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Factors Affecting Investment Success of Individual Investors at NEPSE

Manoj Kumar Chaudhary

School of Management, Tribhuvan University

Abstract

This study examined the relationships between investment success and three key variables: investment education, portfolio management, and risk management. The data were analyzed using descriptive statistics, correlations, and regression analysis. The findings revealed that investment education had a significant positive impact on investment success, suggesting that individuals with higher levels of investment education were more likely to achieve successful investment outcomes. However, the effects of portfolio management and risk management on investment success were not statistically significant in the analyzed sample. These results highlight the importance of investing in education and continuous learning in the field of investments to enhance investment success. Further research with larger and more diverse samples is recommended to validate these findings and explore additional factors influencing investment success.

Keywords: Investment Strategies, Nepal Stock Exchange (NEPSE), Successful Investors, Unsuccessful Investors, Portfolio Management, Risk Management.

INTRODUCTION

Individual investors use a variety of tactics when it comes to trading in the Nepal Stock Exchange (NEPSE), which can either contribute to their success or failure. To succeed in the NEPSE, investors must be rigorous in their research and analysis, taking the time to fully comprehend the financial results, future growth potential, and competitive positioning of listed companies. To find prospective investment possibilities, they meticulously examine market trends, macroeconomic variables, and company-specific news. Additionally, wise investors understand the value of diversification and distribute their money among a variety of markets, businesses, and industries to lessen the effects of a bad investment. Additionally, they use efficient risk management strategies, establishing precise investing goals and choosing an appropriate amount of risk following their financial objectives and risk tolerance. Additionally, effective investors take a patient, long-term approach, concentrating on the intrinsic worth of their investments rather than making snap judgments based on transient market changes. They stay current on market trends, financial news, and regulatory changes by constantly learning and adapting. To be clear, there are always hazards associated with stock market investing, and each investor's circumstances, objectives, and risk tolerance can influence their choice of investment strategy and final results.

Successful NEPSE investors understand the value of in-depth investigation and analysis. They examine the financial results, future growth, and market position of the companies listed on the NEPSE. They can spot good investment possibilities by carefully analyzing market trends, macroeconomic variables, and company-specific news. In contrast, unsuccessful investors could downplay or ignore the significance of study and analysis, which could result in subpar investmentchoices and potential losses.

Diversification is a key component of successful risk management for investors. They appreciate the benefits of diversifying their investments across multiple markets, businesses, and industries. They reduce the risk brought on by a single investment performing poorly by doing this. Conversely, unsuccessful investors sometimes fall short of properly diversifying their portfolios, leaving them open to suffering substantial losses if a specific investment underperforms.

Successful people in the NEPSE have investment strategies that prioritize risk management. Based on variables like financial objectives and risk tolerance, they set defined investing objectives and decide what level of risk is acceptable. Successful investors use strategies including placing stop-loss orders, evaluating and changing their portfolios frequently, and putting risk-reduction measures in place. Contrarily, failed investors might not have a structured strategy for riskmanagement, leaving them open to unneeded risks and significant losses.

Finally, the traits of prosperous investors in the NEPSE include constant learning and adaptation. They stay up to date on financial news, market movements, and changes in the regulatory environment. Successful investors modify their plans in response to fresh information and changing market circumstances. In contrast, failed investors might not have the drive or effort to keep up with the market and change their strategy as necessary.

In conclusion, learning from the investment approaches used by both successful and failed individual investors in the NEPSE offers insightful and instructive information. Individual investors can improve their chances of success in the NEPSE by emphasizing research and analysis, diversification, risk management, patience, and ongoing education.

Hypothesis

Hypotheses undertaken for this study are;

H1: There is a significant relation between Risk Management and Investment Success.

H2: There is a significant relationship between Investment Education and Investment Success.

H3: There is a significant relation between Portfolio Management and Investment Success

Literature Review

The literature on investment behavior in emerging markets like Nepal is limited. However, severalstudies have investigated the investment behavior of Nepalese investors in the NEPSE. Adhikari, P. L. (2020). investigated the factors that influence the investment decisions of individual investorsin Nepal. The study found that investment knowledge, experience, education, risk management and portfolio management are significant determinants of investment decisions. The study also found that age, income, and gender have no significant effect on investment decisions. This implies that successful investors in NEPSE may have higher investment knowledge and experience, education than unsuccessful investors.

Pandit, K. C. (2016). Investigated the Factors Influencing Investment Decisions in the Capital Market. The study found that an increase in the size of investment leads to an increase in the frequency and investment experience. It is also seen that the size of the investment has a positive impact on the level of involvement and a negative effect on investors' optimism, and again the results are statistically significant.

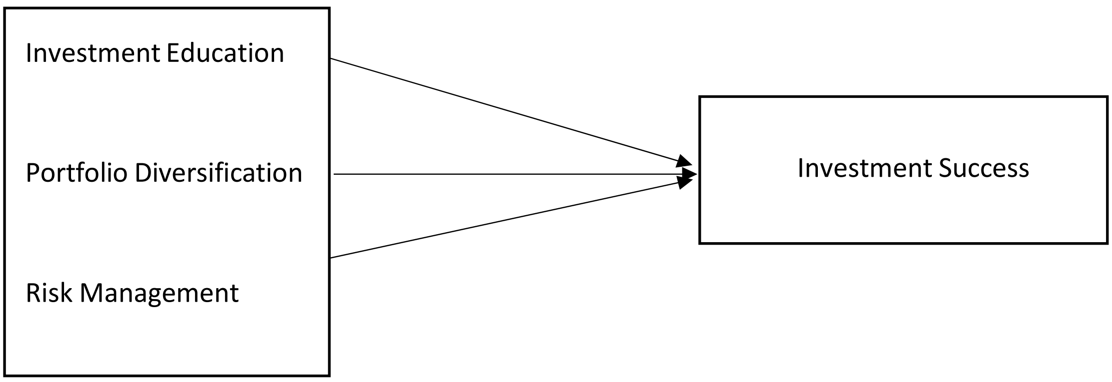
Kadariya, Subedi, Joshi & Nyaupane (2010) examined investor awareness, equity investment choice, and investor access to market information. According to the survey, equity investors are knowledgeable, and their level of knowledge is more than necessary or ideal. There is an issue with equity investors' access to information in the secondary market, and informed equity investors are more likely to hold large volumes of stock investments. For investment decisions to be made and for the capital market to grow sustainably, investor knowledge is essential. The results imply that investments would rise if various initiatives were taken to raise investor awareness.

Rana, S. B. (2019) examined the Factors affecting individual investors' stock investment decisions in Nepal. The study found that six factors, namely Earnings and Image Factors, Corporate Governance and Positioning Factors, Goodwill and Market Share Factors, Industry Competition and Size Factors, Fundamental Market Factors, and Decision-making Factors are the common factors affecting stock investment decisions of the sample investors in Nepal. The results also show that among the six factors extracted, Fundamental Market Factors have high relative importance as perceived by the sample investors.

In conclusion, the literature on investment behavior in Nepal provides insights into the investment strategies of individual investors in NEPSE. The studies suggest that successful investors in NEPSE may have higher investment knowledge and experience, use fundamental analysis, diversify their portfolios, and balance risk and return effectively. On the other hand, unsuccessful investors in NEPSE may rely on rumors and tips, follow market trends, and have poor access to high-quality investment products. This research intends to build on the existing literature and provide a comparative analysis of successful and unsuccessful investors

Theoretical Framework

<u>Independent Variable</u> <u>Dependent variable</u>



Source: Adhikari, P. L. (2020)

Methodology

The research methodology generally describes various research methods, approaches and designs in detail with highlights of those used throughout the study. Descriptive and analytical research design along with regression analysis. Primary sources of data are taken to meet study objectives. Convenience sampling is used here as primary data were used as a secondary source. The data are analyzed using the Statistical Package of the Social Science (SPSS, 20.0). First, the reliability and validity of the data have been tested using Cronbach's Alpha and then the data have been analyzed using descriptive statistics and factor analysis techniques with the help of the SPSS package.

Population and Sample Selection

A study sample of 43 respondents was selected using a convenience sampling method, which is a non-probability sampling technique. The sample included investors from inside Kathmandu Valley. Since the objective was to investigate the investment strategies of successful and unsuccessful individual investors in the NEPSE, the researcher specifically targeted respondents who were involved in NEPSE, ensuring that non-users and non-adopters were excluded from the sample frame.

The Model

The theoretical statement of the models is that Investment Success(Y) may be regarded as subject to the constraints of Risk Management (RM), Investment Education (IE) and Portfolio Management (PM). The theoretical statement may be framed under:

Y= f (RM, IE, PM)

The equation to be estimated has, therefore, been specified as underY= a+ b1 (RM) + b2 (IE) + b3 (PM) +ei… .... (i)

Where Y is the dependent variable termed as Investment Success and Independent variablesRM= Risk Management

IE= Investment Education PM= Portfolio Managementa= Constant

b= regression coefficientei= error term

Reliability

The reliability of the model was tested with the help of SPSS. This analysis is measured by Cronbach's alpha. According to Swkaran (2000), Cronbach alfa is a reliability that is used to identify the relationship of different items to one another.

Reliability Statistics

Variables	Cronbach's alpha	No of items
Risk Management	0.701	3
Investment Education	0.821	4
Portfolio Management	0.653	4
Investment Success	0.710	1

Table 1: Reliability Statistics

In our study, we have 4 different variables having 21 items. Cronbach's Alpha of all these variables was above 0.6 which means that their strong internal reliability among all items. A score of 0.701 was obtained for Risk Management which shows that the instrument used for research was reliable same as the Investment Education score of 0.821, Portfolio Management score of 0.653 and Investment Success score of 0.710 These variables are reliable.

Correlation

Pearson correlation was used to find the relationship between independent variables (Risk Management, Investment Education, Portfolio Management), and dependent variable InvestmentSuccess.

Means, Standard Deviations, Correlations,

	Mean	Std. Deviation	1	2	3	4
1. Risk Management	6.5116	1.85642	1			
2. Portfolio Management	13.1860	2.39300	0.280	1		
3. Investment Education	13.4651	3.13467	.565**	.790**	1	
4. Investment Success	2.5349	0.7	.377*	.310*	.504**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 2: Correlations

This table shows the Mean, Standard deviation, and Correlation of Risk management, Portfolio Management and Investment Education with Investment Success. Mean of the Risk Management was 6.5116, the mean score of Portfolio Management was 13.186, Investment Educationwas 13.4651 and the Mean of Investment Success was 2.5349.

There is a positive correlation between the Independent Variable (Risk management, Portfolio Management and Investment Education) and with dependent variable Investment Success. Correlation with Risk Management: 0.377* (significant at the 0.05 level). This correlation suggests that there is a moderate and statistically significant positive relationship between risk management and investment success. It indicates that individuals who exhibit better risk management skills may have a higher likelihood of achieving investment success.

Correlation with Portfolio Management: 0.310* (significant at the 0.05 level). This correlation suggests a moderate and statistically significant positive relationship between portfolio management and investment success. It implies that individuals who possess strong portfolio management abilities are more likely to experience investment success.

Correlation with Investment Education: 0.504** (significant at the 0.01 level). This correlationreveals a strong and statistically significant positive relationship between investment education and investment success. It suggests that individuals who have received greater investment education are more likely to achieve investment success.

Regression

The regression analysis has been carried out to assess the impact of different independent variables on investment success. Multiple regression is done to predict investment success from three variables RM, IE and PM which are shown in the table. The value of R square is 0.478 which states that 47.8% of the variation in investment success in NEPSE is explained by independent variables.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.478[a]	.228	.169	.57553

a. Predictors: (Constant), RM, IE, PM

Table 3: Model Summary

In addition, the ANOVA table helps to indicate if the model is a significant predictor of customer perception. The p-value in a table is less than 0.05 which explains that the model is a significant predictor of investment success.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.826	3	1.2753.850		.0017[b]
	Residual	12.918	39	.331		
	Total	16.744	42			

a. Dependent Variable: IS

b. Predictors: (Constant), RM, IE, PM

Table 4: ANOVA

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.039	.455		4.478	.000
	IE	.230	.073	.719	3.136	.003
	PM	-.123	.090	-.327	-1.366	.180
	RM	-.144	.110	-.221	-1.311	.197

a. Dependent Variable: IS

Table 5: Coefficients

The coefficient table explains to which extent the independent variable explains the dependent variable. The table also shows if the independent variables have a significant impact on the dependent variables. Looking at the significance level of all three predictors (IE, RM and PM), only one predictor i.e. IE have a p-value less than 0.05 which means that only IE has a significantimpact but others do not. In the above coefficient table, the unstandardized coefficient tells us aboutthe relationship between outcomes and both predictor variables. As only one value of beta is positive, there is a positive relationship between the dependent and the one independent variable i.e., IE, whereas there is a negative relationship between the dependent variable and PM and RM. That is an increase in the IE variables and a decrease in the PM AND RM variables, increasing Investment success. Similarly, standardized coefficients help to explain the factor that has the greatest impact on Investment Success which was IE.

Discussion

The results of the regression analysis provide insights into the relationship between investmentsuccess and the independent variables of investment education, portfolio management, and risk management. The findings indicate that investment education has a significant positive impact oninvestment success, while the effects of portfolio management and risk management are not statistically significant.

The significant positive relationship between investment education and investment success suggests that individuals with greater investment education tend to experience higher levels of investment success. This finding highlights the importance of acquiring knowledge and skills in investment-related areas to make informed decisions and improve investment outcomes. Investing in education and continuous learning in the field of investments can potentially lead to better investment success rates.

On the other hand, the non-significant relationships between portfolio management, risk management, and investment success suggest that these variables may not have a substantial direct influence on investment success in the context of the analyzed sample. However, it is worth notingthat these findings might be specific to the variables and measures used in this analysis. Other factors or different operationalizations of portfolio management and risk management could yielddifferent results.

Conclusion

In conclusion, the regression analysis underscores the pivotal role of investment education in determining investment success. The data reveal a clear correlation between higher levels of investment education and an increased likelihood of achieving favorable investment outcomes. However, the study did not find statistically significant effects of portfolio management and risk management on investment success.

These results highlight the significance of prioritizing investment in one's knowledge and expertise within the realm of investments. Consistent learning, keeping abreast of market dynamics, and cultivating a robust comprehension of investment fundamentals are pivotal for enhancing investment success rates. Thus, individuals keen on navigating the investment landscape should concentrate on augmenting their investment education to make well-informed decisions and potentially realize superior investment results.

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