Factors influencing Individual Investor Behaviour: An Empirical study of the Ethiopian Equity Market

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A thesis submitted to the College of Business and Economics Department of Management in partial fulfillment of the requirements for the Degree of Master of Science in International Business

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Table of Contents

DECLARATION

I hereby declare that this research paper titled "**Factors Influencing Individual Investor Behavior: An Empirical Study of the Ethiopian Equity Market**" is an original work carried out by me under the supervision of Dr. Meskerem Mitku. All sources of information and references used in the preparation of this paper have been duly acknowledged. This work has not been submitted previously for any other degree or award.

Declared by:

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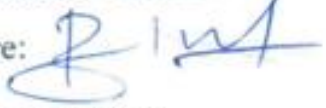
Signature: 

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CERTIFICATION OF APPROVAL

This is to certify that **Bereket Kiflu Bedane** has successfully completed his research on the topic titled, **"Factors Influencing Individual Investor Behavior: An Empirical Study of the Ethiopian Equity Market."**

To the best of my knowledge, this research work is original and of high academic quality, suitable for submission in partial fulfillment of the requirements for the award of the **Master of Science (MSc) in Accounting and Finance**.

I hereby confirm that the research meets the standards expected for graduate-level academic work, and I recommend it for submission.

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Abstract

This study investigates the impact of behavioral finance on investment decisions, focusing on how psychological factors, such as cognitive biases and emotions, influence individual equity investors in Ethiopia. It addresses a gap in the literature by exploring these biases within the context of an emerging market. A survey of 384 respondents was conducted using a structured questionnaire with 25 items across five categories: self-image/company-image alignment, accounting information, neutral information, advocate recommendations, and personal financial needs. Additionally, five items measured the dependent variable of individual equity investment decisions. Analysis using SPSS version 26 revealed that accounting information and self-image/company-image alignment had the most significant influence on investment decisions, while neutral information had the least impact. The key factors influencing investment choices included the company's industry status, dividends, financial statement conditions, share marketability, past performance, and ethical standing. These results show that Ethiopian investors prioritize financial performance indicators, market liquidity, and corporate ethics in their investment decisions. Classical wealth-maximization criteria, such as profitability and return on investment, were also significant, reflecting the behavior of experienced investors. Conversely, factors like expected losses in international markets, the unattractiveness of non-share investments, and recommendations from interested parties had minimal influence. Interestingly, despite the cultural importance of religion and family in Ethiopia, company religious affiliation and the opinions of family and friends had only a moderate impact on investment decisions. These findings suggest that while personal affiliations play a minor role, financial performance, ethics, and expert advice are the dominant drivers of investment behavior. The moderate influence of identity-related factors such as ethnicity, religion, and politics indicates a shift away from these considerations in contemporary investment behavior.

Keywords: Behavioral Finance, Investment Decision, Individual Investor, Investor Behavior.

ACRONYMS and ABBREVIATIONS

ASE	Athens Stock Exchange
ECM	Ethiopian Capital Market
ECMA	Ethiopian Capital Market Authority
EMH	Efficient Market Hypothesis
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESG	Environmental, Social, and Governance
ESX	Ethiopian Securities Exchange
FDI	Foreign Direct Investment
FSR	Financial Stability Report
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPO	Initial Public Offering
NBE	National Bank of Ethiopia

TABLES

FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Behavioural finance is a relatively new field that merges psychology and economics to study how human behaviour impacts financial decision-making. Unlike traditional finance, which assumes investors always make rational choices with complete information, behavioural finance acknowledges that emotions, cognitive biases, and social influences often lead investors to deviate from rational behaviour. This approach challenges the conventional view by highlighting the role of psychological factors in market dynamics (Raphael, 2023; Almansour et al., 2023).

In investment theory, traditional finance posits that investors are rational and make decisions aimed at maximizing profit based on complete information, as reflected in the efficient market hypothesis which suggests share prices always reflect all available information. In contrast, behavioural finance challenges this view by emphasizing that investors often make irrational decisions influenced by psychological factors. This approach highlights how investor behaviour can be influenced by biases and emotions, leading to deviations from rational decision-making (Fama, 1970; Semenov, 2009; Kumar & Goyal, 2015; Suresh, 2021).

Grounded in psychology, behavioural finance explores how emotions and cognitive errors affect individual investors' decisions. It recognizes the significant role that individual investors play in equity markets and asserts that the structure of information and characteristics of market participants influence investment behaviour and market outcomes. This field examines how psychological principles shape investor decisions, including why people buy or sell shares, and highlights how such behaviours contribute to market anomalies (Shafi, 2014; Al-Tamimi, 2006). By applying psychological principles to finance, behavioural finance examines how individual cognitive biases and judgment errors impact investment decisions. It investigates how these biases affect trading, market prices, and the role of arbitrage between rational and irrational investors. Additionally, it explores how firms might exploit market inefficiencies and encourage inaccurate valuations (Hirshleifer, 2015).

Behavioural finance explores systematic deviations from rationality that can lead to suboptimal investment choices and impact financial outcomes (Madaan & Singh, 2019; Kumar et al., 2023). By emphasizing how psychological variables influence financial behavior, it casts doubt on the conventional wisdom that rational decisions are made (Shiller, 2003). Cognitive psychologists have identified various behavioural biases in investment behaviour, including heuristics, simple decision rules, and the disposition effect, where investors tend to avoid realizing losses while seeking to lock in gains (Ritter, 2003).

Systematic and predictable mistakes in judgment and decision-making that come from human psychology rather than logical analysis are known as behavioral biases. These biases induce investors to make predictable errors in how they process information and make decisions, which can result in less-than-ideal investment choices and have an impact on financial results (Wang, 2023; Rahul, 2024). Understanding these biases helps in recognizing how individuals may choose financial products that do not align with their needs or offer the best value.

According to Vipond (2024), a cognitive bias is a flaw in reasoning that occurs when a person's decision-making process is influenced by personal beliefs, leading to errors in judgment. Investors often exhibit behavioural biases due to limited technical knowledge and overconfidence in their decision-making abilities. Biases such as herd mentality, heuristics, cognitive illusions, and the framing effect can distort rational decision-making. Individual investors, constrained by limited knowledge, high costs, and time constraints, frequently rely on simple heuristics or rules of thumb to make investment decisions (Lo, 2005; Suresh, 2021).

Research highlights several behavioural biases influencing individual investment decisions. Overconfidence involves excessive self-belief in one's judgments and decisions, affecting financial choices like market entry and debt levels (Hayward & Hambrick, 1997; Cain et al., 2015). Herding behaviour occurs when investors follow others without sufficient information, impacting their investment choices (Ngoc, 2014; Kumar & Goyal, 2016). Anchoring bias involves reliance on initial information, which can lead to irrational decisions based on arbitrary reference points (Williamson, 2024). Loss aversion refers to the greater psychological impact of losses compared to gains, leading to riskier behaviour to avoid losses and risk aversion when seeking gains (Kumar & Babu, 2018). Availability bias distorts people's perceptions of dangers and probability by making them rely on information that is easily accessible or recent (Williamson, 2024).

A study conducted in Nepal by Adhikari (2020) found that accounting information is the most important factor affecting individual investors' choices to make equity investments, followed by self-image/company-image, advocate recommendations, neutral information, and personal financial needs. In this research, these factors will be examined to assess their relevance and impact on individual investment decisions in Ethiopia. Specifically, the study will analyse how each factor influences investment choices within the Ethiopian context, considering any unique cultural or social conditions that may affect their significance.

Even though behavioral finance has been studied extensively in a variety of settings, little is known about how investors behave in developing nations like Ethiopia. Existing research predominantly focuses on developed markets or countries with well-established financial systems, leaving a significant void regarding how behavioural biases influence investment decisions in the Ethiopian context. While studies such as Adhikari (2020) have explored factors affecting investment decisions in Nepal, similar comprehensive analyses are lacking for Ethiopia. Studying investor behavior in Ethiopia is crucial for understanding the unique cultural and economic factors that influence financial decisions in emerging markets. This research can inform policymakers and financial institutions, enhancing market efficiency and investor education. Additionally, it helps to foster a more robust investment environment, attracting both domestic and foreign investments.

To fill this void, the current study aims to investigate and analyze investor behavior with a particular focus on the Ethiopian context, identifying key behavioral elements that influence individual investment decision-making. Additionally, it will explore the impact of these factors across different demographics, providing insights tailored to the local market and offering actionable recommendations for investors, businesses, and policymakers. To achieve this goal, a comprehensive survey instrument was administered. The analysis relied on data collected from Ethiopia, providing unique insights into the investment habits of individuals in this region, drawing from perspectives in economics, finance, and psychology.

1.2 Statement of the Problem

The classic paradigm of financial theory assumes that investors make rational decisions. Given this assumption, investors should base their financial decisions upon knowledge, expectations, and experience in the capital markets (Cohen & Kudryavtsev, 2012). Investors do not always make logical choices, according to recent studies on the behavior of individual

investors. Rather, a number of factors affects their equity market investment decisions (Chandra & Kumar, 2012). Although traditional investing theories are predicated on the idea that investors always behave in a way that maximizes their return, Chaudhary (2013) further contended that several research demonstrate that investors are not always so logical.

The rule of thumb is frequently taken into account by the investor than lengthy and arduous mental calculations, which might result in less-than-ideal decisions and cause market friction. However, investors are not always logical and lack the capacity to think through every scenario in order to make wise investment choices (Hirshleifer & Teoh, 2003; Suresh, 2021).

For a long time, investors' complete shrewdness was the main hypothesis of most academic study in finance. In fact, it was primarily hypothesized that stock prices are determined by the anticipations and reactions of rational investors. Rationality here refers to the exhaustive and objective treatment of available as well as potential information (von Neumann & Morgenstern, 1944; Chandra & Kumar, 2012). Due to its ease and accomplishment in explaining stock price movements, the investor rationality hypothesis was widely reinforced by finance academics. However, recent trends have weakened this support, leading to new research by psychologists who introduced the concept of human irrationality (von Neumann & Morgenstern, 1944; Chandra & Kumar, 2012).

In the current changing economic environment, investing in a range of enterprises has become more difficult as people spend large sums of money even when there is little chance that the business will make a profit. Based on their research, behavioral economists argue that people do not make logical decisions to profit from returns and that markets are inefficient, especially in the short term. Humans are prone to a variety of behavioral irregularities that impede the principles of wealth maximization and result in irrational behavior (Chaudhary, 2013).

Bagade (2019) argues that obtaining the knowhow of behavioural finance will benefit the individual investors in their future investments. In long run, pointing out these issues will help in preparing more effective investment plans while investing in equities. According to Parkash and Parkash (2024), behavioural tendencies have an undesirable impact on decision-making, resulting in irrational behaviour, incorrect judgments, and misinterpretation of observations among investors. Addressing these anomalies is vital for strengthening decision processes outcomes and diminishing market incongruities.

Although many studies have explored the factors influencing individual investors' behavior in developed economies, there is a scarcity of empirical research in underdeveloped countries (Adhikari, 2020). The goal of this work is to close this gap.

Adding to the domain of behavioural science, the primary aim of the study is to investigate the impact of various behavioural and psychological factors on the financial decision-making of individual equity investors in Ethiopia. By understanding behavioral biases, the study can help improve financial literacy and investor behavior, which is essential for developing a more efficient and robust financial market in Ethiopia.

By addressing the research questions outlined below, the study seeks to provide insights into the behavioral biases of individual equity investors in Ethiopia.

Question 1: Does the alignment between self-image and company-image influence the behavior of Ethiopian equity investors? If yes, how significant is this impact on their behavior?

Question 2: Do aspects related to accounting information influence the behavior of Ethiopian equity investors? If yes, how significant is the impact of each aspect on their behavior?

Question 3: Do elements related to neutral information influence the behavior of Ethiopian equity investors? If yes, what is the strength of each element's impact on their behavior?

Question 4: Do aspects related to advocate recommendations influence the behavior of Ethiopian equity investors? If yes, what is the strength of each aspect's impact on their behavior?

Question 5: Do elements related to personal financial needs influence the behavior of Ethiopian equity investors? If yes, what is the strength of each element's impact on their behavior?

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The overarching goal of this study is to determine whether and to what extent behavioural biases impact individual investors' investment strategies or decisions in the Ethiopian equity market. Also, which specific variables have the most influence?

1.3.2 Specific Objectives of the Study

- To examine whether the alignment between self-image and company-image affects the behavior of Ethiopian investors.

- To examine whether accounting information influences the behavior of Ethiopian investors.

- To examine whether neutral information affects the behavior of Ethiopian investors.

- To examine whether advocate recommendations affect the behavior of Ethiopian investors.

- To examine whether personal financial needs influence the behavior of Ethiopian investors.

1.4 Significance of the Study

Currently, there is limited research on the behavioral factors influencing individual investment decisions in Ethiopia. This study aims to fill this gap by surveying different groups based on age, literacy levels, marital status, education, and gender. The goal is to provide empirical insights into how these diverse factors shape investment choices. By identifying behavioral biases through this survey, the research will help investors recognize and avoid common mistakes, leading to more rational investment decisions and offering a foundation for future studies in this field.

For businesses, the study will pinpoint key aspects of investor behaviour, guiding the adjustment of future policies and strategies. Policymakers will benefit by understanding influential factors that could shape necessary legislation and procedures to meet investors' needs and enhance market efficiency. The study's focus on individual retail investors is crucial, as they represent a significant portion of market participants and their behaviour has substantial implications for financial markets.

1.5 Scope of the Study

The study was confined to determining the driving behavioral biases that influenced Ethiopian share investors to enter a particular market. These behavioral biases may have affected individuals in all aspects of their lives, but the study focused solely on their impact on individual investors' investment decisions. While there are several investment areas, the study concentrated exclusively on share investment.

The study was geographically bounded to Ethiopia, allowing for a focused exploration of the unique socio-economic and cultural dynamics that shaped investor behavior in this emerging market. This paper employed a quantitative approach to investigate the impact of numerous behavioral aspects on decision-making by individual equity investors in Ethiopia. The research utilized survey methods to collect primary data from individual equity investors in the country.

1.6 Limitations of the Study

Numerous studies have demonstrated that an individual's risk-taking ability, geographic location, social and psychological characteristics, and demographics all influence their choice of investments (Birhanie, 2015). For the sake of this study, it is way beyond the researcher's resources and purview to consider each of these factors. The behavioral characteristics were the sole focus of this investigation.

Almansour et al. (2023) emphasized that their study, conducted within the specific social setting of Saudi Arabia, might not be easily applicable to other social settings. This principle also applies to the current study, which is conducted within the cultural context of Ethiopia. It is also important to note that while investors have various investment choices available to them, the findings of this study are limited to individual investor behaviours towards share investments.

People's behaviour is contextual (Cook, 2015). As a result, the study's conclusions cannot be extrapolated to other aspects of their lives. Another limitation is that investors have their own set of investing techniques that they may prefer not to share with anyone else, so obtaining appropriate information might be a problem (Bagade, 2019).

1.7 Organization of the Study

This paper was prepared in five sections. The first part provided the research background, outlining the focus of the study, the motivation behind conducting the research, and the research questions it aimed to answer.

The second part reviewed related articles, beginning with the definitions of equity markets and behavioral finance, and further elaborating on their theoretical foundations, evolutions, and other relevant aspects. It then reviewed research conducted in Ethiopia and other parts of the world in the field of behavioral finance.

In the Research Methodology chapter, the chosen methodology was thoroughly explored, including the study design, philosophy, and strategy, along with a complete description of the procedures for primary data collection. Additionally, the data analysis techniques used to answer the research questions and the ethical considerations were outlined.

The fourth chapter presented the results of the data collected through the primary data collection method. The findings from the survey questionnaire were discussed in this section. The discussion chapter evaluated the work done during the research process and offered an interpretation of the results to answer the questions and objectives of the study.

Finally, the fifth section dealt with the conclusion, which was linked to the research objectives and research questions. This was preceded by recommendations and possible future implications.

CHAPTER TWO

LITERATURES REVIEW

2.1 Theoretical Review

2.1.1 Behavioural Finance

One of the main pillars of investment decision-making has historically been the efficient market hypothesis (EMH) idea. According to EMH, an investor's knowledge and information-processing skills cannot provide anomalous returns above usual market returns. It makes the sane assumption that investors shortlist and choose the best investment possibilities using a variety of models. EMH, however, was unable to explain market irregularities, which contributed to other financial crises. Opponents of the Efficient Market Hypothesis (EMH) argue that, in contrast to EMH assertions, investors do not always act rationally. According to these critics, a variety of behavioral anomalies examined in behavioral finance can account for irrational behaviour (Shefrin and Statman, 2011; Pompian, 2012; Barberis, 2017; Alnajjar, 2013; Ross et al., 2016; Din et al., 2021).

The significance of comprehending human behavior in financial results is emphasized by Thaler (1999), who defines behavioral finance as the study of how human psychology influences financial decisions and markets. Sewell (2007) and Sharna & Sarma (2022) both reference Hirschey & Nofsinger (2008) as saying that behavioral finance studies how emotions and cognitive errors affect financial decision-making. Finding out how they affect both individual investors and the market at large is its aim.

It is the study of the effect of psychology on the conduct of investors or financial experts, and its subsequent impacts on the markets. It highlights that investors are not continuously rational, are subject to bounds in self-control, and are impacted by their own prejudices (Vipond, 2024). Hayes (2023) notes that behavioural finance explores how psychological factors can impact market outcomes. Ghuman (2024) stated that the field of behaviour science explores psychological biases which shape investment decisions, and often lead to outcomes that diverge from rational expectations.

Understanding how human emotions, cognitive biases, and decision-making processes influence financial markets and investment choices is the goal of this quickly developing discipline that straddles the divide between psychology and economics. Behavioral finance

recognizes the influence of psychological elements on financial behavior, in contrast to classical finance, which presumes rational decision-making based only on accessible facts (Chaubey & Raj, 2024).

Behavioural Finance investigates how investors' decision-making processes are influenced by cognitive errors, mental mistakes, and emotions, and their corresponding impact on share markets (Samal & Mohapatra, 2021). The field explores psychological and sociological issues that affect decision-making among individuals, groups, and organizations. It aims to shed light on investors' thought processes, particularly the emotional processes at play and the degree to which they affect choices (Ricciardi & Simon, 2000).

2.1.2 Evolution of behavioural finance

For the majority of the past century, psychologists have focused their attention on the study of the cognitive processes that underlie human decision-making, and they continue to do so today. These cognitive mechanisms have also begun to garner some interest within the foresight field. Systematic mistakes or departures from norms or rationality in perception, memory, cognition, and judgment are referred to as cognitive biases in general (Haselton, Nettle, & Andrews, 2005; Schirrmeister et al., 2020).

The concept of behavioural finance traces its origins back to 1912 with George Seldon's publication, "Psychology of the Stock Market." However, it gained substantial momentum in 1979 when Daniel Kahneman and Amos Tversky posited that investors often base decisions on subjective reference points rather than objectively choosing the optimal option. Their ground-breaking work highlighted the role of cognitive biases in decision-making, laying a foundation for behavioural finance to integrate psychological insights into financial theory (Veni & Kandregula, 2020).

Richard Thaler further advanced the field in 1980 by introducing "mental accounting," which suggests that individuals mentally segregate financial decisions into separate accounts to evaluate their consequences independently. This concept revolutionized understanding of how psychological factors influence economic behaviour. Thaler proposed that people assign different mental values to money based on its origin or intended use, influencing spending and saving decisions accordingly. This insight into mental compartments has become integral to studying irrational financial behaviour and decision-making biases (Dadashi et al., 2023).

The evolution of academic finance has shifted significantly from the era when the efficient market theory was widely accepted as incontrovertible. Behavioural finance, which integrates broader social sciences such as psychology and sociology, has emerged as a pivotal research framework. This field starkly contrasts with the efficient markets theory, challenging the assumptions of rationality and perfect information in financial decision-making (Shiller, 2003).

Over the last few decades, academic discourse has shifted towards a more interdisciplinary approach, integrating insights from psychology and sociology into financial studies. This broader perspective has challenged conventional wisdom and contributed to a richer understanding of market dynamics. Behavioural finance now stands as a vital research paradigm, offering critical insights into the irrational yet systematic patterns of investor behaviour (De Bondt et al., 2008).

The field continues to expand with studies exploring various aspects of behavioural biases, decision-making processes, and their implications for market efficiency. Recent research has focused on applying behavioural insights to practical financial contexts, including asset pricing anomalies and investor sentiment. These efforts underscore the on-going relevance and growth of behavioural finance as a dynamic area of inquiry ((Nanayakkara et al., 2019).

The evolution of behavioural finance reflects a shift towards integrating psychological and sociological perspectives into financial theory. This interdisciplinary approach has enriched our understanding of market behaviour, highlighting the complex interplay between cognitive biases, emotions, and economic decision-making processes. As behavioural finance continues to evolve, it promises to provide valuable insights into how human psychology shapes financial markets and investment outcomes in increasingly nuanced ways. This concept became integral to understanding how psychological factors influence economic behaviour (Sattar et al., 2020).

2.1.3 Key Concepts in Behavioural Finance

Prospect Theory

The foundation of behavioral finance is prospect theory, which was created by Daniel Kahneman and Amos Tversky. It suggests that rather than final asset levels, people assess financial results by comparing gains and losses to a reference point (Williamson, 2024). Framing and valuation are the two phases of decision-making identified by prospect theory.

The decision-maker constructs a representation of pertinent activities and results during the framing step. They evaluate the worth of each option at the appraisal step and make their decision accordingly. Although a formal theory of framing does not exist, important insights into the representation of acts and results have been obtained (Tversky & Kahneman, 1992).

A psychological theory called prospect theory explains how people make choices that involve risk and uncertainty. It implies that judgments are made in light of alleged benefits or drawbacks. Most people would rather maintain their current level of wealth than take the chance of increasing it when presented with equal odds. Individuals frequently choose to avoid possible losses than taking a chance on a similar benefit. When deciding between investing possibilities, investors frequently show signs of risk aversion. For example, even though they have less opportunity for profit, they could favor assets with guaranteed returns or less volatility. This is consistent with Prospect Theory's focus on pursuing certainty and preventing losses (Spendelow & Schmidt, 2024).

Mental Accounting

Thaler (2015) introduced the concept of mental accounting, which suggests that investors classify their investments into different portfolios based on mental categories. They then set distinct goals for each portfolio, aiming to maximize returns while minimizing risk. This can lead to the selection of emotionally appealing but less profitable portfolios (Zahera & Bansal, 2018).

"The set of mental processes used by people to shape, assess, and stay informed of financial activities" is what is known as mental accounting. It demonstrates how customers frequently and in a range of situations employ complex brain processes. To keep their spending under control, for example, they classify their expenses and make budgets (Thaler, 1999; Skwara, 2023). According to the Mental Accounting Theory, individuals and organizations use not only monetary resources but also cognitive and emotional resources while making financial decisions (Dahlberg et al., 2015; Henderson & Peterson, 1992; Allahham & Ahmad, 2024).

Hahnel et al., (2020) discuss mental accounting as the practice where individuals create mental budgets to organize resource usage and link particular acts of consumption with corresponding payments. Study of the relationship between consumer behavior and choosing between available investment alternatives demonstrates that these mechanisms can exert a

substantial impact on decisions and behaviors, often diverging from normative economic principles.

Heuristics

Heuristics are general guidelines that can help with decision-making by directing decision-makers' attention to particular aspects of the data (Hodgkinson et al., 2023). The Greek verb heurísko, which means to discover or find out, is where this name comes from. According to Pinheiro and McNeill (2014) and Hjeij & Vilks (2023), heuristics are thus etymologically related to the discipline of discovery, the branch of knowledge based on investigative procedures, and are naturally associated with trial techniques, such as what-if scenarios and simple trial and error.

Heuristics refer to mental shortcuts or simplified rules that allow individuals to navigate their environment efficiently. However, these shortcuts can sometimes result in the formation of highly subjective perceptions of reality (Zimmer & Fahrenberg, 2014; Schirrmeister et al., 2020). Research in cognitive psychology suggests that people often rely on heuristics, or mental shortcuts, to make judgments. While these methods may not always be logically sound, they can lead to cognitive biases—systematic errors that deviate from rational standards (Martín & Valiña, 2023). Heuristics aid in streamlining decision-making, conserving mental energy, and yielding satisfactory outcomes, even if they are not always precise (Simon, 1991; Schirrmeister et al., 2020).

Bounded Rationality

The theory of bounded rationality holds that people can only make the best judgments when they have a restricted amount of time, information, and cognitive resources. Because of this, humans frequently use mental shortcuts or heuristics to make difficult decision-making processes simpler (Williamson, 2024). Fundamentally, bounded rationality asserts that social groups and individuals are limited by organizational and cognitive constraints even when they make every attempt to apply cost-benefit, rational solutions (Figueira & Martill, 2020).

Irrationality is not the same as bounded rationality. Here, a clear differentiation needs to be made. The idea of constrained rationality makes no attempt to explain why persons with mental illnesses behave abnormally or why they believe in lucky numbers. One could refer to such situations as illogical. But just because a behavior doesn't follow the rules of complete rationality doesn't mean it's illogical (Selten, 1999). Emotions, trade-offs, routines,

relationships, cognitive constraints, and decision-making processes are all taken into account by bounded rationality, which emphasizes how these aspects deviate from the ideal of rational cost-benefit analysis (Jones, 2003; Figueira & Martill, 2020).

According to Jones (1999), bounded rationality asserts that although decision makers are goal-oriented and adaptive, they occasionally fail to make crucial choices due to the human mental and emotional architecture. Examples of constrained rationality in the decision-making processes of Mexican and Canadian entrepreneurs were found in a study conducted by Burgos et al. in 2020. Despite having a solid business background, these entrepreneurs frequently relied on "gut feeling" when faced with time restrictions, incomplete information, or a lack of past experience.

Herding Behaviour

Herding behavior refers to the inclination of investors or traders to mimic the actions of others instead of making decisions based on their own analysis and information. Essentially, investors often buy or sell assets simply because others are doing so, rather than relying on fundamental analysis or market research (Tamplin, 2023). In the current context, herding is prevalent in many financial markets, where investors, lacking relevant information about the risks and rewards of a venture, base their investment decisions on the actions and intentions of others (Yafouz & Yet, 2023).

Herding behavior is a notable phenomenon that significantly affects the market, causing asset prices to become inefficient and increasing volatility during times of market stress. In the context of finance, herding refers to the tendency of investors to make trading decisions regarding individual assets (or a portfolio) based on the actions of others in the market.A study reveals that herding behaviour is less common over shorter time intervals but becomes increasingly prevalent over longer periods. Investors' trading decisions closely mimic the actions of other traders over time. Moreover, this behaviour intensifies significantly over extended time intervals, especially in a declining market (Choi et al., 2021).

(Compen et al., 2022) contend that while traditional economics posits that individuals make decisions independently, behavioral economists have demonstrated that humans often exhibit herding behavior, wherein they follow the crowd in decision-making. Their research reveals that herding occurs when individuals are aware that at least 50% of others have made a

specific decision. Moreover, individuals are susceptible to being influenced by incorrect information from their peers.

2.1.4 Cognitive Biases in Financial Decision-Making

Overconfidence

Zahera & Bansal (2018) conducted a study that highlighted various cognitive biases in investment decision-making, with overconfidence being one of the key biases. Overconfidence occurs when individuals overestimate their abilities, believing they are more capable than they truly are (Trivers, 1991; Chen et al., 2007). Investors who attribute their past successes to their own skill and blame failures on external factors, such as bad luck, are particularly susceptible to overconfidence. This bias leads investors to believe they can consistently achieve high returns, often prompting them to engage in excessive trading while underestimating the risks involved in active equity investing (Kyle & Wang, 1997; Odean, 1998; Chen et al., 2007). Overconfident investors also tend to have an overly optimistic perception of risk, which may drive them to adopt a risk-seeking approach when making investment choices (Parveen et al., 2020; Almansour et al., 2023).

Anchoring

Anchoring bias is the tendency for individuals to heavily rely on the first piece of information they receive (the anchor) when making decisions or judgments, even if the anchor is irrelevant or arbitrary. Once the anchor is set, it becomes a mental reference point that shapes future evaluations or assessments. This effect can be strong, causing people to make biased decisions that align with the initial anchor, even when other information contradicts it. Anchoring bias can influence decisions across various areas, including financial decision-making (Wang, 2023).

Disposition Effect

The disposition effect describes investors' predisposition or propensity to hang onto companies that have lost value and sell winning equities as soon as stock prices rise. Retail investors hold losing equities for a long time while quickly selling or quitting winning stocks. Disposition for various asset classes may result from investors holding onto failing investments for an extended period of time and selling winning stock too soon (Singh 2016; Taffler et al. 2017; Shefrin and Statman (1985); Abideen et al., 2023).

Representativeness Bias

Another mental shortcut is representativeness bias. Stereotypes are used excessively (Shefrin, 2005; Chen et al., 2007). The representativeness bias affects investment decision-making in a number of ways. Investors may mistakenly believe that a company's positive attributes—such as its high projected growth, competent management, and high-quality products—make it a smart investment. As demonstrated by (Lakonishok, Shleifer, & Vishny, 1994; Chen et al., 2007), these "glamour" businesses are frequently bad investments, hence this stereotype would cause a cognitive error. Additionally, investors can believe that recent returns are indicative of future returns (DeBondt, 1993; Chen et al., 2007).

Hindsight Bias

According to Fischhoff & Beyth (1975), hindsight bias arises when an investor thinks that an occurrence may be reasonably foreseen to occur. However, this perception might be risky because it can lead to illogical judgments because the investor may create a cause-and-effect relationship between the two events even though there isn't any (Zahera & Bansal, 2018).

Hindsight bias is the tendency to view known information as obvious, making the past appear more predictable than it actually was. For example, a police investigator may struggle to set aside prior knowledge when gathering a suspect’s perspective on a crime. Similarly, an instructor may find it difficult to disregard their own knowledge when trying to understand the source of students' difficulties (Dror, Morgan, Rando, & Nakhaeizadeh, 2017; Louie, Rajan, & Sibley, 2007; Ackerman et al., 2020).

Availability Bias

Availability bias is the term used to explain how a person's perception of an event's possibility or frequency is influenced by its (none) availability in their consciousness. "The ease of recall (or imagination) of instances of specified event" is how we characterize availability bias. A bias arises when elements like the concreteness, drama, familiarity, recency, relevance, similarity, or vividness of examples have an impact on retrieval, distorting availability-based estimations (Dube-Rioux and Russo 1988; Godefroid et al., 2024). The phenomenon known as the availability bias occurs when people overestimate the representativeness of examples that are easily remembered (Tversky and Kahneman 1973; Godefroid et al., 2024).

Other cognitive biases identified by research that can impact an individual's investment decisions include Confirmation Bias, Conservatism Bias, Recency Bias, Self-Serving Bias, Endowment Effect, Regret Aversion, and Gambler's Fallacy (Williamson, 2024).

2.1.5 Behavioural Finance V Traditional Finance

Since the 1970s, there has been a shift in finance from traditional models based on fully rational investors and efficient markets to a behavioral approach, which recognizes that investors are boundedly rational. In this new perspective, decisions are influenced by emotions, cognitive and behavioral biases, and social factors, with investors relying on heuristics for decision-making (Subramaniam & Velnampy, 2017).

The Arbitrage Theories of Miller and Modigliani, the Portfolio Theory of Markowitz, the Capital Asset Pricing Model (CAPM) by Sharpe, Lintner, and Black, and the Option-Pricing Theory by Black, Scholes, and Merton are examples of traditional finance theories that were based on the premise that investors are logical and emotionless. Traditional finance also relied heavily on the Efficient Market Hypothesis (EMH), which maintained that logical investors seek to maximize returns for a specific degree of risk (Statman, 1999; Subramaniam & Velnampy, 2017).

Behavioral finance scholars have criticized traditional finance for failing to account for real-life complexities. Olsen (1998) argued that traditional finance is incomplete due to its neglect of behavioral factors. Research by Kahneman and Tversky (1979), Shefrin and Statman (1994), Shiller (1995), and Shleifer (2000) challenged the assumption that decision-makers are rational and utility-maximizing. Kahneman and Tversky (1974) emphasized that human behavior is often influenced by heuristics, and these biases lead to deviations from rational decision-making (Kahneman & Tversky, 1979; Machina, 1982). Factors such as information, risk tolerance, emotions, and personal qualities further distort behavior, making it less aligned with rational models (Bodie, Kane & Marcus, 2008; Subramaniam & Velnampy, 2017; Sattar et al., 2020).

Jensen & Meckling (1994), as cited in Barberis & Thaler (2002), argued that the 'Rational Man' concept central to traditional finance is unrealistic. Thaler (2015) highlighted that cognitive biases significantly influence decision-making, leading to irrational behavior and suboptimal choices. These findings challenge the traditional assumption of rationality, with significant implications for financial decision-making (Barberis & Thaler, 2002).

While traditional finance models assume rational behavior, behavioral finance emerged to address their limitations, proposing that certain financial phenomena are better explained by models where agents are not fully rational (Barberis & Thaler, 2002).

2.1.6 Overview of Equity Market

An equity market is where shares of companies are issued and traded, facilitated either through exchanges or over-the-counter markets. It is a crucial component of a market economy, providing companies with capital to expand their operations and offering investors ownership stakes in companies, potentially leading to gains based on future performance. Equity markets serve as pivotal venues where stocks are exchanged between issuers and buyers in a market economy (Chen, 2020).

When they buy stock in a corporation, equity investors hope that the shares will increase in value through capital gains and/or capital dividends. If the value of an equity investment increases, the investor will get the difference in money if they sell their shares or if the company's assets are liquidated and all of its debts are paid off. By providing diversification, stocks can improve the asset allocation of a portfolio (BlackRock, 2024).

In Ethiopia, businesses funded through collective equity contributions from a vast number of individual investors, particularly banks and insurance companies have demonstrated significant positive economic impacts. These collective investments play crucial roles in various key areas of the economy, benefiting not only the businesses themselves but also individual investors and the broader community. The 2024 financial stability report of the National Bank of Ethiopia highlights that private banks constitute 52.2% of the total banking industry assets, 54.8% of loans and bonds, 53% of total deposits, and 72.8% of total capital. These achievements underscore the critical role of the equity market in enabling such significant outcomes (NBE, 2024).

2.1.7 The Importance of Studying Individual Investor Behaviour in Equity Market

In recent decades, financial market investing has grown in popularity among both institutional and individual investors. Information and communications are now accessible anywhere in the world in a matter of seconds. Investment choices undoubtedly depend on the item and its future financial situation, but market participants frequently influence short-term price adjustments that aren't always rational; occasionally, they are motivated by emotion or immediately "received news" (Bikas et al., 2013).

A more thorough investigation of the psychological elements that influence a person's conduct provides insightful information about economic decisions (Durand et al., 2008; Breuer et al., 2011). The field of behavioral finance has made great strides in recent years, providing evidence that investors' financial decisions are greatly influenced by behavioral factors both internal and external (Shefrin, 1999; Adhikari, 2020).

Investors must be aware of typical biases because they might cause errors due to innate propensities to oversimplify, rely on snap decisions, or exaggerate confidence. Investors can lower risk and improve long-term results by recognizing these biases and making better decisions (Magellan, 2025). According to research, cognitive talents have a big influence on how well investments go. Barber & Odean (2011) and Korniotis & Kumar (in press) discovered that whereas less intelligent investors frequently underperform and choose bad stocks, more intelligent investors typically outperform, generating returns comparable to benchmarks and making wise investment decisions.

Understanding individual investor behaviour helps identify patterns and trends in the equity market. By analysing their buying and selling patterns, researchers can gain insights into market sentiment and predict future price movements. By incorporating such insights into their decision-making process, portfolio managers can potentially enhance returns while managing risks more effectively. Portfolio managers can benefit from understanding investor behaviour by designing investment strategies that consider market sentiment and sentiment-driven price movements (Baker & Wurgler, 2006).

Furthermore, Research has shown that individual investor behaviour plays a vital role in equity market fluctuations. These investors tend to exhibit certain biases, such as overconfidence or herding behaviour, which can lead to irrational decision-making. For instance, during periods of market euphoria, individuals may be more likely to engage in speculative trading, driving up share prices beyond their intrinsic value (Barber & Odean, 2007).

Moreover, recognizing individual investor behaviour allows financial advisors to tailor investment strategies according to their clients' risk tolerance and preferences. By considering behavioural biases such as loss aversion or anchoring effects, advisors can help investors make more rational decisions aligned with their long-term goals (Kahneman & Tversky, 1979; Ziano et al., 2021).

Namazi & Salehi (2010) analysed how investor sentiment positively affects the likelihood of market crises occurring within a one-year timeframe. They found that the influence of investor sentiment on equity markets is stronger in countries culturally inclined towards herd behaviour and overreaction, as well as in countries with less efficient regulatory institutions. Upadhyaya (2019) asserts that a deeper comprehension of investor sentiment can aid in mitigating such occurrences.

2.2 Empirical Review

2.2.1 Behavioural Patterns of Ethiopian Investors

National culture has emerged as a significant determinant in economic studies (Guiso et al., 2006). According to Hofstede (1983), as cited by Breuer et al. (2011), national culture is defined as the 'collective programming of the mind,' implying that it consists of specific values influencing attitudes and behavior. Recent research acknowledges culture's pivotal role in economic decision-making, where financial investors are influenced not only by individual considerations but also by social interactions, potentially altering their decisions (Lobão & Maio, 2019). Birhanie (2015) provides empirical evidence supporting the theory that social and cultural factors influence the investment preferences of individual investors in Ethiopia, drawing on primary and secondary data analysis.

Peer influence in investment decisions can be understood through two main channels: social learning and social utility. Social learning suggests that when peers purchase an asset, individuals may infer that the asset is of higher quality, leading them to consider similar investments. On the other hand, social utility posits that an individual's satisfaction or utility from owning an asset may increase if others in their peer group also own it. These dynamics not only shape individual investment choices but also contribute to broader financial market behaviours and potential instability (Bursztyn et al., 2014). In collectivistic cultures, investors give less importance to their private information and rely more on others' opinions (Chui et al., 2010; Lobão & Maio, 2019). In Ethiopia, a country with a high-context (collectivist) culture (Yeshanew et al., 2023), Birhanie (2015) similarly observed that 46% of individual investors were highly influenced by peer pressure from their colleagues when deciding to invest in shares of Ethiopian companies.

Investors' personal attitudes regarding risk have a substantial impact on the level of risk they are willing to accept (Adhikari, 2020). Residents in developing countries, particularly those from lower socioeconomic backgrounds, are often perceived as highly risk-averse (Haushofer et al., 2014; Vieider et al., 2018). Yirdaw et al. (2021) similarly identified risk aversion as a pivotal factor influencing investment decisions in Ethiopia, which aligns with broader findings on risk attitudes among diverse populations. This has severe repercussions for the country, as Chronopoulos et al. (2011) approve that risk aversion drops the likelihood of investment.

Financial literacy is widely acknowledged as pivotal in shaping investment decisions across history. Research indicates that individuals with low financial literacy often exhibit market aversion, incur high interest and debt fees, and resort to costly borrowing practices (Lusardi and Tufano, 2009; Van Rooij et al., 2011; Lusardi and Scheresberg, 2013; Becchetti et al., 2013; Lusardi and Tufano, 2015; Ahmed et al., 2021). Specifically, Endris (2024) underscores the prevalence of poor financial literacy levels in Ethiopia, highlighting the potential for suboptimal investment outcomes due to inadequate financial knowledge.

The most significant factors influencing individual investment decisions include opinions from family members (Adhikari, 2020). In many economic contexts, families act as decision-making units, shaping individuals' beliefs, attitudes towards money, management styles, and behaviors (Kim et al., 2017; Flores & Montaňo, 2023). According to Zewude (2019), Ethiopian investors often rely on advice from family, close relatives, and friends when making investment decisions. Leidy (2023) acknowledges that seeking financial advice from friends and family has benefits, such as receiving advice from trusted sources and potentially avoiding conflicts of interest. However, there is a risk of financial loss, as the advice may be limited by the advisor's own experiences and those of their immediate circle.

The reliability, transparency, and consistency of financial reporting processes are crucial for enabling informed investment decisions. Published audited financial statements that accurately reflect financial performance, rather than presenting an overly optimistic or fraudulent portrayal, are valuable to market participants, including investors (Rezaee, 2005). However, a study conducted in Ethiopia by Zewude (2019) revealed contrasting insights, with 37% of respondents indicating that their decisions to purchase bank shares were not based on sufficient information.

Shafir, Diamond, and Tversky (1997), as cited in Ziano et al. (2021), described money illusion as people's tendency to think of money without adequately accounting for inflation, that is, in nominal terms rather than in real terms. Research conducted by Lemu (2020) confirms the existence of this phenomenon in Ethiopia, as 40% of individuals lack understanding of the concept of money illusion despite their income's purchasing power being affected by prevailing inflation.

2.2.2 Behavioural Patterns of African Investors

A study by Mlambo & Biekpe (2006) found that cultural beliefs and attitudes towards money affect investment choices in South Africa. For instance, some cultural groups prioritize saving for immediate needs rather than long-term investments.

A study carried out in Nigeria looked into the share market profits of the nation as well as the behavioral tendencies of investors. The study came to the conclusion that understanding behavioral biases in the Nigerian stock market was an essential first step in making sure that investment decisions were appropriately controlled after finding strong evidence that behavioral biases existed. Once more, behavioral biases may need to be taken into account when building a portfolio in order to mitigate any detrimental consequences on the stock market and individual investors (Alalade, Okonkwo, and Folarin, 2014; Ogunlusi & Obademi, 2019).

Following an investigation of the cognitive biases that Moroccan individual investors are susceptible to, Bourezk et al. (2020) draw four key conclusions. First, investors are overconfident in their assessments and rely on heuristics when making investing decisions. Second, herding behavior has a big impact on their investment behavior. Lastly, when they are making investing selections, they consider losses more than gains because they are extremely risk and loss averse.

According to a Kenyan study by Njeru & Matanda (2023), overconfidence significantly and negatively affects decision-making. Overconfidence is directly linked to overestimation, which can result in an inaccurate outcome estimate and ultimately lead to a poor decision. When forecasting an outcome based on the information at hand, investors should be emotionless, sober, and logical.

A study conducted in Egypt discovered proof that herding behavior existed. The concept of herding, also referred to as herd behavior in the social sciences of economics and finance, is defined by many scholars as the process by which economic agents imitate one another's actions and/or base their choices on those of others (Sadewo and Cahyaningdyah, 2021; Metawa et al., 2024). According to a different study by Magui et al. (2023), Egyptian individual investors' investment decisions are influenced by market mood.

According to Bourezk et al. (2020), Zaiane and Abouab (2010) used a questionnaire given to individual investors on the Tunis Stock Exchange to investigate the bias of overconfidence. They discovered that because Tunisian investors believe in their instincts, think of themselves as fortunate, and trade stocks aggressively, they are prone to overconfidence.

A research study conducted in Ghana examined the impact of four behavioral biases (overconfidence, regret, belief, and the "snakebite" effect) on investment decision-making. The findings of the research indicated that these biases have a significant, positive, and consistent relationship with investment decisions. The results support the prospect theory and suggest that behavioral biases play a crucial role in influencing investment decisions, particularly within a developing country context (Nkukpornu et al., 2020). Bonna & Amoah (2020) indicated a significant reliance on intuition and the influence of others in the investment decisions of Ghanaians. The survey results and analysis provide ample evidence that Ghanaian investors rely on friends, family members, and other trusted individuals to make such decisions.

Social factors, including social interaction, family participation, and investment preference influenced individual investors' participation in Tanzania (Mwakabumbe, 2023). A study made in Cameroon by (Nkem et al. 2017) found that investors with higher risk tolerance tend to invest more in equities compared to those with lower risk tolerance. This suggests that individuals who are more willing to take risks are more likely to invest in stocks.

2.2.3 Behavioural Patterns of Developed Countries Investors

Belhoula & Naoui (2011) examined the Dow Jones stock market and found that herding behavior and feedback trading are key factors influencing short-term price trends, often causing price fluctuations that deviate from fundamental values, which can destabilize the market. Their study highlighted the significant relationship between herding and positive feedback trading, showing their similar evolution over time. Similarly, De Bondt et al. (1985)

explored the concept of behavioral finance, posing the question, “Does the stock market overreact?” Their research provided evidence supporting the idea that cognitive biases, such as investors overreacting to a series of negative news, can lead to predictable mispricing of stocks on the New York Stock Exchange (Al-Tamimi, 2006).

A study by Braggion et al. (2021) in Germany found that individual investors are suffering from money illusions. Empirical results from research by (Economou et al. 2018) document the existence of herding towards the ‘fear’ indicator rather than the market return in the USA, UK, and Germany. These results also indicate the existence of cross-market herding in the US, UK, and German markets. The study also documents that herding estimations can also be affected by other markets’ investors’ sentiment, displaying more pronounced relationships between the two European markets.

Al-Tamimi (2006) investigated the factors influencing the UAE investor behaviour where it was found that Six factors were the most influencing factors; expected corporate earnings, get rich quick, stock marketability, past performance of the company's share, government holdings, the creation of the organized financial market (i.e. Dubai Financial Market& Abu Dhabi Securities Markets). Five factors were found the least influencing factors which are expected losses in other local investments minimizing risk, expected losses in international financial markets, family member opinions and gut feeling on the economy. The most influencing group was by order of importance accounting information, self-image/company-image coincidence, neutral information, advocate recommendation, and personal financial needs. Two factors had unexpectedly least influence on the behaviour of the UAE investor behaviour, namely the religious reasons and the factor of family member opinions.

Investor behavior in various markets was examined by Merikas et al. (2011) and Kim and Nofsinger (2003, as quoted in Chandra & Kumar, 2012). Merikas et al. discovered that market trends and a variety of other economic considerations influenced the stock choices made by Greek investors on the Athens Stock Exchange. In a similar vein, Kim and Nofsinger noted that Japanese investors frequently made bad choices, especially in bull markets, and bought riskier, high book-to-market stocks. Poor performance resulted from their propensity to hold high-risk stocks in dropping markets and value stocks in rising ones. Both studies demonstrate how individual characteristics and market circumstances influence investment behavior.

A Singaporean study by Seetharaman et al. (2017) found that portfolio selection is influenced by investment goals and asset familiarity, with the latter creating a bias and false confidence in guaranteed returns, discouraging diversification. Similarly, a survey by Abul (2019) at the Kuwait Stock Exchange revealed that psychological factors like herd behavior, optimism, pessimism, and risk influence investment decisions. However, the study did not find significant evidence linking overconfidence to the investment choices of individual Kuwaiti investors. Both studies highlight how psychological factors can shape investor behavior and decision-making.

With an emphasis on the Brazilian and Romanian markets, Oprean & Tanasescu (2014) investigated the effects of behavioral finance on developing capital markets. Their results imply that trading activity is influenced by irrational investor behavior. Pessimistic investors have the most influence on trading volume in Romania since they are highly risk averse and react badly to losses or crises, no matter how big. On the other hand, market activity is driven by optimistic investors in Brazil who anticipate short-term opportunities and increase trading volume in response to profits. The Brazilian stock market's trading volume has significantly increased as a result of their overreaction.

2.3 Conceptual Framework of the Study

The expected relationship between the variables is illustrated via a conceptual framework. It lays out how the pertinent goals of the research process are connected to produce logical conclusions (Swaen, 2024).

A conceptual framework lays out the criteria for defining a research question and identifying pertinent, significant responses to it. It links the theories, presumptions, convictions, and ideas that underlie your study and displays them in a narrative, graphical, or pictorial style (Sachdeva, 2023). The link between the variables under investigation is shown in the figure below, which was taken from Adhikari (2020).

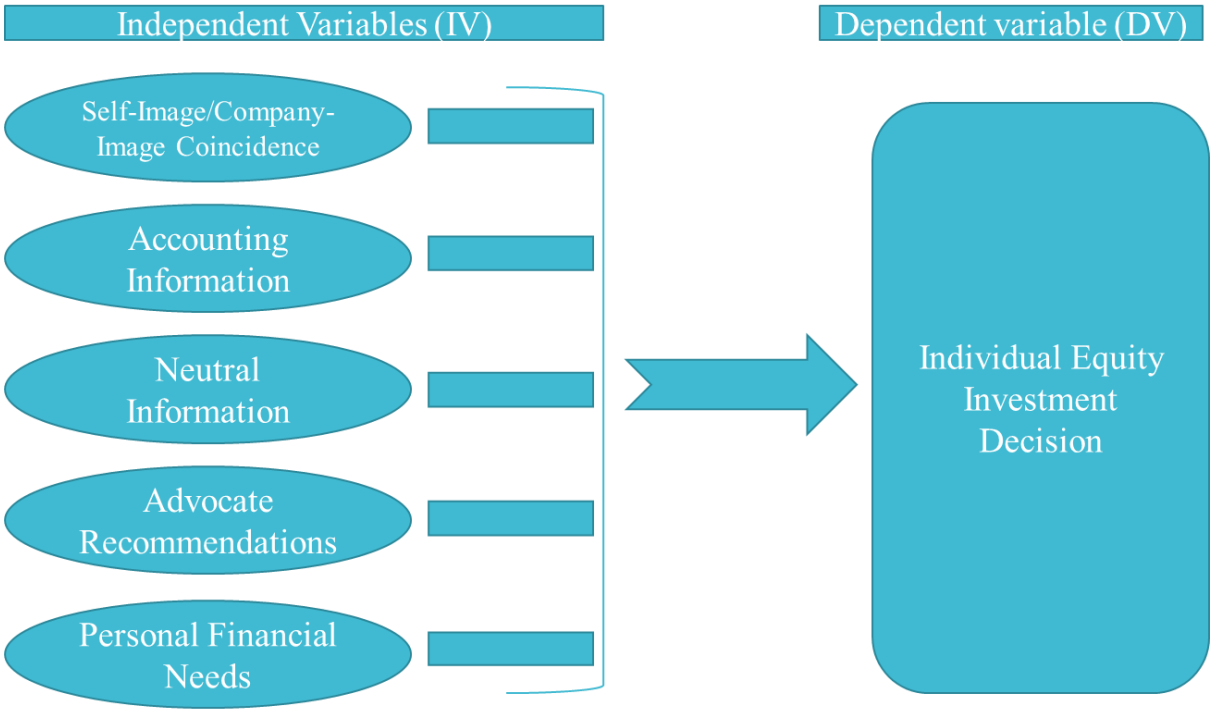

Figure 2.1. Individual Equity Investor Decision Making Model (Source: Adhikari, 2020)

2.4 Research Hypothesis

Agegn (2021) found that investors often exhibit irrational behaviour, with their investment decisions significantly influenced by a range of psychological and cognitive biases. Kahneman and Tversky's (1974) seminal work introduced the concept of heuristics and biases, illustrating how investors rely on mental shortcuts that can lead to systematic errors. For instance, their research identified biases like overconfidence, where investors tend to overrate their knowledge and forecasting skills, and loss aversion, where the pain of losses is stronger than the pleasure of equivalent gains.

Agegn (2021) built on these foundational concepts by exploring how modern investment behaviours continue to be swayed by similar biases in contemporary financial environments. Agegn's research identified additional biases that are prevalent in today's market, such as herd behavior, where investors mimic the actions of others rather than making independent decisions, and framing effects, where the way information is presented influences decision-making.

Together, these studies underscore that investor decisions are not always based on rational analysis or objective data. Instead, they are often shaped by various biases and heuristics that

lead to irrational investment behaviour. This understanding helps to explain why market anomalies and deviations from rational models occur, offering insights into improving investment strategies and mitigating the impact of these biases.

Hypothesis 1: Self-image/company image coincidence has a positive effect on individual investment decision behavior.

Hypothesis 2: Accounting information has a positive effect on individual investment decision behavior.

Hypothesis 3: Neutral information has a positive effect on individual investment decision behavior.

Hypothesis 4: Advocate recommendation have a positive effect on individual investment decision behavior.

Hypothesis 5: Personal financial needs have a positive effect on individual investment decision behavior.

CHAPTER THREE

METHODOLOGY

The process that researchers must follow in order to carry out their research is known as research methodology. It also demonstrates how the final research result will be obtained in accordance with fulfilling the study's goal (Sileyew, 2020).

3.1 Research Design

The main steps in the research process, such as the data collection and analysis techniques that link the empirical data to the original research questions and ultimately lead to a conclusion, are outlined in the study design (Hartley, 2004; Ferede, 2019). Two approaches—qualitative and quantitative—have received increased attention in the field of research technique, particularly in the social science sector (Mehrad & Zangeneh, 2019).

Quantitative research is concerned with the analysis of numerical data and statistical methods, whereas qualitative research focuses on the interpretation of words and meanings (Streefkerk, 2023). This study utilized a descriptive survey research design to present findings based on descriptive statistical tools. A quantitative research approach was employed to address the study's objectives. Primary data were collected through a structured questionnaire to examine the relationship between the independent variables (self-image/company image coincidence, accounting information, neutral information, advocate recommendation, and personal financial needs) and the dependent variable (individual equity investment decision).

3.2 Study Area

With a population of 127 million, Ethiopia is the second most populous country in Africa after Nigeria and the twelfth most populous country globally. Ethiopia is an East African nation. With around 70% of the population under 30, the nation has a youthful demographic profile. Furthermore, with a remarkable growth rate of 7.2% in FY2022/23, Ethiopia's economy has become one of the fastest-growing in the area (World Bank, 2024). According to World Bank data, the country’s GDP is $163.7 billion, with a GDP per capita of $1,272. Despite the challenges, Ethiopia’s economic growth remains robust, with foreign direct

investment (FDI) net inflows representing 2% of GDP in 2023. This growth reflects Ethiopia's dynamic development trajectory and its increasing role in the African economy, driven by both domestic and foreign investments.

The Ethiopian stock market has its origins during the imperial era. In 1956, Ethiopian Abattoirs became the first company to offer shares for public subscription, marking a key moment in the nation's financial history. However, the Derg regime, with its policies of nationalization and centralized control, created significant barriers to the growth of the equity market. Following the EPRDF's rise to power in 1991, share companies began to raise capital through Initial Public Offerings (IPOs) (ECM, 2024).

3.3 Target Population

Generally speaking, a research population is a large collection of individuals or objects that serve as the main focus of a scientific study. The target population is the entire group of individuals or objects to which researchers intend to apply their results. The theoretical population, also known as the target population, usually has a wide range of characteristics (Hassan, 2014). In this case, individual investors who currently own share in Ethiopian-registered companies make up the study's target audience. There are 413,309 shareholders nationwide, as a report by the Ethiopian Capital Market Authority (ECMA, 2024).

3.4 Sampling Technique and Sampling Size

3.4.1 Sampling Technique

The process of picking a sample from a specific population is known as sampling technique. Simple random sampling, convenient sampling, systematic sampling, cluster sampling, purposeful sampling, quota sampling, and stratified sampling are all examples of sampling procedures (Hassan, 2014).

When the population is difficult to access or hidden, probability sampling may not be effective. In such cases, non-probability sampling becomes a more viable option. Specifically, researchers often opt for convenience sampling due to its practical advantages. Convenience sampling involves gathering data from a population that is easily accessible to the researcher. Because it relies on readily available samples, this method can be applied to a wide range of research contexts (Rahi, 2017; Berndt, 2020; Golzar et al., 2022).

Given that the target population for this study was difficult to access, convenience sampling was employed. Golzar et al. (2022) highlight that while convenience sampling can introduce biases, these can be mitigated by carefully evaluating and controlling the sample's representativeness, including its diversity. Researchers must actively minimize biases in participant selection and enhance the overall validity of the study by thoroughly assessing and managing how well the sample represents the broader population. Iliyasu and Etikan (2021) emphasize that quota sampling is particularly valuable when the goal is to ensure that key characteristics of the population are proportionally represented by sampling specific subgroups in predefined amounts.

To enhance the representativeness of the sample and address the limitations of convenience sampling, the study first applied quota sampling using income level and marital status as quota controls. These two key variables were chosen because income significantly affects investment decisions (Arianti, 2018), and marital status also plays a role, as a study by Rana (2017) reveals that whether a person is married, single, widowed, or divorced, their marital status has a considerable effect on their financial planning. Specifically, the study ensured that at least 40% of the respondents were single or married. Furthermore, regarding income levels, the sample ensured that at least 40% of respondents were from each income category: those earning below $50,000 and those earning above $50,000. Afterward, the 384 respondents were approached through convenience sampling.

3.4.2 Sample Size

A sample refers to a subset of individuals selected from a larger population for a study, with the aim of drawing conclusions about the whole population. As long as the sample accurately represents the population, the findings can be generalized to it (Kothari, 2004; Loru, 2020).

The formula for the sample was done setting a confidence level of 95% and a Confidence Interval of 5%.

Table 3.1. Sample Size Determination

No of shareholders in Ethiopia	Confidence Level	Confidence Interval	Sample Size
413,309	95%	5%	384

The sample size is calculated using Qualtrics

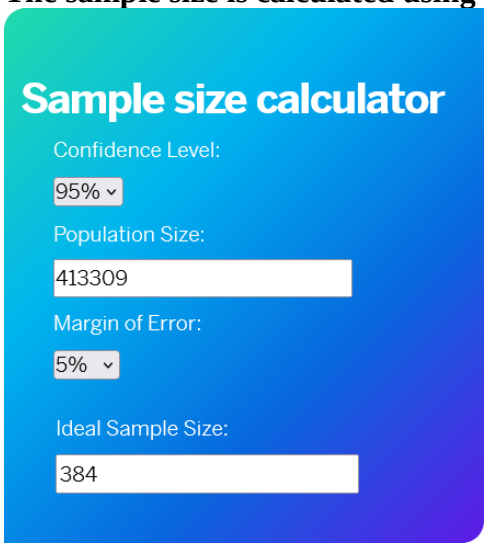

Figure 3.1. Sample Size Calculation
(Source: Qualtrics https://www.qualtrics.com/blog/calculating-sample-size/)

3.5 Data Type and Data Source

Primary data were utilized for this study to provide a robust foundation for analysis and insights.

3.5.1 Primary Data

Primary data refers to information collected directly by the researcher from sources such as individuals, focus groups, or respondent panels, specifically for the purposes of the study. These data are gathered firsthand on the variables of interest (Sekaran, 2003; Loru, 2020).

The primary data for this study was obtained from individual equity investors through a structured questionnaire survey. A total of 384 completed questionnaires were collected via Google Forms, providing a comprehensive dataset for analysis.

3.6 Data Collection Techniques

Data collection refers to activities aimed at obtaining information from various sources for evaluation, answering research questions, and identifying trends. It can be categorized into two main methods: qualitative and quantitative. Qualitative data is gathered through techniques such as open-ended interviews, observations, and focus groups, with a focus on understanding individuals' experiences, opinions, and perspectives in depth. On the other hand, quantitative data is collected through methods like surveys with closed-ended

questions, experiments, and measurements, enabling statistical analysis to identify patterns and trends (Staff, 2024). This study applied closed-ended Questionnaire.

3.6.1 Questionnaire

This paper developed a modified questionnaire, building upon the works of Al-Tamimi (2006) and Adhikari (2020), to investigate the behavior of Ethiopian equity investors. The study introduced a novel factor—foreign ownership—and enhanced the existing questions on religious affiliation by incorporating two additional identity-driven factors: ethnic and political affiliation. These factors had not been considered in the aforementioned studies, providing a broader understanding of the influences on Ethiopian investors' behavior.

The first factor identified as significant in light of two recent notable developments in Ethiopia's business environment. Firstly, Ethiopia's Council of Ministers has ratified a banking liberalization policy and strategy, which has sparked interest among foreign banks to consider investing in the country (Endale, 2022). Secondly, the New Ethiopian Directive has allowed foreign investors to participate in previously restricted sectors of wholesale and retail trade, opening up new opportunities for international investment (Capital Newspaper, 2024).

This study incorporates both ethnic and political affiliations as additional factors alongside religious identity to better understand investment decisions. The ethnic factor is particularly relevant in the Ethiopian context, as highlighted by Zewude (2019), who found that ethnicity significantly influences customers' investment choices in specific financial services. Political affiliation is also critical, as political networks can provide firms with advantageous rights, such as import licenses, government contracts, state aid for struggling companies, and regulatory protection. This makes the political factor an essential consideration in individual investment decisions, as it can shape access to resources and opportunities (Kroszner & Stratmann, 1998; Mobarak & Purbasari, 2006; Goldman et al., 2013; Ganguly et al., 2023).

However, two inquiries were left out: "The establishment of structured financial markets (like the Dubai Financial Market and Abu Dhabi Securities Markets)" and "Changes or fluctuations in the stock index." Due of the Ethiopian Securities Exchange's recent launch (as of January 2025), it is not feasible to include inquiries about it at this time, which is why it was left out (ESX, 2025).

The questionnaire was structured into five key categories: self-image/company-image alignment, accounting information, neutral information, advocate recommendations, and personal financial needs. This framework allowed for the identification of the most significant category and item. In total, the questionnaire consisted of 25 items, with five items dedicated to each of the five categories, as well as an additional five items focused on the dependent variable—individual equity investment decisions.

To boost the validity and reliability of the instrument and increase the number of anchors, Alwin and Krosnick (1991), as cited by Chyung et al. (2017), suggested that fully labeled seven-point scales are more reliable. Accordingly, respondents were asked to indicate their degree of agreement or disagreement with each of the items on a seven-point Likert scale.

3.7 Measurement of Variables

The independent variables in this study are Self-image/Company-image coincidence, Accounting information, Neutral information, Advocate recommendations, and Personal financial needs. The dependent variable is individual's investment decision-making process. Each of these variables will be measured using a 7-point Likert scale, ranging from 1 (Strongly Disagree) to 7 (Strongly Agree). Participants will rate various statements related to each variable. This scale is well-suited for capturing the degree of agreement or disagreement with each statement and assessing the influence of the independent variables on the investment decision-making process.

3.8 Validity and Reliability of the Study

3.8.1 Validity

Validity refers to the degree to which research data and the methods used to obtain it are accurate, honest, and aligned with the research objectives (Denscombe, 2003; Loru, 2020). To gather relevant information, careful planning is essential to ensure it directly relates to the research goals and is obtained from the most appropriate individuals. Achieving complete and accurate data necessitates well-designed data collection tools and effective survey administration procedures (Loru, 2020).

To ensure the validity of the items used, most of the measurement items were taken from previous empirical studies that had been validated (Al-Tamimi, 2006; Adhikari, 2020). In this regard, the researcher submitted the questionnaire to professional experts and university

lecturers for evaluation. Despite some modifications, the study heavily relied on items that had been tested in prior studies; hence, content and face validity were assessed. The content validity of the survey instrument, i.e., the questionnaire, was verified through discussions with five experts—three academicians and two industry professionals—as suggested by Devellis (1991) and Chandra & Kumar (2011).

3.8.2 Reliability

High quality tests are important to evaluate the reliability of data supplied in an examination or a research study. The reliability of the measures will be assessed with the use of Cronbach's alpha. Cronbach's alpha is a commonly employed index of test reliability. It provides a measure of the internal consistency of a test or scale (Tavakol & Dennick, 2011).

Cronbach's α, introduced within the framework of classical test theory, is used to assess the quality of a measurement. It serves as an indicator of internal consistency, one of the four primary methods for estimating reliability (the others being parallel-test, test-retest, and split-half methods). The concept of consistency stems from the idea that items measuring the same construct should elicit similar responses. Therefore, Cronbach's α quantifies the degree of consistency in responses to the items of a measurement scale. Its value ranges from 0 to 1, with a value of 1 signifying perfect consistency (Schweizer, 2011). A reliability estimate of 0.7 or higher is generally deemed indicative of good reliability, while estimates between 0.6 and 0.7 may be acceptable, provided that other indicators of the model's construct validity are satisfactory (Hair Jr et al., 2014).

In Al-Tamimi's study (2006), the overall Cronbach's alpha for the five categories was 0.824. The individual Cronbach's alpha values for each category—self-image/company-image coincidence, accounting information, neutral information, advocate recommendation, and personal financial needs—were 0.778, 0.790, 0.651, 0.610, and 0.640, respectively. Similarly, Adhikari's (2020) study produced strong results, with an overall Cronbach's alpha of 0.750 for the five groups. The Cronbach's alpha values for the individual groups—self-image/company-image coincidence, accounting information, neutral information, advocate advice, and personal financial needs—were 0.626, 0.889, 0.615, 0.680, and 0.760, respectively.

Table 3.2. Cronbach's Alpha Result Summary

Category	Cronbach's alpha Reusult (Al-Tamimi, 2006)	Cronbach's alpha Reusult (Adhikari, 2020)
Self-Image/Company-Image Coincidence	0.778	0.626
Accounting Information	0.790	0.889
Neutral Information	0.651	0.615
Advocate Recommendation	0.610	0.680
Personal Financial Needs	0.640	0.760
Total	0.824	0.750

(Source: Al-Tamimi, 2006) & Adhikari, 2020)

3.9 Data Analysis

Data screening, measurement model validation, and structural model analysis were the three stages of the data analysis process (Hair Jr et al., 2016; Estifo et al., 2019). Before turning the raw data into a body of information appropriate for making decisions and testing hypotheses, the procedure included organizing, classifying, tabulating, and verifying the data as well as assessing its validity and reliability using Cronbach's Alpha (Burns et al., 2014; Estifo et al., 2019).

In this study, the data gathered from participants were analyzed using both descriptive and inferential statistics with SPSS version 26 (Statistical Package for Social Sciences). Descriptive statistics, including frequency distribution, percentages, means, and standard deviations, were computed, while inferential statistics, such as correlation and multiple regression analyses, were employed to meet the research objectives. After collecting data from primary sources, the researcher organized and scaled the responses from the questionnaires, categorizing the data according to respondents' general views and specific perspectives on the research variables: the dependent variable (individual equity investor behavior) and the independent variables (self-image/company-image coincidence, accounting information, neutral information, and advocate recommendations).

3.9.1 Regression Model

The associations between the predictor variables (self-image/company image coincidence, accounting information, neutral information, advocacy suggestions, and personal financial needs) and the outcome variable (individual investment decision behavior) were ascertained in this study using multiple regression analysis. The hypothesis was tested by examining how these predictor variables collectively influence the behavior of individual equity investors, while controlling for the effects of other variables.

3.9.2 Regression Function

In this study, the relationships between various predictor variables and individual equity investor behavior were examined using **multiple regression analysis**. Specifically, the predictors included self-image/company image coincidence, accounting information, neutral information, advocacy suggestions, and personal financial needs, with individual investment decision behavior serving as the outcome variable. The general form of the regression equation is expressed as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where:
Y = Individual investment decision behavior (dependent variables to be predicted)

α= The intercept (the value of Y when all predictors are zero)

β = Coefficient of the factors

X_1, X_2, X_3, X_4, X_5 =Factors which affect the individual equity investment decision (independent variables)

X_1= Self-image/company image coincidence

X_2= Accounting information

X_3= Neutral information

X_4= Advocate recomendation

X_5= Personal financial needs

e_i= error factor

3.10 Ethical Considerations

The protection of human subjects through the application of ethical principles is essential in any research. In this study, informed consent was obtained by ensuring that participation was voluntary, subjects fully understood the purpose of their involvement, and those consenting were competent to do so (Arifin, 2018). The researcher prioritized confidentiality by safeguarding the respondents' privacy and using their responses solely for academic purposes. Respondents were not required to provide personal information, and all data were kept securely under the researcher’s control. Furthermore, proper credit was given to all prior research referenced in the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Questionnaire Response Rate

The study successfully achieved its target sample size of 384 respondents, with the intended quota controls fully met. The distribution of marital status within the sample aligns with the required quota, with 54.1% of respondents being single or divorced, and 45.8% married. Furthermore, the income level quotas were also fulfilled, with 43% of respondents earning above $50,000 and 57% earning below this threshold. These results demonstrate that the sample accurately represents the key subgroups of the target population, ensuring that the findings reflect the distribution of both marital status and income categories.

4.2 Demographic Characteristics of the Respondents

The data provides a comprehensive overview of the sample population, revealing key demographic and socio-economic characteristics. A higher proportion of males (57.8%) are represented compared to females (42.2%). In terms of age, the largest group falls within the 40-49 years range (34.9%), followed by those aged 30-39 years (30.2%), while the smallest group is individuals aged 50 years and above (12%). Regarding marital status, a significant majority are single (53.1%), with married individuals making up 45.8% and a small portion being divorced (1%). Educationally, most participants hold graduate degrees (77.9%), followed by those with a diploma or bachelor's degree (20.1%), while only a few have primary or secondary education (2.1%). When it comes to monthly income, the highest number of people earn between 20,000 and 50,000 (29.9%), followed by those earning below 20,000 (27.1%). Fewer individuals earn between 50,001 and 100,000 (25%) or above 100,000 (18%).

Table 4.1. Demographic Profile of Respondents

Variables	Categories	Frequency	Percentage
Eligibility	I am an Ethiopian citizen and a shareholder in a registered Ethiopian company (Yes)	384	100
Gender	Male	222	57.8
	Female	162	42.2
Age	18-29 years	88	22.9
	30-39 years	116	30.2
	40-49 years	134	34.9
	50 years and above	46	12.0
Marital status	Single	204	53.1
	Married	176	45.8
	Divorced	4	1.0
Educational Qualification	Primary or Secondary	8	2.1
	Diploma or Bachelor's Degree	77	20.1
	Graduate degree (Masters or PhD)	299	77.9
	Other (please specify)	0	0.0
Monthly Income	Below 20,000	104	27.1
	20,000 - 50,000	115	29.9
	50,001 - 100,000	96	25.0
	Above 100,000	69	18.0

Source: Own survey, 2025

4.3 Measurement Model

Cronbach's alpha (1951) is a measure of internal consistency reliability, assessing how well items on a scale or test work together to measure the same construct. The value ranges from 0 to 1, with higher values indicating stronger reliability. Generally, alpha values are interpreted as follows: ≥ .9 (Excellent), ≥ .8 (Good), ≥ .7 (Acceptable), ≥ .6 (Questionable), ≥ .5 (Poor), and ≤ .5 (Unacceptable). Higher values indicate better consistency and reliability in the scale's measurement (Howard, 2021). The result obtained from SPSS rage between .707-.924for each independent and dependent variable.

Table 4.2. The Cronbach's Alpha Test Result from SPSS

Variables	No. of Items	Cronbach's alpha
Self-Image/Company-Image Coincidence	5	0.924
Accounting Information	5	0.768
Neutral Information	5	0.873
Advocate Recommendations	5	0.707
Personal Financial Needs	5	0.751
Individual Equity Investment Decision	5	0.719

4.4 Descriptive Analysis of Individual Equity Investment Decision using different Factors

This section presents a detailed analysis of the data collected for the study. It is divided into five key sections, each corresponding to a specific construct. To better understand the factors influencing invividuals equity investment decisions, participants were asked to rate their level of agreement with various statements using a seven-point Likert scale. Additionally, a series of questions were included to gauge the importance of each factor in shaping their investment decisions.

4.4.1 Self-image/company-image coincidence Factor

The Self-image/Company-image coincidence factor reflects how closely an investor's personal image aligns with the image of the company they invest in. In the context of the Ethiopian equity market, this dimension focuses on the perception and reputation of companies, as it plays a significant role in shaping individual investor behavior. Investors are more likely to be influenced by companies whose values and public image resonate with their own self-concept and beliefs.

Table 4.3. Descriptive Statistics for Self-Image/Company-Image Coincidence Factor

Variable	N	Mean	Std. Deviation
The religious, ethnic, or political, affiliation of a company	384	5.27	1.193
Company's status in its industry	384	6.46	0.896
Reputation of a company's shareholders	384	5.82	1.088
Company's ethics	384	5.94	1.355
Foreign ownership of a company	384	5.21	0.907

Source: Survey result, 2025

The results from Table 4.3 reveal that Ethiopian equity investors place significant importance on certain behavioral factors when making investment decisions. The most influential factor is the company's status in its industry, with a high mean of 6.46, indicating that investors prioritize companies with a strong position in their sector. This is followed by the ethical standards of a company (mean = 5.94) and the reputation of its shareholders (mean = 5.82), both of which play a moderate role in influencing investment choices. While these factors are important, there is more variability in how individual investors perceive them, as reflected by their higher standard deviations. Religious, ethnic, or political affiliations also hold moderate importance (mean = 5.27), suggesting that some investors may consider these aspects, though they are not as dominant in the decision-making process.

On the other hand, the foreign ownership of a company has the least impact on Ethiopian equity investors, with a mean of 5.21. This suggests that while foreign ownership is a factor in investment decisions, it does not hold as much weight compared to other factors like industry status or company ethics. The relatively low standard deviation for foreign ownership (0.907) indicates that most investors have a similar view on this factor. Overall, the findings suggest that Ethiopian equity investors are more concerned with a company's industry standing and ethical conduct than with factors such as foreign ownership or political affiliation, although these factors still play a role in shaping their investment preferences.

Ethnic and religious factors appear to have unexpectedly little influence on Ethiopian investor behavior, a finding that contrasts with the study by Zewude (2019), which identified ethnicity as a significant factor in investment decisions. This shift suggests that over time, factors like ethnic affiliation may be losing relevance as investors increasingly prioritize considerations such as financial performance, innovation, or reputation. In a country where 63.4% of the population is Christian and 34.1% is Muslim (Crummey et al., 2025), religion surprisingly plays a moderate role in investment choices. This aligns with the findings of Al-Tamimi (2006) in the UAE, where only 23% of respondents regarded religion as the most important factor in their investment decisions.

4.4.2 Accounting information Factor

The Accounting Information Factor refers to the financial data and reports provided by companies, which are essential for guiding individual investors' decisions. Key elements of this factor include financial statements such as balance sheets and income statements, as well as additional information like dividend payments and Marketability. Investors rely on

accurate and transparent accounting information to assess the financial health and performance of companies, ultimately influencing their investment choices.

Table 4.4. Descriptive Statistics for Accounting Information Factor

Variable	N	Mean	Std. Deviation
Insider Information	384	5.37	1.176
Condition of a company's financial statements	384	6.07	1.051
Dividends paid by a company	384	6.08	0.899
Past performance of a company's shares	384	6.02	1.207
Marketability of a company's shares	384	6.05	1.103

Source: Survey result, 2025

The results from Table 4.4 highlight the key financial and informational factors influencing Ethiopian equity investors' decisions. Dividends paid by a company (mean = 6.08) stands out as the most important factor for investors, emphasizing the significance of consistent returns for decision-making. Following closely are the condition of a company's financial statements (mean = 6.07) and the marketability of a company's shares (mean = 6.05), which suggests that Ethiopian investors place strong importance on a company's financial health and its liquidity in the market. The relatively low standard deviations for these factors (ranging from 0.899 to 1.051) indicate a strong consensus among investors on the importance of these variables.

Additionally, the past performance of a company's shares (mean = 6.02) also plays a significant role, reflecting that investors often look at historical performance to predict future trends. Insider information (mean = 5.37), while still important, has the lowest mean score, suggesting that it is a somewhat less decisive factor in comparison to financial stability, dividends, and marketability. The higher standard deviation for insider information (1.176) shows more variability in how investors perceive its importance. Overall, Ethiopian equity investors prioritize a company's profitability, financial condition, and share liquidity, with past performance and insider information playing secondary roles in their investment decisions.

A study made in Greece by Merikas et al., (2011) on experienced investors also found this factor category displaying the highest significance. They analysed that experienced investors rely and emphasize rational decision making criteria, assigning a high value to this particular set of variables. Although the emergence of accounting information as a primary factor for

Ethiopian investors when considering investments is a positive development, it requires due diligence. Olubusola et al. (2024) reveal that the strategic manipulation of financial statements to portray a more favourable image of a company's financial performance, with the intent to deceive investors and stakeholders, has been a recurring ethical challenge. The study made in Greece also found that the majority of factors considered significant fit the conventional definition of wealth maximization, including projected company profits and the state of financial accounts. This study is no exception.

Other factor that significantly affected Ethiopian investors' behavior include share marketability. This is consistent with a study conducted in the UAE (Al-Tamimi, 2006), which found it ranked 3rd. This finding could influence policies that companies need to adopt in order to increase their stock marketability. Companies should frequently review the relationship between the price and demand for their stocks. If the stock price is too high, it may make it difficult to sell. One policy that companies can adopt to enhance marketability is a stock split. Investopedia defines a stock split as a process in which a company divides its stock into multiple shares, effectively lowering the price of each share without changing the company's market value. This can increase liquidity (the ability to trade the stock easily) and trading volume. One practical example of how stock splits can impact investor sentiment is when Nvidia announced a 10-for-1 stock split in 2024, with its share price at $949.50. After the split, the price per share was reduced to $94.95, making the stock cheaper and more affordable to a broader range of investors, particularly retail investors who might be deterred by high share prices. Stock splits like this can significantly affect market perceptions. By making shares more accessible, companies often spark increased enthusiasm among investors, who may anticipate positive outcomes in the future (Osman, 2024).

Insider information (mean = 5.37, SD = 1.176) appears to have a significant influence on investors, which raises concerns. This is troubling, as it suggests that certain investors may be swayed by non-public, confidential information. It is important to emphasize that the use of insider information is illegal and constitutes fraud. Such information should never be regarded as a legitimate factor when making investment decisions. We should also note that the relatively high standard deviation (1.176) indicates considerable variation in how investors are influenced by insider information. This variability suggests that different investors may interpret and act on such information in diverse ways.

Insider trading—the buying or selling of a company's securities based on material, nonpublic information—carries severe penalties, including fines, imprisonment, and other legal consequences. This unethical practice undermines market fairness, erodes investor confidence, and distorts the efficient allocation of resources by granting individuals with privileged information unfair advantages (Ita, 2024). The Rulebook of the Ethiopian Securities Exchange, 2024 explicitly states: "No Trading Member shall participate in any insider dealing in relation to any securities traded on The Exchange or knowingly assist any Trading Member or any other person to participate in such insider dealing."

Overall, the data indicates that investors prioritize tangible financial indicators such as dividends, marketability, and past performance when making decisions.

4.4.3 Neutral information Factor

The Neutral Information Factor refers to external sources of information that influence investors' decisions, but are not directly related to the companies themselves. This includes government official statements, positive public word-of-mouth, and information from the internet and media. These sources provide valuable context and insights that help investors form opinions and perceptions about the market and investment opportunities.

Table 4.5. Descriptive Statistics for Neutral Information Factor

Variable	N	Mean	Std. Deviation
High level of government ownership in a company	384	5.09	1.829
Information about a company obtained from the internet	384	4.71	1.519
Positive coverage of a company in the press	384	4.86	1.303
Statements from government officials about a company	384	5.41	1.533
Positive public word of mouth about a company	384	4.57	1.442

Source: Survey result, 2025

The data in the table reveal several external and informational factors that influence Ethiopian equity investors' decisions. Among these factors, statements from government officials about a company (mean = 5.41) are considered the most significant in this category, though overall, they are regarded as moderately important by investors when making investment choices. This is followed by high levels of government ownership in a company

(mean = 5.09), suggesting that while government involvement is a factor, it is considered less significant than government statements. The standard deviation for both these variables (1.829 for government ownership and 1.533 for government statements) indicates a relatively high level of variability in investor opinions, suggesting differing views on the importance of government connections in investment decisions.

On the other hand, factors like information about a company obtained from the internet (mean = 4.71), positive coverage of a company in the press (mean = 4.86), and positive public word of mouth about a company (mean = 4.57) are all viewed as less significant by Ethiopian equity investors. The means for these factors are lower, with positive public word of mouth being the least influential, and the standard deviations (ranging from 1.303 to 1.519) suggest some variability in how investors perceive these sources of information.

The moderate impact of statements from government officials is alarming, as ignoring these statements could lead investors to miss crucial information that may significantly affect their investment decisions. Such statements from regulatory bodies, like the Central Bank, Revenue Authority, and investigative agencies, often provide key insights into policy shifts, economic outlooks, sectoral developments, and legal or enforcement actions that could influence market conditions or the prospects of certain companies. However, caution is needed, as government officials can sometimes be misleading, either intentionally or unintentionally, which could steer investors toward poor or risky investments.

The low influence of positive public word of mouth, Internet information, and positive press coverage suggests that investors are not easily swayed by unscrupulous media campaigns. Recent high-profile cases, such as the arrest of a company's executives for fraudulent marketing practices that misled shareholders into believing they were purchasing homes rather than shares (Fortune, 2024), highlight the risks of misinformation. However, the results of this study indicate that such practices may have less impact on investors in the future.

Overall, the data suggest that neutral sources of information, such as statements from government officials, do have some influence on investor behavior. However, these factors are secondary to more concrete financial and company-specific information.

4.4.4 Advocate recommendations Factor

The Advocate Recommendations Factor refers to the influence of advice and recommendations from trusted individuals or groups. This includes guidance from financial advisors, as well as input from family, friends, and co-workers. Investors often rely on these personal recommendations to inform their investment decisions, as they value the perspectives of those they trust and consider their advice to be reliable and relevant.

Table 4.6. Descriptive Statistics for Advocate Recommendations Factor

Variable	N	Mean	Std. Deviation
Broker's recommendation	384	4.12	1.481
Recommendation from a financial advisor	384	5.22	1.170
Recommendations from friends or co-workers	384	4.79	1.268
Recommendations from family	384	4.87	1.194
Recommendation from a majority shareholder	384	4.38	1.181

Source: Survey result, 2025

Table 4.6 results suggest that various types of recommendations have a moderate influence on Ethiopian equity investors, with some being more influential than others. Recommendations from a financial advisor are the most influential in this category, with a mean score of 5.22, indicating a relatively stronger impact on investors' decisions. Recommendations from family (mean of 4.87) and friends or co-workers (mean of 4.79) also have a moderate influence, showing that social and personal networks play an important role in shaping investment behavior. Suggestions from majority shareholders, with a mean of 4.38, appear to have the least impact, indicating that this source is less influential. This may reflect a sense of detachment, as investors might view majority shareholders as having interests that are more aligned with their own financial goals rather than with the broader investment community. This suggests that majority shareholders need to provide more than just rhetoric; they must offer solid, evidence-based insights to gain the trust and attention of investors, ensuring their recommendations are seen as credible and valuable.

On the other hand, broker recommendations, with an average rating of 4.12, have the lowest influence, suggesting that investors may not place as much trust in these sources compared to financial advisors or close personal connections. This could reflect a perception of brokers as more transactional and less personal in their advice. While research (Di Maggio et al., 2019) shows that relationships between brokers and investors play a role in information diffusion within the share market, the relatively low influence of broker recommendations points to a

potential gap in investor awareness. This lack of trust or attention could lead to missed opportunities for valuable insights, ultimately resulting in suboptimal decision-making and exposure to unforeseen risks.

Overall, the mean scores reflect that while these recommendation sources have a moderate to low effect on investment decisions, there is variability in their influence. The standard deviations show that the level of agreement among respondents varies moderately, with recommendations from financial advisors having the least variation in influence. The result suggests that while these factors do have some effect on investment behavior, they do not dominate decision-making. Investors seem to rely on a mix of personal, social, and professional advice, but none of the sources stand out as overwhelmingly influential.

Overall, the data suggests that individuals are most likely to be influenced by expert recommendations, followed by advice from family and friends, while broker recommendations have a lesser impact on their equity investment decisions.

4.4.5 Personal financial needs Factor

The Personal Financial Needs Factor encompasses the individual investor's specific financial goals and circumstances that influence their investment decisions. This includes the need for diversification, the level of risk the investor is willing to take, the relative unattractiveness of alternative investments compared to shares, and the ease with which borrowed funds can be obtained. These factors help investors determine how equity investments align with their overall financial objectives and risk tolerance.

Table 4.7. Descriptive Statistics for Personal Financial Needs Factor

Variable	N	Mean	Std. Deviation
Expected losses in other local investments	384	3.99	1.567
Needs for diversification	384	5.15	1.129
Ease of obtaining borrowed funds	384	5.20	1.413
Desire to minimize risk	384	4.90	1.361
Expected Losses in international financial markets	384	3.77	1.507

Source: Survey result, 2025

Table 4.7 reveals that the ease of obtaining borrowed funds (mean of 5.20) and the need for diversification (mean of 5.15) emerge as the most influential factors of this cathegory,

suggesting that investors place significant importance on the ability to leverage borrowed funds and spread their investment risk. The desire to minimize risk (mean of 4.90) also plays a moderate role, as investors seek to protect their capital while making investment decisions. These factors suggest that Ethiopian investors are focused on managing risk and increasing their potential returns by utilizing borrowed capital and diversifying their portfolios.

In contrast, factors related to local and international market conditions show a relatively lower influence on investor behavior. The expected losses in other local investments (mean of 3.99) and expected losses in international financial markets (mean of 3.77) have the lowest means, indicating that these concerns are not as significant for Ethiopian investors. The low mean of expected losses in international financial markets, in particular, suggests a lack of exposure to global markets and implies that Ethiopian investors may not consider international market fluctuations when making investment decisions. The higher standard deviations for these factors (1.567 and 1.507) reflect considerable variability in responses, indicating some differing opinions, but overall, these factors have a moderate or low impact on investment decisions. Therefore, while risk management and access to funds are crucial, global market exposure and losses in other local investments seem to have a more moderate or minimal influence on Ethiopian investors.

4.5 Correlation and regression alalysis

4.5.1 Correlation

The correlation coefficient is a statistical measure that quantifies the strength and direction of a linear relationship between two variables, with values ranging from -1 to 1. A coefficient of -1 indicates a perfect negative correlation, where one variable increases as the other decreases, while a coefficient of 1 represents a perfect positive correlation, with both variables moving in the same direction. A value of 0 implies no linear relationship between the variables. The most commonly used correlation measure, known as the Pearson correlation coefficient, assesses the strength and direction of this linear relationship (Fernando, 2024; Kenton, 2024).

Pearson’s correlation coefficient is a statistical measure that evaluates both the strength and direction of the relationship between two continuous variables. It is considered the most effective method for assessing associations due to its reliance on covariance, as it reveals not

only the magnitude of the correlation but also its direction. The degree of correlation can be categorized into different ranges: a value near ±1 indicates a perfect correlation, where an increase (or decrease) in one variable corresponds directly to an increase (or decrease) in the other. Values between ±0.50 and ±1 suggest a strong correlation, while values between ±0.30 and ±0.49 indicate a moderate correlation. A weak correlation is suggested by values below +0.29, and a value of zero implies no relationship at all (Statistics Solutions, 2025).

In this study, Pearson's correlation coefficient is used to find out the relationship between behavioural factors and individual equity investment decision. Table 4.8 exhibits the result of the correlation analysis.

Table 4.8. Pearson Correlations Matrix

		SICIC	AI	NI	AR	PFN	IEID
SICIC	Pearson Correlation	1	.790**	.382**	.222**	.535**	.760**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	384	384	384	384	384	384
AI	Pearson Correlation	.790**	1	.424**	.245**	.652**	.821**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	384	384	384	384	384	384
NI	Pearson Correlation	.382**	.424**	1	.502**	.423**	.579**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	384	384	384	384	384	384
AR	Pearson Correlation	.222**	.245**	.502**	1	.335**	.453**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	384	384	384	384	384	384
PFN	Pearson Correlation	.535**	.652**	.423**	.335**	1	.747**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	384	384	384	384	384	384
IEID	Pearson Correlation	.760**	.821**	.579**	.453**	.747**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	384	384	384	384	384	384

Source: Survey result, 2025

The Pearson correlation analysis reveals significant relationships between the independent variables (SICIC, AI, NI, AR, PFN) and the dependent variable (IEID). The strongest predictor of IEID is AI (r = 0.821), showing a very strong positive correlation. This indicates that as AI increases, IEID tends to increase as well, suggesting that AI is the most influential independent variable in predicting IEID. SICIC follows closely behind as the second most important predictor (r = 0.760), with a similarly strong positive correlation to IEID. This relationship suggests that SICIC also plays a crucial role in determining IEID, although its

influence is slightly weaker than AI. PFN (r = 0.747) also shows a strong positive correlation with IEID, indicating that changes in PFN are closely associated with changes in IEID. In contrast, NI (r = 0.579) and AR (r = 0.453) exhibit moderate positive correlations with IEID, implying that while they do contribute to the prediction of IEID, their effect is less significant than AI, SICIC, and PFN. All correlations are statistically significant ($p < 0.01$), confirming that the observed relationships are not due to chance. Given the results, AI, SICIC, and PFN are the primary predictors of IEID, while NI and AR are secondary predictors.

4.5.2 Testing Assumptions of Multiple Linear Regression

Linear regression relies on several key assumptions to produce reliable results. First, it assumes a linear relationship between the independent and dependent variables, which can be tested through scatter plots. It's also important to check for outliers, as linear regression is sensitive to their influence. Second, linear regression requires the variables to be multivariate normal, which can be assessed using histograms, Q-Q plots, or goodness-of-fit tests such as the Kolmogorov-Smirnov test. Lastly, the model assumes minimal or no multicollinearity among the independent variables, meaning that the predictors should not be highly correlated with one another. If multicollinearity is present, it can distort the model's results, making interpretation difficult (Statistics Solutions, 2024).

4.5.2.1 Test of Linearity

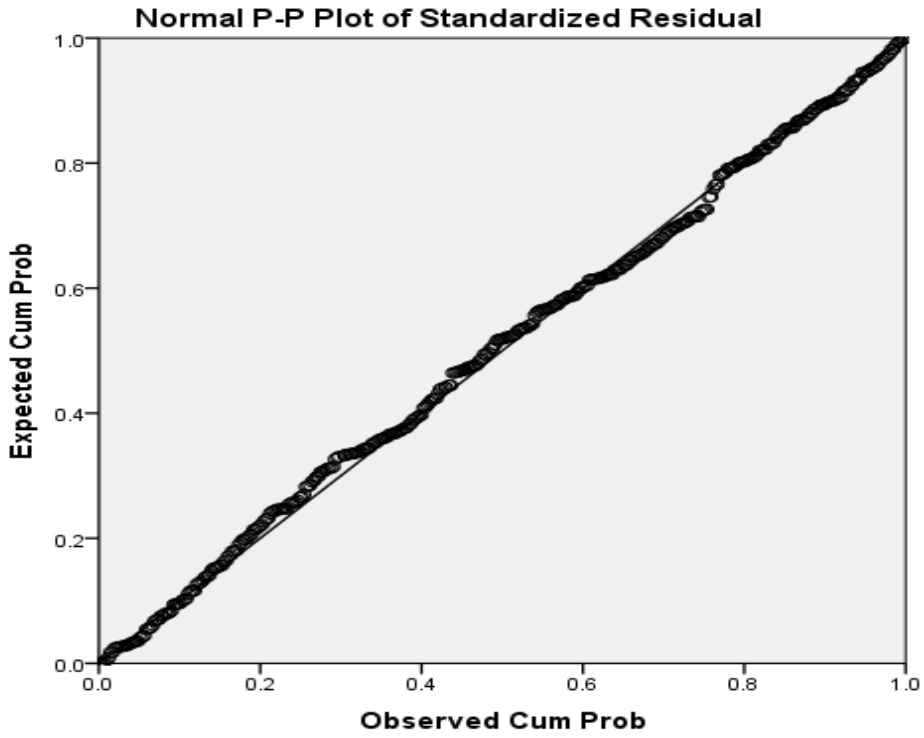

Figure 4.1. Normal P-P Plot, Test of Linearity
Source: Survey result, 2025

The linearity assumption in multiple regression was assessed using scatter plots, and it was found that there is a linear relationship between the independent and dependent variables. Based on this linearity assessment, the residuals appear to be distributed around a mean of zero, indicating no notable departure from the assumption of linearity.

4.5.2.2 Test of Normality

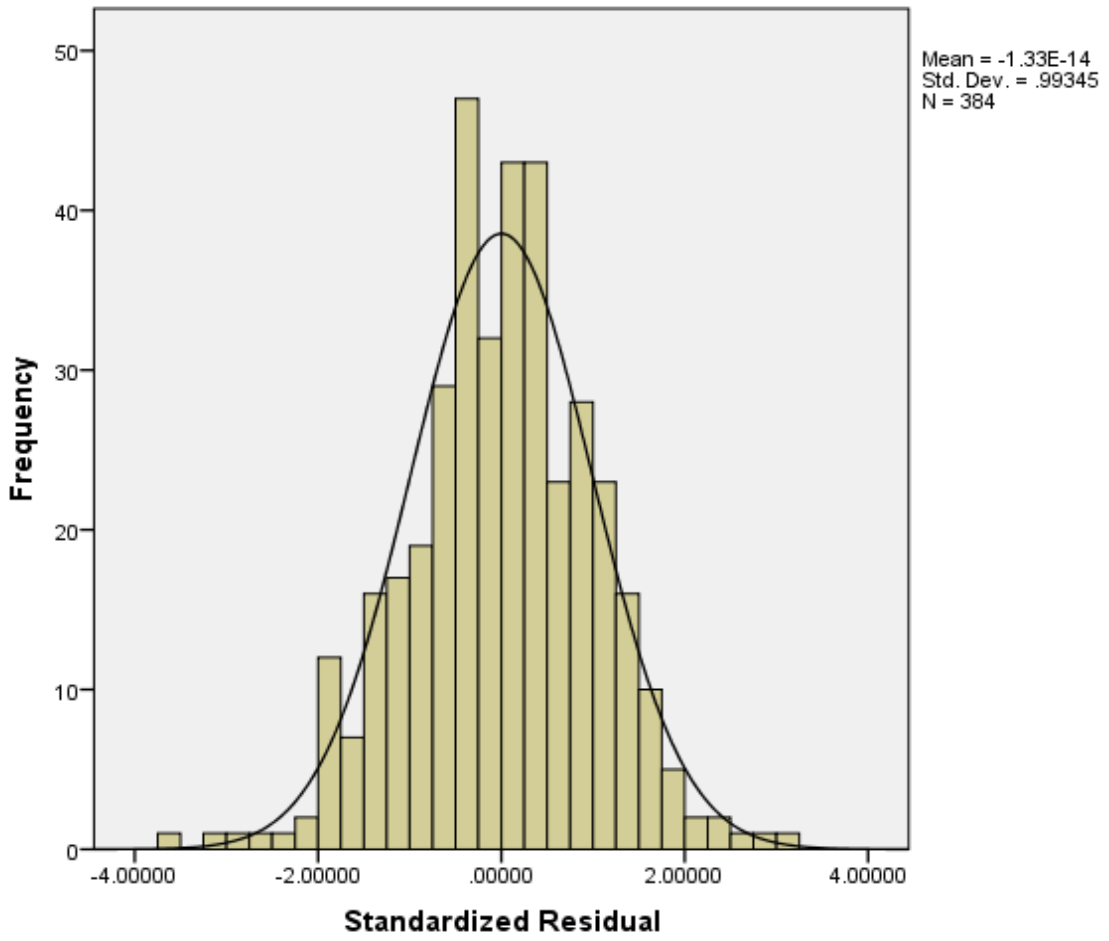

Figure 4.2. Histogram, Test of Normality
Source: Survey result, 2025

The distribution of scores on the dependent variable is expected to follow a normal distribution, characterized by a symmetrical, bell-shaped curve. In such a distribution, the majority of the scores are concentrated around the mean, with fewer scores occurring as they move toward the extremes. Based on the histogram visualized for this research, the data appears to be normally distributed, supporting the assumption that the distribution of scores aligns with this expected pattern.

4.5.2.3 Multicollinearity Test

A number of fundamental presumptions underpin multiple linear regression analysis in order to guarantee the accuracy and dependability of its findings. The lack of multicollinearity, or strong correlation between the independent variables, is one of the most crucial presumptions (Statistics Solutions, 2025). A high degree of correlation between two or more independent variables in the model is known as multicollinearity, and it can skew how the connection between the predictors and the dependent variable is interpreted. It can be challenging to precisely evaluate the individual contributions of each predictor to the model when multicollinearity is present since it can produce skewed or misleading findings (Hayes, 2024).

Table 4.9. Multicollinearity Test Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
SICIC	.373	2.681
AI	.298	3.358
NI	.639	1.565
AR	.727	1.376
PFN	.534	1.873

Source: Survey result, 2025

Generally, a VIF above 4 or tolerance below 0.25 indicates that multicollinearity might exist, and further investigation is required. When VIF is higher than 10 or tolerance is lower than 0.1, there is significant multicollinearity that needs to be corrected (Team, 2024). In this study, the VIF values did not exceed 4, and the Tolerance values remained above 0.25, suggesting that multicollinearity is not a concern, and the assumption is not violated.

4.5.3 Multiple Regression Analysis

A statistical method known as multiple linear regression makes use of two or more independent variables in order to forecast the result of a dependent variable. By using this method, analysts can ascertain the model's variance as well as the proportional contributions of each independent variable to the overall variance (Taylor, 2024). In this study, the researcher aims to determine the extent to which individual equity investment decisions depend on the independent variables: self-image/company-image coincidence, accounting information, neutral information, advocate recommendations, and personal financial needs.

To achieve this, the researcher employed multiple regression analysis models, as shown in the table below."

Table 4.10. Multiple Regression Analysis of the Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912a	.831	.829	.37876

a. Predictors: (Constant), self-image/company-image coincidence, accounting information, neutral information, advocate recommendations, and personal financial needs
b. Dependent Variable: Individual equity investment decision (IEID)

Source: Survey result, 2025

This regression model is highly effective at predicting IEID, with a strong correlation between the independent variables and the dependent variable (R = 0.912). The model explains 83.1% of the variance in IEID (R Square = 0.831), which is quite impressive. After adjusting for the number of predictors, the model still explains about 82.9% of the variance (Adjusted R Square = 0.829), showing that the independent variables are meaningful contributors to the model. The relatively low standard error (0.37876) indicates that the model provides fairly accurate predictions of IEID, with only a small average deviation from actual values. This regression model fits the data very well and provides reliable predictions for IEID based on the independent variables used.

Table 4.11. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	267.401	5	53.48	372.783	.000[b]
	Residual	54.229	378	0.143		
	Total	321.63	383			

a. Dependent Variable: Individual Equity Investment Decision
b. Predictors: (Constant), Self-Image/Company-Image Coincidence, Accounting Information, Neutral Information, Advocate Recommendations, And Personal Financial Needs.

Source: Survey result, 2025

The ANOVA table shows that the regression model is highly statistically significant. The F-statistic of 372.783 and the p-value of 0.000 indicate that the model explains a substantial amount of the variance in the dependent variable (IEID). Specifically, the Regression Sum of Squares (267.401) shows that a large proportion of the variation in IEID is explained by the independent variables, while the Residual Sum of Squares (54.229) indicates that a smaller

portion remains unexplained. The mean square values for both the regression and residual components indicate that the model has a good fit, and the low residual error suggests accurate predictions. Overall, the results of the ANOVA suggest that the regression model is a good fit and provides reliable predictions of IEID, with the independent variables making a significant contribution to explaining the variance in the dependent variable.

Table 4.12. Coefficients for Behavioral Factors On Individual Equity Investment Decision

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.538	.160		-3.357	.001		
	SICIC	.293	.040	.253	7.323	.000	.373	2.681
	AI	.351	.040	.341	8.806	.000	.298	3.358
	NI	.129	.023	.146	5.542	.000	.639	1.565
	AR	.150	.025	.147	5.919	.000	.727	1.376
	PFN	.265	.028	.279	9.638	.000	.534	1.873

Dependent Variable: IEID
Source: Survey result, 2025

The regression function for service quality dimensions and customer satisfaction can be derived from the above table as follows:

$$Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e$$

$$Y= -0.538 + 0.293 (SICIC) + 0.351 (AI) +0.129 (NI) + 0.150 (AR) +0.265 (PFN).$$

Where: Y is Individual equity investment decision and X1, X2, X3, X4 and X5 are self-image/company-image coincidence, accounting information, neutral information, advocate recommendations, and personal financial needs.

4.6 Test of the hypotheses

The following theories were investigated in order to address the researcher's hypothesis and, in turn, the study's goal.

Hypothesis 0: There is no significant relationship between self-image/company image, accounting information, neutral information, advocate recommendations, personal financial needs, and individual equity investment decisions.

Hypothesis 1: Self-image/company image coincidence has a positive effect on individual investment decision behaviour.

The analysis of the regression model supports Hypothesis 1, as the variable representing self-image/company image coincidence (SICIC) has a positive and significant impact on individual investment decision behavior. The unstandardized coefficient for SICIC is 0.293, and the standardized coefficient (Beta) is 0.253, indicating a positive relationship. Additionally, the p-value is 0.000, which is well below the 0.05 threshold, suggesting that this relationship is statistically significant. The t-statistic of 7.323 further supports the significance of this variable. Therefore, Hypothesis 1 is accepted, indicating that self-image and company image coincidence positively influence investment decisions.

Hypothesis 2: Accounting information has a positive effect on individual investment decision behavior.

Hypothesis 2 is also supported by the regression results, as accounting information (AI) shows a significant positive effect on individual investment decision behavior. The unstandardized coefficient for AI is 0.351, and the standardized Beta coefficient is 0.341, demonstrating a positive relationship between accounting information and investment decisions. The p-value of 0.000 indicates that this effect is statistically significant. Furthermore, the t-statistic of 8.806 confirms the strength of the relationship. Given these results, we accept Hypothesis 2, which suggests that accounting information plays a crucial role in shaping investment decisions.

Hypothesis 3: Neutral information has a positive effect on individual investment decision behavior.

The results for Hypothesis 3 indicate a positive and statistically significant effect of neutral information (NI) on individual investment decision behavior. The unstandardized coefficient for NI is 0.129, with a standardized Beta of 0.146. The p-value of 0.000 confirms that this relationship is significant, and the t-statistic of 5.542 further supports the conclusion that neutral information has a meaningful influence on investment decisions. Therefore, Hypothesis 3 is accepted, affirming that neutral information positively affects investment behavior.

Hypothesis 4: Advocate recommendations have a positive effect on individual investment decision behavior.

Hypothesis 4 is supported by the regression analysis, which shows that advocate recommendations (AR) have a positive and significant effect on individual investment decision behavior. The unstandardized coefficient for AR is 0.150, with a standardized Beta of 0.147. The p-value of 0.000 indicates statistical significance, and the t-statistic of 5.919 confirms the strength of this positive relationship. As the results clearly show a significant positive impact, we accept Hypothesis 4, indicating that advocate recommendations influence investment decision behavior.

Hypothesis 5: Personal financial needs have a positive effect on individual investment decision behavior.

The regression results provide strong evidence for Hypothesis 5, as personal financial needs (PFN) have a significant positive effect on individual investment decision behavior. The unstandardized coefficient for PFN is 0.265, with a standardized Beta of 0.279, reflecting a positive relationship. The p-value of 0.000 confirms that this effect is statistically significant, and the t-statistic of 9.638 indicates the robustness of the relationship. Thus, Hypothesis 5 is accepted, suggesting that personal financial needs significantly influence investment decisions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings

The study highlights the key factors influencing Ethiopian equity investors' decision-making, revealing both behavioral and financial drivers that shape their investment preferences.

Behavioral Factors: Ethiopian investors place considerable importance on a company's industry status, with a mean score of 6.46, indicating that a company's position within its sector is the most influential factor in their investment decisions. Ethical standards and the reputation of shareholders follow closely, with means of 5.94 and 5.82, respectively. Religious, ethnic, and political affiliations also play a moderate role, particularly religion, which is somewhat surprisingly deemed less significant despite Ethiopia's religious composition (63.4% Christian and 34.1% Muslim). In contrast, the influence of foreign ownership is relatively low (mean = 5.21), suggesting that Ethiopian investors are more concerned with a company's local standing and ethical behavior than with its foreign ownership status.

Financial and Informational Factors: Investors in Ethiopia prioritize financial indicators, with dividends (mean = 6.08), the financial condition of companies (mean = 6.07), and share marketability (mean = 6.05) ranking highest. The low standard deviations for these factors indicate a strong consensus among investors, highlighting the importance of stable returns, company health, and liquidity. Past performance (mean = 6.02) also plays a significant role, while insider information (mean = 5.37) is regarded as less decisive but still noteworthy. However, the relatively high standard deviation for insider information suggests varied views among investors, raising concerns about the potential influence of non-public data, which is illegal and unethical.

External and Informational Factors: The study shows that statements from government officials (mean = 5.41) have moderate significance, reflecting the influence of government communications on investment decisions. Government ownership in companies (mean = 5.09) holds some weight but is considered less significant. However, factors such as information from the press, internet, or public word of mouth (means between 4.57 and 4.86) have a relatively low impact, suggesting that Ethiopian investors are cautious about media-driven investment narratives and are more focused on verified financial and company-specific data.

Recommendation Sources: The findings indicate that financial advisors are the most influential source of recommendations, with a mean score of 5.22. Family and friends also play a role, with means of 4.87 and 4.79, respectively. However, majority shareholder recommendations (mean = 4.38) and broker recommendations (mean = 4.12) have less influence, with the latter reflecting a general lack of trust in the more transactional advice brokers provide. This indicates a preference for more personalized and expert-driven guidance.

Risk Management and Borrowing: The ability to obtain borrowed funds (mean = 5.20) and the need for portfolio diversification (mean = 5.15) emerge as critical factors for Ethiopian investors, pointing to a focus on maximizing returns while managing risk. However, concerns about expected losses in both local (mean = 3.99) and international markets (mean = 3.77) are less influential, suggesting that Ethiopian investors are less concerned with global market conditions and external losses when making investment decisions. The high standard deviations for these global concerns show considerable variability in investor perspectives but overall, they have minimal impact on investment decisions.

Overall, Ethiopian equity investors place the highest importance on tangible financial factors such as dividends, financial health, and marketability. Behavioral considerations, while relevant, are secondary to financial performance, with ethical standards and industry reputation standing out. The study further emphasizes that while government statements and personal recommendations do influence decision-making, investors remain primarily focused on core financial metrics and risk management strategies. Furthermore, the relatively low influence of global market conditions suggests that Ethiopian investors remain more focused on local financial dynamics, with limited concern for international economic fluctuations.

5.2 Conclusion

The findings reveal that accounting information emerges as the most significant factor for Ethiopia individual equity investors indicationg rational decision-making criteria in investment decisions. the result is consistent with a study made in Greece on experienced shareholders by (Merikas et al., 2011). However, this reliance calls for heightened vigilance against the potential manipulation of financial statements, as noted by Olubusola et al. (2024).

The marketability of a company's shares ranked high among the factors influencing Ethiopian equity investors' decisions. This finding aligns with a study conducted in the UAE, where marketability ranked third as a decisive factor. The UAE study also emphasized the relationship between stock price and demand, suggesting that excessively high stock prices could hinder marketability by making shares more difficult to sell (Al-Tamimi, 2006). Similarly, in Ethiopia, the quoted share prices are often higher than the income capacity of most citizens, further impacting marketability (Aksion.com, 2024).

The findings of this study align with prior research conducted in Greece by Merikas et al. (2011), emphasizing that traditional wealth maximization criteria remain pivotal in investment decision-making. In the Ethiopian context, past performance of a company's shares, dividends paid by a company, expected corporate earnings, and the condition of a company's financial statements ranked among the top factors influencing shareholders' decisions. This consistency highlights the universal importance of fundamental financial indicators across different markets while also underlining the relevance of contextual factors in shaping investor priorities.

Ethnic, political, and religious affiliations have emerged as moderately influential factors in investment decisions. This marks a notable shift from Zewude's (2019) findings, which identified ethnicity as a significant determinant in customers' choice to invest in shares of specific financial services. The change highlights a transition toward more pragmatic, performance-driven investment considerations, reflecting a maturing investor mindset that values financial metrics and innovation over traditional or subjective criteria. However, the relatively low impact of government official statements may leave investors vulnerable to unforeseen risks, highlighting the need for greater awareness of regulatory developments.

The perceived significance of insider knowledge is one alarming finding. It is important to stress that insider trading is fraud and should never be regarded as a valid investment component, even when this illustrates its impact on some investors. "No Trading Member shall participate in any insider dealing in relation to any securities traded on The Exchange or knowingly assist any Trading Member or any other person to participate in such insider dealing," the Ethiopian Securities Exchange's 2024 Rulebook makes clear.

The results of this study also reveal that factors such as positive public word-of-mouth, information about a company obtained from the internet, and positive coverage of a company in the press rank relatively low in importance for investors. This suggests that investors are less susceptible to the influence of media campaigns or misleading narratives, and instead rely more on fundamental financial indicators and objective analyses to guide their investment decisions.

5.3 Recommendations

Ethiopian investors' primary reliance on accounting information as a key criterion for investment decisions reflects a rational approach and aligns with the practices of experienced investors globally. However, this reliance necessitates caution, as the potential manipulation of financial statements can mislead even the most discerning investors. To address this, regulatory authorities and companies should ensure the accuracy and transparency of financial reporting through stringent auditing standards, enhanced corporate governance, and robust oversight mechanisms. Additionally, educating investors to critically analyse financial data can help mitigate the risks of relying on manipulated information.

The role of share marketability highlights the need for corporate strategies that enhance stock liquidity and accessibility. In a country where the per capita income is low, at $1,272 (World Bank, 2025), it is difficult to engage in equity investment if stock prices are high. Policies like stock splits have been shown to improve market perceptions, attract retail investors, and boost trading activity, as evidenced by Nvidia's 2024 stock split (Osman, 2024). Companies in Ethiopia can leverage such practices to strengthen their appeal and competitiveness in the equity market.

Similar to experienced investors in Greece (Merikas et al., 2011), Ethiopian equity investors are primarily driven by classical wealth maximization criteria when making investment

decisions. However, the growing importance of ethics in investing cannot be ignored. Camilleri (2021) observed that the rise of responsible investing has brought more scrutiny to businesses' environmental, social, and governance (ESG) behaviors, with socially responsible investors increasingly analyzing non-financial performance. Consistent with this global trend, this study found that Ethiopian equity investors also consider a company's ethical practices. Individual investors in Ethiopia should continue to consider incorporating ethical and ESG factors more into their decision-making processes to align with global investment trends and support long-term sustainable growth.

The refusal of Ethiopian investors to be overly influenced by ethnic, religious, or political affiliations sends a powerful message to companies that rely on ethnic branding or align themselves with religious and political bases, urging them to reconsider their strategies. Companies should shift their focus toward inclusivity and neutrality, emphasizing shared values that resonate with diverse audiences. Investing in quality, innovation, and ethical practices can help build trust and appeal to a broader market, ensuring long-term success. However, Ethiopian investors' disregard for government officials' statements may cause them to overlook crucial rules and guidelines. It is essential for investors to distinguish between political discourse and government regulations, as the latter has a direct impact on business operations and compliance. Staying informed about regulatory updates ensures that businesses operate within the legal framework and avoid unnecessary risks or penalties.

Investors must be educated on the ethical, legal, and financial risks associated with relying on insider information. Companies, regulatory bodies, and financial institutions should collaborate to provide targeted awareness campaigns, workshops, and training programs that emphasize the consequences of insider trading, including fines, imprisonment, and reputational damage. These initiatives should also highlight how insider trading undermines market integrity, erodes investor confidence, and distorts fair competition. Promoting a culture of ethical decision-making and compliance will strengthen market transparency and contribute to a more robust and equitable financial system.

Low ranking of word-of-mouth, online info, and media coverage in investor decisions underscores the importance of credible, verifiable information. Companies should prioritize building trust through transparency and ethical practices, rather than relying on media campaigns or public relations strategies. Strengthening corporate governance and providing accurate disclosures will foster investor confidence and reduce the impact of misinformation.

5.4 Implications for Future Research

The findings and limitations of this research point to opportunities for future studies.

This study focused exclusively on active Ethiopian equity investors, excluding citizens who are currently not engaged in share investments. Future research could benefit from including non-investors to explore the factors that influence their decisions to begin equity investment. Understanding these determinants will be valuable as they may enter the market in the future, potentially broadening the investor base and altering market dynamics.

The study also highlighted a gap in the use of critical information sources, such as government official statements and broker recommendations, among active investors. Further qualitative research, including in-depth interviews or focus group discussions, could provide a more nuanced understanding of why these sources are overlooked. This could help policymakers and brokers tailor their communication strategies to enhance their credibility and impact.

The establishment of the Ethiopian Securities Exchange is likely to play a transformative role in fostering trust and influencing investment decisions. However, as this development coincided with the conclusion of the current study, its effects could not be examined. Future research should investigate how the establishment of the exchange impacts investor confidence and decision-making processes. Findings from the UAE study by Al-Tamimi (2006), which ranked the creation of organized financial markets as a significant factor influencing investment decisions, highlight the potential relevance of this factor in Ethiopia. Comparative studies between Ethiopia and other emerging markets with recently established financial exchanges could provide valuable insights into the broader implications of organized financial markets on equity investment behavior.

Accounting information has been found to significantly influence investor behavior. However, since the participants in this study are at least diploma holders, it would be valuable to gather responses from individuals with lower educational levels to assess the extent to which they rely on such information. A further study incorporating illiterate individuals could offer a more comprehensive understanding of this issue.

By addressing these areas, future research can contribute to a more comprehensive understanding of the factors shaping equity investment decisions in Ethiopia, particularly as the equity market continues to evolve.

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Appendix I

Addis Ababa University

College of Business and Economics

Department of Management

Questionnaire to be filled by individual equity investors

Dear Respondent,

The purpose of this questionnaire is to collect primary data for my study titled "Factors Influencing Individual Investor Behaviour: An Empirical Study of the Ethiopian Equity Market" for the partial fulfilment of the Master of Science in International Business at Addis Ababa University. Your participation and honest responses are highly valued, and all information provided will be treated confidentially. Thank you in advance for your cooperation.

Note: Providing your name is optional

Part I. Personal information

Eligibility	I am an Ethiopian citizen and a shareholder in a registered Ethiopian company	
Gender	Male	
	Female	
Age	18-29 years	
	30-39 years	
	40-49 years	
	50 years and above	
Marital status	Single	
	Married	
	Divorced	
Educational Qualification	Primary or Secondary	
	Diploma or Bachelor's Degree	
	Graduate degree (Masters or PhD)	
	Other (please specify)	
Monthly Income	Below 20,000	

	20,000 - 50,000	
	50,000 - 100,000	
	Above 100,000	

Part II: This section examines whether the factors listed below influence your investment decisions in shares

I	Self-Image/Company-Image Coincidence	1 Strongly Disagree	2 Disagree	3 Somewhat Disagree	4 Neutral	5 Somewhat Agree	6 Agree	7 Strongly Agree
SICIC-Q1	Does the religious, ethnic, or political, affiliation of a company make you more likely to invest in its shares?							
SICIC-Q2	Does a company's status in its industry make you more likely to invest in its shares?							
SICIC-Q3	Does the reputation of a company's shareholders make you more likely to invest in its shares?							
SICIC-Q4	Does the perception of a company having good ethics make you more likely to invest in its shares?							
SICIC-Q5	Does foreign ownership of a company make you more likely to invest in its shares?							

II	Accounting Information	1 Strongly Disagree	2 Disagree	3 Somewhat Disagree	4 Neutral	5 Somewhat Agree	6 Agree	7 Strongly Agree
AI-Q1	Does insider information make you more likely to invest in its shares?							
AI-Q2	Does the condition of a company's financial statements make you more likely to invest in its shares?							
AI-Q3	Does the amount of dividends paid by a company make you more likely to invest in its shares?							
AI-Q4	Does the past performance of a company's shares make you more likely to invest in them?							
AI-Q5	Does the marketability of a company's shares make you more likely to invest in them?							

III	Neutral Information	1 Strongly Disagree	2 Disagree	3 Somewhat Disagree	4 Neutral	5 Somewhat Agree	6 Agree	7 Strongly Agree
NI-Q1	Does a high level of government ownership in a company make you more likely to invest in its shares?							
NI-Q2	Does information about a company obtained from the internet make you more likely to invest in its shares?							
NI-Q3	Does positive coverage of a company in the press make you more likely to invest in its shares?							
NI-Q4	Do statements from government officials about a company make you more likely to invest in its shares?							
NI-Q5	Does positive public word of mouth about a company make you more likely to invest in its shares?							

IV	Advocate Recommendation	1 Strongly Disagree	2 Disagree	3 Somewhat Disagree	4 Neutral	5 Somewhat Agree	6 Agree	7 Strongly Agree
AR-Q1	Does a broker's recommendation make you more likely to invest in a company's shares?							
AR-Q2	Does a recommendation from a financial advisor or analyst make you more likely to invest in a company's shares?							
AR-Q3	Do recommendations from friends or co-workers make you more likely to invest in a company's shares?							
AR-Q4	Do recommendations from family make you more likely to invest in a company's shares?							
AR-Q5	Does a recommendation from a majority shareholder make you more likely to invest in a company's shares?							

V	Personal Financial Needs	1 Strongly Disagree	2 Disagree	3 Somewhat Disagree	4 Neutral	5 Somewhat Agree	6 Agree	7 Strongly Agree
PFN-Q1	Do expected losses in other local investments make you more likely to invest in a company's shares?							
PFN-Q2	Do your needs for diversification make you more likely to invest in a company's shares?							
PFN-Q3	Does the ease of obtaining borrowed funds make you more likely to invest in a company's shares?							

PFN-Q4	Does your desire to minimize risk make you more likely to invest in a company's shares?							
PFN-Q5	Do expected losses in international financial markets make you more likely to invest in a company's shares?							

Part III: Level of Influence on Individual Equity Investment Decision

Direction: The following statements describe factors that influence your equity investment decisions. Please respond by selecting the number that best reflects your perception.

VI	Individual Equity Investment Decision	1	2	3	4	5	6	7
		Foolish						Wise
IEID-Q1	Making equity investments in companies that align with one's self-image and personal values is?							
IEID-Q2	Making equity investments based on the financial information and performance details of a company is?							
		1	2	3	4	5	6	7
		Harmful						Beneficial
IEID-Q3	Making equity investments based on neutral sources of information is?							
IEID-Q4	Making equity investments based on recommendations is?							
		1	2	3	4	5	6	7
		Inappropriate						Appropriate
IEID-Q5	Making equity investments based on personal financial needs is?							

Adopted from Al-Tamimi (2006) and Adhikari (2020)

Thank you for your time and valuable input. Your responses are greatly appreciated!

Amharic Version Questionnaire

አባሪ 1

አዲስ አበባ ዩኒቨርስቲ

የቢዝነስ እና ኢኮኖሚክስ ኮሌጅ

የስራ አመራር ትምህርት ክፍል

በግለሰብ ኢንቨስተሮች የሚሞላ መጠይቅ

ውድ ተሳታፊ

ይህ መጠይቅ የተዘጋጀዉ በአዲስ አበባ ዩኒቨርስቲ የድህረ-ምረቃ ተማሪ ሲሆን አላማዉም በግለሰቦች የሼር ግዢ ላይ ተጽዕኖ የሚያሳድሩ ባህሪዎች በሚል ርዕስ ለሚደረግ ጥናት የመጀመሪያ ደረጃ መረጃ ለመሰብሰብ ነው፡፡ የሚሰጡት መልስ የሚዉለዉ ለዚህ ጥናት አላማ ብቻ ነው፡፡ስለሆነም ከዚህ በታች ለቀረቡት ጥያቄዎች ትክክል ነው የሚሉትን መልስ ይሰጡ ዘንድ በትህትና እጠይቃለሁ፡፡

ማሳሰቢያ፡ ስምዎን መጥቀስ ግዴታ አይደለም

ክፍል አንድ፡ የግል መረጃ

ተገቢነት	ኢትዮጵያዊ ዜጋ እና በተመዘገበ የኢትዮጵያ ኩባንያ ውስጥ ባለአክሲዮን ነኝ	
ጾታ	ወንድ	
	ሴት	
ዕድሜ	ከ18-29 ዓመት	
	30-39 ዓመት	
	40-49 ዓመት	
	50 ዓመት እና ከዚያ በላይ	
የጋብቻ ሁኔታ	ያላገባ/ች	
	ያገባ/ች	
	ፍቺ የፈፀመ/ች	
የትምህርት ደረጃ	የመጀመሪያ ወይም ሁለተኛ ደረጃ	
	ዲፕሎማ ወይም የመጀመሪያ ዲግሪ	
	የድህረ ምረቃ ዲግሪ (ማስተርስ ወይም ፒኤችዲ)	
	ሌላ (እባክዎ በዝርዝር ይግለጹ)	
ወርሃዊ ገቢ	ከ20,000 በታች	
	20,000 - 50,000	
	50,000 - 100,000	
	ከ100,000 በላይ	

ክፍል ሁለት፡ ይህ ክፍል ከዚህ በታች የተዘረዘሩት ምክንያቶች በአክሲዮኖች ላይ በሚያደርጉት የኢንቨስትመንት ውሳኔ ላይ ተጽእኖ ያሳድራሉ ወይ የሚለውን ይመረምራል።

I	የራስ አመለካከት እና የኩባንያ አመለካከት መጣጣም	1 በጣም አልስማማም	2 አልስማማም	3 በመጠኑ አልስማማም	4 ገለልተኛ	5 በመጠኑ እስማማለሁ	6 እስማማለሁ	7 በጣም እስማማለሁ
1	የአንድ ኩባንያ ሃይማኖታዊ፣ ጎሣዊ ወይም ፖለቲካዊ ትስስር ትስስር በአክሲዮኖቹ ላይ ኢንቨስት ለማድረግ የበለጠ ያነሳሶታል?							
2	አንድ ኩባንያ በኢንዱስትሪው ውስጥ ያለው ደረጃ በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
3	የአንድ ኩባንያ ባለአክሲዮኖች መልካም ስም በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
4	አንድ ኩባንያ ጥሩ ሥነ-ምግባር አለው የሚለው ግንዛቤ በአክሲዮኖቹ ላይ ኢንቨስት ለማድረግ የበለጠ ያነሳሶታል?							
5	የአንድ ኩባንያ በውጭ ባለሃብቶች መያዝ በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

II	የሂሳብ መዝገብ መረጃ	1 በጣም አልስማማም	2 አልስማማም	3 በመጠኑ አልስማማም	4 ገለልተኛ	5 በመጠኑ እስማማለሁ	6 እስማማለሁ	7 በጣም እስማማለሁ
1	የአንድ ኩባንያ የውስጥ አዋቂ መረጃ በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
2	የአንድ ኩባንያ የሂሳብ መግለጫዎች ውጤት በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
3	አንድ ኩባንያ የከፈለው የትርፍ ክፍፍል በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
4	የአንድ ኩባንያ አክሲዮን ያለፉት ዓመታት ውጤታማነት በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
5	የአንድ ኩባንያ አክሲዮን በገበያ ላይ ያለው ተፈላጊነት በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

III	ገለልተኛ መረጃ	1 በጣም አልስማማም	2 አልስማማም	3 በመጠኑ አልስማማም	4 ገለልተኛ	5 በመጠኑ እስማማለሁ	6 እስማማለሁ	7 በጣም እስማማለሁ
1	በአንድ ኩባንያ ውስጥ መንግስት ያለው የድርሻ መጠን ከፍተኛ መሆን በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
2	ስለ አንድ ኩባንያ ከበይነ መረብ የተገኘ መረጃ በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
3	በፕሬስ ውስጥ ለአንድ ኩባንያ የሚሰጠው አወንታዊ ሽፋን በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
4	የመንግስት ባለስልጣናት ስለ አንድ ኩባንያ የሚሰጡዋቸው መግለጫዎች በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
5	ስለ አንድ ኩባንያ በህዝብ ዘንድ የሚናፈሱ አወንታዊ ወሬዎች በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

IV	ደጋፊ ምክር	1 በጣም አልስማማም	2 አልስማማም	3 በመጠኑ አልስማማም	4 ገለልተኛ	5 በመጠኑ እስማማለሁ	6 እስማማለሁ	7 በጣም እስማማለሁ
1	ስለ አንድ ኩባንያ ከደላላ የሚሰጡት ምክር በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
2	ስለ አንድ ኩባንያ ከፋይናንስ አማካሪዎች እና ተንታኞች የሚሰጡት ምክር በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

3	ስለ አንድ ኩባንያ ከጓደኛ ወይም ከስራ ባልደረባ የሚሰጠት ምክር በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
4	ስለ አንድ ኩባንያ ከቤተሰብ አባላት የሚሰጠት ምክር በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
5	ስለ አንድ ኩባንያ ከከፍተኛ አክሲዮን ባለቤቶች የሚሰጠት ምክር በአክሲዮኖቹ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

V	የግል ፋይናንስ ፍላጎቶች	1 በጣም አልስማማም	2 አልስማማም	3 በመጠኑ አልስማማም	4 ገለልተኛ	5 በመጠኑ እስማማለሁ	6 እስማማለሁ	7 በጣም እስማማለሁ
1	በሌሎች የሀገር ውስጥ ኢንቨስትመንቶች ላይ የሚጠበቁ ኪሳራዎች በአክሲዮን ኩባንያ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
2	በተለያዩ የኢንቨስትመንት አማራጮች ላይ ለመሳተፍ ያሎት ፍላጎት በአክሲዮን ኩባንያ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
3	ብድር የማግኘት ቀላልነት በአንድ ኩባንያ አክሲዮኖች ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
4	ስጋትን ለመቀነስ ያሎት ፍላጎት በአንድ ኩባንያ አክሲዮኖች ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							
5	በአለም አቀፍ የፋይናንሺያል ገበያዎች ላይ የሚጠበቁ ኪሳራዎች በአክሲዮን ኩባንያ ላይ ኢንቨስት እንዲያደርጉ የበለጠ ያነሳሶታል?							

ክፍል III፡ በግለሰብ የአክሲዮኖን ኢንቨስትመንት ውሳኔ ላይ የተፅዕኖ ደረጃ

አቅጣጫ፡ የሚከተሉት መግለጫዎች በእርስዎ ኢንቨስትመንት ውሳኔዎች ላይ ተጽእኖ የሚፈጥሩ ሁኔታዎችን ይገልፃሉ። እባክዎ የእርስዎን ግንዛቤ በተሻለ ሁኔታ የሚያንፀባርቀውን ቁጥር በመምረጥ ምላሽ ይስጡ

VI	የግለሰብ የአክሲዮኖን ኢንቨስትመንት ውሳኔ	1 ብልህነት አይደለም	2	3	4	5	6	7 ብልህነት ነው
1	ከራስ እይታ እና ከግል እሴቶች ጋር በሚጣጣሙ ኩባንያዎች አክሲዮኖች ላይ ኢንቨስት ማድረግ?							
2	በአንድ ኩባንያ የፋይናንስ መረጃ እና የአፈፃፀም ዝርዝሮች ላይ በመመርኮዝ በአክሲዮኖቹ ላይ ኢንቨስት ማድረግ?							
		1 ጎጂ ነው	2	3	4	5	6	7 ጠቃሚ ነው
3	በገለልተኛ የመረጃ ምንጮች ላይ በመመስረት በአንድ ኩባንያ አክሲዮኖች ላይ ኢንቨስት ማድረግ?							
4	በደጋፊ ምክር ላይ መሰረት በማድረግ በአንድ ኩባንያ አክሲዮኖች ላይ ኢንቨስት ማድረግ?							
		1 ተገቢ አይደለም	2	3	4	5	6	7 ተገቢ ነው
5	በግል የፋይናንሺያል ፍላጎት ላይ ተመስርተው በአንድ ኩባንያ አክሲዮኖች ላይ ኢንቨስት ማድረግ?							

ከአል-ተሚሚ (2006) እና አድሂካሪ (2020) የተወሰደ

ለጊዜዎ እና ጠቃሚ ግብአትዎ እጅግ አመሰግናለሁ

Appendix II

SPSS OUTPUT

Demographic Profile of Respondents

Variables	Categories	Frequency	Percentage
Eligibility	I am an Ethiopian citizen and a shareholder in a registered Ethiopian company (Yes)	384	100
Gender	Male	222	57.8
	Female	162	42.2
Age	18-29 years	88	22.9
	30-39 years	116	30.2
	40-49 years	134	34.9
	50 years and above	46	12.0
Marital status	Single	204	53.1
	Married	176	45.8
	Divorced	4	1.0
Educational Qualification	Primary or Secondary	8	2.1
	Diploma or Bachelor's Degree	77	20.1
	Graduate degree (Masters or PhD)	299	77.9
	Other (please specify)	0	0.0
Monthly Income	Below 20,000	104	27.1
	20,000 - 50,000	115	29.9
	50,001 - 100,000	96	25.0
	Above 100,000	69	18.0

The Cronbach's Alpha Test Result from SPSS

Variables	No. of Items	Cronbach's alpha
Self-Image/Company-Image Coincidence	5	0.924
Accounting Information	5	0.768
Neutral Information	5	0.873
Advocate Recommendations	5	0.707
Personal Financial Needs	5	0.751
Individual Equity Investment Decision	5	0.719

Descriptive Statistics for Self-Image/Company-Image Coincidence Factor

Variable	N	Mean	Std. Deviation
The religious, ethnic, or political, affiliation of a company	384	5.27	1.193
Company's status in its industry	384	6.46	0.896
Reputation of a company's shareholders	384	5.82	1.088
Company's ethics	384	5.94	1.355
Foreign ownership of a company	384	5.21	0.907

Descriptive Statistics for Accounting Information Factor

Variable	N	Mean	Std. Deviation
Insider Information	384	5.37	1.176
Condition of a company's financial statements	384	6.07	1.051
Dividends paid by a company	384	6.08	0.899
Past performance of a company's shares	384	6.02	1.207
Marketability of a company's shares	384	6.05	1.103

Descriptive Statistics for Neutral Information Factor

Variable	N	Mean	Std. Deviation
High level of government ownership in a company	384	5.09	1.829
Information about a company obtained from the internet	384	4.71	1.519
Positive coverage of a company in the press	384	4.86	1.303
Statements from government officials about a company	384	5.41	1.533
Positive public word of mouth about a company	384	4.57	1.442

Descriptive Statistics for Advocate Recommendations Factor

Variable	N	Mean	Std. Deviation
Broker's recommendation	384	4.12	1.481
Recommendation from a financial advisor	384	5.22	1.170
Recommendations from friends or co-workers	384	4.79	1.268
Recommendations from family	384	4.87	1.194
Recommendation from a majority shareholder	384	4.38	1.181

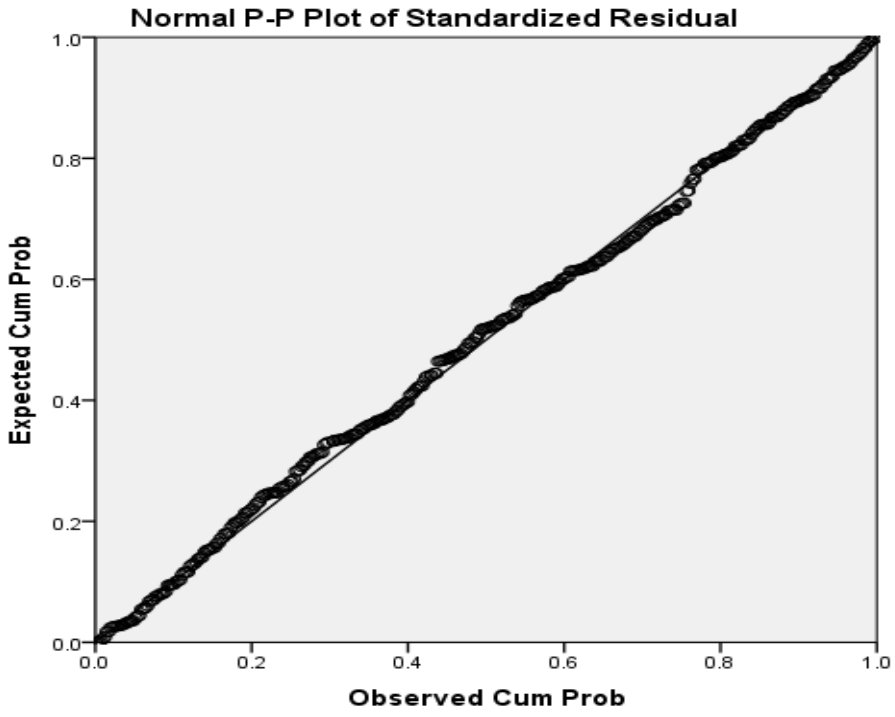
Descriptive Statistics for Personal Financial Needs Factor

Variable	N	Mean	Std. Deviation
Expected losses in other local investments	384	3.99	1.567
Needs for diversification	384	5.15	1.129
Ease of obtaining borrowed funds	384	5.20	1.413
Desire to minimize risk	384	4.90	1.361
Expected Losses in international financial markets	384	3.77	1.507

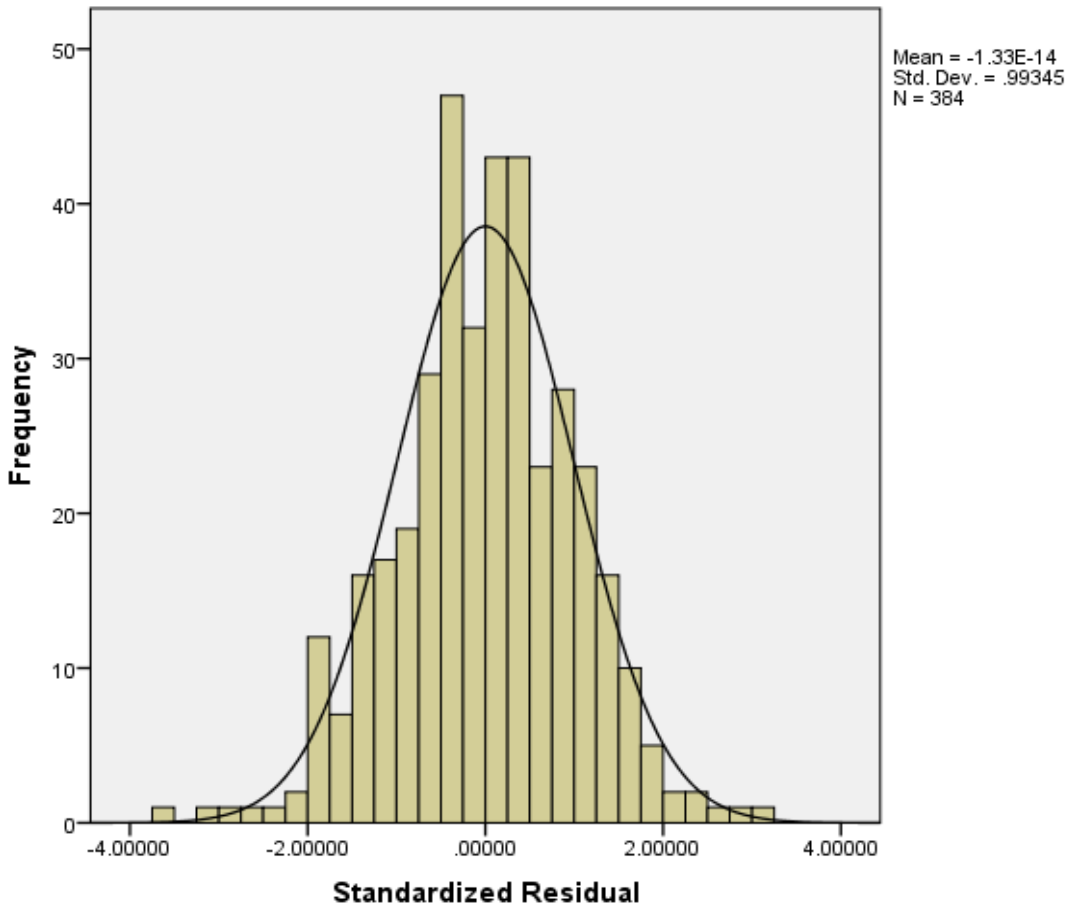
Pearson Correlations Matrix

		SICIC	AI	NI	AR	PFN	IEID
SICIC	Pearson Correlation	1	.790**	.382**	.222**	.535**	.760**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	384	384	384	384	384	384
AI	Pearson Correlation	.790**	1	.424**	.245**	.652**	.821**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	384	384	384	384	384	384
NI	Pearson Correlation	.382**	.424**	1	.502**	.423**	.579**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	384	384	384	384	384	384
AR	Pearson Correlation	.222**	.245**	.502**	1	.335**	.453**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	384	384	384	384	384	384
PFN	Pearson Correlation	.535**	.652**	.423**	.335**	1	.747**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	384	384	384	384	384	384
IEID	Pearson Correlation	.760**	.821**	.579**	.453**	.747**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	384	384	384	384	384	384

Normal P-P Plot, Test of Linearity



Histogram, Test of Normality



Multicollinearity Test Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
SICIC	.373	2.681
AI	.298	3.358
NI	.639	1.565
AR	.727	1.376
PFN	.534	1.873

Multiple Regression Analysis of the Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912a	.831	.829	.37876

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	267.401	5	53.48	372.783	.000[b]
	Residual	54.229	378	0.143		
	Total	321.63	383			

Coefficients for Behavioral Factors On Individual Equity Investment Decision

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.538	.160		-3.357	.001		
	SICIC	.293	.040	.253	7.323	.000	.373	2.681
	AI	.351	.040	.341	8.806	.000	.298	3.358
	NI	.129	.023	.146	5.542	.000	.639	1.565
	AR	.150	.025	.147	5.919	.000	.727	1.376
	PFN	.265	.028	.279	9.638	.000	.534	1.873