

Investor Awareness, Risk Perception and Investor Behavior in Stock Market of Nepal

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Abstract: *This paper examines the factors associated with investor awareness and perceived risk attitude of investors and their relationship with investor behavior. Based on a sample of 204 individual investors from stock market in Nepal, the study shows that two factors namely 'financial awareness' and 'social learning' are highly loaded factors of investor awareness and two factors namely 'affection' and 'cognition' are highly loaded factors of perceived risk attitude of investors in stock market of Nepal. The study also concludes that there is significant positive relationship between investor awareness and perceived risk attitude, between perceived risk attitude and investment behavior and between investor awareness and investment behavior. Further, study reports a significant predictive power of investor awareness and perceived risk attitude variables in determining the investor behavior in Nepal.*

Keywords: *Investor awareness, Perceived risk attitude, Investor behavior*

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I. Introduction

Behavioral finance argues that investment decisions of individuals as well as the outcomes of the market are affected by characteristics of market participants along with the information structure in the market. Generally, human decision making process is composed of risk and return relationship. However, investors cannot evaluate risks and return objectively; rather they behave emotionally while making decisions (Azwadi, 2011). This simply implies that investors' decisions are the result of their perception towards risk and expected returns. Accordingly, Weber and Milliman (1997) assert that decision to accept a particular asset and the willingness to pay for the asset depends on the investors' perceived risk attitude. Investors' perceptions of the riskiness of alternatives always differ significantly from individual to individual depending on a person's beliefs and reference points. The risk perception is usually determined by either emotions or cognitive ability of the investor, and in turn this makes risk perception to be more subjective rather than objective to risky situations. Mahmood et al. (2011) state that investors perceive higher risk from investment if they have less market information. This simply implies that risk perception can be managed if the investors are aware of their level of risk perception. Hence investor awareness and the perceived risk attitude can be the determinant factors of investor behavior in stock market.

The behavioral phenomena of investors may differ from one market to other depending on the regulations and structure of the market. The stock market in Nepal is relatively small but growing in terms of size of transactions. The participation of institutional investors is very negligible in Nepalese stock market. The individual investors who trade on shares in Nepal Stock Exchange (NEPSE) seem to have limited access to fundamental market information and as such investor behavior seems to be primarily guided by the crowd psychology. In between of these issues associated with investor behavior in stock market of Nepal, this study basically attempts to identify the factors associated with investor awareness and perceived risk attitude of the investors and to examine their effects on investor behavior.

The rest of this paper is organized as follows: section II deals with literature review; section III discusses on the methodological issues; section IV provides study results and discussions, and finally section V concludes.

II. Literature Review

Investors, in general, can be categorized as aware and unaware investors. Aware investors are those who know the characteristics of a risky stock and have the same information on the probability distribution of the stock returns. In the context of stock markets, information is usually transmitted from issuers to investors through several different channels mainly through mandatory public disclosure by issuers, voluntary public or private disclosure by issuers; and private acquisition by investors from sources other than the issuer, such as

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purchasing research reports from stock analysts, examining the firm's products or services, and consulting the firm's competitors, among others (Zhen, 2009).

Merton (1987) argues that portfolio incompleteness and heterogeneity occurs due to the lack of information on investment opportunities. As a result, investors purchase only securities of the companies they familiar with. Similarly, awareness of stocks is exogenous to the investor's set choice (Guiso & Japelli, 2005). Therefore, the question as to what size and composition of the investor's portfolio choice depends on how aware an investor is. Like Merton (1987), Guiso and Japelli stress that issuers and distributors of financial assets have strong incentives to inform the pool of potential investors. Besides learning from issuers and distributors, individuals often learn about investment opportunities available from peers. This often occurs depending on the specific process of social learning and on how people interact. On the other hand, awareness can be through financial awareness which is largely determined by the investor's resources, such as income and financial wealth including demographic factors such as age and education (Guiso & Japelli, 2005). Thus, literatures document social learning and financial awareness as the contributing factors toward investor awareness.

Investors have to make decisions under uncertainty due to incomplete information and hence investment is risky. The perceived risk attitude is based on the amount of information an investor has about various stocks in the stock market. Risk perception is a psychological and emotional phenomenon, which subsequently guides judgment and decision making. Thus, risk perception of investors is more subjective, and the attitudes that investors form and express are likely to be influenced both by emotions and a cognitive assessment (Esses, Haddock & Zanna, 1993). The literatures argue that risk perceptions of investors are affective and cognitive. Affect often refers to one's emotions. Emotion is a physiological state of excitement created by beliefs about something. Solomon (2000) defines emotions as a complex influence that combines cognitive, physiological, social, and behavioral aspects of an individual. Though on the contrary, emotions are addressed as evaluative rather than cognitive judgments (Frijda, 2000). Emotions are evaluative in that they evoke positive or negative valences about an object for example, being unhappy or happy or being pessimistic or optimistic (Bradley & Lang, 1994). Despite the lack of a unified definition, there is some agreement on the set of emotions that exist.

Cognition refers to an individual's belief towards an object. The beliefs one forms can either be positive or negative depending on aspects like, knowledge, moral, intelligence, inspiration, dishonesty, and being weak among others. The examination of cognitive aspects of financial behavior in isolation is troublesome and may be misleading. Emotional reactions or evaluations occur at a very early stage and are more basic than cognitive evaluations (Zajonc, 1984). Furthermore, theorists recognize that emotion and cognition are interdependent, rather than competing (Simon, 1986). Emotions are seen to be triggered by beliefs; hence, an investor regrets an investment decision because s/he believes that bad outcomes could have been avoided.

In the context of stock market, it appears that investors are more concerned with the financial risk and opportunity loss than other risks. Financial risk arises because of the chance that an investment is likely to harm investor's financial position. On the other hand, opportunity risk arises because of the chance that buying one stock is likely to prevent the benefits from buying other stock, which the investor would really prefer buying. Thus, investor's perception of these two risks can be a deciding factor for investor behavior. As a result, a risk-averse investor takes steps to minimize risk, for example, by diversifying investment in various stocks. Risk seeker investors, on the other hand, do not diversify the portfolio, rather invests in one stock expecting to earn high investment return. Therefore, investors with different level of risk perceptions behave differently.

Thus, investor behavior in stock market is often seen to be a factor of cognition, emotion and social influences. Investor behavior incorporates the psychological aspect of investors and explains how perception of investors and their reaction to uncertainties affect the investment decision thereby influencing price movements.

Several empirical works have attempted to address the relationship between investor awareness and risk perceptions and their effects on investor behavior. To quote, Ricciardi (2008) documented that what investors perceive is influenced by how they select information to process. He further stressed that investors are incapable of absorbing all information, and are therefore become selective as to what information receives their conscious attention hence determining their level of awareness. Similarly other studies, for example, Clarke and Statman (1998), Shefrin and Statman (2000), among others, have indicated that attitude to stock market risk depends upon the recent behavior of the stock market. An alternative perspective on that evidence can be derived from Weber and Milliman (1997) who suggested that risk preference may be stable and that the effect of situational factors, such as stock market performance, may be caused by changes in perceptions of risk. They further found that influences on investment choices simultaneously affected risk perceptions. It could be the case that attitude to perceived risk is constant, and that what changes is the perception of risk. Sjoberg (2002) states that risk is perceived as greater if the person lacks information about, or control over, outcomes. Therefore, the investor's risk perception is negatively related to the level of awareness; the more knowledgeable and informed an investor is, the lower the perceived risk.

In a recent attempt, Saini, Anjum and Saini (2011) examined the relationship between investor awareness and risk perceptions in the context of mutual funds investment in India. The study concluded that mostly the investors have positive approach towards investing in mutual funds and emphasized the need maintain their confidence in mutual funds by providing timely information relating to different trends in the mutual fund industry. The results documented in this study focused that as the investors become more aware and informed about the market trends they perceive lower risk.

In between of these issues, this paper attempts to observe the relationship between investor awareness and perceived risk attitude of investors and to examine the impact of these on the investment behavior in the set up of the stock market in Nepal. With respect to this attempt, the fundamental issues associated with the study are: what are the factors associated with investor awareness and perceived risk attitude of investors in Nepal? Does any relationship exist between investor awareness, perceived risk attitude and investor behavior in stock market of Nepal? How investment behavior is explained by investor awareness and perceived risk attitude?

III. Methodology

This study has used exploratory factor analysis to identify the factors associated with investor awareness and perceived risk attitude of investors in Stock market of Nepal. Besides, the study has also employed correlational and causal comparative research design. The study has used correlational research design to identify the direction and magnitude of observed relationship between the factors associated with investment awareness, perceived risk attitude and investment behavior. Moreover, the causal comparative research design has been adopted to examine the effect of investor awareness and perceived risk attitude on investor behavior.

This study fully relied on primary sources of data. The structured questionnaire survey was conducted during the months from January to June, 2019 to record the opinions, perceptions, and characteristics of investors of stock market in Nepal. The first section of survey questionnaires included 12 statements about investor awareness on the 5-point Likert scale. These statements were designed to explore the factors associated with investor awareness of the investors in stock market in Nepal. Similarly, 12 statements representing perceived risk attitude of investors were grouped into next section, which aimed at identifying the common factors of perceived risk attitude of the investors in the context of stock market in Nepal. Final section of the questionnaire consisted of 13 statements representing investor behavior. These statements were also designed on 5-point Likert scale to record the level of agreement and disagreement of the investors.

Population of this study consists of stock market investors of listed firms in Nepal Stock Exchange (NEPSE) Limited to the end of mid-June 2019. The exact numbers of stockholders of all listed companies in Nepal are unknown as there is no verified source of information to obtain this data. Therefore, in selecting the reliable and representative samples, first a detail list consisting of licensed broker firms' name and contact number was obtained from the official website of Nepal Stock Exchange Limited. There were total 50 brokerage firms licensed in NEPSE till mid January 2019. Second, a purposive sampling approach was used to select the sample brokerage firms where large number of individual investors is available. A total of 12 brokerage firms were identified for this purpose. At each broker's office, based on convenient sampling approach, at least 40 investors were contacted with the help of authorized person at the brokers' office to complete the questionnaire. A total of 500 questionnaires were distributed for the purpose and only 286 questionnaires were returned from the respondents. On a detail verification of questionnaires received back, it was found that 82 respondents had given incomplete information and hence those could not be used for final analysis. Thus, the study was based on the complete responses from 204 respondents.

The data analysis in this study is based on the exploratory factor analysis using principal component analysis (PCA) and VARIMAX Rotation. The exploratory factor analysis was conducted to explore the factors associated with investor awareness and perceived risk attitude of investors. A detail description of factor analysis process has been explained in section IV.

In order to explain the effect size of investor awareness variables and perceived risk attitude variables on investor behavior, multiple linear regression has been used. Regression has been run in two aspects to identify the effect size of independent variables. First aspects consisted of the factors associated with investor awareness and perceived risk attitude as independent variables generated from factor analysis. Second aspect consisted of the aggregate of investor awareness and perceived risk attitude as independent variables. Investor behavior has been used as dependent variable in both aspects. The general model is as follows:

$$Y_i = a_i + b_{1i} X_{1i} + b_{2i} X_{2i} + \dots + e_i \quad \dots\dots\dots(1)$$

In Equation (1), Y_i refers to the dependent variable, namely investor behavior of entity i , $X_{1,i}$, $X_{2,i}$...refers to the independent variables which consists of a set of variables associated with investor awareness and perceived risk attitude, $b_{1,i}$, $b_{2,i}$...are the respective parameters of the explanatory variables to be estimated, and e_i refers to the unexplained residual error terms.

IV. Study Results and Discussion

Factors associated with Investor Awareness

This section reveals the results of factor analysis conducted to identify the factors associated with investor awareness. Initially 12 statements consisting of different components of investor awareness were tested for reliability using Cronbach’s alpha and the alpha coefficient was recorded to be 0.726. Although, internal consistency was fairly good, some scope of improving it was revealed in the analysis. After deleting 5 statements, Cronbach’s alpha improved to 0.747 and no further improvement was noted. Hence the factor analysis for investor awareness was finally based on 7 statements which included statement 1, 2, 3, 4, 6, 7 and 8 from first section of the questionnaire.

Kaiser-Meyer-Olkin (KMO) measures of sampling adequacy and Bartlett’s test of Sphericity have been used for confirming the sampling adequacy property of the statement associated with investor awareness. The results are reported in Table 1.

Table 1: KMO and Bartlett’s Test Statistics of factors Associated with Investor Awareness

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.758
Bartlett's Test of Sphericity	Approx. Chi-Square	296.829
	Degree of Freedom	21
	p-Value	0.000

Source: Field Survey, 2019 and personal computation.

KMO measure of sampling adequacy is greater than 0.6, which indicates that the sample size is adequate for factor analysis. The Bartlett’s test of Sphericity also indicates sampling adequacy property for factor analysis as test statistic is significant at 1 percent level. This indicates that data used are conducive for factor analysis.

The basic purpose of factor analysis in this section is to discover factors among 7 variables that represent the investor awareness components of the investors in stock market in Nepal. In this section also the factors with Eigen values greater than 1 have been extracted by using Principal Component Analysis (PCA) approach and VARIMAX Rotation. Factor loading of minimum 0.400 has been used as threshold to determine the loading of each items to the factors generated. Table 2 reports the results of factor analysis.

Table 2: Factor Loadings of Two Factors of Investor Awareness

Statements	Financial Awareness	Social Learning
I am somewhat knowledgeable of stock market activities in Nepal	0.630	
I usually follow the stock market through news on media	0.731	
I clearly understand the role of license members in Nepalese stock market	0.626	
I easily access the latest reports, and financial statements of the companies	0.594	
I usually visit stock market websites	0.675	
I usually attend seminars and conference about stock market trading		0.800
The stock market authority often holds educational program to sensitize the public		0.847
Eigen Value	2.838	1.114
Percentage Variance Explained	40.544%	15.919%
Cumulative Percentage of Variance Explained	40.544%	56.463%

Source: Field Survey, 2019 and personal computation.

As shown in Table 2, two factors were generated and they were assigned appropriate label namely Financial Awareness (Factor 1) and Social Learning (Factor 2). The results indicate that these two components of investor awareness explained 56.463 percentage variance associated with investor awareness. Individually financial awareness constituted 40.544 percent and social learning constituted 15.919 percent variance of the investor awareness variables. The most important statements loaded to financial awareness were: I am somewhat knowledgeable of stock market activities with factor loading of 0.630; I usually follow the stock market through news on media with factor loading of 0.731; I clearly understand the role of license members in Nepalese stock market (0.626); I easily access the latest reports, and financial statements of the companies (0.594); and I usually visit stock market websites (0.675). Similarly statements loaded to social learning were: I usually attend seminars and conference about stock market trading (0.800); and the stock market authority often holds educational program to sensitize the public (0.847). Higher percentage of variance explained by financial awareness component of investor awareness implies that most investors in Nepalese stock market attempt to benefit from financial information news, media, reports and financial statements.

Factors Associated with Perceived Risk Attitude

This section reveals the results of factor analysis conducted to identify the factors associated with perceived risk attitude of investors. Initially 12 statements representing perceived risk attitude were tested for reliability using Cronbach’s alpha and the alpha coefficient was recorded to be 0.687. Since the internal consistency was poor as indicated by Cronbach’s alpha, further attempts were made to improve the alpha. Analysis revealed that Cronbach’s alpha could be improved to 0.732 after deleting 3 statements (statement 1, 8, and 12) of the second section representing perceived risk attitude. Hence final analysis for perceived risk attitude of investors was based on 9 statements. Table 3 reveals the results of reliability test for statements representing perceived risk attitude of investors.

Table 3: KMO and Bartlett’s Test Statistics of Factors Associated with Perceived Risk Attitude

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.706
Bartlett’s Test of Sphericity	Approx. Chi-Square	209.738
	Degree of Freedom	36
	p-Value	0.000

Source: Field Survey, 2019 and personal computation.

KMO measure of sampling adequacy is greater than 0.6, which indicates that the sample size is adequate for factor analysis. The Bartlett’s test of Sphericity also indicates sampling adequacy property for factor analysis as test statistic is significant at 1 percent level.

Table 4: Factor Loadings of Two Factors of Perceived Risk Attitude

Statements	Affective	Cognitive
I am cautious about stocks which show sudden changes in price or trading activities	0.546	
I usually have worry investing in stocks that have had a past negative performance in trading	0.475	
I feel that the idea of participation in a buy-sell on the stock market is appealing	0.412	
I am usually at ease with stock trading system in stock market in Nepal	0.648	
I am usually not afraid to invest in stocks that have shown a past positive performance in trading	0.462	
I am hopeful when undertaking investment in stocks that have exhibited a sure loss		0.673
My investment in stocks is largely based on investment knowledge, experience, and education		0.706
I usually consider the credibility of brokerage firms that provide the financial services		0.671
I can easily ascertain the expertise of brokers offering services		0.649
Eigen Value	2.256	1.312
Percentage Variance Explained	35.064%	16.579%
Cumulative Percentage of Variance Explained	35.064%	51.643%

Source: Field Survey, 2019 and personal computation.

The purpose of factor analysis in this section is to discover factors among 9 variables that represent the perceived risk attitude of the investors in stock market in Nepal. The factors with Eigen values greater than 1 have been extracted by using Principal Component Analysis (PCA) approach and VARIMAX Rotation. Factor loading of minimum 0.400 has been used as threshold to determine the loading of each items to the factors generated. Table 4 reports the results of factor analysis.

As reported in Table 4, the study revealed two factors associated with perceived risk attitude of investors and they were assigned appropriate label namely Affective (Factor 1) and Cognitive (Factor 2). The two factors generated explained 51.643 percent variance associated with perceived risk attitude of investors, while ‘affective’ component alone explained 35.064 percent variance. Affect refers to one’s emotion which is a psychological state of arousal triggered by beliefs about something. The most important statements loaded to the affective factor of perceived risk attitude constituted ‘I am cautious about stocks which show sudden changes in price or trading activities’, ‘I usually have worry investing in stocks that have had a past negative performance in trading’, ‘I feel that the idea of participation in a buy-sell on the stock market is appealing’, ‘I am usually at ease with stock trading system in stock market in Nepal’, and ‘I am usually not afraid to invest in stocks that have shown a past positive performance in trading’. Similarly, the statements loaded to cognitive factor constituted ‘I am hopeful when undertaking investment in stocks that have exhibited a sure loss’, ‘My investment in stocks is largely based on investment knowledge, experience, and education’, ‘I usually consider the credibility of brokerage firms that provide the financial services’, and ‘I can easily ascertain the expertise of brokers offering services’. The results show that affective reactions appeared to drive perceived risk of the investors in Nepalese stock market than the cognition.

Effect of Investor Awareness and Perceived Risk Attitude on Investor Behavior

This section reveals the results of correlation and regression analysis. The correlation analysis, using Pearson correlation, was used to examine the direction and magnitude of relationship between variables of interest. The results of correlation analysis have been revealed in Table 5.

Table 5: Pearson Correlation Coefficients

	Investor Awareness	Perceived Risk Attitude	Investment Behavior
Investor Awareness	1		
Perceived Risk Attitude	0.377*	1	
Investment Behavior	0.386*	0.497*	1

* Correlation is significant at 1 percent level

Source: Field Survey, 2019 and personal computation.

As opposed to the study hypothesis, the result showed a significant positive relationship between investor awareness and perceived risk attitude of investors. The correlation is significant at 1 percent level. The study hypothesized a negative relationship between investor awareness and perceived risk attitude, which implies that as the investors gain knowledge and information about the stock market activities, their perceived risk will gradually decrease. The result documented in this study is contradicted with Skitin and Pablo (1992) who postulated that investors having more experience of investing have higher level of risk tolerance and as a result they perceive lower risk.

With respect to perceived risk attitude of investors and their investment behavior, the study also documented a significant positive relationship and the relationship is significant at 1 percent level. This result is also contradictory to the study hypothesis, which implied that if investors have higher level of perceived risk while making investment decision on the stock market, it will lead to a negative mood resulting into pessimistic behavior when trading on particular stock. However, the results in this study showed that investor exhibit optimistic behavior in response to their level of risk perceived. Though not consistent with the study hypothesis, perceived risk attitude of investors can be a deciding factor for investment behavior in the context of Nepalese stock market. It can be argued that a risk-averse investor takes steps to minimize risk by diversifying investment in various stocks while a risk seeker investor, on the other hand, does not diversify the portfolio, rather invests in one stock expecting to earn high investment return. Therefore, investors with different level of perceived risk attitude behave differently.

The results in Table 5 also indicate a significant positive relationship between investor awareness and investment behavior in the context of investors in Nepalese stock market. The relationship is significant at 1 percent level. This result is consistent to the study hypothesis, where it was assumed that as the investors have more information about stock market through social learning and other sources, they behave more rationally. This result implies that if the investors do not behave rationally, it may be the results of, among other things, lower level of investor awareness.

The regression results of investment behavior as dependent variable and different factors associated with investor awareness and perceived risk attitude as independent variables have been revealed in Table 6.

Table 6: Regression Results of Investment Behavior as Dependent Variable and Financial Awareness, Social Learning, Affective and Cognitive Components as Independent Variables

Model 1 (Dependent Variable: Investment Behavior)	Unstandardized Coefficients		Standardized Coefficients	t-statistic	p-value
	Beta	Std. Error	Beta		
Constant	1.310	0.133		9.822	0.000
Financial Awareness	0.051	0.044	0.800	1.145	0.254
Social Learning	0.080	0.026	0.201	3.002	0.003
Affective	0.229	0.056	0.288	4.108	0.000
Cognitive	0.141	0.050	0.200	2.832	0.005
R-Square				0.305	
Adjusted R-Square				0.291	
F-Statistic				21.781	
p-value				0.000	

Source: Field Survey, 2019 and personal computation.

The two factors associated with investor awareness constitute ‘financial awareness’ and ‘social learning’ as identified through factor analysis and the factors associated with perceived risk attitude constitute ‘affective’ and ‘cognitive’ attitudes. The regression results of investment behavior on these factors showed a positive relationship. The results indicated that only ‘social learning’ component of investor awareness and both ‘affective’ and ‘cognitive’ attitude variables of perceived risk attitude are significant predictors of investment

behavior of the investors in the context of stock market in Nepal as the regression coefficients of these variables are significant at 1 percent level ($p\text{-value} < 0.010$). However, the results also showed that ‘financial awareness’ component of the investor awareness is not a significant predictor of investment behavior as regression coefficient is not significantly different from zero ($p\text{-value} = 0.254 > 0.010$). Further, results documented that financial awareness, social learning, affective and cognitive components can predict 29.1 percent variation (Adjusted R-square = 0.291) in investment behavior of the investors in Nepalese stock market. The reported *F*-statistic (21.781) is also significant at 1 percent level meaning that the model explains better the investment behavior. With regard to multicollinearity, the variance inflationary factors (VIF) of explanatory variables were significantly lower than 10. Therefore, there is also no evidence of multicollinearity in the regression model.

The regression results in Table 7 report the level to which investor awareness and perceived risk attitude in aggregate can predict the investment behavior of investors in stock market in Nepal.

Table 7: Regression Results of Investment Behavior as Dependent Variable and Aggregates of Investor Awareness and Perceived Risk Attitude as Independent Variables

Model 2 (Dependent Variable: Investment Behavior)	Unstandardized Coefficients		Standardized Coefficients	t-statistic	p-value
	Beta	Std. Error	Beta		
Constant	1.327	0.133		9.941	0.000
Investor Awareness	0.146	0.040	0.232	3.616	0.000
Perceived Risk Attitude	0.358	0.056	0.410	6.399	0.000
R-Square	0.293				
Adjusted R-Square	0.286				
F-Statistic	41.663				
p-value	0.000				

Source: Field Survey, 2019 and personal computation.

As the results indicate, investor awareness and perceived risk attitude both are significant predictors of investment behavior as the regression coefficients are significant at 1 percent level ($p\text{-value} < 0.010$). Both of these predictors can explain 28.6 percent variation in investment behavior as Adjusted R-square is 0.286. The reported *F*-statistic (41.663) is also significant at 1 percent level which means that the model explains better the investment behavior. The variance inflationary factors (VIF) of explanatory variables were also significantly lower than 10, which suggest that there is no evidence of multicollinearity in the model.

The main implication of the findings reported in the regression results is that the level of awareness and perceived risk attitude of investors both greatly affect the investment behavior of investors in the stock market in Nepal. This implies that the knowledge and information the investors have on particular stock and the stock market activities can affect their investment behavior. Similarly, the level of perceived risk also influences the investment behavior.

V. Conclusion

This paper examined the factors associated with investor awareness and perceived risk attitude of investors using a sample of 204 individual investors from stock market in Nepal. As an attempt toward identifying the factors associated with investor awareness and perceived risk attitude of investors, the study documented that two factors namely ‘financial awareness’ and ‘social learning’ are highly loaded factors of investor awareness and two factors namely ‘affection’ and ‘cognition’ are highly loaded factors of perceived risk attitude of investors in stock market of Nepal. Further, the results of factors analysis showed that larger percentage of variation associated with investor awareness is explained by ‘financial awareness’ component while larger percentage of variation associated with perceived risk attitude is explained by ‘affection’.

Finally, study concluded that there is significant positive relationship between investor awareness and perceived risk attitude, between perceived risk attitude and investment behavior and between investor awareness and investment behavior. Study also reported a significant predictive power of investor awareness and perceived risk attitude variables in determining the investment behavior of the investors. However, ‘financial awareness’ component of the investor awareness variables was observed to be insignificant in explaining investment behavior of Nepalese investors. Though results with respect to predictive power of investor awareness and perceived risk attitude in explaining investment behavior of the investors is consistent with previous studies (such as Alexander & Sheedy, 2004; Diacon & Hasseldine, 2007, among others), the significant positive relationship between investor awareness and perceived risk attitude documented in this study is contradicted with Saini, Anjum, and Saini (2011) which showed that as the investors become more aware and informed about the market trends they perceive lower risk.

The results documented in this study are expected to have practical implications. The main implication of this study is that investors learn from social interactions, financial intermediaries and investor education program to judge the investment alternatives available. Therefore, this study shed light on the fact that a formal

investor awareness program is necessary to make investors more aware of stock market trading and to increase the participation of individual investors in stock market trading in Nepal.

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