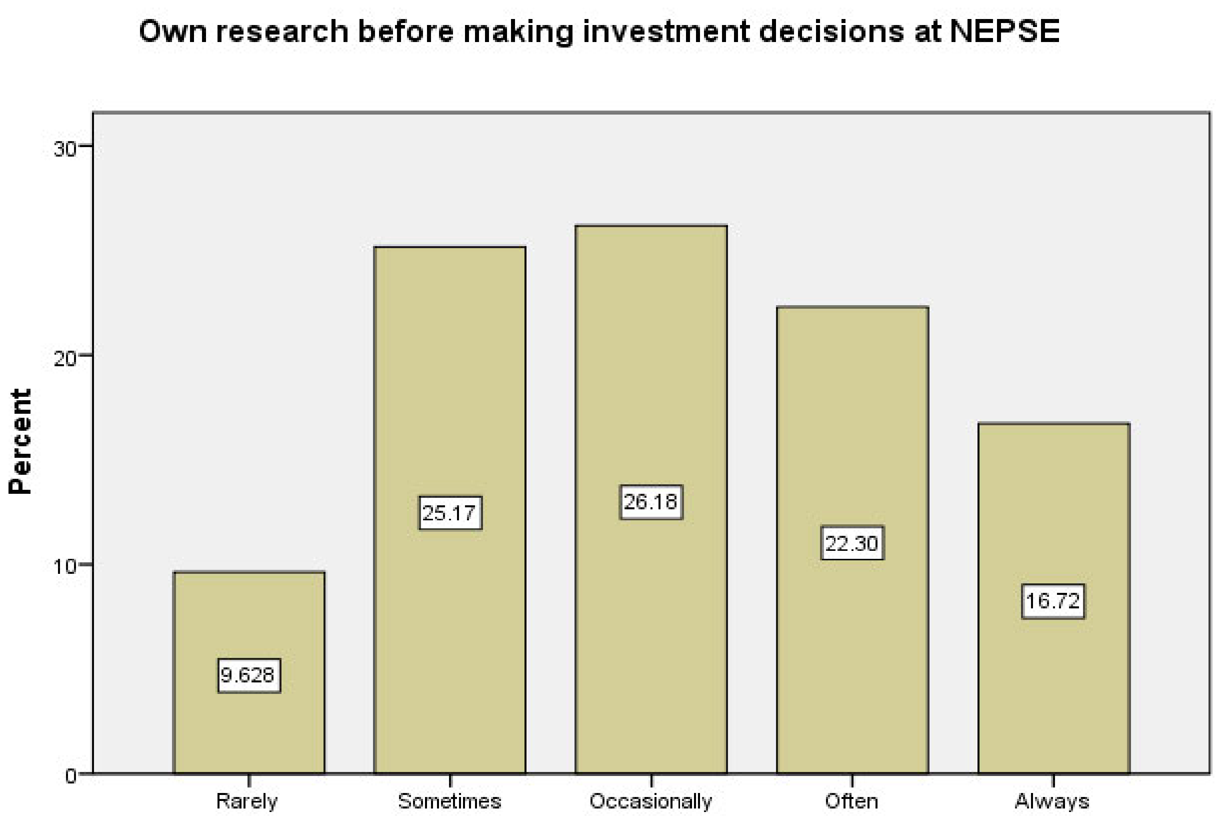
Concerning the overall risk appetite approach for investment decisions, the majority of respondents exhibit a neutral stance (moderate risk appetite), followed by a moderately risk-averse approach. This suggests that a significant number of participants are not inclined towards taking risks, possibly indicating a lack of financial literacy among them (refer to figure 5.8). Analysing the results based on age groups, it is observed that the higher age group tends to be more risk-tolerant than the lower age group. In terms of gender, females show risk-averse behaviour, while males tend to be risk-seekers. Similarly, regarding educational background, those with higher education levels tend to be risk-seekers. Regarding occupation, participants engaged in NEPSE trading and investment are more prone to taking risks. Furthermore, the study finds that more experienced, married investors with more than NPR 1 million investment portfolio tend to be risk-seekers.



Source: Field Survey 2023
Figure 5.8: Risk appetite for investment decision in the NEPSE

5.2.3.7 Conducting own research before making investment decision

Similarly, when it comes to conducting personal research before making investment decisions, the majority of respondents indicate that they occasionally engage in their own research, followed by those who do so sometimes (see figure 5.9). This suggests a lack of a culture of conducting independent research before making investment decisions, indicating a moderate level of financial literacy among individual investors in NEPSE. The study reveals that, in terms of age, the higher age group and married individuals tend to prefer conducting their own investment research compared to the lower age groups or unmarried individuals who occasionally or rarely undertake their investment decisions. Additionally, from a gender perspective, females tend to conduct less of their own research compared to males. Regarding educational background, individuals with higher than a bachelor's degree prefer to conduct their own research, whereas those with lower degrees are less inclined to do so. In the occupational context, individuals involved only in NEPSE trading and investment prefer to conduct their own research, while students are less likely to do so. In terms of experience, individuals with more than 3 years of experience prefer to conduct their own investment research, whereas those with less than 3 years of experience are less inclined to do so.



Source: Field Survey 2023

Figure 5.9: Conducting own research before making investment decisions

5.2.3.8 Sources of information on investment decisions

Moreover, concerning the influence of various sources of information on investment decisions among individual investors, the findings reveal insights from different perspectives. Such as;

5.2.3.8.1 Professional financial advisors and experts

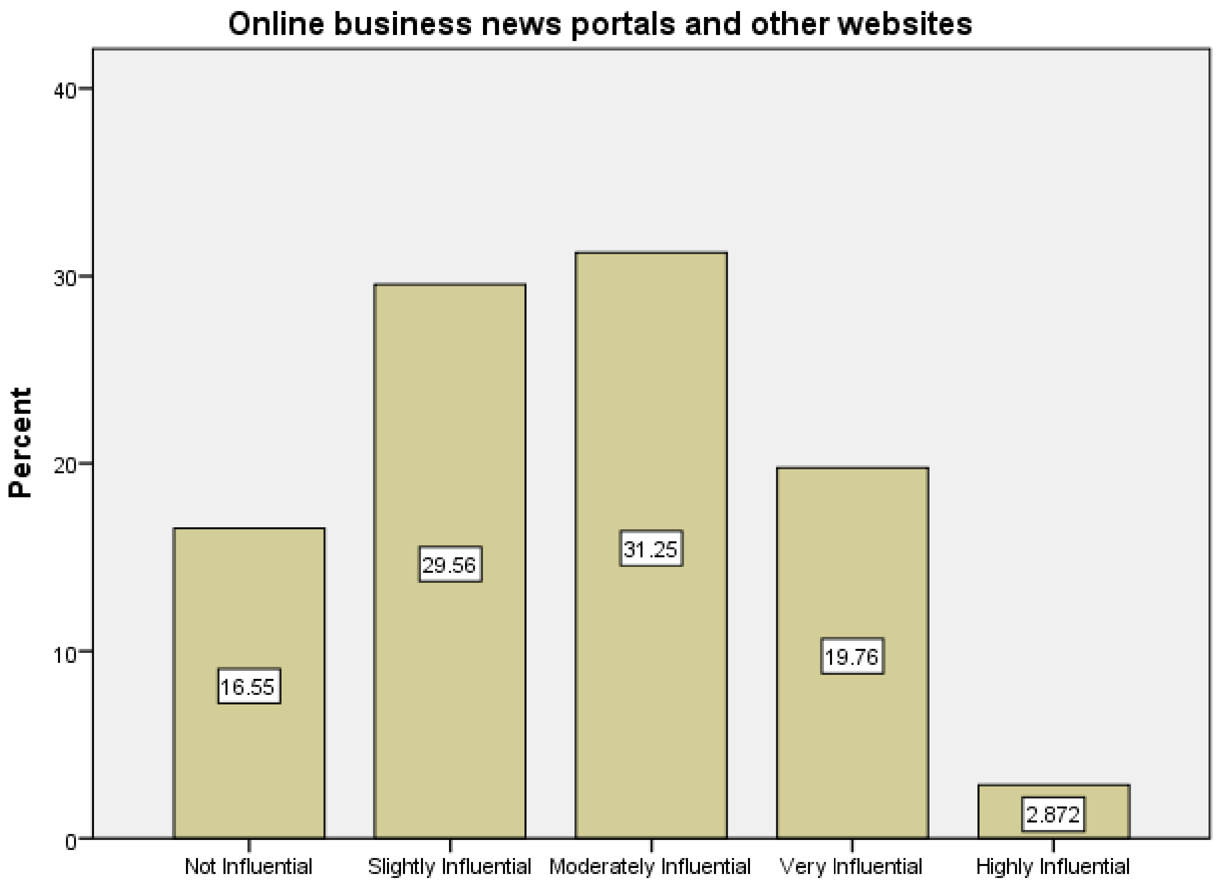
The study indicates that individuals are less reliant on professional financial advisors and experts as sources of information, suggesting a lack of a culture of seeking advice from professionals, particularly given the nascent stage of the stock market investment culture (see figure 5.10). The study notes that, from an age perspective, younger individuals are less influenced by professional financial advisors and experts. In terms of gender, both males and females show limited influence from these professionals. From an educational standpoint, less-educated individuals are less influenced by professional financial advisors and experts. Notably, even individuals solely engaged in NEPSE trading and investing do not derive significant influence from professional financial advisors and experts. This underscores the absence of a prevailing culture of seeking professional advice. Regarding experience, less-experienced individuals exhibit lower reliance on professional market experts, while more experienced individuals demonstrate a slightly higher reliance, indicating a growing acknowledgment of the importance of financial advisors with increased experience. In the context of marital status, unmarried individuals are less influenced by professional financial advisors and experts, providing further evidence of the lack of financial literacy and awareness regarding the significance of financial advisors in making investment decisions in NEPSE.

Source: Field Survey 2023

Figure 5.10: Professional financial advisors and experts

5.2.3.8.2 Online business news portals and other websites

Moreover, regarding the reliance on online business news portals and other websites as sources of information for investment decisions, individual investors exhibit a moderate influence from these sources, indicating a diversified approach to information gathering (figure 5.11). The study reveals that, concerning age groups, older individuals tend to rely more on business news portals and other websites, reflecting a preference for conducting their own research. In terms of gender, females show a higher reliance on online business news portals and other websites. From an educational standpoint, individuals with education levels above a bachelor's degree exhibit less reliance. In the context of occupation, employed individuals and those solely engaged in NEPSE trading and investment display less reliance on business news portals and other websites. Considering experience levels, less experienced individuals exhibit a higher level of reliance compared to their more experienced counterparts. Married investors show less reliance on sources of information, such as online business news portals and other websites. This clearly suggests that individuals with a robust level of financial literacy prefer to gather information from multiple sources.

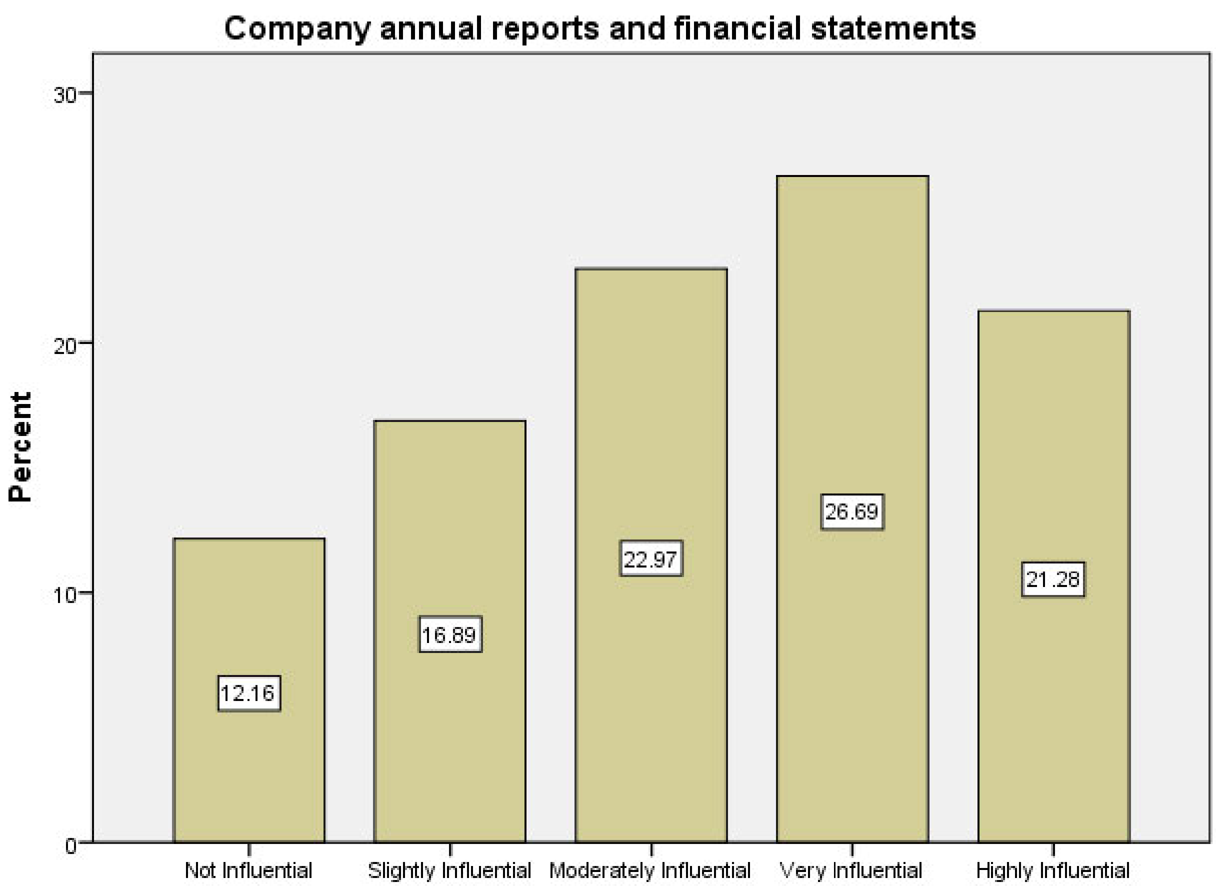


Source: Field Survey 2023

Figure 5.11: Online business news portals and other websites

5.2.3.8.3 Company's annual reports and financial statements

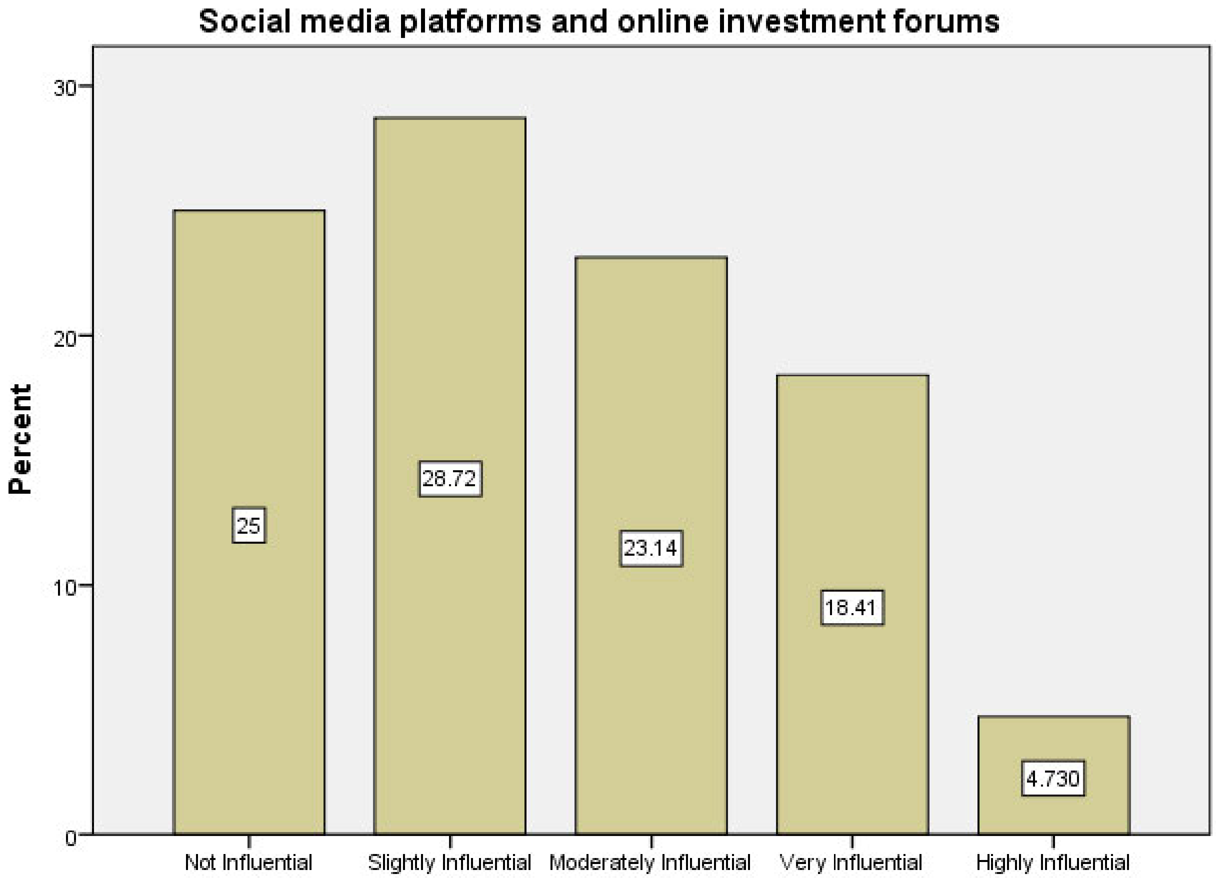
Additionally, the majority of respondents express a high level of influence regarding the impact of a company's annual reports and financial statements, with a sizable portion stating that they heavily rely on these sources of information when making investment decisions (see Figure 5.12). This finding strongly suggests that a considerable number of investors view company annual reports and financial statements as crucial factors in guiding their investment choices. When considering age groups, higher age group males with higher education levels, more experience, and married individuals are more likely to perceive these reports as influential sources of information for their investment decisions. From an occupational perspective, those who are self-employed other than in business, entrepreneurs, employed individuals, and those solely involved in NEPSE trading and investing indicate a higher degree of influence from these sources in their investment decisions.



Source: Field Survey 2023
Figure 5.12: Company annual reports and financial statements

5.2.3.8.4 Social media platforms and online investment forums

Regarding social media platforms and online investment forums as sources of information, the majority of participants indicate a slight influence on their investment decisions in the NEPSE market (see Figure 5.13). This suggests that individual investors do not solely rely on social media; however, these platforms have some level of influence in the current economic environment. When considering age groups, the study reveals that the higher age group relies less on social media and online investment forums for investment decisions compared to the younger age group. In terms of gender, males show less reliance on these sources compared to females, with female investors being particularly influenced. Occupation-wise, individuals solely involved in NEPSE trading and investment exhibit less reliance on social media and online platforms for investment decisions, while students are highly influenced. Regarding experience, less-experienced individuals tend to rely more on these sources than those with more experience. Additionally, married individuals exhibit less dependence compared to unmarried individuals. Concerning investment portfolio size, those with a portfolio higher than NPR 1 million exhibit less reliance than those with a smaller investment portfolio.



Source: Field Survey 2023

Figure 5.13: Social media platforms and online investment forums

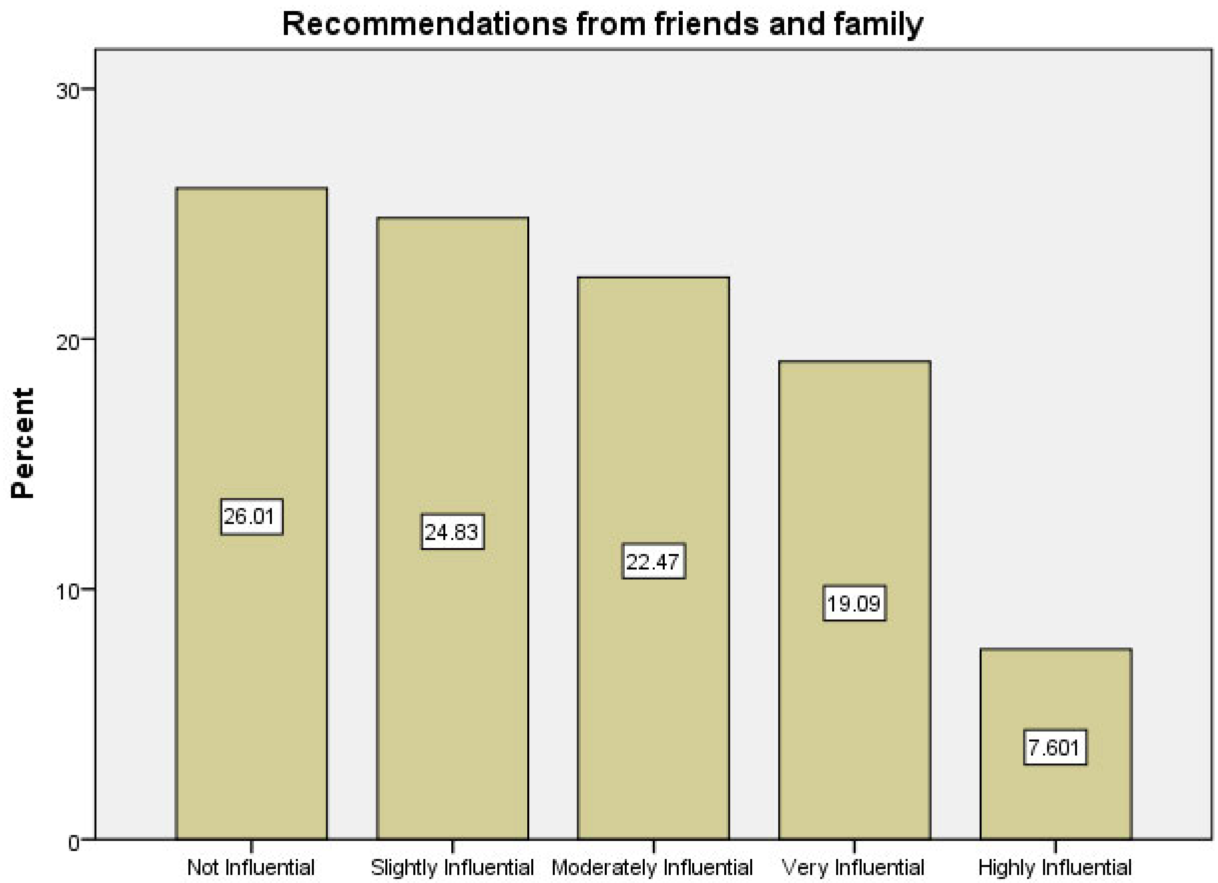
5.2.3.8.5 Recommendations from friends and family

The influence of recommendations from friends and family circles on investment decisions in the NEPSE market reveals interesting dynamics among participants. Contrary to the assumption that such sources have significant sway, the findings align with those related to social media platforms (see Figure 5.14). It appears that individual investors do not solely depend on recommendations from friends and family circles, indicating a diversified approach to information gathering.

When considering age demographics, younger, unmarried individual investors exhibit a higher reliance on recommendations from friends and family compared to their older counterparts. This suggests that, in the current economic landscape, peer connections play a more substantial role for the younger demographic. Gender disparities also emerge, with females being more influenced than males. Furthermore, individuals with educational qualifications lower than a bachelor's degree demonstrate a greater reliance on recommendations from friends and family circles compared to those with higher educational attainments.

Occupationally, those engaged solely in investment and trading, business entrepreneurs, and self-employed individuals, among others, exhibit less influence from friends and family recommendations in their investment decision-making processes within the NEPSE. This indicates that individuals with a professional and business-oriented background may depend more on other sources of information.

Additionally, investors with over three years of experience and portfolio sizes exceeding NPR 1 million are less reliant on recommendations from friends and family circles. This suggests that seasoned investors with a more substantial portfolio have developed a more independent and informed approach, relying on diverse information channels for their investment decisions.



Source: Field Survey 2023

Figure 5.14: Recommendations from friends and family

5.2.3.9 Other additional factors

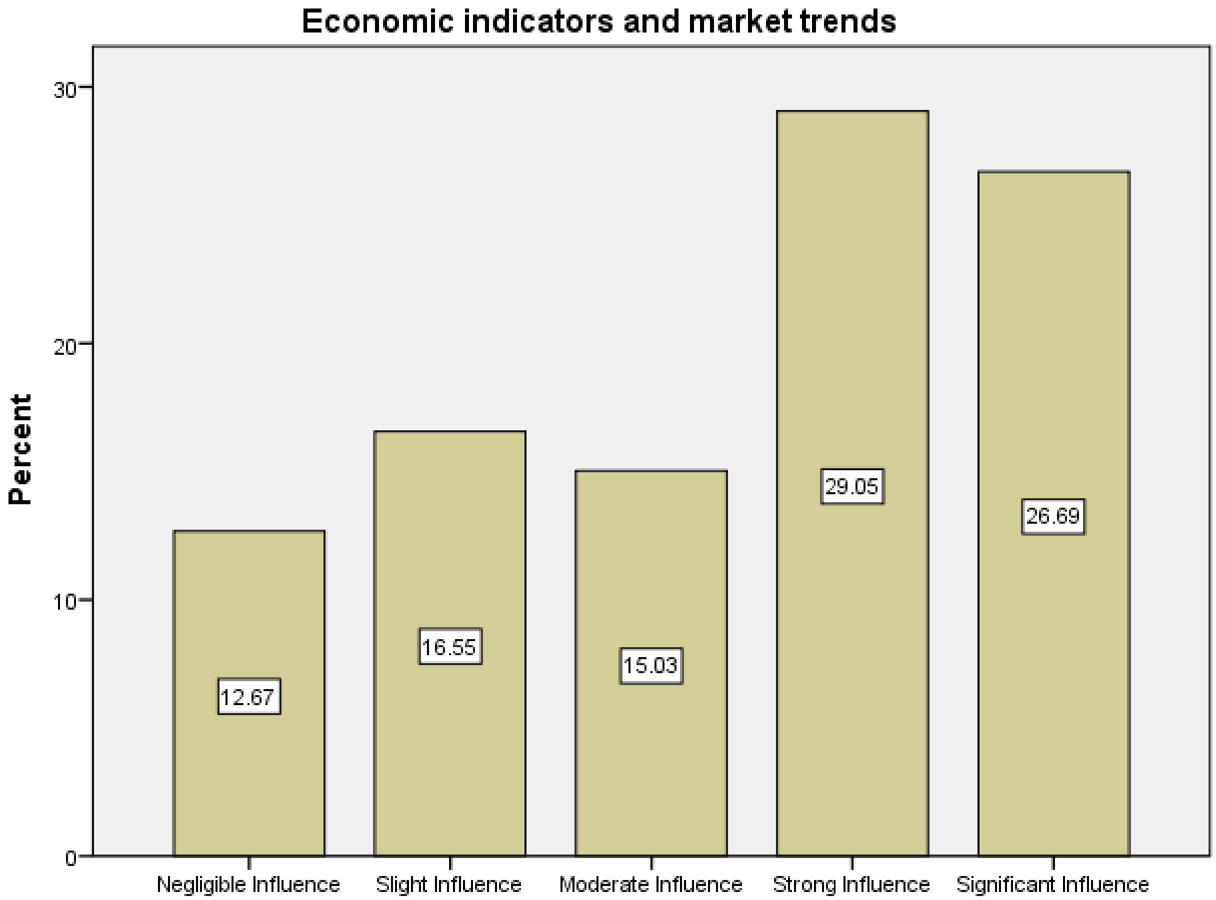
This section presents the other additional determinant factors that drive the investment decisions of individual retail investors in the NEPSE. Such as;

5.2.3.9.1 Economic indicators and market trends

Economic indicators and market trends are broadly divided into macro- and micro-economic environments, where factors such as political environment, economic environment, economic growth of the country, macroeconomic factors such as inflation, money supply, interest rates, and other factors such as overall stock market performance and market sentiment are considered.

Hence, in the case of this study, it was found that the majority of the respondents responded that economic indicators and market trends highly impact their investment decision-making process in the NEPSE (see Figure 5.15). Whereas with age group perspective, the higher age group above 50 years of age significantly influences their investment decision-making, whereas the lower age group shows less influence. With gender perspective, males are more influential than females. Whereas educational prospects above a bachelor's degree show more influence from economic indicators and market trends, similarly, business entrepreneurs and self-employed people are mostly influenced by other occupations.

Furthermore, individuals with more than three years of experience have a greater influence than individuals with less experience. Whereas married individuals are more highly influenced than unmarried individuals, Moreover, holding a portfolio size above NPR 1 million at NEPSE has more influence than holding a smaller portfolio. This means individuals with a higher level of financial literacy consider economic indicators and market trends as strong determinants before making investment decisions in the NEPSE market.



Source: Field Survey 2023
Figure 5.15: Economic indicators and market trends

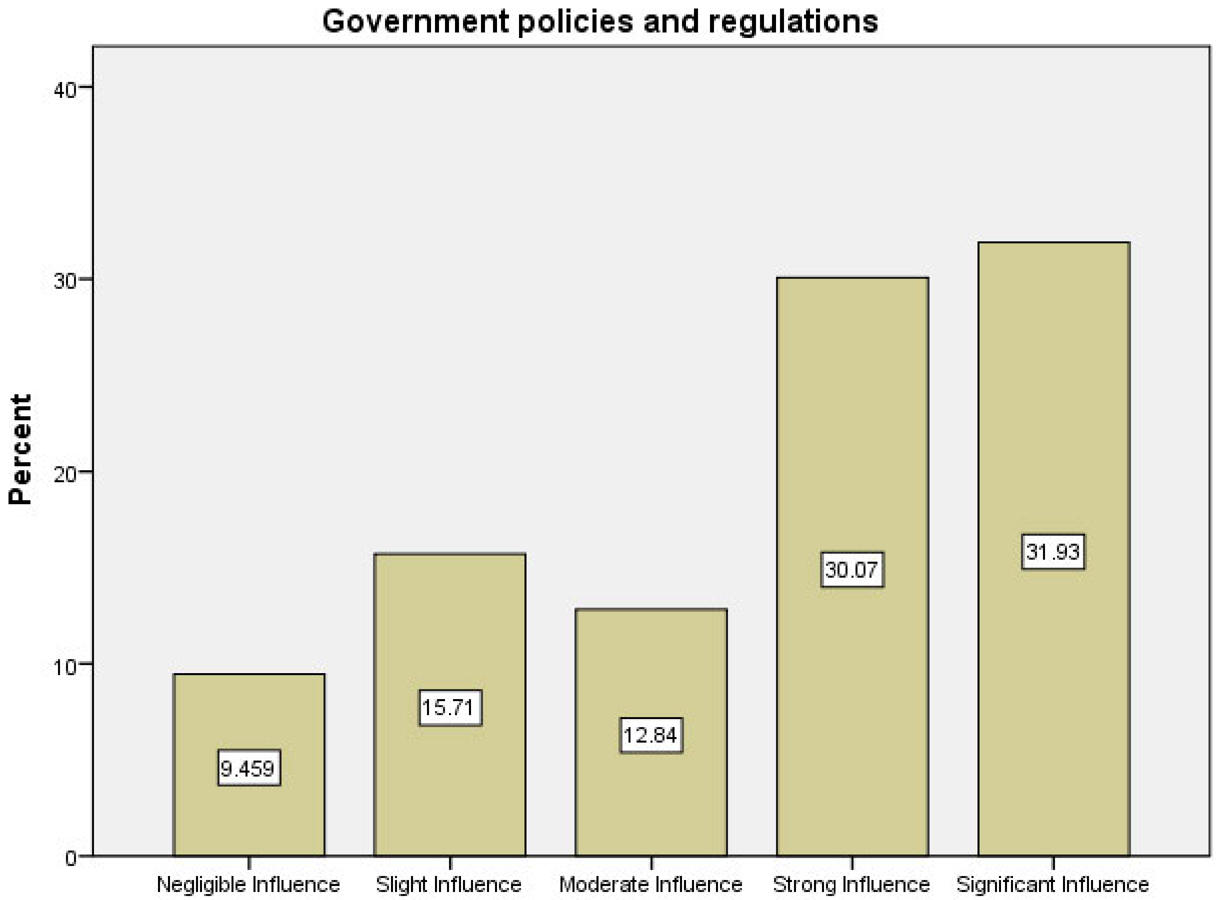
5.2.3.9.2 Government policies and regulations

Government policies, particularly fiscal policies and annual government budgets, wield substantial influence over the investment decisions of individuals on the Nepal Stock Exchange (NEPSE). The Nepal Rastra Bank (NRB), serving as the central bank, is a key player in shaping the investment landscape through the formulation and implementation of monetary policies. These policies, encompassing interest rates, reserve requirements, and liquidity management measures, directly impact the cost of borrowing, fund availability, and the attractiveness of investment prospects.

Moreover, regulatory policies enforced by entities like the Securities Board of Nepal (SEBON) and NEPSE are crucial for establishing a fair and equitable environment for all market participants. SEBON, functioning as the regulatory authority for Nepal's securities market, formulates and enforces regulations governing NEPSE. The study emphasizes how heavily government regulations and policies influence a sizable majority of respondents. This suggests that individual investors harbour a considerable level of scrutiny and concern regarding government policies.

Further analysis of demographic factors reveals intriguing patterns. Age appears to be a significant influencer, with higher age groups exhibiting a heightened sensitivity to government policies and regulations. Similarly, the influence is more pronounced among males, married individuals, and those with higher educational backgrounds and more experience in investment matters. Occupational status also plays a role, with business entrepreneurs and self-employed individuals showing a high degree of influence. Additionally, investors with larger portfolios exceeding NPR 1 million demonstrate a heightened sensitivity to government policies and regulatory actions.

In essence, this study underscores that government policies, both fiscal and monetary, along with regulatory frameworks, significantly shape the investment landscape in the NEPSE (figure 5.16). Understanding the nuanced impact of these policies on various demographic segments is crucial for devising targeted strategies that align with the diverse needs and concerns of individual investors in Nepal's dynamic financial markets.



Source: Field Survey 2023
Figure 5.16: Government policies and regulations

5.2.3.9.3 Company financial performance and fundamentals

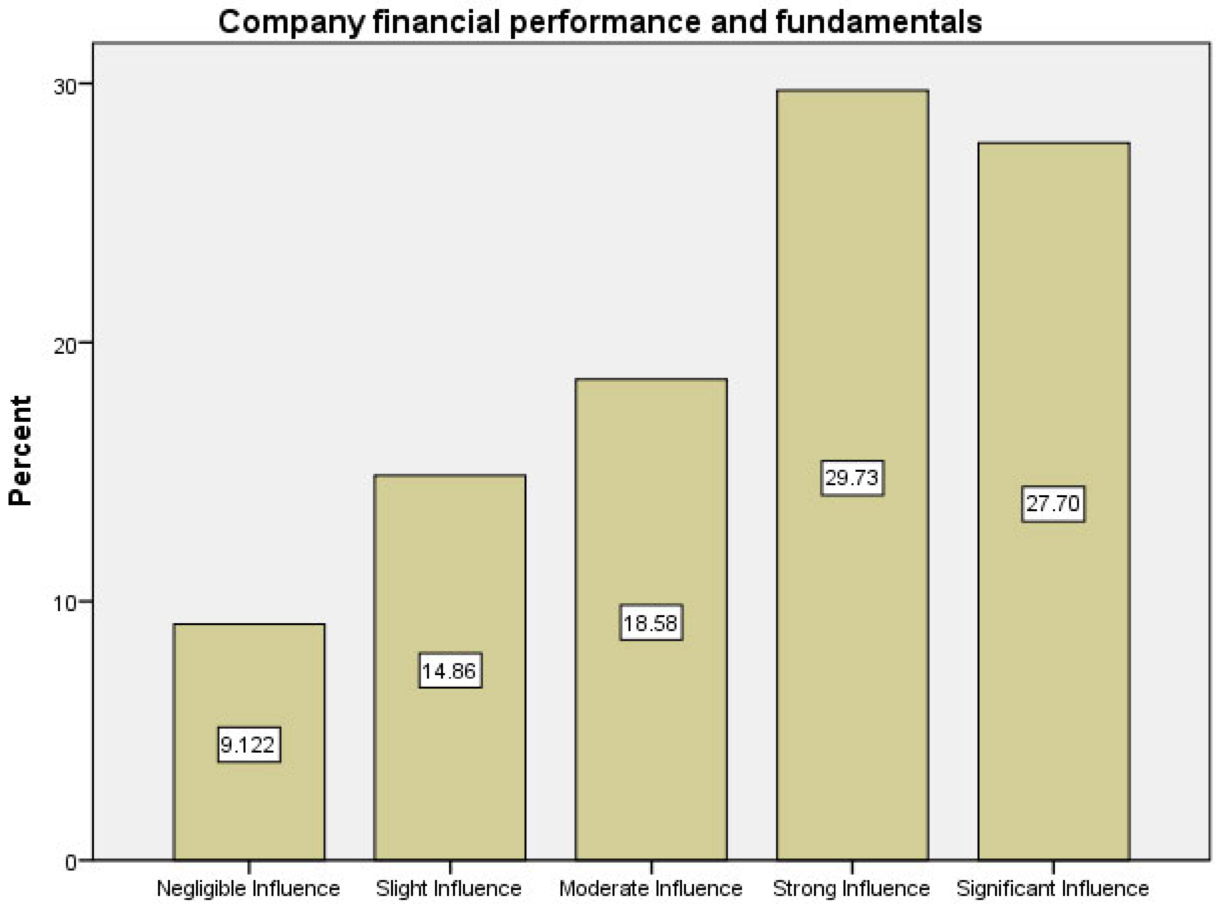
In the context of the Nepal Stock Exchange (NEPSE), company financial performance and fundamentals emerge as pivotal factors influencing investment decisions among individual investors. This study underscores the predominant influence of these considerations, signifying that investors recognise the significance of a company's financial health and fundamental indicators when making decisions related to investment or trading activities (see figure 5.17).

Breaking down the demographics, certain trends become evident. Higher age groups, male individuals, and married participants, particularly those with a robust educational background and substantial experience in NEPSE, exhibit a heightened reliance on a company's financial statements and performance metrics in shaping their investment decisions. This suggests that these groups are aware of the crucial role that a company's financial health plays in determining the attractiveness of an investment.

Occupation-wise, individuals categorised as self-employed, excluding those in business, demonstrate a notable reliance on a company's financial matters. On the other hand, those exclusively engaged in NEPSE trading and investing activities, along with employed individuals and business entrepreneurs, exhibit a comparable level of influence on financial performance and fundamentals when making investment decisions.

Interestingly, investors with a larger portfolio size, surpassing NPR 1 million, manifest a heightened dependence on the financial performance and fundamentals of companies. This suggests that investors with more substantial financial portfolios are more inclined towards investments in the secondary market. The correlation between larger portfolio sizes, extensive experience, and a preference for secondary market investments implies a higher level of financial literacy and understanding among this segment of investors.

In essence, the study illuminates the intricate interplay between demographic factors, investment preferences, and the acknowledgment of the pivotal role that a company's financial standing plays in the decision-making processes of individual investors in the NEPSE.



Source: Field Survey 2023
Figure 5.17: Company financial performance and fundamentals

5.2.3.9.4 Technical analysis of the particular stock and NEPSE index

The advent of digitalization has profoundly impacted various facets of people's lives, and similarly, technology has empowered individual investors to analyse historical data and make predictions for the future. In the context of this study, the influence of technical analysis on investment decisions at the Nepal Stock Exchange (NEPSE) is explored, revealing a moderate impact (see figure 5.18). This could be attributed to the fact that a significant portion of NEPSE investors are relatively new to the market and are in the learning phase, leading to a lower awareness of this aspect of investing activities.

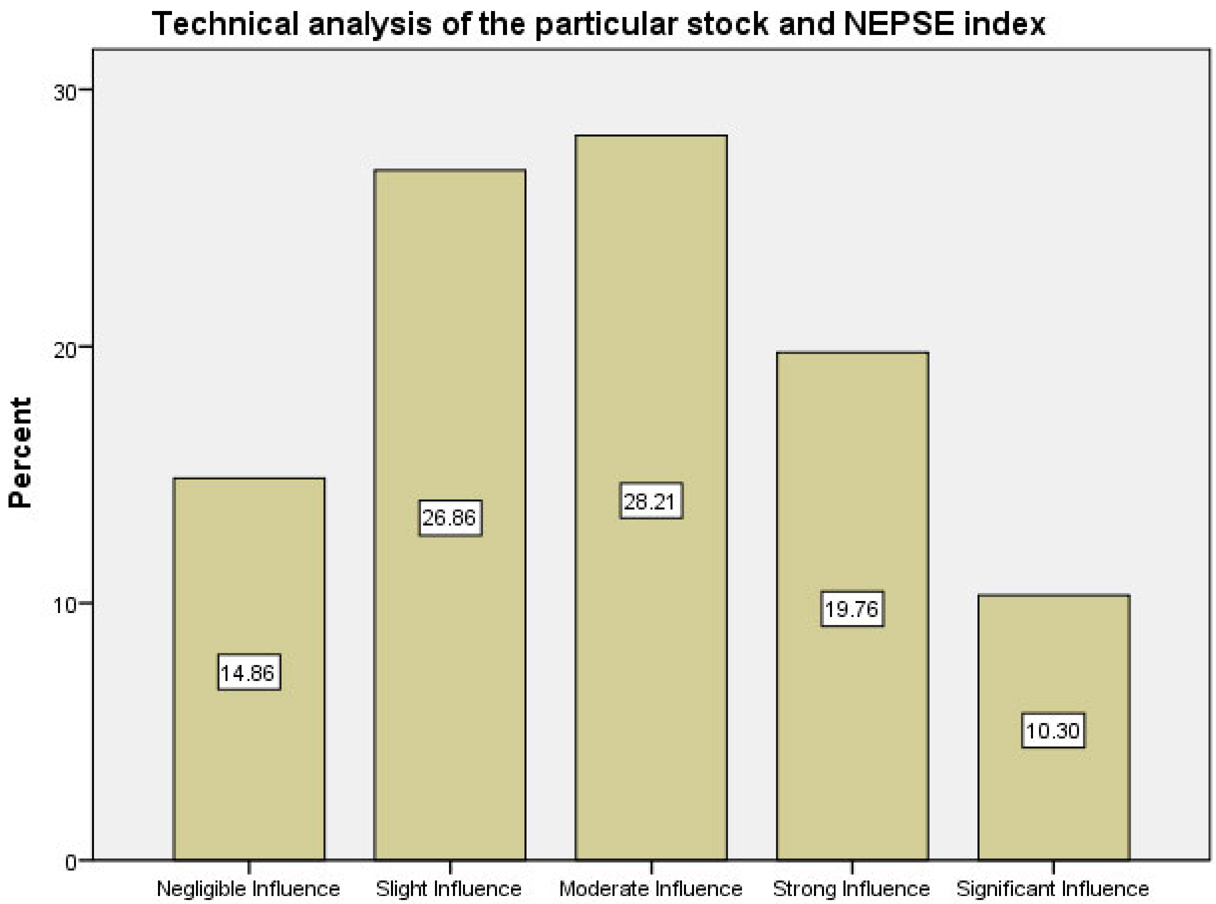
Examining the demographic perspectives, the study discerns interesting patterns. In terms of age, the younger demographic tends to rely more on technical aspects than their older counterparts. Gender-wise, males exhibit a higher reliance on technical analysis, and a similar trend is observed among individuals with lower educational backgrounds.

Notably, more experienced investors show a heightened reliance on technical analysis of specific stocks and the NEPSE index. This suggests that seasoned investors tend to consider a broader spectrum of market dynamics before making investment decisions, reflecting a more comprehensive understanding of market trends.

The marital status variable reveals that unmarried individuals place more reliance on technical aspects of analysis. Occupation-wise, employed individuals, those self-employed other than in business, and individuals solely involved in NEPSE investment and trading activities showcase a higher dependence on technical analysis for decision-making.

Moreover, investors with a larger portfolio size demonstrate a greater reliance on technical analysis. This implies that individuals with more substantial investment portfolios are inclined to delve into the technical intricacies of specific stocks and the NEPSE index, indicating a higher level of engagement and sophistication in their investment approach.

In summary, the study unveils nuanced relationships between demographic factors and the influence of technical analysis on investment decisions at the NEPSE. The findings underscore the impact of experience, age, gender, marital status, occupation, and portfolio size on the extent to which investors leverage technical analysis in their decision-making processes.

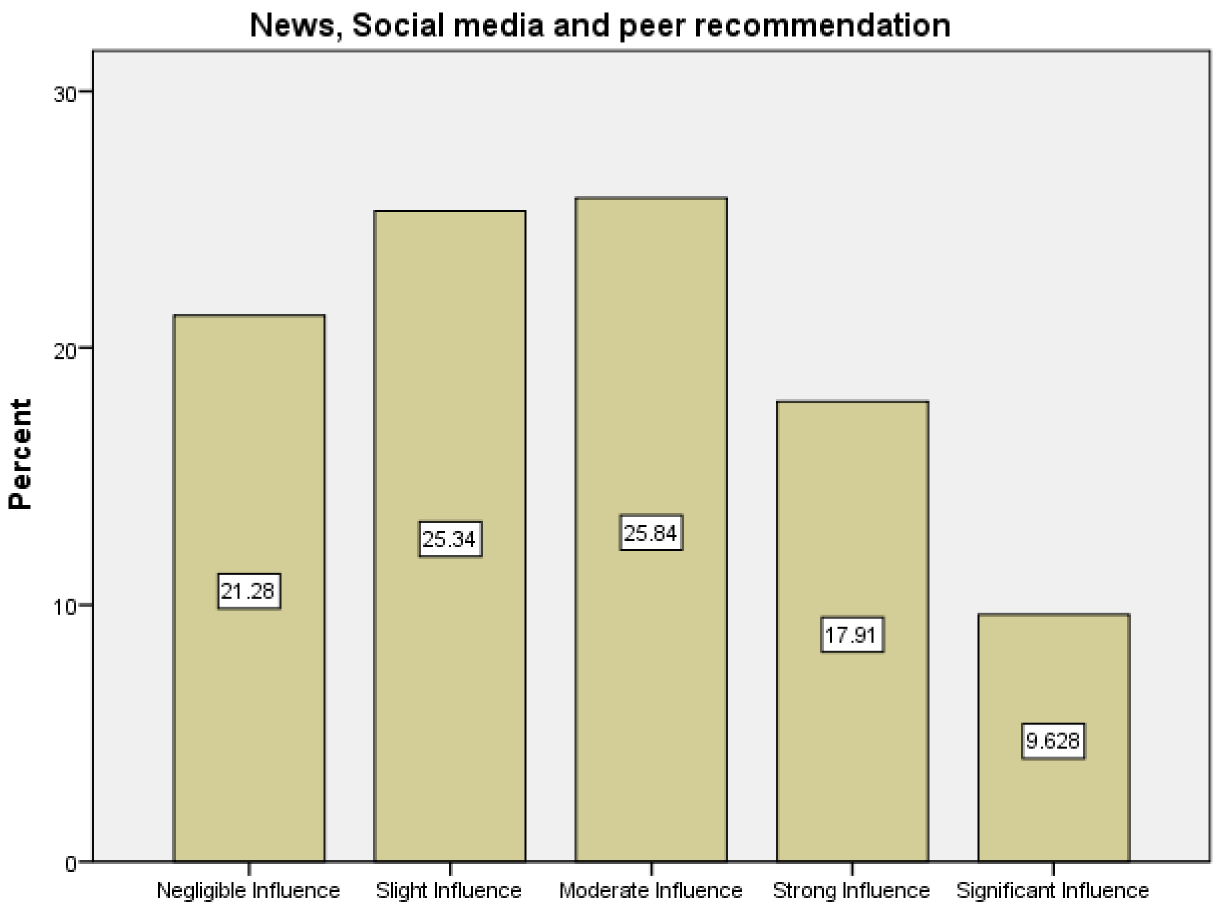


Source: Field Survey 2023

Figure 5.18: Technical analysis of the particular stock and NEPSE index

5.2.3.9.5 News, social media and peer recommendations

In the present economic context, the news media significantly influences individuals' perceptions of the world. Online news and social media have played a significant role in influencing people's perspectives recently. This evolving economic landscape has led to increased interconnectedness among people. As a result of this study, news, social media, and peer recommendations have a moderate influence on people's investment decisions due to how these factors interact with other determinants (see figure 5.19). Analysing this influence across demographics reveals that the middle-aged, females, those with lower educational backgrounds, less experienced individuals, unmarried individuals, and students are particularly susceptible to these informational sources when making investment decisions in the NEPSE market.

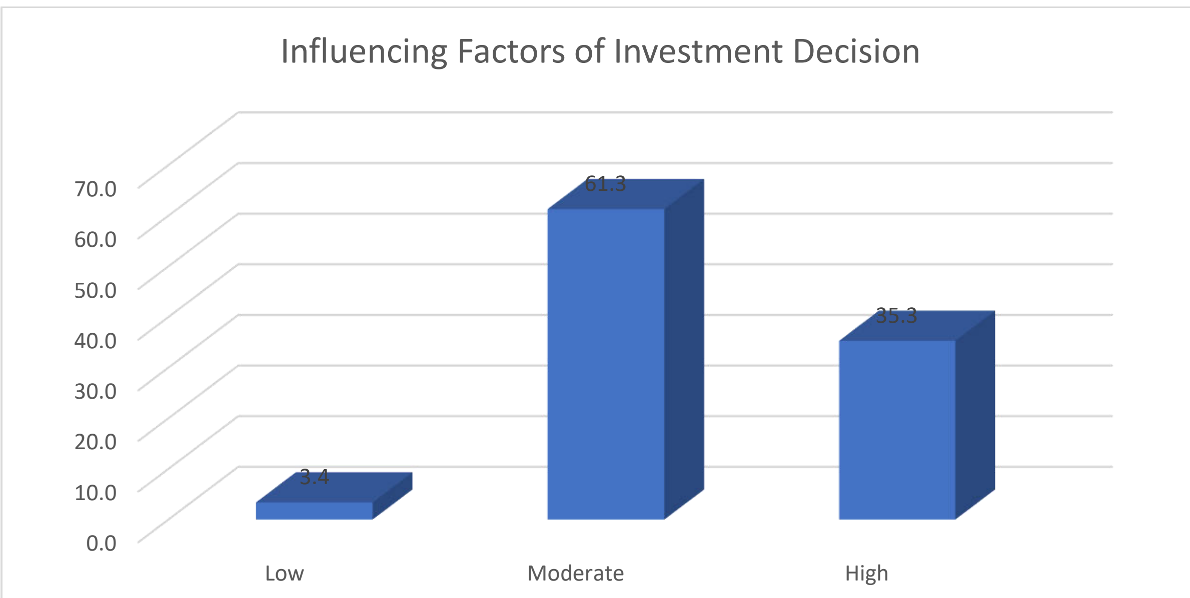


Source: Field Survey 2023

Figure 5.19: News, social media and peer recommendation

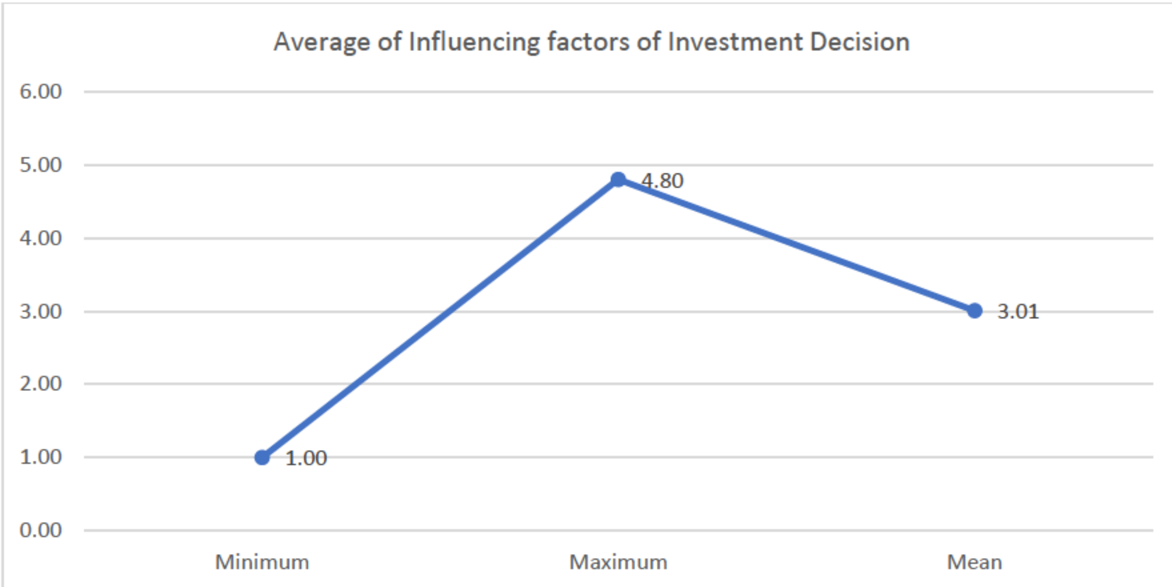
5.2.4 Overall summary of influencing factor on investment decision

The data depicted in Figure 5.20 below illustrates the total value of influencing factors on investment decisions. As discussed earlier, there are various factors that impact the investment decisions of individuals. According to the data, the majority of respondents (61.3%) indicated a moderate level of influence from various factors in their investment decision-making process. Additionally, 35.3% reported a high level of influence, while a very low percentage (3.4%) reported low influence. This distribution suggests that a significant proportion of individuals perceive a moderate impact from the factors considered in their investment decisions.



Source: Field Survey 2023

Figure 5.20: Overall influencing factors of investment decision



Source: Field Survey 2023

Figure 5.21: Average influencing factors of investment decision

The descriptive statistics of influencing factors on investment decisions reveal an average mean of 3.01, which corresponds to 62.7% of the maximum value of 4.80 (see figure 5.21). The data was assessed on a five-point Likert scale, ranging from 1 (low) to 5 (very high). To simplify the interpretation, the Likert scale values were recoded into three levels: low (up to 1.67), moderate (1.70 to 3.33), and high (above 3.33 to 5). Figure 5.21 illustrates that the average mean value is close to the moderate level, falling within the range of 1.70 to 3.33. This suggests that the influence of various factors on investment decisions is perceived to be at a moderate level by the respondents.

The data in Table 5.17 highlights associations between different demographic variables and various dimensions of investment decisions. When the P-value of the Pearson chi-square is less than 0.05, then there is a significant association. Notably, the study has found that there is a significant association between age groups and dimensions such as understanding Mero Share for IPO applications (Q19), understanding of the TMS platform for investment and trading (Q20), risk diversification in an investment portfolio (Q23), conducting own research before making investment decisions (Q25), seeking support from professional financial advisors and experts (Q26A), and seeking sources of information from friends and family (Q26E), factors considered before making investment decisions such as economic indicators and market trends (Q27A), government policies and regulations (Q27B), and news, social media, and peer recommendation (Q27E). However, there is no significant association between age groups and variables like reliance on seeking advice from friends and family (Q21), the influence of social media (Q22), and risk appetite for investment decisions (Q24).

Regarding gender, there is a significant association with (Q19), (Q20), (Q21), (Q23), (Q25), (Q26 D,E), and (Q27 A, B, E). However, there is no significant association with (Q22), (Q26A, B, C), and (Q24A, B, C, D).

Marital status shows no significant association with most investment decision dimensions, except for conducting your own research before making investment decisions.

In summary, experience, size of the investment portfolio, and occupation are significantly associated with a larger number of investment dimension variables, while education is associated with a smaller number of investment dimension variables. For detailed information, refer to Table 5.17.

Table 5. 17: Summary of association between value of Peason chi-square and investment decision dimension

Factor Influencing investment decision questions	Investment Decision Dimensions	Pearson Chi-Square Value						
		Age	Gender	Marital Status	Education	Ocupation	Experience	Portfolio Size
Q19	Understanding of mero share for IPO application	0.004	0.000	0.387	0.405	0.000	0.000	0.000
Q20	Understanding of TMS for trading and investment	0.000	0.000	0.590	.006	0.000	0.000	0.000
Q21	Seeking advice from friends and family	0.342	0.000	0.208	0.010	0.000	0.107	0.000
Q22	Influence by social media	0.180	0.060	0.017	0.206	0.011	0.013	0.033
Q23	Risk diversification in investment portfolio	0.001	0.000	0.030	.007	0.000	0.000	0.000
Q24	Risk appetite for investment decision	0.111	0.001	0.084	0.001	0.001	0.000	0.000
Q25	Conducting own research before making investment decision	0.004	0.000	0.003	0.000	0.000	0.000	0.000
Q26 (A)	Professional financial advisors and experts	0.005	0.056	0.593	0.000	0.000	0.000	0.410
Q26 (B)	Online business news portals and other websites	0.478	0.039	0.142	0.705	0.040	0.036	0.136
Q26 (C)	Company annual reports and financial statement	0.035	0.197	0.016	0.020	0.000	0.000	0.000

Q26 (D)	Social media platform and online investment forum	0.003	0.000	0.208	0.452	0.003	0.003	0.115
Q26 (E)	Recommendations from friends and family	0.000	0.002	0.190	0.312	0.000	0.035	0.000
Q27 (A)	Economic indicators and market trends	0.000	0.958	0.282	0.520	0.000	0.000	0.000
Q27 (B)	Government policies and regulations	0.000	0.181	0.025	0.296	0.000	0.000	0.000
Q27 (C)	Company financial performance and fundamentals	0.296	0.812	0.082	0.227	0.020	0.000	0.000
Q27 (D)	Technical analysis of the particular stock and NEPSE index	0.100	0.554	0.471	0.849	0.027	0.037	0.804
Q27 (E)	News, social media and peer recommendation	0.000	0.002	0.012	0.727	0.003	0.098	0.627

Source: Field Survey 2023

5.2.5 Relationship between financial literacy and the factors influencing the investment decision

The third objective centres on exploring and understanding the complex connection between financial literacy and the choices made by individual investors when it comes to investments in the Nepal Stock Exchange (NEPSE). The primary aim is to quantify the impact of financial literacy on the decisions made by individual investors. This goes beyond qualitative insights and seeks to assign numerical values to the influence of financial literacy factors on investment choices. To achieve this goal, the study employs a sophisticated statistical method known as multiple regression analysis (Arianti, 2018). This method allows researchers to analyse the relationship between multiple variables, in this case, various aspects of financial literacy and investment decisions.

The integration of multiple regression analysis serves as the bedrock for the study's findings. It offers a statistical foundation and a systematic and structured way to interpret and understand the interconnections between different elements of financial literacy and the outcomes of investment decisions. By using this statistical approach, the research aims to provide a deeper understanding of how various factors within financial literacy interact and contribute to the ultimate decisions made by individual investors in the NEPSE market. It is also an attempt to not only understand the relationship between financial literacy and investment decisions but to assign numerical values and weights to different aspects of financial literacy, providing a more rigorous and measurable analysis.

5.2.5.1 Influencing factor of financial literacy

The statistical value presented in Table 5.18 shows that the correlation coefficient ® value is .397 (39.7%), which denotes the strength and direction of the linear relationship between the dependent variable (financial literacy) and the independent variables (years of experience, gender, occupation, education, age, marital status, size of investment portfolio). Similarly, R square is .158 which denotes that independent variables can bring variation by 15.8% on dependent variables. As the value of adjusted R square (.145), the independent variables have explained by 14.5% on the dependent variable.

There is a statistically significant effect of independent variables on the dependent variable as the result of the ANOVA test because the p-value is .000 which is less than the .05 significant level. Similarly, the data presented under the individual coefficients for each predictor (age, gender, education, occupation, years of experience, marital status and size of investment portfolio) shows the effect of the individual independent variable on the dependent variable (Financial literacy). There is significant effect of education, size of investment portfolio and experience on financial literacy whereas there was no effect of age, gender, marital status and occupation.

Table 5. 18: Multiple regression analysis summary of financial literacy influencing factors

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.397[a]	.158	.145	2.13056

a. Predictors: (Constant), Education, Size of investment, Occupation, Gender, Marital Status, Experience, and Age group

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	389.726	7	55.675	12.265	.000[b]
	Residual	2078.997	458	4.539		Significant – less than 5% or .05
	Total	2468.723	465			

a. Dependent Variable: FL Total

b. Predictors: (Constant), Education, Size of investment portfolio, Occupation, Gender, Marital Status, Experience, and Age group

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.452	.813		3.017	.003
	Age	-.172	.168	-.061	-1.018	.309
	Gender	-.220	.268	-.037	-.823	.411
	Marital Status	.378	.243	.084	1.557	.120
	Occupation	-.071	.064	-.050	-1.112	.267
	Experience	1.166	.253	.246	4.608	.000
	Size of investment portfolio	.799	.242	.168	3.302	.001
	Education	.385	.115	.152	3.344	.001

a. Dependent Variable: FL_Total

Source: Field Survey 2023

5.2.5.2 Influencing factor of investment decision

The statistical value presented in Table 5.19 shows the effect of various demographic factors and financial literacy on the investment decision. The data shows that the correlation coefficient ® value is .341 (34.1%), which denotes the strength and direction of the linear relationship between the dependent variable (investment decision) and the independent variables (years of experience, gender, occupation, education, age, financial literacy, marital status and size of investment portfolio). Similarly, R square is .116 which denotes that independent variables can bring variation by 11.6% on dependent variables. As the value of adjusted R square is .101, which denotes that the dependent variable has been explained by 10.1% by the independent variables.

There is a statistically significant effect of independent variables on the dependent variable as the result of the ANOVA test because the p-value is .000 which is less than the .05 significant level. Similarly, the data presented under the individual coefficients for each predictor (age, gender, marital status, education, occupation, years of experience, size of investment portfolio and financial literacy) shows the effect of the individual independent variable on the dependent variable (investment decision). There is a significant effect of financial literacy only, whereas year of experience and size of investment portfolio have been considered significant but not quite significant because the p-value is below 0.010, whereas there is no effect of other demographic variables like age, marital status, gender, education, and occupation on investment decisions.

Table 5. 19: Multiple regression analysis summary of influencing factors of investment decisions

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.341[a]	.116	.101	9.75282

a. Predictors: (Constant), Financial Literacy, Marital Status, Education, Occupation, Gender, Size of investment portfolio, Experience, Age group

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5816.310	8	727.039	7.644	.000[b]
	Residual	44229.657	465	95.118		Significant – less than 5% or .05
	Total	50045.966	473			

a. Dependent Variable: Decision

b. Predictors: (Constant), Financial Literacy, Marital Status, Education, Occupation, Gender, Size of investment portfolio, Experience, Age group

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	31.289	3.744		8.358	.000
	Age	.451	.763	.036	.591	.555
	Gender	1.695	1.214	.064	1.397	.163
	Marital Status	1.374	1.098	.069	1.251	.212
	Occupation	.366	.291	.057	1.259	.209
	Experience	2.152	1.184	.102	1.818	.070
	Size of investment portfolio	1.971	1.112	.093	1.772	.077
	Education	.484	.520	.043	.931	.352
	Financial Literacy	3.210	.625	.241	5.138	.000

a. Dependent Variable: Decision

Source: Field Survey 2023

5.2.5.3 Correlation between financial literacy and investment decision

The correlation between the variables shows that there is a significant positive correlation between financial literacy and investment decisions because the p-value is .000 which is less than the .05 significant level. If there is a 1-point change in financial literacy level then it can bring the changes in investment decisions by .319 points. Similarly, there is a significant correlation between financial literacy and information source (r = .155, p = .000), financial literacy and influencing factors (r = .325, p = .000), understanding of the NEPE market (r = .251, p = .000) and so on (for more details see the table 5.20).

Table 5. 20: Correlation between financial literacy and investment decision

Correlations						
		Financial Literacy	Information source	Influence factor	Understanding Market	Investment Decision
Financial Literacy	Pearson Correlation	1	.155**	.325**	.251**	.319**
	Sig. (2-tailed)		.000	.000	.000	.000
Information Source	Pearson Correlation		1	.676**	.231**	.797**
	Sig. (2-tailed)			.000	.000	.000
Influence Factor	Pearson Correlation			1	.328**	.864**
	Sig. (2-tailed)				.000	.000
Understanding Market	Pearson Correlation				1	.676**
	Sig. (2-tailed)					.000
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Field Survey 2023

5.3 SECTION B: Qualitative Finding

The qualitative study findings are divided into two main sections: the characteristics of the participants involved in the semi-structured interviews, and the themes derived from the inductive thematic analysis. The themes and subthemes are presented alongside statements from the participants during the semi-structured interviews (for details, see Appendix 5.7). Additionally, the researcher (AB) provides own observations and evaluations based on the discussions during the interviews. To maintain clarity and organisation, each statement in the results section is associated with the identification number of the participant, such as "Semi-Structured interview participant number 10, #P10.

5.3.1 Participant Characteristics

The researcher conducted key informant interviews with a diverse set of stakeholders in the NEPSE, including the CEOs of a venture capital firm and a brokerage firm, a business journalist covering the NEPSE market, a banker, a certified accountant, a businessperson, an entrepreneur, a university lecturer, and a housewife. As the interviews progressed, the information gathered began to exhibit repetition, with respondents sharing similar experiences. Upon reaching this saturation point, the researcher concluded the interviews, totalling sixteen key informant interviews for the qualitative data. This approach aimed to ensure a representative sample that could offer comprehensive insights into the financial literacy and investment decisions of individual investors in the NEPSE. The participants' characteristics, including age, gender, education, occupation, and investment experience, were documented to capture the diversity within the sample (Appendix C).

5.3.2 Themes

Overall three main themes were drive which is divided into additional sub-themes to address the all three objective of the study (for details see the table 5.21)

Table 5. 21: List of themes with sub-themes

Themes	Name of the Themes
Theme 1	Main Theme: Financial literacy Sub-Theme: Understanding related to financial literacy among individual investors (in other words what is financial literacy) Sub-Theme: Level of Financial literacy among individual investors
Theme 2	Main Theme: Investment decision Influencing factor Sub-Theme: Social media Sub-Theme: Friends and Family Circle Sub-Theme: Government policies and regulation Sub-Theme: Economic Indicator and market trends Sub-Theme: Company Financial performance and fundamentals
Theme 3	Main Theme: Relationship between Financial literacy and Investment decision

5.3.2.1 Theme 1: Financial literacy among individual investors

The recurring themes extracted from the interviews revolve around the understanding of financial literacy and its assessment. Where the following sub-themes were generated, such as:

5.3.2.1.1 Understanding related to financial literacy among individual investors

During the interviews with experienced investors and traders in the NEPSE market, it became apparent that financial literacy is not necessarily linked to formal education. While having a strong educational background can be beneficial, it does not guarantee that an individual will have a high level of financial literacy. In fact, some individuals with no formal qualifications have demonstrated a strong understanding of financial concepts and have made successful investment decisions.

Financial literacy was defined by the majority of interviewees as having knowledge, understanding, and skills related to money management, including risk management. However, #P6, a banker, highlighted the importance of digital literacy in today's digital age, particularly in the context of the NEPSE market. With the increasing digitization of the economy, financial literacy must now include digital literacy, making it a more comprehensive concept.

Furthermore, #P10, the CEO of a brokerage firm, emphasised that individual investors who have a good understanding of NEPSE market financial instruments, economic indicators, market trends, regulations, and financial performance and statements, and who are aware of market sentiment, can be considered financially literate. However, financial literacy is a subjective concept, and there is no definitive answer for what constitutes financial literacy, as it can vary depending on the economic environment, culture, and place.

Interestingly, #P2, a business journalist, found that many individual investors in Nepal do not know what financial literacy means, yet they are able to make sound investment decisions on a daily basis. This suggests that financial literacy may not be limited to formal education but can also be learned through practical experience.

Supporting this argument, #P15, a housewife and NEPSE investor with over 7 years of experience, mentioned that she does not consider herself financially literate due to her limited academic qualifications. However, she has gained experience and knowledge through her investment practices and is able to make sound investment decisions in the NEPSE market. She emphasised that financial literacy includes multiple aspects of knowledge, skills, experience, risk management, and decision-making.

In conclusion, the study suggests that financial literacy is a complex and multifaceted concept that goes beyond formal education and includes practical knowledge, skills, and experiences related to money management and investment decisions. It is not a guarantee that having a higher educational background will result in higher levels of financial literacy. Instead, financial literacy can be learned and developed through a combination of formal education, practical experiences, and a willingness to continuously learn and adapt in the ever-changing world of finance.

5.3.2.1.2 Level of financial literacy among individual investors

The primary topic discussed during the interview was the degree of financial literacy among individual investors in the NEPSE market. All interviewees concurred that financial literacy plays a crucial role in making investment decisions. They also agreed that most individual investors lack the necessary financial literacy to make informed investment decisions.

According to #P3, a business journalist who has been covering the NEPSE market for the past decade and has conducted financial literacy training programmes for individual investors nationwide, most investors tend to rely on their close friends and family for investment advice. This reliance is attributed to their lack of financial literacy. He further emphasised that, due to this deficiency in financial literacy, individuals often seek advice from their close peers. He estimated that only 10% of individual investors make their investment decisions independently. This observation aligns with the findings from a qualitative survey study, which revealed that approximately 62% of individual investors possess knowledge about NEPSE investment and trading activities.

Another participant, #P10, noted that the digitalization and the limited investment opportunities during the COVID-19 period led many people to begin investing and trading. These individuals are new to the market, and to become successful traders or investors, they need both financial knowledge and market experience. Experienced investors have navigated both bullish and bearish market sentiments. With the influx of newcomers in the NEPSE market, people are learning, and as #P10 pointed out, individual investors, especially new ones with less experience, tend to have lower financial literacy.

Moreover, #P14, a university lecturer involved in NEPSE trading and investing activities for more than 7 years, shared his experience. He noted that in recent years, with the introduction of platforms like Mero Share and TMS, many students have become involved in NEPSE trading and investing activities, particularly in the primary market through IPOs. This trend indicates that, due to a lack of overall knowledge about the NEPSE market, students and other individual retail investors tend to prefer investing in the primary market. Additionally, in Nepal, most IPOs are oversubscribed because of regulatory provisions requiring a minimum allotment of 10 shares to the public, which creates high demand, therefore leading to a certain gain in a short period with less risk management required compared to the secondary market. Based on this observation, #P14 emphasised that a majority of individual investors lack financial knowledge when making investment and trading decisions in the NEPSE market.

Similarly, participant #P2, a business journalist, shared insights during the interviews, emphasising that a combination of financial knowledge and digital literacy, particularly in operating platforms like Mero Share for IPOs and the TMS platform for secondary market trading, is crucial for making informed trading and investment decisions in the NEPSE market.

In alignment with this perspective, #P11 highlighted that some housewives still visit brokerage firm offices regularly for their NEPSE investments. While these individuals possess a degree of financial literacy, their lack of digital literacy underscores the importance of both aspects for individuals to navigate and make sound investment decisions in the dynamic landscape of the NEPSE market.

A recurring theme that surfaced consistently in the interviews is the acknowledgment that a majority of individual retail investors in the NEPSE exhibit either a lower or moderate level of financial literacy. Participants commonly expressed the idea that investors with an extended tenure in the NEPSE tend to possess a superior comprehension of trading and investment dynamics. This increased understanding is attributed to the maturation of individuals over time, granting them a more profound insight into financial instruments, economic intricacies, and a nuanced comprehension of both the demand and supply dynamics within the financial market, including market sentiments.

5.3.2.2 Theme 2: Investment decision influencing factor

During the interview discussions, the main theme of influencing factors in relation to investment decisions in the NEPSE was explored, leading to the identification of several sub-themes. These sub-themes include:

5.3.2.2.1 Social media influences

Rumours in the market and information disseminated through social media platforms also impact investment decisions (Valle-Cruz et al., 2022). Investors pay attention to market rumours and speculation, which can shape their perception of a company's prospects. Positive rumours, such as potential mergers or acquisitions, new product launches, or favourable industry trends, may attract investors seeking opportunities for capital appreciation. Conversely, negative rumours or concerns about a company's financial difficulties, management issues, or regulatory challenges can deter investors from investing or prompt them to sell their holdings. Social media platforms have also become influential in shaping investor sentiment as individuals share their opinions, experiences, and investment recommendations (Sul et al., 2017; Valle-Cruz et al., 2022).

In the context of NEPSE investing, it has been observed that a significant number of individual retail investors with lower levels of financial literacy rely on social media platforms as their primary source of news and information instead of mainstream media. In recent day participants #5 states that *“platforms such as Viber groups, Facebook groups, and Clubhouse discussions have emerged as influential channels where investors engage in discussions and seek advice regarding investment decisions. Within these online communities, investors can exchange information, discuss market trends, and share their personal experiences with various investment opportunities in the NEPSE market. These social media platforms play a crucial role in shaping the investment strategies and choices of these individuals.”*

Furthermore, Participant #8 highlighted the increasing significance of YouTube as a *“major learning source for Nepalese individual investors, exerting a substantial influence on their investment decision-making processes at NEPSE.”* The presence of online content creators and financial educators on YouTube has enriched the platform with valuable information and insights about investing in the Nepalese stock market. Through a wide array of educational videos, market analysis, and expert opinions on investment strategies and opportunities, investors now have unprecedented access to financial knowledge. This accessibility has empowered individual investors, enabling them to make more informed and confident decisions when participating in the NEPSE. The democratization of financial education through YouTube has also contributed to the expansion of financial literacy and nurtured a culture of informed investing among the Nepalese population. As the popularity of YouTube as a learning platform continues to grow, its impact on the investment landscape at NEPSE is expected to remain significant, continuing to shape the investment decision-making process of individual investors at NEPSE.

Similarly, the reliance on social media for investment decision-making may expose individuals to bias and herd mentality. The influence of popular opinions and trends within these online communities can sway investment choices, potentially leading to speculative and uninformed decisions. However, it is important to acknowledge that while social media can provide a wealth of information and diverse perspectives, it also comes with inherent risks. The quality and reliability of the information shared on these platforms can vary significantly, as there is no strict regulation or oversight in place. Investors need to exercise caution and critically evaluate the credibility and accuracy of the information they come across.

It is essential for individual investors, particularly those with lower financial literacy levels, to supplement their social media exposure with a broader range of information sources. This includes engaging with mainstream media outlets and financial publications and seeking professional advice from certified financial advisors. By diversifying their sources of information, investors can gain a more well-rounded understanding of the market, make informed investment decisions, and mitigate the potential risks associated with relying solely on social media for investment guidance.

Upon the completion of semi-structured interviews, a noteworthy consensus emerged among the majority of participants regarding the factors influencing investment decision-making within NEPSE. This shared understanding is largely attributed to the pervasive influence of social media platforms like Clubhouse and YouTube.

The impact of social media on investment decisions was a recurring theme in the interviews, indicating its profound role in shaping participants' perspectives and choices. The accessibility and reach of platforms like Clubhouse and YouTube have facilitated the dissemination of investment-related information, strategies, and insights. As a result, participants reported being exposed to a consistent stream of educational content, discussions, and real-life experiences shared by experts, enthusiasts, and peers.

This heightened exposure to investment knowledge through social media has contributed to a level playing field in terms of understanding among the participants. Regardless of their individual backgrounds or prior financial knowledge, they have been able to access and absorb valuable information, leading to a convergence of understanding regarding the various factors influencing investment decisions in NEPSE.

While the impact of social media is undeniably positive in terms of democratising investment education, it also underscores the need for critical evaluation and discernment. Participants recognised the potential for misinformation and biassed perspectives in online content. As such, while social media has fostered a common level of understanding, participants also stressed the importance of verifying information and cross-referencing insights gained through these platforms.

Simultaneously, social media plays a role among various influencing factors in the investment decision-making process. According to #P10, individuals often turn to social media platforms for advice and suggestions, engaging in discussions related to investments. However, it is emphasised that, when it comes to making actual investment decisions, individuals take a comprehensive approach. They consider a multitude of factors, including company financial performance, financial statements, economic indicators, market trends, market sentiment, and the liquidity position of the market, among others, before arriving at a final decision. This highlights that while social media may contribute to information gathering and discussions, individuals rely on a more extensive set of criteria for their investment choices.

In conclusion, the influence of social media, particularly platforms like Clubhouse and YouTube, has played a pivotal role in establishing a shared level of understanding among NEPSE individual investors regarding the factors impacting their investment decisions. While this democratisation of knowledge is empowering, it highlights the dual responsibility of both investors and content creators to ensure the accuracy and reliability of the information shared, ultimately contributing to more informed and prudent investment practises.

5.3.2.2.2 Friends and Family Circle Influence

The influence of friends and family circles is a significant factor in investment decision-making at NEPSE. Individual investors often rely on the opinions, recommendations, and experiences shared within their social circles to guide their investment choices. The trust and familiarity associated with friends and family can greatly impact an individual's investment decisions, highlighting the importance of considering their influence when investing in the NEPSE market (Pandey et al., 2020). Individual Investors often value the experiences and successes of their friends and family, considering them as reliable sources of information. Moreover, the shared understanding of each other's financial goals and circumstances creates a level of empathy and relatability, making the advice more relatable and tailored to their specific needs (Nepali, 2018).

The influence of friends and family on investment decisions is not limited to mere recommendations. It extends to emotional support and encouragement, which can significantly impact an investor's confidence and motivation. By involving their close social circles, investors feel a sense of shared responsibility and accountability, as the outcomes of their investment choices can affect not only their financial well-being but also the relationships they hold dear. Further, the influence of friends and family can stem from a sense of trust, familiarity, and shared experiences. Individuals value the perspectives and recommendations of those they trust and rely on, especially when it comes to financial matters (Pandey et al., 2020). The recommendations and opinions of friends and family members are often considered as a form of social validation, providing reassurance and confidence in the investment choices being made. This reliance on friends and family in the decision-making process can be attributed to several factors, including limited financial knowledge or experience, a desire for shared success, and a sense of community and interconnectedness.

Again, when it comes to making investing decisions in NEPSE, there is a noticeable absence of a culture of seeking professional advice (Nepali, 2018). Instead, individuals tend to rely more on advice from friends and family. This preference for informal advice is supported by a participant #9 in the interviews, who revealed that,

"Approximately two-thirds of individual investors initially purchase stocks based on certain companies without conducting thorough research. Only when they start experiencing losses do they become concerned about their investments and begin to delve deeper into learning about investing. In contrast, about one-third of individual investors take a more prudent approach by conducting proper research and study before making any investment decisions at NEPSE."
This highlights the prevailing trend of informal advice-seeking and the varying levels of diligence among individual investors in the Nepalese investment landscape.

However, it is important to acknowledge that while friends and family can provide valuable insights and perspectives, they should not be the sole basis for investment decisions. Individual investors need to strike a balance between seeking advice from loved ones and conducting their own research, analysis, and due diligence. They should consider factors such as market trends, industry analysis, financial indicators, and risk assessment to make informed decisions that align with their financial goals and risk tolerance.

Furthermore, it is crucial for investors to continuously enhance their financial literacy and knowledge. By expanding their understanding of investment strategies, market dynamics, and risk management, investors can make more independent and informed decisions. This empowers them to not only rely on the opinions of friends and family but also consider a broader range of factors and expert advice (Adhikari, 2019).

In conclusion, the role of friends and family circles in the investment decision-making process of individual investors within the NEPSE cannot be underestimated. Their opinions and options play a significant role, in providing advice, emotional support, and a sense of shared responsibility. However, investors should strive for a balanced approach, combining the insights of their loved ones with independent research and analysis. By doing so, they can make informed investment decisions that align with their financial goals and increase their chances of success in the dynamic and evolving NEPSE market.

5.3.2.2.3 Government policies and regulations

The findings of the study indicate that government policies, particularly regulatory policies, play a significant role in the financial literacy and investment decision-making processes of individual investors in the NEPSE market. Regulatory policies play a crucial role as one of the major determinants for individual investors (Shrestha & Subedi, 2014). Regulatory policies serve as guidelines and frameworks that aim to ensure fairness, transparency, and stability within the stock market. These policies are designed to protect the interests of investors, maintain market integrity, and promote investor confidence (Chalise, 2020). The regulatory landscape, consisting of entities such as the Nepal Rastra Bank (NRB), the Ministry of Finance, Nepal Stock Exchange (NEPSE), and the Securities Board of Nepal (SEBON), has a significant impact on the investment environment and decision-making of individual investors.

The regulatory policies implemented by governing bodies such as the Securities Board of Nepal (SEBON) and the Nepal Stock Exchange (NEPSE) are instrumental in establishing a level playing field for all market participants. The Securities Board of Nepal (SEBON) is the regulatory authority responsible for overseeing and regulating the securities market in Nepal. SEBON plays a pivotal role in formulating and enforcing regulations that govern NEPSE. These policies encompass various aspects of the investment process, including listing requirements for companies, disclosure obligations, trading rules, market surveillance, and investor protection measures. SEBON's regulatory policies are designed to ensure transparency, fairness, and integrity in the market, providing a secure environment for individual investors to participate (SEBON, 2023).

The Ministry of Finance plays a critical role in formulating fiscal policies that shape the economic environment and investment climate. Fiscal policies encompass tax regulations, government spending, budget allocations, and incentives provided to various sectors (Niraula, 2022). These policies have a direct impact on corporate profitability, investor returns, and the overall investment attractiveness of NEPSE. Understanding fiscal policies is essential for individual investors to assess the potential risks and rewards associated with their investments.

The Nepal Rastra Bank (NRB), as the central bank of Nepal, formulates and implements monetary policies that influence various aspects of the investment landscape. Monetary policies, including interest rates, reserve requirements, and liquidity management measures, affect the overall cost of borrowing, the availability of funds, and the attractiveness of investment opportunities (Shrestha & Subedi, 2014). Changes in monetary policy can directly impact the investment decisions and strategies of individual investors operating in the NEPSE. Investors assess the potential effects of monetary policy on various asset classes and adjust their investment strategies accordingly. For example, lower interest rates may encourage investors to seek higher returns in the stock market, while tightening monetary policy may prompt a shift towards fixed-income investments.

Furthermore, the coordination between monetary policy, fiscal policy, and regulatory measures is crucial to maintaining stability and sustainable growth in the NEPSE (Chalise, 2020). Alignment between these entities ensures that the investment environment remains conducive to investor confidence. The coordination aims to create a level playing field for individual investors, protect their rights, and promote a healthy investment culture.

For individual investors, understanding and staying informed about the regulatory policies set by entities such as the NRB, NEPSE, SEBON, and fiscal authorities is essential. It enables investors to assess the potential impact of these policies on their investment decisions, identify risks and opportunities, and make informed choices. The regulatory policies implemented by entities such as the NRB through monetary policy, the Ministry of Finance through fiscal policy, and SEBON are key determinants that significantly influence the investment landscape for individual investors in NEPSE. These policies shape the investment environment, impact market conditions, and provide a framework for fair and transparent market operations (Niraula, 2022). Understanding and considering these regulatory policies is crucial for individual investors to make informed decisions and navigate the NEPSE effectively.

For individual investors, regulatory policies provide a sense of security and trust in the market. They help establish a robust regulatory framework that safeguards investors' rights and interests. By enforcing standards and regulations, these policies contribute to maintaining market integrity and preventing fraudulent activities. Regulatory policies also play a crucial role in ensuring market stability and preventing excessive volatility. Measures such as circuit breakers, trading halts, and market surveillance mechanisms are implemented to manage risks and maintain orderly trading conditions. These policies aim to protect investors from sudden market disruptions and extreme price fluctuations. The chart below summaries some of the participants statement during semi-structured interviews process.

Participant #11 emphasised a significant development that the Securities Board of Nepal (SEBON) has brought about since April 2019. This development entails *"the introduction of a provision ensuring the minimum allotment of 10 shares to each individual investor who applies for an Initial Public Offering (IPO) in the primary market".* This regulatory provision has had a transformative effect by democratising investment opportunities and making them accessible to a wider range of individuals. Since its implementation, this provision has attracted a substantial increase in participation. Notably, in January 2021, the Nepal Infrastructure Bank Limited (NIFR) issued a historic IPO of 8,00,00,000 units of shares to the general public, marking one of the largest IPOs in NEPSE history. Importantly, every applicant for this IPO received a minimum of 50 shares, fostering strong encouragement for individual investors to engage in NEPSE (NEPSE, 2023). This provision of a minimum allotment of 10 shares has become a pivotal factor in drawing a larger and more diverse population into the market. By guaranteeing this minimum allotment, SEBON's regulation has succeeded in enabling investors with smaller investments to confidently enter the realm of share market participation.

Participant #4's insights further support above claim. He mentions that NEPSE often remains undecided or in a sideways mode leading up to the announcement of central bank monetary policies. This observation suggests that as individual investors become more aware and financially literate, they closely monitor regulatory policy changes.

Participant #4 further reinforces this point by highlighting an incident in August 2021. During this time, NEPSE reached an all-time high of approximately above 3200 points. However, the *"central bank introduced changes to borrowing provisions related to share loans, directly* *impacting larger volume traders and investors. As a result, NEPSE started to decline and entered a bearish trend, ultimately dropping to around 1800 points within a year".*

The contribution of participant #12 supports participant #4's claim that regulatory policies have an impact on how individual investors make investment decisions at NEPSE. Participant #12 mentions that when NEPSE reached its all-time high, the Securities Board of Nepal (SEBON) *"issued a list of companies that were deemed overvalued".* The regulatory board compiled this list based on abnormal percentage gains in stock prices, considering the companies' current financial health. These stocks had experienced gains exceeding 300% within a short period, possessed a price-to-earnings (P/E) ratio higher than 100, and exhibited other factors indicating potential overvaluation. In response, the board urged investors to exercise caution and advised them to analyse the financials of the companies before making investment decisions.

SEBON's objective in releasing this list was to discourage investment based on rumours or stock tips and encourage investors to make informed decisions based on thorough financial analysis. The board emphasised that the stability and sustainability of the capital market depend on investor confidence. By promoting informed financial decision-making, SEBON aimed to foster stability in the market and prevent speculative activities that could lead to market instability.

The involvement of regulatory bodies such as SEBON in monitoring and regulating market activities demonstrates the significant role that regulatory policies play in shaping individual investors' investment decisions. These policies aim to protect investors' interests, promote market transparency, and ensure a fair and stable investment environment.

Overall, participant #12's statement highlights the importance of regulatory measures in guiding investors towards informed financial decisions, reinforcing the influence of regulatory policies on individual investors' investment decision-making processes at NEPSE.

This example provides strong evidence of the significant impact that regulatory policies have on investors' investment decision-making processes. The regulatory changes directly influenced market dynamics, causing a shift in investor sentiment and leading to substantial market movements.

It is evident that individual investors closely monitor and respond to regulatory policy changes, indicating their growing awareness and financial literacy. As they become more knowledgeable about the impact of government policies on the NEPSE market, investors incorporate this information into their investment strategies and decision-making processes. Thus, regulatory policies play a crucial role in shaping individual investors' investment decisions, underscoring the importance of considering such policies in the overall financial literacy framework.

5.3.2.2.4 Economic Indicators and market trends

During the interviews with the participants, the study found that individual investors consider economic indicators and market trends, which include such things as GDP, political stability, inflation rate, interest rate, monetary policies, market sentiment, and industry trends. #P5 mentioned that in the realm of individual investor investment decision-making at NEPSE, the impact of market interest rates plays a significant role. Historical evidence suggests that when interest rates are low and liquidity in the market is readily available, NEPSE tends to perform well, resulting in increased participation in stock investment activities by individual investors. There is a direct relationship between interest rates, market liquidity, and stock market participation (Prajapati, 2021).

When interest rates are low, borrowing costs decrease, making it more affordable for individuals to invest in stocks. Lower interest rates incentivize investors to seek higher returns, and the stock market often becomes an attractive option (Hung & Ma, 2017). The prospect of earning higher returns on investments in the stock market can entice individual investors to allocate a larger portion of their funds towards stock investments.

Furthermore, low interest rates can lead to increased liquidity in the market. When borrowing costs are low, individuals and institutions may be more inclined to borrow funds to invest in stocks or other investment vehicles. This influx of liquidity can contribute to overall positive market sentiment, driving stock prices higher and creating a favourable investment environment for individual investors (Chordia et al., 2001).

Conversely, when interest rates rise, borrowing costs increase, which can dampen individual investors' enthusiasm for stock market participation. Higher interest rates make borrowing more expensive, reducing the appeal of investing in stocks. As a result, individual investors may allocate their funds to other investment options that offer higher yields or lower risks in relation to the prevailing interest rates (Zhang & Deng, 2020).

It is crucial to keep in mind that the relationship between interest rates and stock market participation is not constant and is subject to a variety of other variables, such as market dynamics, investor sentiment, and economic conditions. However, the historical evidence suggests that interest rates play a significant role in shaping the investment decisions of individual investors at NEPSE (Prajapati, 2021). As interest rates fluctuate, it is crucial for individual investors to consider the prevailing market conditions and their impact on investment opportunities and risks within the stock market.

Market liquidity holds pivotal importance within financial markets, carrying substantial implications for investors, scholars, and regulatory bodies. It's noteworthy that a lack of liquidity has frequently been identified as a central catalyst behind financial crises, as evidenced during the global financial turmoil of 2007–2009 (Rösch & Kaserer, 2014). Historically, emerging markets have generally exhibited lower liquidity levels in comparison to their more developed counterparts (Fong et al., 2017). Nevertheless, this paradigm may have changed as these markets have progressively integrated with the global financial landscape (Ma et al., 2018).

In the context of Nepal, the level of market liquidity stands as a critical determinant, intertwined with the financial literacy of individual investors. #P10 refers when a thorough examination of the past three decades of the Nepal Stock Exchange's (NEPSE) performance reveals a recurrent pattern: when there is an abundant supply of liquidity in the market, NEPSE tends to perform exceptionally well. This trend was notably prominent during the COVID-19 pandemic in 2020 and 2021. During this period, given the limited alternative investment avenues, NEPSE witnessed an unprecedented upsurge in its performance. In a mere 14 months, NEPSE surged from 1150 points to an impressive 3200 points. This rapid transformation serves as a compelling testament to the profound impact of liquidity shortages on the Nepalese capital market (World Bank, 2022).

Furthermore, regarding the relationship between interest rates and investment decisions in NEPSE, participant #13 and #7 shares their perspective. They note that *" before 2013, there was an inverse correlation between interest rates and NEPSE. Drawing from their own experience and knowledge gained from investing in NEPSE for the past 20 years, they observed that NEPSE continued to rise even when market interest rates were high. This suggests that during that time, market interest rates were not a major factor in NEPSE's performance.*

However, after 2013, participants #13 and #7 noticed a direct correlation between market interest rates and NEPSE. They found that interest rates became a significant determinant factor influencing the overall performance of NEPSE. The participant attributes this shift to the increasing number of individual investors and their changing investing habits."

According to the participant #13 and #7, *"Before 2013, there were only a few thousand individual investors in NEPSE. However, in recent years, due to greater financial awareness and increased access to financial tools and knowledge, the market has matured, and the number of participants has grown from a couple of thousands to millions. These individual investors are more knowledgeable about financial risks, rewards, and the macroeconomic and microeconomic environment. As a result, many individual investors consider interest rates when making investment decisions. This participant's observations indicate a positive correlation between interest rates and NEPSE."* According to a study by Hung and Ma (2017); Van Rooij et al. (2011), which also supports this viewpoint, interest rates play a significant role in capital market investments on a global scale. When there is sufficient liquidity in the market, the capital market tends to outperform under normal economic conditions.

Likewise, Participant #12 and #14 highlight an interesting perspective on the relationship between inflation and interest rates and its impact on individual investors. They note that *"in the past, many individual investors did not pay much attention to inflation as a driving factor behind interest rates. However, in recent times, particularly in the aftermath of the COVID-19 pandemic, there has been a growing awareness of the cost-of-living crisis and the prominent discussions around inflation and interest rates in mainstream and social media."*

This increased attention has led people to realise the strong correlation between inflation and interest rates. More experienced and mature investors, who are well-versed in the intricacies of the investment landscape, now base their decisions on changing macroeconomic factors such as inflation and market interest rates. As a result, a significant number of individuals have become curious about the decisions made by central banks regarding monetary policy.

In context of Nepal, participant #15 and #16 raises concerns about the *"manipulation of bank interest rates by higher management",* particularly CEOs and board members, and the involvement of corporate houses in obtaining loans at manipulated rates. According to these participants, such unethical practises have had negative consequences for common people. However, participant #5 and #6, who are a professional banker, disagrees with this viewpoint. Based on their experience working in the banking sector, they explain that the *"determination of bank interest rates involves multiple layers of decision-making and follows certain procedures and standards".* Participant #5 and #6 argue that it is not easy for top management, such as CEOs, to manipulate interest rates for the benefit of a specific group of people.

Participant #3 also highlights the *"impact of government spending habits on banking liquidity"* in Nepal. He explains that irregular spending by the government, often concentrated at the end of the fiscal year, creates imbalances in liquidity availability. This, in turn, affects the stability and predictability of bank interest rates. Also, Participant #3 suggests that the *"irregular government payment patterns and resulting unbalanced liquidity pose a systematic risk and create uncertainty in the market interest rate."* The participant highlights that when the government engages in large-scale payments towards the end of the fiscal year, it disrupts the liquidity balance in the market. This imbalance in liquidity availability can have implications for the stability and predictability of market interest rates.

The participant's perspective sheds light on the potential risks and challenges associated with government payment patterns and their impact on market conditions. Fluctuating liquidity levels can introduce uncertainty and make it difficult to determine the direction of market interest rates. This uncertainty can have implications for various market participants, including individual investors who rely on stable and predictable interest rates for their investment decisions.

By identifying the systematic risk and uncertainty associated with government payment patterns, the participant highlights the need for a more balanced and predictable liquidity environment. This insight can inform discussions on improving liquidity management practises and ensuring greater stability in market interest rates. Addressing these concerns may contribute to a more conducive and predictable investment environment for individual investors in NEPSE. These fluctuations in bank interest rates can have an impact on individual investors in NEPSE.

5.3.2.2.5 Company Financial performance and fundamentals

The financial performance and fundamentals of a company play a crucial role in shaping the investment decisions of individual investors in the stock market. Key factors in this determination include aspects like revenue growth, profitability, financial health, cash flow, return on equity (ROE), return on assets, dividend yield, earnings per share (EPS), corporate governance, management team, and valuation (Babalola & Abiola, 2013; Fawzi et al., 2015; Lin et al., 2011). The evaluation of a company's valuation involves assessing its price-to-earnings (P/E) ratio, price-to-book (P/B) ratio, and enterprise value-to-EBITDA (EV/EBITDA) ratio (Feroz et al., 2003). A company exhibiting a reasonable valuation compared to its peers and industry average is generally considered a positive indicator, influencing the investment decisions of individual investors.

A recurring theme from the interviews highlights the significance of company financial performance and fundamentals as determinant factors in the investment decision-making process within the NEPSE. However, #P10's perspective introduces a nuanced dimension, indicating that not all individual investors possess a comprehensive understanding of company financial performance and fundamentals. This observation underscores a prevalent gap in financial literacy among the majority of investors. Additionally, #P4 adds depth to the discussion by noting that seasoned investors who have been engaged with the NEPSE for an extended period tend to have a better grasp of analysing company financial statements and gauging future growth prospects. In contrast, newcomers in the investment arena are inclined towards the primary market, where risk management is perceived to be less challenging. This distinction in approach and knowledge levels emphasises the importance of addressing financial literacy gaps among individual investors to enhance their capacity for informed decision-making in the NEPSE.

Moreover, #P1 underscores the critical importance of analysing the fundamental aspects of a company, particularly in navigating the inherent volatility of the stock market. In the short run, share prices may experience fluctuations, but a company that is fundamentally robust—with substantial revenue growth, a healthy cash flow, and a capable management team—holds the potential for long-term success and attractive returns for investors. Drawing on personal experience, #P1 notes a shift in investor behaviour over recent years. Historically, investors sought opportunities with a longer-term horizon, holding onto stocks for 2–3 years. However, the advent of digitalization in NEPSE has markedly transformed this landscape. The introduction of online trading platforms and advanced technical analysis tools has democratised trading activities, empowering individuals to analyse market trends, monitor stock performance, and execute trades conveniently from their devices. This shift in accessibility and convenience has not only contributed to a surge in individual investors but has also reshaped their trading patterns in the NEPSE market.

The observable shift in investor behaviour towards active trading rather than long-term investing is supported by the perspectives of participants #12 and #3. They highlight that individual investors have become increasingly adept at comprehending both the fundamental and technical aspects of stocks. Armed with enhanced knowledge and skills, these investors can analyse market trends, scrutinise company financials, and consider other relevant factors influencing stock prices. The summarised statements from participants highlight a substantial shift in the mindset of individual investors. There is now a heightened inclination to exploit profitable opportunities in a market recognised for its inherent unpredictability and rapid changes. This proactive approach involves investors keenly monitoring their investments and promptly capitalising on upward movements in stock prices to secure profits.

The discernible shift towards active trading signifies a noteworthy change in the mindset of individual investors in NEPSE. No longer solely fixated on long-term investments, they are now actively participating in short-term trading to capitalise on market fluctuations. Through vigilant monitoring of market trends and the application of analytical skills, these investors seek to optimise returns while navigating the dynamic nature of the stock market.

Moreover, there has been a transformation in the factors influencing investment decisions. In the past, investors primarily considered elements like a company's dividend payout, right share issue, and bonus share issue. However, this trend is evolving with increased financial awareness and experience. According to #P11, who brings insight from substantial experience and a longer-term, large investment portfolio, dividends are viewed as a myth in the stock market. They argue that dividends cater more to those with limited knowledge and understanding of stock market investments. Many retail investors, according to #P11, lack a clear understanding of the distinction between dividend payout and dividend yield.

Another significant shift in perspective relates to risk and return. While some investors prefer the perceived safety of fixed savings accounts, they might not fully grasp that, due to inflation, the purchasing power of cash diminishes annually. Therefore, investing in fundamentally strong and growth-potential companies can offer higher returns compared to other asset classes. This shift in approach underscores the need for sufficient and appropriate financial knowledge for effective decision-making in capital markets like NEPSE.

5.3.2.3 Theme 3: Relationship between Financial literacy and Investment decision

The connection between financial literacy and investment decisions in the NEPSE market was a recurring theme among interview participants. All participants agreed that individuals with financial literacy are more likely to make informed investment decisions. Participant #P15, a housewife, shared her experience of juggling family responsibilities and investing. She mentioned that she tries to learn about the companies she wants to invest in whenever she has time. However, due to her limited education and understanding, she is unable to make decisions independently. She believes that if she were financially literate, she could manage her investment portfolio more wisely. This suggests that investors like her understand how financial literacy can influence their investment decisions.

She also emphasized that risk management is crucial in capital markets like NEPSE, along with an understanding of the economy, market sensitivity, liquidity, and interest rates. She insisted that financial literacy is a form of knowledge that allows individuals to collectively incorporate all information related to financial products or services for sound investment decision-making. Therefore, she believes there is a direct relationship between financial literacy and investment decision-making, as these two factors are interconnected.

In the context of individual investors in the NEPSE market, she observed that long-term investors who have been in the market for several years have a better understanding of the NEPSE market than newcomers. However, she pointed out that even if a person is new to the market if they regularly gather information and stay updated on the economy, market sentiment, and company fundamentals, they should be able to make better investment decisions and mitigate risk.

Another participant, #P6, observed that many individual investors tend to make investment decisions based on market rumours without conducting thorough research and analysis. This behaviour indicates a lack of financial literacy. A financially literate person, on the other hand, would typically conduct their research and investigation before making any investment decisions.

In support of this observation, participant #P12 shared that most of his friends seek his advice before investing. He believes that financially literate individuals rarely seek advice from others. While they may gather information and discuss matters, when it comes to making investment decisions, particularly in markets like NEPSE, they prefer to conduct their research.

Therefore, participant #P12 concluded that many individual investors in NEPSE are still in the learning phase. Many people are unaware of what financial literacy is and its importance. Furthermore, the participant criticizes government regulatory bodies for not adequately fulfilling their responsibility to raise awareness and educate people, highlighting a deficiency in common-sense investment in financial literacy and human capital.

Furthermore, #P11 shared his experiences where many individual investors frequently approached him with a common inquiry—seeking advice on which stocks to purchase in the NEPSE market. Although #P11 sometimes provided information based on particular stocks, he expressed a consistent concern that nobody in the market is an absolute expert. Consequently, he approaches such requests with caution, always being sceptical about providing direct stock recommendations. He emphasised the challenges of this task, noting that if the market and the stock perform well based on his suggestion, individuals will praise him; otherwise, there is a risk of losing trust. He finds it challenging to recommend any stock due to the unpredictable nature of the market. Notably, #P11 observed that individuals with lower levels of financial knowledge and understanding of the NEPSE market tend to pose this common question. In contrast, he noted that individuals with some knowledge of investing cross-check with colleagues or conduct their research before making investment decisions. In essence, he concluded that financially literate individuals tend to make their own informed investment decisions.

5.4 Summary of the finding

The research employed a mixed-methods approach, collecting and analysing both quantitative and qualitative data using the scientific method. The quantitative data was analysed statistically, while the qualitative data was thematically analysed. The key findings are summarised as follows:

The statistical analysis of the quantitative data revealed an overall average financial literacy knowledge of 63.83% (average mean 5.7440 out of 9 maximum levels). This suggests a moderate level of financial literacy among individual investors in the NEPSE market, which is consistent with another study conducted by the central bank of Nepal. The central bank's study, which used the OECD/INFE Toolkit 2022, customised to fit the Nepali context, found a national financial literacy rate of 57.9%. This study targeted a sample of 9,361 Nepalis over the age of 18, using a multistage sampling method. While the study by the central bank of

Nepal focused on the overall population of Nepalese people, the present study is specifically related to individual retail investors from the NEPSE.

Similarly, concerning the impact of diverse factors on investment decisions, the statistical data indicates that various elements like the influence of social media, advice from friends and family, consultation with financial advisors and experts, examination of company financial reports, risk diversification, risk appetite, individual research, government policies and regulations, company financial performance and fundamentals, technical analysis of specific stocks and the NEPSE index, as well as economic indicators and market trends collectively exert an influence of 62.7%. The average mean, standing at 3.01 out of a maximum of 4.80, signifies a moderate level of impact on investment decisions.

The final objective of this study was to examine the relationship between financial literacy and investment decisions. The correlation test revealed a statistically significant positive correlation between the two, with a p-value of .000, which is less than the .05 significance level. This means that as financial literacy levels increase by one point, investment decisions are likely to change by .319 points. This suggests that improving financial literacy has a positive impact on investment decision-making.

In the context of this study's design and methodology, both qualitative and quantitative data were collected and analysed. The qualitative inquiry with key respondents yielded specific findings in line with the study's objectives. In relation to financial literacy, a consensus emerged among the majority of key informants who defined financial literacy within the NEPSE market as the comprehension of various financial instruments, economic indicators, market trends, SEBON and NRB regulations, government fiscal policies, annual budgets, financial performance and statements, risk diversification, risk appetite, and technical aspects of specific stocks and the NEPSE index. Respondents noted that those with a sound understanding of these elements possess a degree of financial knowledge crucial for making informed decisions in the NEPSE market. Drawing from their lived experiences in the NEPSE market, key informants commonly observed that the majority of individual investors likely have a moderate level of financial literacy, aligning with both the qualitative findings of this study and the recent research conducted by the central bank of Nepal.

Furthermore, in terms of the factors influencing investment decisions in the NEPSE market, the majority of the key informants shared that there is a common consensus that friends, family, and social media have a high level of influence in terms of investment decisions in the NEPSE market. However, this study offers a more nuanced viewpoint than the general consensus, which contends that social media and the circles of friends and family have the greatest influence on individual investors' investment decisions. While acknowledging that there is indeed some influence stemming from social media and interpersonal networks, it underscores the multifaceted nature of investment decision-making.

The insights from an industry expert, boasting over two decades of experience in NEPSE investing and trading, add depth to this understanding. According to the expert, providing a definitive answer to this question is challenging due to the subjective nature of investment decisions. Individual investors, as per the expert, leverage social media platforms and consult their friends and family to gain knowledge and insights relevant to investing and trading activities. However, this is just one facet of a complex decision-making process.

Crucially, the expert highlights that investors also rely on a spectrum of other factors. These encompass government policies and regulations, the financial performance and statements of companies, technical analysis of the particular stock and NEPSE index, seeking advice from market experts, risk management, conducting own research before making investments, and broader economic indicators and market trends. In essence, a wide range of determinants shape the investment decision-making landscape, challenging the idea of a single, dominant influence.

Moreover, regarding the relationship between financial literacy and investment decisions, the majority of the respondents shared their experience that having a sound level of or a higher level of financial literacy makes individual investors more likely to make appropriate and informed investment decisions in the NEPSE market as compared to having a lower level of understanding the overall indicators of the NESPE market.

In conclusion, both quantitative and qualitative data from the study support the notion that individual investors in the NEPSE market have a moderate level of financial literacy. The study also identified various factors that influence investment decisions, including economic indicators, interest rates, market liquidity, market sentiment, market trends, the financial performance of companies, and financial statement analysis, which are consistent with the qualitative findings. Additionally, the study found a strong relationship between financial literacy and investment decisions, suggesting that improving financial literacy can lead to better investment decisions. Overall, the study provides a comprehensive understanding of the factors that influence investment decisions in the NEPSE market and highlights the importance of financial literacy in making informed investment decisions.

Chapter Six

Discussion, Conclusion and Recommendations

6.1 Introduction

The initial segment of the chapter is dedicated to discussing the results and findings from the study, meticulously dissecting and interpreting the data collected. A conclusion that summarizes the key learnings and findings of the research follows this. The chapter then proceeds to offer recommendations based on the study's findings, targeting policy implications, practical applications, and directions for future research in the field. These recommendations are aimed at enhancing understanding and improving practices related to the study's focus area, providing a pathway for continued exploration and development. By doing so, this chapter seeks to contribute to the practice in the field and provide insights that can inform future research and practice.

6.2 Discussion of the results

This section provides an in-depth examination and interpretation of the findings from the previous chapter, placing them in the context of existing research and literature. The aim is to critically evaluate the study's results in light of other relevant empirical studies and explore their implications for the research objectives. The discussion is structured around the specific objectives of the study, with each section focusing on a particular objective and presenting the relevant findings and analysis.

6.2.1 Financial literacy level among individual retail investors from NEPSE.

The extant literature on financial literacy has evolved to encompass various definitions and perspectives. In the context of this research, a pre-testing or pilot study was conducted to identify gaps in financial knowledge and investment decision-making among retail investors in the NEPSE market. This led to the establishment of the first research objective, which aimed to assess the financial literacy levels of individual retail investors in the NEPSE market. A mixed-methods approach was employed, involving the concurrent collection of both quantitative and qualitative data. The study used questions number Q10 to Q18 to test the financial knowledge of individual investors and adopted the equal weighting (correct answer count) method, a widely used approach to assessing financial literacy. The results revealed a mean financial literacy knowledge score of 5.74 out of 9, equivalent to 63.83%. This suggests that the financial literacy knowledge of individual retail investors in the NEPSE market is at a moderate level. The qualitative viewpoints obtained through the study's semi-structured interviews support this conclusion. The majority of interview participants mentioned that individual investors generally possess a moderate level of financial literacy.

Additionally, the findings of this study are consistent with the results of a similar study conducted by the Central Bank of Nepal, which used the OECD/INFE Toolkit 2022, tailored to the overall general population context. The Central Bank's study found a national financial literacy rate of 57.9% (NRB, 2022). While the Central Bank's study focused on the general population of Nepal, the present study specifically targeted individual retail investors in the NEPSE market. This suggests that the financial literacy levels of retail investors in the NEPSE market are relatively similar and slightly higher than those of the general population in Nepal.

The study found that individual retail investors in the NEPSE market have a moderate level of financial literacy. They are proficient at some things, like interest rate calculation and understanding the compounding interest effect, but not so good at others, such as understanding the relationships between bonds and interest rates, purchasing power and inflation, and the risk and reward profiles of different asset classes. Considering “Big 3” questions and comparing the level of financial literacy between this study and other studies below table 6.1 demonstrates as follows;

Table 6. 1: Comparison of correct answers to "Big 3" questions among other studies

Studies by	Country	Interest rate	Inflation	Risk Diversification
		Correct	Correct	Correct
(Van Rooij et al., 2011)	Netherland	84.8%	76.9%	51.9%
(Crossan et al., 2011)	New Zealand	86%	81%	49%
(Agarwalla et al., 2015)	India	81%	79%	79%
(Katkov, 2021)	Sweden	92.5%	85.1%	67.4%
(Sticha & Sekita, 2023)	Japan	76.1%	71.9%	71.6%
(Lusardi & Mitchell, 2023)	USA	80.6%	75.5%	60.7%
(Bottazzi & Oggero, 2023)	Italy	70.75%	66.82%	63.75%
(This Study, 2023)	Nepal	88.3%	74.8%	64.2%

The study examines the significance of financial knowledge as a metric for financial literacy, employing the p-value derived from the Pearson Chi-Square test. In statistical terms, when the p-value of the Pearson Chi-Square test falls below the 0.05 threshold, it signifies a significant relationship between variables. The study's findings emphasise that experience and the size of the investment portfolio exert the most substantial influence on the financial literacy of individual investors. The observation that the majority of relationships between demographic variables like experience, the size of an investment portfolio, and financial knowledge dimensions have p-values below 0.005 lends credence to this claim. This aligns with the findings of studies conducted by Ameliawati and Setiyani (2018); Awais et al. (2016); Hogarth and Hilgert (2002) which highlighted a strong link between experience and the risk management system. Essentially, individuals with more experience in investment are better equipped to navigate risks, showcasing a higher level of financial literacy. This association implies that experience is often correlated with a greater willingness to undertake financial risks and manage larger and more diversified investment portfolios.

Moreover, this study identifies a significant relationship between age and the understanding of bond versus interest rate relationships, as evidenced by a P-value of.002, falling below the.005 threshold. In the same way, gender has a big effect on different areas of financial knowledge, like how to spread risk, how inflation affects purchasing power, and how to understand the relationship between bonds and interest rates. P-values below 0.005 show that this relationship is significant. However, in the case of education, there is no significant relationship with the various dimensions of financial knowledge from Q10 to Q18, as none of the P-values is less than.005. Whereas study by Hassan Al-Tamimi and Anood Bin Kalli (2009); Lusardi (2019); Mouna and Anis (2017) establishes a significant correlation between financial literacy and formal financial education, asserting that individuals with higher levels of educational attainment tend to possess greater financial literacy.

Additionally, participants with marital status exhibit a significant relationship only in the understanding of bond versus interest rate relationships with financial literacy, as other dimensions of financial knowledge have P-values greater than.005, suggesting no significant relationship. Similar to this study Kadoya and Khan (2020) examining the determinants of financial literacy in Japan found that marital status itself doesn't significantly impact financial literacy. Further, in the context of the NEPSE, study by Thapa and Kc (2020) focusing on factors affecting investment decisions doesn't directly investigate the relationship between financial literacy and marital status. However, the study by Aguiar-Díaz and Zagalaz-Jiménez (2022); Lusardi and Mitchell (2023); Potrich et al. (2018) revealed that married individuals exhibit higher levels of financial literacy compared to their single counterparts, and males demonstrate greater financial literacy than females. Regarding occupation, the functioning of the stock market and the understanding of higher-return assets show a significant relationship with financial literacy.

Moreover, in examining the relationship between age and specific financial knowledge dimensions, it is noteworthy that almost all age groups, especially those above 85%, demonstrated a high level of proficiency in understanding interest rate calculation and compounding effects. Similarly, in comprehending other facets of financial knowledge, such as the relationship between interest rates and inflation, risk diversification, the relationship between interest rates and bond prices, compounding interest calculation, understanding higher investment return financial instruments, and comprehending the priority of stakeholders receiving invested funds in the event of company bankruptcy, higher-age 35-50 individual investors exhibited a more robust understanding. This suggests that mature individuals may possess a level of experience that contributes to a better grasp of financial concepts.

Interestingly, when it comes to the understanding of the functioning of the stock market and the relationship of purchasing power with inflation, there is no discernible difference based on age factors. This aligns with the findings of Klapper's (2015) global study, "Financial Literacy around the World," which indicated that the highest percentage (63%) of financially literate individuals were typically found in the 35 to 50 age group in advanced economies. However, a study by Thapa and KC (2020) on the financial literacy of Nepalese stock market investors in the Kathmandu valley found that the highest levels of financial literacy were observed among individuals in the age group of 50 to 60 years. These findings highlight the nuanced relationship between age and financial literacy, with different age groups exhibiting varying levels of proficiency across specific financial knowledge dimensions. Moreover, from a qualitative study perspective, the semi-structured interviews revealed insights into the perceived meaning of financial literacy within the context of NEPSE market investment and trading activities. Most participants said that individual investors generally view financial literacy as the comprehension and practical application of knowledge in making economic investment decisions. Additionally, there was a common consensus among the interviewees that the overall financial literacy level among individual retail investors is moderate.

6.2.2 Investment decisions influencing factors

This section explores the key factors that affect the investment choices of retail investors in the NEPSE market. The research reveals that *social media, friends, and family* are primary sources for gathering information and updates about specific companies or stocks. However, these are not the sole elements influencing investment decisions. Individual investors also rely on news, online portals, company websites, and financial statements for information. Additionally, the complexity of financial decision-making, especially in the stock market, involves human behaviour and biases. The online survey conducted during this study indicated that a significant number of respondents were sometimes swayed by social media and their social circles. Veteran investors suggest that reliance on others for investment decisions is more common among those with lower levels of financial literacy in the NEPSE market. The study observed that the financial literacy of individual investors was at a moderate level, leading them to depend on various factors for decision-making.

The study aligns with Hamal et al. (2022) research, "Impact of Social Factors on Individual Investors Decision Making in Nepal," which investigates the influence of social factors on the decision-making processes of individual investors in Nepal. This research conceptualizes investment decision-making as a behaviour influenced by both rational and irrational elements, contributing to market inefficiencies. Findings indicate that social interactions, financial literacy, herding behaviour, family, and income level significantly impact investors' decisions. It concludes that a variety of factors influence investment decisions, rather than being solely based on one. The study emphasizes the crucial role of social factors in shaping investment decisions in Nepal, with social interactions and herding behaviour identified as the most influential factors in this context.

Furthermore, in the context of NEPSE investing activities, social media, particularly Clubhouse, YouTube emerged as a significant factor shaping investors' investment decision-making processes. The daily discussions on Clubhouse have become a prominent and influential platform for market-related and economic discussions in Nepal. Since 2020, these discussions have played a crucial role in influencing investors' sentiments and decisions regarding NEPSE investments.

Clubhouse has become a major interactive space for knowledge exchange, enabling investors to connect with experienced individuals and seek valuable insights. The platform has become the go-to place for investors to engage in real-time conversations and discussions related to the stock market. These interactions have empowered retail investors, providing them with a better understanding of the intricacies of the Nepalese stock market and investment culture.

Additionally, YouTube also emerged as a major learning source for Nepalese individual investors, significantly influencing their investment decision-making processes at NEPSE. The rise of online content creators and financial educators on YouTube has provided a wealth of valuable information and insights related to investing in the Nepalese stock market. Investors can now access a wide range of educational videos, market analysis, and expert opinions on various investment strategies and opportunities. This accessibility to financial knowledge has empowered individual investors, enabling them to make more informed and confident decisions when participating in the NEPSE. The democratisation of financial education through YouTube has played a pivotal role in expanding financial literacy and fostering a culture of informed investing among the Nepalese individuals retail investors.

In the context of this study, a noteworthy observation was that the majority of respondents acknowledged the significant impact of *economic indicators and market trends* on their investment decision-making within the NEPSE. This sentiment was consistently echoed during the interview process, where many participants stressed the importance of economic indicators, such as the country's gross domestic product (GDP), interest rates, market liquidity conditions, inflation rate, and market sentiment, in guiding their investment decisions.

Nepal possesses a distinctive economic landscape, characterised by its heavy reliance on imports. This unique situation makes controlling the inflation rate a constant challenge, which in turn exerts a significant influence on the overall economic landscape (Dhungel, 2018). Fluctuations in inflation rates can lead to variable interest rates, further affecting the decisions of investors in the NEPSE. Additionally, the government's spending habits play a crucial role in shaping market liquidity, particularly within the stock market. When analysing historical data from the past few years, it was found that the government tends to spend a substantial portion 50-60 percentage of its annual capital expenditure in the last few months of the fiscal year (Paudel, 2023), thereby affecting market liquidity and interest rates. This practice has created imbalances in market liquidity, resulting in fluctuating interest rates that impact NEPSE investors' decision-making processes. This finding diverges from similar global studies where demand and supply, along with inflation numbers, are the key determinants of interest rates (Teker et al., 2012). In the Nepalese market, while demand, supply, and inflation numbers also play a role in determining interest rates, it is the government's spending habits at the end of the fiscal year that hold significant systematic risks and impact liquidity in the market, consequently affecting interest rates.

Furthermore, the predominantly trade-oriented nature of Nepalese businesses, as opposed to production-based activities within the country, poses its own set of economic challenges. When a significant portion of economic activity is reliant on trade, there is a perpetual risk of importing inflation from the global market, which can subsequently impact interest rates and the money supply within the domestic market (Budha, 2014; Chhetri, 2021; Dhungel, 2018; Sharma & Bhand, 2005).

A study conducted by Paul and Pokharel (2020) aimed to investigate the influence of macroeconomic indicators, including interest rates, real GDP, money supply, and inflation, on the Nepal Stock Exchange (NEPSE) Index. This empirical research analysed secondary time-series data spanning 24 years, from fiscal year 1994 to 2018. The study's correlation analysis revealed that broad money supply, real GDP, and the consumer price index (CPI) exhibited statistically significant linear relationships with the NEPSE index. In contrast, the relationship between T-bill rates and the NEPSE index was statistically insignificant. Regression analysis further indicated that money supply was a significant predictor of the NEPSE index, while interest rates, real GDP, and CPI were found to be insignificant predictors.

This relationship between stock market performance and macroeconomic variables holds substantial importance for various stakeholders, including policymakers, regulators, academics, researchers, and the investment community. Additionally, the regression analysis emphasised that, among the examined variables, only money supply significantly predicted the NEPSE index, with an associated significance value of 0.054. In contrast, interest rates, real GDP, and CPI were deemed insignificant predictors, with significance values of 0.117, 0.232, and 0.718, respectively. It is crucial to note that the data were only significant for money supply in long-term analysis and not in short-term analysis, indicating that economic fundamentals influence the NEPSE index's movement. Consequently, publicly available information regarding macroeconomic variables can potentially be harnessed to predict stock prices.

Within the realm of stock market investments, the direction of market trends, whether bullish or bearish, holds paramount importance. A wide range of economic factors, including the nation's GDP and various economic indicators, as well as the inherent characteristics of the stock market, influence these trends. In line with the findings of this study, Vaidya (2021) conducted another study that emphasized the significance of bullish and bearish trends as key factors influencing individual investors' investment decisions.

Furthermore, this study sheds light on several other critical aspects of individual investors' behaviour in the NEPSE market. It underscores that there is a distinct absence of a *culture of seeking advice from professionals and NEPSE market experts* among the majority of participants. Similarly, the study reveals that the majority of investors exhibit a risk-averse attitude, and their approach to risk diversification can be characterised as moderate.

Additionally, when it comes to conducting personal research before making investment decisions, most respondents indicated that they only occasionally engage in such research.

These findings collectively suggest that the stock market culture in Nepal is still in its nascent stages of development, with the majority of individual retail investors positioned in the learning phase as they grapple with the intricacies of the NEPSE market. However, it's worth noting that a study by Katkov (2021) conducted in Sweden presented a contrasting picture. In Sweden, there exists a well-established culture of seeking advice from professionals and market experts. Moreover, individuals in Sweden often prefer to invest in mutual funds as a means of risk diversification. Swedish investors tend to exhibit a greater appetite for risk and generally conduct extensive personal research before making investment decisions in the stock market.

These distinctions in behaviour can be attributed to the varying levels of financial literacy prevalent in these two economic contexts. Sweden, being a more mature market with a broader array of financial instruments, tends to attract investors with a higher degree of financial literacy. In contrast, Nepal's financial landscape is characterised by its nascent stock market, which primarily offers equity investment options. Consequently, individuals in Nepal, where financial literacy levels are at a moderate level, exhibit behavioural patterns that differ from their counterparts in more mature economies.

Regulatory policies also play a significant role in investment decision-making. The study identifies, the impact of evolving regulatory policies on the NEPSE market, particularly in the case of IPO allotment to the general public, serves as evidence of their significant influence on investment decision-making. Since April 2019, the regulatory requirement of allotting a minimum of 10 shares to the public has had a profound effect (SEBON, 2023). This provision has led to a significant increase in the participation of individual investors, with members of families, spanning from children to elders, acquiring DEMAT and Mero Share accounts to apply for IPOs. Consequently, all IPOs are now being oversubscribed, resulting in a unique investment trend in the context of IPO investment decision-making at NEPSE (Paudel, 2021).

Jariwala (2015) conducted a study in the Indian context, comparing it with the current study. The Indian government and policymakers have acknowledged the significance of financial literacy as a crucial life skill for people from all walks of life. In response to this, the government established the Investors Education and Protection Fund (IEPF) with the objective of promoting and supporting investors' awareness, education, and protection. Jariwala's (2015) study underscores that the development and promotion of financial literacy through various financial educational programmes have become an essential policy priority to complement financial inclusion, financial consumer protection, and prudential regulation in India. This parallel aligns with the efforts of Nepalese policymakers, SEBON, NEPSE, and NRB, who have also been conducting various financial education programmes to promote financial awareness. However, despite these initiatives, both studies find that the actual results in terms of improving financial literacy have been less satisfactory in reality. It suggests that while the policy intent is to enhance financial literacy, implementation challenges may hinder the desired outcomes in both countries.

There was voice raise by participant #10 and #12 shared an important insight regarding capital market investments, emphasising that *"it is not suitable for everyone to participate in capital market investments"*. Typically, only individuals who are financially strong, possess good knowledge of capital market risks, and have a high level of financial literacy can participate in such investments. However, in the context of Nepal, there seems to be a misconception among the general public and policymakers that encourages people from all walks of life to invest in the capital market. It is crucial for policymakers and relevant authorities to recognise that capital market investments come with inherent risks (Sharif et al., 2020). As a result, only individuals with a certain level of knowledge, understanding of the economy, and risk appetite are best suited for such investments. Otherwise, there is a risk of significant financial losses for those lacking financial literacy, which could lead to adverse impacts on the overall economic cycle and negatively affect the mental health of the public with lower financial literacy levels (Kannadhasan et al., 2016).

Mate and Dam (2017) conducted a study on the financial literacy of stock market participants on the Bombay Stock Exchange (BSE), India. They found that stock market investment in India was not widely popular due to a lack of financial literacy and the complexity of the market. This finding resonates with this study's findings, which also reveal that the stock market investment culture in Nepal is at a very early stage, primarily due to the insufficient level of financial literacy among individual investors. A contrast between the two countries lies in the involvement of institutional investors and foreign direct investment (FDI) as foreign institutional investment (FII) in India, which is not present in Nepal due to the absence of legal provisions for such investment in the Nepalese stock market. Despite this difference, the digitalisation of NEPSE has attracted people from various walks of life in Nepal towards stock investment, signifying the growing interest and potential for future development in the market.

Another study by Rana (2019) in the NEPSE market identified six factors, including corporate governance, goodwill of the company, earnings, market share price, industry competition, and size of the company, as the primary determinants. In contrast this study revealed a different set of significant factors, such as economic indicators and market trends, government regulatory policies, influences from friends and family and social media, and the company’s financial performance and fundamentals on investment decision-making among individual investors. These varying findings highlight the complexity and dynamic nature of the NEPSE market and underscore the importance of considering multiple perspectives and methodologies to gain a comprehensive understanding of the factors influencing investment decisions among individual investors at NEPSE.

6.2.3 The relationship between financial literacy and investment decisions

In this study, it was observed that factors like education, investment portfolio size, and professional experience significantly influence an individual's financial literacy. On the other hand, variables such as age, gender, marital status, and occupation were not found to have a notable impact on financial literacy levels. Additionally, insights gathered from seasoned investors and traders in the NEPSE market revealed that financial literacy does not always correlate with formal education. While a solid educational foundation can be advantageous, it is not a definitive predictor of high financial literacy. Intriguingly, some individuals without formal academic achievements have exhibited a profound understanding of financial principles and have made astute investment choices.

Moreover, the CEO of a brokerage firm (referred to as #P10 in the study) highlighted that individuals who possess a deep comprehension of the NEPSE market's financial instruments, economic indicators, market trends, regulations, and financial performance and statements, as well as those who are attuned to market sentiment, can be deemed financially literate. However, it's important to note that the concept of financial literacy is subjective and lacks a universal definition. Its interpretation can vary based on the economic context, cultural background, and geographical location.

The majority of interviewees concurred that there is a direct correlation between financial literacy and investment decision-making. It was noted that individuals with more experience tend to exhibit higher levels of financial literacy, which in turn influences their ability to make more informed and effective investment decisions.

In the Nepalese context, Rana's (2019) study, focused on factors affecting individual retail investors' investment decision-making at NEPSE. Rana (2019) identified six factors, including corporate governance, goodwill of the company, earnings, market share price, industry competition, and size of the company, as the primary determinants. In contrast, this study revealed a different set of significant factors, such as social media, friends and family circle, government, and regulatory policies, economic indicators and market trends, the digitalization of the NEPSE, and financial statements and performance of the company.

Moreover, the similarities between this study and Manandhar (2018) lie in their focus on financial literacy and its impact on investment decision-making, albeit in different contexts. Manandhar (2018) investigates the financial literacy level of MBA (Finance) students from three universities in Nepal. Manandhar (2018) highlights that the MBA course taught at all three universities serves as a primary source of financial knowledge for the students. This study highlights that experienced and higher investment portfolio investors performed informed investment decisions in the NEPSE.

Similarly study by Arianti (2018), where the study employs a quantitative descriptive method to examine the influence of financial literacy, financial behaviour, and income on investment decisions. The results indicate that while financial literacy did not show a significant effect on investment decisions, both financial behaviour and income demonstrated a significant impact. This suggests that, while financial knowledge alone may not directly determine investment choices, the way individuals behave financially and their income levels play a crucial role in shaping their investment decisions. These findings contribute to the understanding of the complex interplay between financial literacy, behaviour, and income in the context of investment decision-making, offering valuable insights for investors, educators, and policymakers alike.

A study of Prasad et al. (2021) examining the impact of financial literacy on investment decisions made in the Indian market. The study's findings support the idea that having a solid grasp of financial concepts and risk management helps one have higher financial literacy, which in turn helps one make wise investment decisions in the capital market. In line with this, Hassan Al-Tamimi and Anood Bin Kalli (2009) research found that individuals with higher qualifications, such as banking professionals or financial advisors, tend to be more financially literate compared to others. Janor et al. (2016) further elaborated that financially literate individuals are adept at managing their expenditures, timely bill payments, savings, and borrowings, enabling them to effectively select investment tools and financial products. As a result, Robb and Woodyard (2011) noted that their investment decision-making improves.

In the context of this study, a larger proportion of individual investors in Nepal are male, reflecting the male-dominated socio-structure of Nepalese families, where males predominantly make financial decisions and often take more risks compared to their female counterparts. Another study by Potrich et al. (2018) supports this, indicating that men generally exhibit a higher level of financial literacy than women, which influences their investment preferences.

Anderson et al. (2017), observed that respondents with low literacy levels tend to invest based on perceptions rather than expert financial advice. Conversely, Takeda et al. (2013) noted that a high level of financial literacy can lead to overconfidence, influence biased decision-making, and help to avoid impulsive investment choices. Furthermore, Islamoğlu et al. (2015) reported that investment planning is influenced by prior investment knowledge, expert opinions, and financial stability. Chandra and Kumar (2012) added that income level also plays a role in shaping investment decisions, with investors often exhibiting high self-esteem and seeking to minimize risk through alternative investment plans. The research Mutswenje (2009) Kaur and

Vohra (2012) further supports the idea that portfolio preferences and intentions have a significant impact on retail investors, with factors like risk, returns, and prior knowledge influencing their investment decisions.

6.2.4 Summary

In Nepal, the investment culture within the capital market is progressively developing, with the NEPSE market predominantly comprising individual investors. A significant increase in individual investor participation was particularly noted during the COVID-19 pandemic in 2019, attributed to the lack of alternative investment avenues and regulatory changes such as the allotment of a minimum of 10 shares in initial public offerings (IPOs) to each investor. Additionally, the implementation of a fully online trading system by NEPSE in 2020 further spurred this surge in individual investor numbers. Despite the growing interest, many of these individuals lack a thorough understanding of the inherent risks associated with capital market investments, indicating a deficiency in financial literacy. The researcher, with over a decade of regular investment experience in NEPSE, has observed these trends firsthand and is thus motivated to conduct a study on financial literacy and investment decision-making among individual investors in the NEPSE market. The study aims to assess the financial literacy levels of these investors, identify the factors influencing their investment decisions, and analyse how financial literacy impacts their investment decision-making process.

Moreover, the study adopts a mixed-methods approach, concurrently collecting both quantitative and qualitative data. This methodology allows for a comprehensive analysis that integrates numerical data with personal insights and experiences, providing a more nuanced understanding of the research questions.

The statistical examination of the quantitative data from the study indicated an average financial literacy rate of 63.83%, equivalent to a mean score of 5.7440 out of a possible 9. This reflects a moderate understanding of financial matters among individual investors in the NEPSE market. This finding aligns with a separate study by the central bank of Nepal, which reported a national financial literacy rate of 57.9% across the general population (NRB, 2022). However, the current study specifically focuses on the individual retail investors in NEPSE. The study identified several key factors influencing investment decisions among these individuals, including influences from social media, friends and family, economic indicators and market trends, government policies and regulations, and company financial performance and fundamentals. Additionally, the study established a notable correlation between financial literacy and the investment decisions of individual investors in the NEPSE market, highlighting the significance of financial knowledge in guiding investment decisions.

6.3 Consolidated conclusion of this study

The study utilised a concurrent mixed-methods strategy, simultaneously collecting and examining both quantitative and qualitative data through scientific methodologies. Statistical methods were used to analyse the quantitative data, while thematic analysis was applied to the qualitative data. The primary outcomes are outlined as follows:

A statistical examination of the quantitative data revealed that the average financial literacy rate is 63.83% (mean score 5.7440 out of a maximum of 9), indicating a generally moderate understanding of financial concepts among NEPSE's individual investors. Qualitative discussions with key participants supported this, noting that most individual investors display a moderate level of financial literacy, a finding consistent with the quantitative results of the study.

In terms of factors affecting investment decisions, the quantitative analysis shows that a combination of factors, including social media influence, advice from peers and family, consultations with financial experts, analyses of company financials, risk considerations, personal research, governmental policies, and market trends, impact investment decisions, with a mean influence rating of 3.01 out of 4.80, reflecting a moderate effect. From a qualitative perspective, the majority of participants agreed that factors such as social networks, economic and market insights, company performance, and the regulatory environment significantly influence investment decisions in the NEPSE market.

Lastly, the study sought to identify the relationship between financial literacy and investment decisions. A correlation test indicated a significant positive relationship between the two, with a notable impact on investment decision changes as financial literacy increases. Qualitatively, respondents echoed that a robust or higher degree of financial literacy tends to lead individual investors to make more sound and informed decisions within the NEPSE market. This underscores the importance of financial literacy in enhancing the quality of investment decision-making.

6.4 Strength and limitation of the study

The research stands out due to its utilisation of a concurrent mixed-methods approach, integrating both quantitative and qualitative analyses, a first in the context of the NEPSE market. Unlike other studies on financial literacy and investment decisions among individual investors in the NEPSE market, this research is comprehensive and doctoral-level, contributing significantly to the academic field. It provides an in-depth look into the evolving stock market investment culture in Nepal, particularly highlighting the post-COVID-19 landscape and the prevalent lack of financial literacy among new investors. The study also points to unique aspects of the NEPSE market influenced by the government's annual budgetary spending patterns, which significantly affect market liquidity and interest rates, further impacting investment decision-making in the NEPSE market. These findings provide a foundation for future research and policy-making in this area.

Despite its strengths, the study recognises a few limitations that should be taken into account while interpreting its results. Predominantly, the participant demographic is concentrated in the Bagmati province, primarily due to the capital, Kathmandu, being a focal point for participant recruitment. The study also notes a gender disparity, with fewer female participants compared to males. Additionally, the study was conducted under time constraints, which limited the ability to achieve a geographically and gender-diverse participant pool across Nepal. These limitations are intertwined, with the time restriction impacting the broader representation of participants.

Hence, knowing this study's findings, strengths, and limitations, future researchers are encouraged to expand the demographic and geographic representation of participants, ensure a balanced gender ratio, and allow for more extensive time frames to deepen the research's impact. Furthermore, this study has also listed below some recommendations in terms of policy, practice, and future research.

6.5 Contribution to Practice

This research endeavour carries the significant potential to contribute valuable insights to the existing body of knowledge in several ways. Firstly, it addresses a crucial gap in understanding the financial literacy levels of individual retail investors on the Nepal Stock Exchange (NEPSE). This gap is especially pertinent in the context of a rapidly growing capital market investment culture where a vast majority of participants are individual investors. By assessing their financial literacy, this study can shed light on the prevailing knowledge landscape among these investors, thereby providing a foundational understanding.

Secondly, this research delves into the complex realm of investment decision-making factors in NEPSE. Understanding what drives the choices of individual investors is pivotal in the context of Nepal's stock market, where emotional and psychological factors often come into play. Furthermore, this research goes beyond scrutinising the specific role of friends and family circles and the impact of social media on investment decisions by individual investors. The influence of these informal networks and online platforms on investment choices is relatively underexplored in the context of NEPSE. This investigation aims to bridge this gap in understanding, contributing to a deeper appreciation of the dynamics within this unique investment landscape at NEPSE.

Thirdly, the research will explore the intricate relationship between financial literacy and the myriad factors that influence investment decision-making at NEPSE. Furthermore, this study is poised to reveal particular areas within financial literacy that may necessitate targeted improvement, especially considering the influence of friends, family, and social media, economic indicators and market trends, government and regulatory policies, and financial performance and statements of the company. Identifying these knowledge gaps is essential for designing more effective financial literacy programs and interventions customised to the unique requirements of NEPSE investors. Ultimately, these interventions could empower investors with the knowledge and skills to make better-informed investment decisions and potentially mitigate risks.

To sum up, this study adds to what is known by filling in a major gap in our knowledge about the level of financial literacy and the factors that affect individual investors' decisions in NEPSE, with a focus on the impact of friends, family, and social media, government and regulatory policies, financial performance and statement of the company, and economic indicators and market trends. This knowledge is instrumental for policymakers, financial institutions, and investors themselves in enhancing the investment climate and ensuring the continued growth and security of NEPSE as a platform for capital investment

6.6 Recommendation for policy, practice and research

In light of the findings from the study on financial literacy and investment decision-making of individual retail investors on the Nepal Stock Exchange (NEPSE), it is evident that strategic interventions are needed to enhance the financial literacy and market participation of individual investors. Here are some recommendations aimed at bolstering financial literacy, improving data accessibility, and broadening stakeholder involvement, which are crucial for fostering a more inclusive and efficient capital market investment culture in Nepal.

1**. Financial Education Curriculum in School:** Integrate financial literacy into the national education curriculum at various levels to build a strong foundation from an early age. This could involve practical modules on savings, investments, and understanding the stock market, tailored to different age groups.

2. Data Bank for Unification of the Data Related to the NEPSE Market: The government of Nepal, especially the ministry of finance, should establish a centralised data bank that collects, standardises, and disseminates financial and market data. This will improve transparency, aid in research, and help investors make more informed decisions.

3. Certified Trainer: The regulatory body SEBON should develop a certification programme for financial trainers who specialise in various aspects of the stock market. These certified professionals can provide reliable education and support to new and existing investors, ensuring that they are well-equipped to navigate the NEPSE.

4. Involvement of Diversified Stakeholders of the NEPSE in Terms of Policy and Regulations: Encourage a more inclusive approach by involving a diverse range of stakeholders, including individual investors, financial experts, and industry representatives, in policy-making and regulatory processes. This can lead to more comprehensive and effective capital market policies.

5. Future research should be related to specific industries: Future academic and market research to focus on specific sectors within Nepal's economy, such as hydropower or hospitality or others. This targeted research can provide deeper insights into industry-specific trends, challenges, and opportunities, benefiting sector-specific investors and the broader market.

6. Future research should be related to government annual spending habits: In future research in the context of the Nepal Stock Exchange (NEPSE) and individual investors, there is a valuable avenue to explore the relationship between the annual budget spending habits of the Nepal government and their impact on liquidity positions and interest rate volatility. Investigating how government budget spending patterns influence market liquidity and the stability of interest rates could provide crucial insights into the investment decision-making process of individual investors in the NEPSE. Such research could shed light on how government fiscal policies and budget allocations affect the risk and return profiles of investment options, influencing the choices made by individual investors. This understanding would not only benefit individual investors but also guide policymakers and regulators in creating an environment that supports informed and secure investment decisions in Nepal's capital market.

Implementing these recommendations could significantly contribute to the development of a more robust, inclusive, and efficient NEPSE market, ultimately benefiting individual investors and the wider economy.

6.7 Personal reflection

The motivation for undertaking this research stemmed from my personal involvement in the stock market and my own experiences, both positive and negative, in making investment decisions. I have always been curious about the experiences of other individuals and the choices they make in their investment journeys. The capital market has always fascinated me as one of the greatest innovations of our time. I believe that having financial literacy provides individuals with the opportunity to live a life of financial freedom, ultimately leading to personal well-being and freedom.

Engaging in this research has had a profound impact on my own sense of security and confidence in my future career. Prior to embarking on this journey, I often felt uncertain about my career prospects. However, delving into the study of investment decision-making has instilled in me a deep sense of confidence that I can pursue a life of financial independence and do not necessarily need to rely on traditional 9-to-5 jobs.

This research journey has not only provided me with valuable insights and knowledge about investment decision-making, but it has also transformed my life on a personal, professional, and career level. It has been a life-changing experience that has guided and influenced my choices since I embarked on this path. I now view myself as an entrepreneur, armed with the confidence and understanding of the investment process to forge my own path and create a successful future.

Overall, this research journey has been a transformative experience, leading me to new ways of thinking, being, and living. It has empowered me to take control of my financial future and has had a profound impact on all aspects of my life.

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Appendices

Appendix A: Participation Information Sheets

Participation Information Sheets

Introduction

I am Agni Bhandari, Doctor of Business Administration (DBA) research student at University of Gloucestershire, UK. I am inviting individual retail investors from Nepal Stock Exchange who regularly involved into the Nepalese capital market in the last more than one years. Therefore, I would like to request you to take part however before you decide whether to take part, it is necessary for you to understand what is this study for and why I am performing this study. Please kindly take time to read below summary of the information sheet. If you any difficulty to understand, I am happy to explain you in details.

Purpose of the Study

The main purpose of this study is to investigate the financial literacy level of Nepalese active retail investors, to determine the characteristics which influence their investment decision making process in the Nepal Stock Exchange (NEPSE).

Why I have been inviting you to take part?

As this study will collected the relevant data through interview discussion. Therefore, as I believe your knowledge and experience in relation to investing at NEPSE would help to accomplish the purpose of this study.

What will happens if you decided to take part?

Before the interview, you will be given a detail sheet with the topics that will be discussed. The date and time of the interview will be decided through mutual understanding and may take up to an hour. Your participation in the interview is entirely voluntary, and you have the right to withdraw from the interview process at any point. Your decision to withdraw will not affect the purpose of the study.

Confidentiality

Your identity will be kept confidential and assigned a code to ensure anonymity. The information obtained through the interview process will only be used for the purpose of this study.

Contact Information

If you have any queries and like to discuss further in relation to this study. You can email on

[redacted]

Thank you for your time.

Appendix B: Consent Form

Consent Form

Financial Literacy of Individual Investors and Its Impact on Investment Decision Making in the Nepal Stock Exchange.

Participant unique identification code for this study : ______________________________

Please read following statements carefully and then sign with your initials in the appropriate box to indicate your consent to take part in the study		**Yes**	**No**
1.	I confirm that I have read and understood the participant information sheet for the above study. I have had the opportunity to consider the information, ask questions and they have been answered satisfactorily.		
2.	I understand that my participation is voluntary and that I am free to leave the study at any time, without giving any reason. I understand that it will not be possible to remove my information once it has been analysed.		
3.	I agree to the researcher audio-recording the interview (the recordings will be destroyed after analysis).		
4.	I agree that quotes from the interview that do not identify me can be used in reports and publications about this study.		
5.	I understand that the information I give will be kept strictly confidential and used only for the purposes of this study.		
6.	I understand that this study may be monitored to make sure it is being done properly. Information for monitoring may include information about me.		
7.	I agree to take part in the above study.		

______________________ Name of participant	______________________ Date	______________________ Signature
Name of researcher	Date	Signature

Appendix C: Interviewers Participant Profile

Participant Number	Participants Sector	Age Group	Gender	Marital Status	Education Level	Profession	Years of Experiences
#P1	Venture Capital	36-50 Years	Male	Married	M.Phil	CEO of Venture Capital Firm	Above 10 Years
#P2	Business Journalist	Above Years	Male	Married	Bachelor	Editor in chief of Business News Portal	Above 10 Years
#P3	Business Journalist	36-50 Years	Male	Married	Master's	Editor in chief of Business News Portal	Above 10 Years
#P4	The Federation of Nepalese Chambers of Commerce and Industry (*FNCCI*)	36-50 Years	Male	Married	Master's	Officer from FNNCI	Above 10 Years
#P5	Banker	36-50 Years	Male	Married	Master's	Officer at Commercial Bank	Above 10 Years
#P6	Banker	36-50 Years	Male	Unmarried	Master's	Officer at Commercial Bank	Above 10 Years
#P7	Accountant	25-35 Years	Male	Married	ACCA	Chartered Certified Accountant	Above 10 Years
#P8	Accountant	25-35 Years	Male	Married	ACCA	Chartered Certified Accountant	4-6 Years
#P9	Office of the Auditor General (Supreme Audit Institution of Nepal)	36-50 Years	Male	Married	Master's	Officer at Office of the Auditor General	Above 10 Years

#P10	Brokerage Firm	Above 50 Years	Male	Married	Master's	CEO of Broker Firm	Above 10 Years
#P11	Brokerage Firm	Above 50 Years	Male	Married	Bachelor	CEO of Broker Firm	Above 10 Years
#P12	Business Entrepreneur	Above 50 Years	Male	Married	Doctorate	Business & Stock Trading/Investment	Above 10 Years
#P13	University Lecturer	Above 50 Years	Male	Married	Master's	Part-time Teaching and Stock Trading/Investment	Above 10 Years
#P14	University Lecturer	36-50 Years	Male	Married	Master's	Part-time Teaching and Stock Trading/Investment	7-10 Years
#P15	House Wife	Above 50 Years	Female	Married	SLC	Stock Investment and Trading only	7-10 Years
#P16	House Wife	36-50 Years	Female	Married	Master's	Stock Investment and Trading only	4-6 Years

Appendix D: Process used to generate codes, clusters, subthemes and themes

Theme 1; Financial literacy among individual investors			
Codes	Clusters	Subthemes	Themes
College student	Financial education	What is financial literacy means	**Financial Literacy among individual investors**
Financial education curriculum			
Digital literacy			
No formal education			
Understanding of Market Trends			
Financial literacy week	NEPSE		
Mero share platform			
TMS platform			
Retail investors understanding			
SEBON, NRB			
IPOs and secondary market	Money management skill		
Monetary policies			
Risk tolerance			
Market supply and demand		Level of financial literacy	
Seeking advice culture			
Financial literacy training programme	Risk management		
Understanding of financial instruments			
Investor sentiment			
Economic conditions			
Sufficient liquidity in the market			
Investment choices in the NEPSE	Investment decision		
Investment decision			
Visit brokerage firm offices			
Moderate financial literacy			
Investing experience at NEPSE			

Theme 2; Investment decision influencing factors			
Codes	Clusters	Subthemes	Themes
Rumours in the market	Social media can help to understand market sentiment and psychology	Individual with Social Network	
Sources of news/information			
Online communities			
Investors engage in discussions			
investors can exchange information			

Discuss market trends			Social Media influence
Shaping the investment strategies	A broader range of information sources		
Share personal experiences			
Larger scale of information			
Diverse perspectives			
Online news portal			
Mainstream media outlets			
Broader - information sources	Online discussion and comments	Investment decision making	
Social media for investment guidance			
Market Sentiment			
Clubhouse discussions			
Viber groups			
Facebook groups			
YouTube	Learning from social media		
Learning fundamental analysis			
Learning technical analysis			
Potential risks associated			
Relying on social media			
Social media - investment guidance			
Friends and family circles	No culture of seeking professional advice	Absence of of seeking professional advice	Friends/Family Circle Influence
Trust and familiarity with friends			
Friends recommendations			
Friends experiences			
Friends circle success story			
Emotional support & encouragement	Trust and familiarity associated with friends and family		
Form of social validation			
Limited financial knowledge			
Looking for quick return			
Less experience			
Investing decisions in NEPSE			
No professional advice	Value the experiences	Value the experiences and successes of their friends and	
Advice from friends and family			
No thorough research			
Social media conversation			
Market rumour			

Social media connections	and successes of their friends and family	family	
Friends/families plays significant role			
Emotional support			
Sense of shared responsibility			
Government policies	Regulatory guidelines and frameworks	Government policies	**Government policies and regulations**
Nepal Rastra Bank (NRB)			
Nepal Stock Exchange (NEPSE)			
Securities Board of Nepal (SEBON)			
Ministry of Finance (MOF)			
Investment environment	Fair and transparent market		
Investment decision making			
Central bank's monetary policies			
Government's fiscal policies			
Regulatory measures			
IPO-10% of hydropower share			
Fair & transparent market operations			
Market integrity and	Investment environment		
Preventing fraudulent activities			
Trading halts			
Market surveillance mechanisms			
SEBON Protect investors		Regulatory policies	
Market disruptions			
Extreme price fluctuations.			
Bank borrowing provision	IPO allotment		
Issued a list of companies			
Companies deemed overvalued			
Investor confidence			
SEBON- Stability in market			
Prevent speculative activities			
NEPSE30			
IPO - minimum 10 share to public	Investment decisions		
SEBON - Monitor market			
SEBON - Regulate market activities			
Protect investors' interests			
Individual investors awareness			
Investors -Regulatory policy changes			
Monetary policies directives			

Gross domestic product (GDP)	GDP	GDP	**Economic indicators and market trends**
Political stability			
Economic Indicators			
Market interest rate			
Inflation rate			
Monetary policies	Interest rate		
Fiscal policies			
Market sentiment			
Industry trends			
Historical data			
Future Growth			
Market liquidity	Inflation rate	Market sentiment	
Performance of the NEPSE			
Macroeconomic indicators			
Microeconomic indicators			
Central bank NRB			
SEBON	NEPSE sentiment		
Ministry of finance			
Annual budget			
Central bank directives			
Share loan			
Bank and financial institution			
Financial statements	Financial Statement	Financial statement	**Company Financial performance and fundamentals**
Revenue growth			
Profitability			
Financial health			
Cash flow			
Return on equity			
Return of assets			
Dividend payout	Fundamental analysis		
Dividend yield			
Earnings per share (EPS)			
Corporate governance			
Management team			
Valuation of the stock			
P/E ratio	Future prospective		
Fundamental analysis of the stock			
Technical analysis of the stock			
Number of employee in the company			

Longer-term horizon of the company		Company fundamentals	
Stock holding			
Online trading facilities	Investment portfolio		
Speculation			
Investment portfolio			
Market volatility			
SEBON annual report			
Theme 3; Relationship between financial literacy and investment decision			
Financial education	Financial Education	Financial literacy	**Relationship between financial literacy and investment decision**
Financial literacy programme			
Technological advancements			
Longer-term investment strategies			
Company's Financial statement			
Trading Management System (TMS)			
Initial public offering (IPO)	NEPSE		
Oversubscription of IPOs			
Secondary market complexities			
Market sentiment and trends			
Friends and family circle			
Investment decision making			
Real-time trading information			
Economic indicators	Portfolio diversity		
Social media platform			
Online news portal			
Potential Risk			
Avoid Taking risk			
Expecting high return			
Quick Profit booking		Investment decision	
Fear of missing opportunities			
Rational decision-making			
Investment confidence	Investment Decision		
Risk Management Strategies			
Emotional biases			
Human behaviour			
Supply and demand understanding			
Selling stock prematurely			
Selling stock on loss			
Willing to take risk			

Risk bearing capacity	Risk Management		
Insider information			
Active trading			
Leaning about investing			
Regulatory environment			
Information sources			
NEPSE			
Investment portfolio management			

Appendix E: Various data tables related to findings chapters

Q10: Suppose you had NPR 1,000 in a saving account and the interest rate was 6% per year. After 5 years, how much do you think you would have in the account if you left the money to grow.

		Age				
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	Total
Q10	More than NPR 1,060	88.5%	89.2%	86.8%	90.4%	88.3%
	Exactly NPR 1,060	6.3%	4.6%	5.4%	3.8%	5.1%
	Less than NPR 1,060	3.1%	3.3%	5.4%	1.9%	3.9%
	Do not know	2.1%	2.9%	2.5%	3.8%	2.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		
		Male	Female	Total
Q10	More than NPR 1,060	88.4%	88.1%	88.3%
	Exactly NPR 1,060	4.8%	6.4%	5.1%
	Less than NPR 1,060	3.9%	3.7%	3.9%
	Do not know	2.9%	1.8%	2.7%
Total		100.0%	100.0%	100.0%

		Education		
		Up to Bachelor Level	Above Bachelor Level	Total
Q10	More than NPR 1,060	89.0%	87.4%	88.3%
	Exactly NPR 1,060	3.7%	7.1%	5.1%
	Less than NPR 1,060	3.4%	4.6%	3.9%
	Do not know	4.0%	.8%	2.7%
Total		100.0%	100.0%	100.0%

		Occupation							
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	Total
	More than NPR 1,060	76.7%	89.7%	92.1%	86.8%	88.8 %	100.0 %	88.5%	88.3 %

Q10	Exactly NPR 1,060	6.7%	4.3%	1.3%	10.5%	6.5%			5.1%
	Less than NPR 1,060	8.3%	4.7%	2.6%	2.6%	1.9%		3.8%	3.9%
	Do not know	8.3%	1.3%	3.9%		2.8%		7.7%	2.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
Q10	More than NPR 1,060	86.0%	92.1%	88.3%
	Exactly NPR 1,060	6.9%	2.2%	5.1%
	Less than NPR 1,060	3.6%	4.4%	3.9%
	Do not know	3.6%	1.3%	2.7%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q10	More than NPR 1,060	87.9%	88.6%	100.0%	88.3%
	Exactly NPR 1,060	4.7%	5.9%		5.1%
	Less than NPR 1,060	4.4%	3.2%		3.9%
	Do not know	3.0%	2.3%		2.7%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q10	More than NPR 1,060	87.5%	90.4%	88.6%
	Exactly NPR 1,060	6.4%	3.4%	5.3%
	Less than NPR 1,060	3.0%	4.5%	3.6%
	Do not know	3.0%	1.7%	2.5%
Total		100.0%	100.0%	100.0%

Q11: Imagine that the interest rate on your savings account was 6% per year and inflation was 8% per year. After 1 year, would be able to buy:

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
	More than today	11.5%	6.3%	13.7%	3.8%	9.5%

Q11	Exactly the same	2.1%	4.2%	5.4%	1.9%	4.1%
	Less than today	71.9%	75.4%	73.0%	84.6%	74.8%
	Do not know	14.6%	14.2%	7.8%	9.6%	11.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		Total
		Male	Female	
Q11	More than today	10.4%	5.5%	9.5%
	Exactly the same	4.1%	3.7%	4.1%
	Less than today	76.2%	68.8%	74.8%
	Do not know	9.3%	22.0%	11.7%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q11	More than today	8.8%	10.5%	9.5%
	Exactly the same	2.8%	5.9%	4.1%
	Less than today	73.4%	76.9%	74.8%
	Do not know	15.0%	6.7%	11.7%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q11	More than today	3.3%	9.4%	9.2%	10.5%	9.3%		26.9%	9.5%
	Exactly the same	5.0%	5.2%	1.3%	6.6%	2.8%			4.1%
	Less than today	75.0%	74.2%	84.2%	75.0%	72.9%	100.0%	46.2%	74.8%
	Do not know	16.7%	11.2%	5.3%	7.9%	15.0%		26.9%	11.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
Q11	More than today	10.2%	8.3%	9.5%
	Exactly the same	5.5%	1.8%	4.1%
	Less than today	69.0%	84.2%	74.8%
	Do not know	15.4%	5.7%	11.7%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q11	More than today	10.4%	7.7%	14.3%	9.5%
	Exactly the same	4.9%	2.7%		4.1%
	Less than today	73.4%	77.7%	57.1%	74.8%
	Do not know	11.2%	11.8%	28.6%	11.7%
Total		100.0%	100.0%	100.0%	100.0%

		Size investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q11	More than today	12.8%	4.5%	9.7%
	Exactly the same	5.1%	2.3%	4.0%
	Less than today	68.0%	86.4%	74.9%
	Do not know	14.1%	6.8%	11.4%
Total		100.0%	100.0%	100.0%

Q12: Please tell me whether this statement is true or false. Buying a single company's stock usually provides a safer return than a stock mutual fund.

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q12	True	25.0%	18.3%	17.6%	13.5%	18.8%
	False	67.7%	60.4%	63.7%	76.9%	64.2%
	Do not Know	7.3%	21.3%	18.6%	9.6%	17.1%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		Total
		Male	Female	
Q12	True	18.8%	18.3%	18.8%
	False	66.5%	54.1%	64.2%
	Do not Know	14.7%	27.5%	17.1%
Total		100.0%	100.0%	100.0%

	Education	Total

		Up to Bachelor Level	Above Bachelor Level	
Q12	True	17.8%	20.2%	18.8%
	False	63.0%	66.0%	64.2%
	Do not Know	19.2%	13.9%	17.1%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q12	True	21.7%	19.3%	13.2%	15.8%	25.2%	7.1%	11.5%	18.8%
	False	65.0%	61.4%	69.7%	73.7%	59.8%	92.9%	46.2%	64.2%
	Do not Know	13.3%	19.3%	17.1%	10.5%	15.0%		42.3%	17.1%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
Q12	True	20.9%	15.4%	18.8%
	False	56.9%	75.9%	64.2%
	Do not Know	22.3%	8.8%	17.1%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q12	True	18.9%	18.2%	28.6%	18.8%
	False	63.0%	66.8%	42.9%	64.2%
	Do not Know	18.1%	15.0%	28.6%	17.1%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q12	True	18.9%	15.3%	17.5%
	False	58.2%	76.8%	65.2%
	Do not Know	22.9%	7.9%	17.3%

Total		100.0%	100.0%	100.0%

Q13. When interest rates rise, what will be the existing bond price in the market?

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q13	Rise	22.9%	19.2%	22.1%	9.6%	19.9%
	Fall	47.9%	39.6%	50.0%	69.2%	47.1%
	Stay the same	3.1%	10.8%	9.3%	5.8%	8.6%
	There is no relationship	14.6%	12.5%	5.4%	9.6%	10.1%
	Do not know	11.5%	17.9%	13.2%	5.8%	14.2%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		Total
		Male	Female	
Q13	Rise	21.5%	12.8%	19.9%
	Fall	49.7%	35.8%	47.1%
	Stay the same	8.5%	9.2%	8.6%
	There is no relationship	8.3%	18.3%	10.1%
	Do not know	12.0%	23.9%	14.2%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q13	Rise	20.1%	19.7%	19.9%
	Fall	44.1%	51.7%	47.1%
	Stay the same	9.6%	7.1%	8.6%
	There is no relationship	11.0%	8.8%	10.1%
	Do not know	15.3%	12.6%	14.2%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
	Rise	18.3%	19.7%	19.7%	19.7%	22.4%	7.1%	23.1%	19.9%
	Fall	55.0%	43.3%	50.0%	65.8%	35.5%	71.4%	34.6%	47.1%

Q13	Stay the same	11.7%	9.0%	7.9%	3.9%	9.3%	14.3%	7.7%	8.6%
	There is no relationship	5.0%	10.7%	10.5%	2.6%	16.8%		15.4%	10.1%
	Do not know	10.0%	17.2%	11.8%	7.9%	15.9%	7.1%	19.2%	14.2%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
Q13	Rise	21.4%	17.5%	19.9%
	Fall	40.7%	57.5%	47.1%
	Stay the same	8.0%	9.6%	8.6%
	There is no relationship	11.0%	8.8%	10.1%
	Do not know	19.0%	6.6%	14.2%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q13	Rise	21.1%	18.2%	14.3%	19.9%
	Fall	50.1%	42.7%	28.6%	47.1%
	Stay the same	9.6%	5.9%	42.9%	8.6%
	There is no relationship	6.3%	16.8%		10.1%
	Do not know	12.9%	16.4%	14.3%	14.2%
Total		100.0%	100.0%	100.0%	100.0%

		Size of your investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q13	Rise	21.2%	19.2%	20.5%
	Fall	39.7%	57.1%	46.2%
	Stay the same	10.4%	8.5%	9.7%
	There is no relationship	12.8%	5.6%	10.1%
	Do not know	15.8%	9.6%	13.5%
Total		100.0%	100.0%	100.0%

Q14: Which of the following statements describes the main function of the stock market?

	Age	Total

		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q14	The stock market helps to predict stock earnings	6.3%	5.4%	7.8%	7.7%	6.6%
	The stock market results in an increase in the price of stocks	7.3%	1.7%	3.9%	7.7%	3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	79.2%	78.3%	74.0%	78.8%	77.0%
	None of the above	4.2%	7.1%	9.3%	1.9%	6.9%
	Do not Know	3.1%	7.5%	4.9%	3.8%	5.6%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		Total
		Male	Female	
Q14	The stock market helps to predict stock earnings	6.0%	9.2%	6.6%
	The stock market results in an increase in the price of stocks	3.5%	5.5%	3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	76.6%	78.9%	77.0%
	None of the above	8.5%		6.9%
	Do not Know	5.4%	6.4%	5.6%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q14	The stock market helps to predict stock earnings	7.3%	5.5%	6.6%
	The stock market results in an increase in the price of stocks	4.0%	3.8%	3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	74.6%	80.7%	77.0%
	None of the above	7.3%	6.3%	6.9%
	Do not Know	6.8%	3.8%	5.6%
Total		100.0%	100.0%	100.0%

	Occupation	Total

		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q14	The stock market helps to predict stock earnings	3.3%	6.4%	2.6%	6.6%	6.5%		30.8%	6.6%
	The stock market results in an increase in the price of stocks	8.3%	2.6%		6.6%	6.5%			3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	66.7%	79.4%	85.5%	76.3%	77.6%	92.9%	46.2%	77.0%
	None of the above	13.3%	4.7%	7.9%	10.5%	4.7%		11.5%	6.9%

	Do not Know	8.3%	6.9%	3.9%		4.7%	7.1%	11.5%	5.6%
Total		100.0%	100.0%	100.0%	100.0%	100.0 %	100.0 %	100.0%	100.0 %

		Experience		Total
		Up to 3 years	Above 3 years	
Q14	The stock market helps to predict stock earnings	7.7%	4.8%	6.6%
	The stock market results in an increase in the price of stocks	4.7%	2.6%	3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	73.6%	82.5%	77.0%
	None of the above	7.1%	6.6%	6.9%
	Do not Know	6.9%	3.5%	5.6%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q14	The stock market helps to predict stock earnings	6.6%	6.4%	14.3%	6.6%
	The stock market results in an increase in the price of stocks	4.4%	3.2%		3.9%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	75.3%	80.0%	71.4%	77.0%
	None of the above	7.4%	6.4%		6.9%
	Do not Know	6.3%	4.1%	14.3%	5.6%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q14	The stock market helps to predict stock earnings	8.1%	4.5%	6.8%
	The stock market results in an increase in the price of stocks	4.7%	1.7%	3.6%
	The stock market brings people who want to buy stocks together with those who want to sell stocks	74.4%	79.7%	76.4%
	None of the above	6.1%	10.7%	7.8%

	Do not Know	6.7%	3.4%	5.5%
Total		100.0%	100.0%	100.0%

Q15: Which investment would result in the highest future value, assuming all other factors are equal?

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	8.3%	12.1%	9.8%	1.9%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	11.5%	8.3%	9.3%	5.8%	9.0%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	4.2%	1.7%	2.9%	7.7%	3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	59.4%	64.2%	67.6%	82.7%	66.2%
	Do not Know	16.7%	13.8%	10.3%	1.9%	12.0%
Total		100.0%	100.0%	100.0%	100.0%	100.0 %

		Gender		Total
		Male	Female	
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	10.6%	6.4%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	8.7%	10.1%	9.0%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	3.3%	1.8%	3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	66.5%	65.1%	66.2%
	Do not Know	11.0%	16.5%	12.0%
Total		100.0%	100.0%	100.0%

	Education	Total

		Up to Bachelor Level	Above Bachelor Level	
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	9.0%	10.9%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	9.9%	7.6%	9.0%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	3.4%	2.5%	3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	63.8%	69.7%	66.2%
	Do not Know	13.8%	9.2%	12.0%
Total		100.0%	100.0%	100.0%

		Occupation							
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	Total
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	1.7%	11.6%	7.9%	6.6%	12.1%		23.1%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	8.3%	7.3%	11.8%	11.8%	6.5%		23.1%	9.0%

	A one-year investment at a 6% annual interest rate with semi-annual compounding	6.7%	2.6%	2.6%	2.6%	3.7%			3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	71.7%	67.8%	65.8%	72.4%	57.9%	92.9%	42.3%	66.2%
	Do not Know	11.7%	10.7%	11.8%	6.6%	19.6%	7.1%	11.5%	12.0%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	12.1%	6.1%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	9.9%	7.5%	9.0%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	3.3%	2.6%	3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	59.6%	76.8%	66.2%
	Do not Know	15.1%	7.0%	12.0%
Total		100.0%	100.0%	100.0%

	Marital Status			Total
	Married	Unmarried	Prefer not to say	

Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	8.8%	11.4%	14.3%	9.8%
	A one-year investment at a 6% annual interest rate with annual compounding	7.9%	9.5%	42.9%	9.0%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	3.6%	2.3%		3.0%
	A one-year investment at a 6% annual interest rate with monthly compounding	68.8%	62.7%	42.9%	66.2%
	Do not Know	11.0%	14.1%		12.0%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q15	A one-year investment at a 6% annual interest rate with quarterly compounding	11.1%	9.6%	10.5%
	A one-year investment at a 6% annual interest rate with annual compounding	12.8%	6.2%	10.3%
	A one-year investment at a 6% annual interest rate with semi-annual compounding	3.0%	3.4%	3.2%
	A one-year investment at a 6% annual interest rate with monthly compounding	56.9%	76.3%	64.1%
	Do not Know	16.2%	4.5%	11.8%
Total		100.0%	100.0%	100.0%

Q16: Which of the options below is most likely to cause a loss in purchasing power equivalent to the inflation rate?

		What is your age group?				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q16	Equity	7.3%	8.8%	11.3%	3.8%	9.0%
	Bonds	12.5%	5.0%	2.5%	7.7%	5.6%
	Real estate	8.3%	9.2%	13.7%	19.2%	11.5%
	Cash	52.1%	47.1%	45.6%	48.1%	47.5%
	Do not Know	19.8%	30.0%	27.0%	21.2%	26.5%

Total	100.0%	100.0%	100.0%	100.0%	100.0%

		Gender		Total
		Male	Female	
Q16	Equity	9.3%	7.3%	9.0%
	Bonds	3.9%	12.8%	5.6%
	Real estate	13.0%	4.6%	11.5%
	Cash	49.7%	37.6%	47.5%
	Do not Know	24.0%	37.6%	26.5%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q16	Equity	9.9%	7.6%	9.0%
	Bonds	6.2%	4.6%	5.6%
	Real estate	10.7%	12.6%	11.5%
	Cash	44.6%	51.7%	47.5%
	Do not Know	28.5%	23.5%	26.5%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q16	Equity	13.3%	9.4%	9.2%	5.3%	8.4%		11.5%	9.0%
	Bonds	6.7%	5.2%	1.3%	5.3%	9.3%	7.1%	3.8%	5.6%
	Real estate	13.3%	9.0%	15.8%	18.4%	8.4%	7.1%	11.5%	11.5%
	Cash	51.7%	47.2%	47.4%	52.6%	44.9%	64.3%	26.9%	47.5%
	Do not Know	15.0%	29.2%	26.3%	18.4%	29.0%	21.4%	46.2%	26.5%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	

Q16	Equity	9.1%	8.8%	9.0%
	Bonds	6.0%	4.8%	5.6%
	Real estate	10.7%	12.7%	11.5%
	Cash	42.0%	56.1%	47.5%
	Do not Know	32.1%	17.5%	26.5%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q16	Equity	10.4%	6.8%		9.0%
	Bonds	4.9%	6.8%		5.6%
	Real estate	14.5%	6.8%		11.5%
	Cash	45.5%	50.0%	71.4%	47.5%
	Do not Know	24.7%	29.5%	28.6%	26.5%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q16	Equity	7.4%	8.5%	7.8%
	Bonds	6.4%	2.8%	5.1%
	Real estate	14.1%	8.5%	12.0%
	Cash	41.8%	57.6%	47.7%
	Do not Know	30.3%	22.6%	27.4%
Total		100.0%	100.0%	100.0%

Q17: In longer term which investment option gives the higher return? * What is your age group?

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q17	Fix-Deposit Saving Account	11.5%	7.9%	8.8%	9.6%	9.0%
	Buying Life Insurance Policy	9.4%	7.1%	6.4%	7.7%	7.3%
	Bonds	7.3%	5.4%	3.9%	1.9%	4.9%
	Stocks	66.7%	67.1%	74.0%	80.8%	70.6%
	Do not know	5.2%	12.5%	6.9%		8.3%
Total		100.0%	100.0%	100.0%	100.0%	100.0%

	Gender		Total
	Male	Female	

Q17	Fix-Deposit Saving Account	7.5%	15.6%	9.0%
	Buying Life Insurance Policy	6.2%	11.9%	7.3%
	Bonds	4.8%	5.5%	4.9%
	Stocks	73.5%	57.8%	70.6%
	Do not know	8.1%	9.2%	8.3%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q17	Fix-Deposit Saving Account	9.0%	8.8%	9.0%
	Buying Life Insurance Policy	7.9%	6.3%	7.3%
	Bonds	3.4%	7.1%	4.9%
	Stocks	69.2%	72.7%	70.6%
	Do not know	10.5%	5.0%	8.3%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q17	Fix-Deposit Saving Account	1.7%	9.0%	13.2%	2.6%	15.0%	7.1%	7.7%	9.0%
	Buying Life Insurance Policy	8.3%	8.6%	3.9%	10.5%	4.7%	7.1%	3.8%	7.3%
	Bonds	5.0%	3.4%	3.9%	5.3%	8.4%		7.7%	4.9%
	Stocks	80.0%	69.5%	73.7%	77.6%	64.5%	78.6%	50.0%	70.6%
	Do not know	5.0%	9.4%	5.3%	3.9%	7.5%	7.1%	30.8%	8.3%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
	Fix-Deposit Saving Account	11.0%	5.7%	9.0%

Q17	Buying Life Insurance Policy	8.0%	6.1%	7.3%
	Bonds	6.3%	2.6%	4.9%
	Stocks	62.6%	83.3%	70.6%
	Do not know	12.1%	2.2%	8.3%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q17	Fix-Deposit Saving Account	9.0%	9.1%		9.0%
	Buying Life Insurance Policy	6.6%	7.3%	42.9%	7.3%
	Bonds	4.1%	6.4%		4.9%
	Stocks	73.4%	66.4%	57.1%	70.6%
	Do not know	6.8%	10.9%		8.3%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q17	Fix-Deposit Saving Account	10.4%	5.6%	8.6%
	Buying Life Insurance Policy	7.7%	5.1%	6.8%
	Bonds	7.4%	1.7%	5.3%
	Stocks	61.3%	84.2%	69.8%
	Do not know	13.1%	3.4%	9.5%
Total		100.0%	100.0%	100.0%

Q18: In the case of company bankruptcy, what kind of financial instrument holders have priority in receiving the invested funds?

		Age				Total
		18-24 Years	25-35 Years	36-50 Years	Above 50 Years	
Q18	Common shareholders	12.5%	11.3%	13.2%	3.8%	11.5%
	Preferred shareholders	16.7%	16.3%	19.6%	21.2%	17.9%
	Bondholders	27.1%	27.9%	29.4%	34.6%	28.9%
	Creditors (Unsecured)	26.0%	17.1%	20.1%	21.2%	19.9%
	Do not know	17.7%	27.5%	17.6%	19.2%	21.8%
Total		100.0%	100.0%	100.0%	100.0%	100.0 %

	Gender	Total

		Male	Female	
Q18	Common shareholders	11.6%	11.0%	11.5%
	Preferred shareholders	16.4%	24.8%	17.9%
	Bondholders	30.4%	22.0%	28.9%
	Creditors (Unsecured)	21.1%	14.7%	19.9%
	Do not know	20.5%	27.5%	21.8%
Total		100.0%	100.0%	100.0%

		Education		Total
		Up to Bachelor Level	Above Bachelor Level	
Q18	Common shareholders	12.1%	10.5%	11.5%
	Preferred shareholders	15.5%	21.4%	17.9%
	Bondholders	27.7%	30.7%	28.9%
	Creditors (Unsecured)	18.9%	21.4%	19.9%
	Do not know	25.7%	16.0%	21.8%
Total		100.0%	100.0%	100.0%

		Occupation							Total
		NEPSE trading and investment only	Employed	Business or entrepreneur	Self-employed other than business	Student	Retired	Not employed at all	
Q18	Common shareholders	18.3%	9.0%	11.8%	15.8%	12.1%		7.7%	11.5%
	Preferred shareholders	11.7%	14.6%	19.7%	26.3%	21.5%	21.4%	15.4%	17.9%
	Bondholders	33.3%	30.5%	27.6%	28.9%	26.2%	42.9%	11.5%	28.9%
	Creditors (Unsecured)	21.7%	18.5%	21.1%	22.4%	18.7%	14.3%	26.9%	19.9%
	Do not know	15.0%	27.5%	19.7%	6.6%	21.5%	21.4%	38.5%	21.8%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

		Experience		Total
		Up to 3 years	Above 3 years	
	Common shareholders	11.5%	11.4%	11.5%
	Preferred shareholders	18.4%	17.1%	17.9%
	Bondholders	24.5%	36.0%	28.9%

Q18	Creditors (Unsecured)	19.8%	20.2%	19.9%
	Do not know	25.8%	15.4%	21.8%
Total		100.0%	100.0%	100.0%

		Marital Status			Total
		Married	Unmarried	Prefer not to say	
Q18	Common shareholders	12.1%	10.9%		11.5%
	Preferred shareholders	17.0%	19.5%	14.3%	17.9%
	Bondholders	29.6%	28.2%	14.3%	28.9%
	Creditors (Unsecured)	20.5%	18.2%	42.9%	19.9%
	Do not know	20.8%	23.2%	28.6%	21.8%
Total		100.0%	100.0%	100.0%	100.0%

		Size of investment portfolio at NEPSE		Total
		Upto NPR 10,00,000	Above NPR 10,00,000	
Q18	Common shareholders	10.8%	11.3%	11.0%
	Preferred shareholders	19.2%	19.2%	19.2%
	Bondholders	23.9%	35.0%	28.1%
	Creditors (Unsecured)	18.9%	18.6%	18.8%
	Do not know	27.3%	15.8%	23.0%
Total		100.0%	100.0%	100.0%