

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 General Background of the Study**

The business world today is more sophisticated than of the past. The changing lifestyle and increased demand for good and services have always been a challenge as well as opportunity to business houses. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. The type of finance needed by a firm largely depends upon the type of the enterprises, and varies from one firm to other, depending on the firm's peculiarities. The need for long-term assets may be higher for some enterprises than the others and they may require higher amount of working capital too.

Nepal belongs to one of the least developed and poorest countries in the world where per capita income of people is just *US \$ 236 (HMG/N: 2003/4)*, which is far below than the basic level for sustenance. Most of the people derive their earnings from agriculture and hardly sustain their lives from little earnings thus generated, which is the sole reason behind perpetual poverty. This has compelled the concerned sector to stimulate on diversification of solely agro-based economy towards industry-based economy. So the government's and the non-government's efforts are oriented on poverty alleviation as well as on reduction of wide economic gap existing between rich and bourgeois. That's why resource mobilization from the haves to have-nots and from unproductive to productive sectors is regarded as a must for economic development. Thus, development of capital market by bringing the lenders and borrowers of fund together in an organized market has always been an effort. Keeping this in

view, the government has introduced the liberalization policy for the economic and financial development of the country with the dawn of democracy.

Hitherto, in budget part, government revenues are seemed insufficient to meet its regular as well as development expenditures leading it to deficit budget. The government, to some extent, has been meeting such difference by domestic borrowings as a major source of Deficit Financing (*NRB, 2003*). Likewise, the local government bodies such as municipalities and district development committees are in the process of issuing debt securities as a source of fund to finance their projects and to meet their expenses. Government securities are issued by Nepal Rastra Bank on behalf of the government and those include government bonds like Development bonds, national saving bonds and citizen saving bonds.

Two kinds of investment alternatives are inherent for an investor. An investor either can invest in real assets or in financial assets. However, investment patterns, objectives and strategy may vary from investor to investor. But our prime focus is on investment of financial securities. While investing on financial instruments, it implies bearing of risk, and waiting for positive return.

Securities are financial assets that form the part of an investor's wealth. Common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures, etc. are examples of securities. Security is not an age-old investment alternative in our country. The history of corporate securities in Nepal dates back to 1936 A.D. when Biratnagar Jute Mill issued 8,000 ordinary shares of Rs.100 each for the first time. A year later, Nepal Bank Ltd too issued ordinary shares of the same par value. Biratnagar Jute Mill was also the first corporate body to issue debentures of Rs.500 each in early 1936. Yet other significant developments related to capital markets were – introduction of the Company Act in 1964, the first issuance of Government Bond in 1964, and the establishment of Securities Exchange Centre Ltd. in 1976.

Investors, from whom the corporation acquires funds, are the most important part of investment. They may be individuals, institutions – financial and non-financial, and other organizations. They spend their time, money and effort as well while investing in any asset – regardless of financial or real. What investors do is that they invest their savings in the securities and take risk expecting compensating return in future course of time.

The place where the securities like stocks, bonds, etc are traded is known as securities market. On the basis of maturities of the securities traded, there are two types of security markets – capital and money market. Security market facilitates the process of transferring funds from savers to investors and acts as mechanisms created to facilitate the exchange of financial assets. Stated in another way, it is the place where financial assets are traded. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. It is seemed that investors are lacking adequate information on the securities in the market to make decisions about what to buy or the price to pay. And being the emerging nations, the security market of Nepal is an inefficient market.

In early days of issuance, there were few investors, few securities to invest and the market was also not developed. Only stocks were considered as securities and dividends were anticipated in return. There had also been cases of over-subscription of securities in some companies in subsequent years. However, debentures were hardly accepted by the investors as securities. Later, bonds too were started to be issued and the market get little diversified. However, preference share was not included as corporate security in Company Act 1936. It was embodied as corporate security only in the Company Act 1964. In ancient times, people lacked information on investing in various financial

instruments, choices were limited regarding securities to invest leading to difficulty in constructing portfolio and their performances evaluation as the number of stocks were few in the market. In fact, common people hesitated to invest their wealth in financial instruments.

Risk and return are the two most important aspects for conducting rational investment decision. Risk is defined as “a hazard; a peril; exposure to loss or injury.” Whereas return is the total income or loss on an investment over a given period of time. Every rational investor attempts to minimize risk and maximize return. To do so, the investor must understand the concepts and measures of risk and return. Investors in Nepal are gradually getting conscious towards risk and return analysis. Investors may choose any securities – long-term and short-term, and may have different attitudes on the securities. Similarly, the return or reward may take several forms such as cash dividends or stock dividends (bonus shares) in case of stocks and regular cash inflows (interest receipts) in case of bonds and debentures. However, in case of short-term securities such as treasury bills, commercial papers, etc, the return is the difference between par value and the purchase price.

Nowadays in Nepal too, securities are considered as the prime investment alternatives but mostly in urban and educated societies only. Today, there is an organised exchange market – *Nepal Stock Exchange* for trading of securities from various corporate as well as government bodies. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. NEPSE has got its name after a series of modifications and amendments. While having a glimpse at its history, it extends back to 1976, when the government established Securities Marketing Center. Then it was converted into Securities Exchange Center in later years. During those years, the activities of the Center were confined only to trading of government securities. The Center was again converted into Nepal Stock Exchange in 1994, which is still in operation.

The securities in the Nepalese market comprises of Primary and Secondary Securities. Common stocks, preferred stocks, debentures (corporate bonds), government bonds, and treasury bills are the examples of Primary securities. However, the Secondary securities include bank deposits, life insurance policies, and units. In Nepal, most of the corporations and companies have issued common stocks rather than debentures and preferred stocks, which are listed at Nepal Stock Exchange, where the secondary phase of transaction takes place. There are several efforts initiated from government as well as private sectors to increase the potential number of investors, to protect the rights and interests of the existing investors, and to foster financial and capital markets (<http://www.sebonp.com>). Mainly such efforts are reflected in the form of creation of investment environment, liberalizing securities registration and transaction, structuring and implementing tax system, development of financial system (instruments, intermediaries, and markets). In retrospection of the securities and the securities market in Nepal, the issue of securities and their trading in secondary markets can still be regarded in infancy.

However, there are no specialized investment companies in Nepal responsible for collecting money by selling units to the investors and investing in portfolio of securities. Only NIDC Capital Markets and Citizen Investment Trust are performing the functions of Investment Company in Nepal. Till 1997, there were no specific regulations to govern mutual funds in Nepal. Companies' Act and Securities Exchange Act used to govern it.

## **1.2 Focus of the Study**

The main focus of the study is to conduct this research to study the behavior pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers.

### **1.3 Statement of the Problem**

Most of the people from rural areas are almost illiterate to securities. Also in urban areas, very few people with business and intellectual family backgrounds bear some knowledge on it. Concentration of wealth in a few hands is also one of the major reasons behind backwardness of societies. This is a nationwide problem. On the basis of disparity in income, living standard, and educational status, we can outrightly categorize people living in the country under lower, medium and upper class. There is a wide economic gap between rich and bourgeois. Investing on various financial instruments forming efficient portfolios helps in reducing such gap by generating sufficient passive income to the small investors.

Investors in Nepal have been found relating it to gambling and speculation. However, it is very different from speculation and gambling. It is the process of rational decision-making. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation. Choice of securities for investors is extremely limited and confined to a few securities to construct and evaluate efficient portfolios. Due to state of utopia and over-expectation of getting rich overnight, people (mid-class) hesitate to invest in securities at first. Also if they invest in securities, they don't behave rationally. Instead, they invest in without proper analysis and judgment of the risk and return leading their decision to adhocism. There is presence of information gap, misguided attitude, and suspicious authenticity of the financial statements published by the institutions. Guided by these, the investors are seemed selecting the securities without proper guidance and analysis. As a result, they may incur losses or reap profits beyond their expectations.

While investing rationally in a security, the price and value of that security should be matched and taken decision accordingly. If the price of that security is greater than its value, it will be better to sell short or simply sell. Likewise, if

the price is less than its value, it will be better to buy or invest in. This can only happen and the accurate price can be calculated only when the investors are provided with sufficient, authentic information required to calculate the real value of securities and their growth prospective. But in the context of Nepal, there is limited flow of information, non-transparency of the trading mechanisms, poor knowledge of securities analysis, and lack of consultancies for consultation to judge and value the securities. Thus, the problem is that the investors could not identify the profitable stocks to invest in.

Furthermore, there are limited numbers of securities to construct portfolios, and investors lack organization responsible for analyzing the securities technically as well as fundamentally. Despite of the problems inherent, investors are attracted to securities investment, especially on stocks and government securities. However, the specific questions that are tried to answer through this research are:

- ) What is the attitude of investors on securities?
- ) What is the investors' trend of investment on securities?
- ) What are the prospects and challenges of security investment in Nepal from the investors' viewpoint?
- ) What forms of earnings do the investors' desire?
- ) What are the factors that most influence investors' attitude and their anticipation of earnings?

#### **1.4 Objectives of the Study**

The general objective of conducting this research is to study the behavior pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. In this way, the objective is able to cover the whole capital market scenario of Nepal. However, the specific objectives behind conducting this research study are:

1. To study and evaluate on investors' attitude towards securities.

2. To study the investors trend of investment on securities
3. To examine the criteria adopted by the investors while making decision on securities.
4. To reveal the earnings kinds investors desired from securities.
- 5 To suggest investors and organization on having positive attitudes and making rational investment decisions.

### **1.5 Significance of the Study**

In modern society, securities are considered as the important investment alternative. Its vitality in the upliftment of nation's economy cannot be overlooked. In one way, it can mobilize the capital resources from savers to investors. It can be used to finance the development as well as business projects, which cannot be funded alone by the companies and corporations. On the other part, the investors may reap a benefit of capital appreciation and cash in return that may fulfill the different objectives of individual investors. There may be different objectives of investors behind investing in financial instruments. Some invest to ensure regular income for retirement age, some for children's education and some others for emergency fund. And such purposes induce them to invest in different types of financial assets.

Regarding the problems inherent and stated above, this study may act as a guideline to introduce the securities issued in the market, and the earnings associated with them to the investors. On the basis of study of investment trend, behavioral analysis and investors' earnings preference, we can infer certain core ideas on investors' attitude towards securities. Thus, it will be beneficial for the potential investors and the prospective issuers too. As a result, the trading of capital market may expand both in volume and value. Instilling positive attitude on securities and enticing the investors on taking rational decision is thus its major significance. In another way, it may also help in bolstering the earnings of minority investors and thus helps reduce the widening gap prevailing in our society. Hence, somewhere there lies the

potentiality and significance of conducting this study. The topic thus selected, the focus and the objective thus targeted through it are of vital importance to the existing as well as potential investors. If referred seriously, this may bring a drastic change in investors' current attitude and induce them to invest more rationally. Moreover, this study aims to inculcate in the investors mind for conduction of fair securities transaction through proper analysis of risk and return and comparison of price with value.

### **1.6 Limitations of the Study**

It is believed that to err is human and to admit is superhuman. So I admit that this study may not be totally free from errors and limitations but I can assure that such drawbacks will be minimized to a very extent. I think the study may carry following limitations:

1. This study will be based on primary as well as secondary sources of data. Accordingly, investors may not give the authentic and needed information as much as they are expected to be. They may not even respond to some questions. In such cases, certain intuitions will have to be made.
2. Most of the data will be on common stock investors and NEPSE will be the prime study area.
3. This is a descriptive research where the behaviour and attitude of investors will be studied. So there will be more use of qualitative rather than the quantitative techniques of analysis. Thus, the use of statistical tools will be limited.
4. All deciding factors for the investment in securities will not be incorporated.
5. The main objective of this study is to fulfill partial requirement of Master Degree.  
Stipulated time and resources are also limitation of this study.
6. Reliability of this study depends upon the accuracy of published data and the genuineness of respondent.

## **1.7 Organization of The Study**

The whole study area will be divided into five different parts:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Data Presentation and Analysis

Chapter 5: Summary, Conclusion, & Recommendation.

The first chapter consists of background of the study, statement of the problem, objective of the study, and organization of the study.

The second chapter consists of literature review. This chapter is subdivided into various sections viz. theoretical framework, Macro concept of the stock market, historical background of the Nepalese stock market details of the stock issue and principle steps in issue of shares and review of past research work.

The Third chapter includes research methodology chapter will present the methodology adopted for the research. It comprises research design nature and source of data, data collection and analysis process employed and limitation of the study.

The fourth chapter focuses on the data presentation and analysis. This is the main and key chapter of the research study.

The last chapter five will explain summary, conclusions and recommendations.

# **CHAPTER - II**

## **REVIEW OF LITERATURE**

This chapter deals with review of the existing studies related to research topic in more detail and descriptive manner. Under this part, compilation of the various texts, journals and terminologies related to investors have been made. The whole chapter is divided clearly into two parts: Theoretical and review of related study.

### **2.1. Theoretical Review**

This part begins with concepts related to securities and the investors.

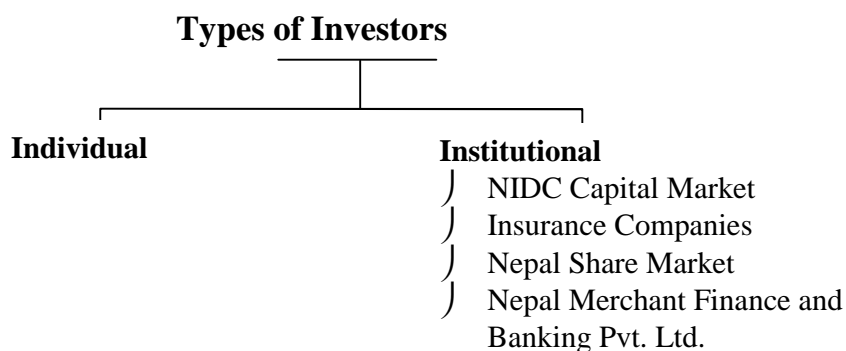
#### **2.1.1 Concept and Meaning of Investors**

Investors are defined precisely as those who supply capital to the capital market. In financial parlance, they are known as individuals or institutions buying shares of stock in a firm or lending money to a business. They are the people who look forward to making money over a long period of time in the stock market. In fact, investors invest some portion or all of their savings in lucrative opportunities in an anticipation of making more return in future periods.

Individuals, firms, companies, groups, corporate bodies or institutions, state governments, provident funds and trusts, non-residents, and overseas corporate bodies holding securities of different kinds are called the eligible investors. On the basis of the number of securities held by them, they are divided as 'A' class investors and 'odd-lot' investors. The latter ones are also regarded as the men-in-the-street (*Francis, 2002, P. 527*). However, our part of discussion is only on the individual investors.

## Investors Classification

Investors in securities can be classified clearly into two kinds, they are:  
Institutional Investors and Individual Investors.



Source: *Subedi, B. "Investors' Awareness on Securities"*

### Institutional Investors in Nepal

Institutional investors are investing organizations that trade large volumes of securities, thereby commanding reduced commissions and other special treatment. They are also the pullers of funds. A substantial portion of daily trading is for the account of institutional investors such as banks, trusts, pension funds, insurance companies, and mutual funds. Institutional Investors are firms that trade large volumes of securities, including mutual funds, banks, insurance companies, etc.

The major institutional investors existing in Nepal are as follows:

- a. NIDC Capital Market
- b. Nepal Share Market
- c. Nepal Merchant Finance and Banking Pvt. Ltd.
- d. Insurance Companies

### Individual Investors

The average investors in securities are a part-timer, with neither the ability nor the time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing. Individuals have an

opportunity cost in obtaining investment information, such as reading, publication, tracking stocks prices, and building files on securities. These opportunities cost is the time and resources foregone that could have been used in other endeavors. It is not possible to depend on the earnings generated from securities investment. Mostly in Nepal, investors (individual) take it as one of the probable sources of passive income. It is because the securities market development is still in infancy and the formation of portfolio, its analysis and selection on the basis of performance is irrelevant and almost impossible. So the individual investors take it as only as a part-time investment.

### **2.1.2 Concept and Meaning of Investment**

An investment is a commitment of money that is expected to generate additional money. Every investment entails (involves) some degree of risk - in the sense that it requires a present certain sacrifice for a future uncertain benefit. Under investment analysis, examination of marketable financial instruments such as common stocks, preferred stocks, bonds, put options, call options, combination options, futures contracts on the traditional commodities, financial futures, and other investments, as well as the risks associated with each are performed (*Francis, 2000 P. 1-2*).

Investment can be made in two kinds of assets viz: real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. Whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc. However, we are not going to deal with the investment on non-financial sectors.

Investment is made in an anticipation of future return. Such a rate of return desired by the investors from their investment is certainly positive. The length of time from the date of investment to the final date is called planning horizon,

investment horizon or holding period. In other words, investment implies the employment of the fund with the objective of realizing additional income or growth. And it includes sacrifice of current rupees and waiting for reward (*Francis, Ibid. P. 1ff.*) Thus, investment is regarded as the function of risk and return. Every investor's main objective in making investment is to maximize ones wealth.

Financial asset is another name given to the financial instruments or securities. Investment in real assets requires a huge amount of capital, and the money thus invested becomes idle where there is very little probability of getting higher returns. If the situation and the market turn favorable only capital gain can be realized. There is also a great problem of liquidity of such assets. However, investing in financial assets is possible with a lower amount of capital, little effort to analyze and make decisions. Both the benefits of capital gain and normal gain can be reaped at a time.

“Investing is about money in the same way that school is about education. It is not about chance or whims and not about fooling around, it is about having enough for the rest of your life. It is not about asset allocation and pie charts and financial planning. Investing about your life and being able to live the way you want to live” (**Subedi, 2003, P. 40**).

**“There are basically three concepts of investment.”**

1. Economic investment: That is, and economist's definition of investment.
2. Investment is a general or extended sense, which is used by “the man of the street”.
3. The sense in which it is going to be very much interested namely financial investment.

Investment can be made on real assets. Investment on real assets is known as real investment and on financial assets is known as financial investment. Real investment means investment in real assets like lands, buildings, and factory

etc. Financial investment means the investment on financial assets like shares, debentures, warrants, convertibles, etc.

“Real investment generally involves some kind of tangible assets such as land, machinery or factories. Financial investment involves contracts written on pieces of paper such as common stocks and bonds. In Primitive economies, most investment is of the real variety, where as in a modern economy, much investment of the financial variety.

“An investment is the current commitment of money or other sources I hope of reaping future benefits.

### Setting Investment Decisions

The ultimate decisions to be made in investment are

- a. What securities should be held?
- b. How many dollars should be allocated to each?

These decisions are normally made in two steps. First, estimates are prepared of the return and risk associated with available securities over a forward holding period. This step is known as security analysis. Second, return-risk estimates must be compared in order to decide how to allocate available funds among these securities on a continuing basis. This step comprises portfolio analysis, selection and management.

### **This alternatives investment falls into eight major categories.**

1. Equity shares
2. Short-Term debt securities
3. Intermediate & Long Term Debt Securities
4. Hybrid Securities
5. Derivative Securities
6. Real Assets
7. International Investment &
8. Other Investment Alternatives

Among various investment alternative, the present study concerns with the common stock investment only. The review of the study is based on the common stock investment. Therefore main focus is given on it.

Common stock represents equity or on ownership position in a corporation. It is a residual claim, in the sense that creditors and preferred shareholders must be paid as scheduled before common stockholders can received nay payment. In bankruptcy, common stock holders are in the principle entitled only to any value remaining after all claimants have been satisfied. Thus, risk is the highest with common stock and so must be in its expected return, when investors buy common stock, they receive certificate of there being part owners of the company. The certificate states the number of share purchased and their par value.

“The true owners of the business firms are the common stockholders, who invest their money in the firm only because of their expectations of future returns. A common stock holders is sometimes referred to as a residual owner since in essence he or she receive what is left after another claims on the firms income and assets have been satisfied. As a result of this is generally uncertain position, the common stockholder expects to be compensated with adequate dividends and, ultimately, capital gains.”

“Common stock is the first security of a corporation to be issued and, the event of bankruptcy, the last to be retired.” When investors buy common stock, they receive certificate of ownership as a proof of this being [art owners of the company. The certificate states the number of share purchased and their par value.

“Common stocks are generally’ fully paid and assessable ‘meaning that common stockholders may lose their initial investment, but no more. That is, if the corporation falls to meet its obligation, the stock holder cannot be forced to

give the corporation the funds that are needed to pay off the obligation. However, as a result of such as failure, it is possible that the value of a corporation's share will be negligible. That will result in the stockholders' having lost and equal to the price previously paid to buy the shares.

### **2.1.3 Investors' Attitude on Securities**

Investors' attitude on securities means their feelings about investing in securities, their preferences of securities for investment purposes in regards to risk and rewards attached to it, their objectives behind investment, and their investment policies as well as their pattern and trend of investment. More specifically, their attitudes on securities are reflected by their views, behaviors and their conception as well as perspectives on investing the securities available in the market. The investment objective may vary from investor to investor. And such objectives set by the investors guide their securities selection criteria and investment horizon. The investment objectives act as the corner-stone of investment process. Some may invest in the securities just to set aside some portion of their savings to receive higher positive returns, some may invest to finance their children's education, and others may invest simply to generate the desired wealth when it is needed or at the time of retirement. However, there is a consensus that most investments are undertaken to increase wealth. Also various theories suggest that investors do not have a single investment objective at any time. More succinctly, investors' attitude on securities means all the prospects, expectations, challenges, aspirations and perils that the investors feel at the time of investing in securities because of several factors such as changes in the market situation, political price and all changes in milieu of the securities behavior.

Moreover, the attitude means investors' desire, response and preference of the securities in regards to time and risk associated with the particular security. The holding and investment of securities are guided a lot by investors' preferences towards risk-taking and their future income anticipations. To some extent, the

financial market dynamism and the economic situation of the whole nation guides a lot in shaping the securities investment pattern of investors.

Investors who can manage risk in stocks never fear investing. “No risk no gain” is their motto. Research and analysis reduces the risk. Hasty investors do not like to engage in technical and fundamental analyses because they are more dependent upon lady luck. The next important factor is the skill to buy and sell at appropriate times. The skill does not come overnight but those who have it can tell you when to act.

There might be several factors that induce investors to invest in securities and cause them to have positive attitude on securities. And these may result into growth and expansion of capital market. For the radical changes in the investors’ attitude towards securities, it needs efficient flow of information, proper trading rules and mechanisms, and clear cut policies regarding the securities investment.

#### **2.1.4 Investors’ Attitude towards Risk**

Risk is defined as the possibility of suffering some form of loss or damage. It is the chance of unfavourable event. Risk and return are inseparable from each other. When we expect more return on what we have invested, there may be certainly more risk and uncertainty to meet that anticipation. Viewed in another way, the securities that have more risk and uncertainty of getting the expected return demand higher rate of return to compensate the risk associated with it. On the basis of the risk taking and attitude towards risk, there are three kinds of investors namely, Risk-Bearer, Risk-Neutral, and Risk-Averter. Investors are risk-averters and they select the securities that maximize expected rate of return for any given level of risk or minimize risk for any given level of expected returns. Each investor has his one attitude toward risk and depends upon one’s capacity as well as ability to tolerate a certain amount of risk. The real rate of return will provide a rate of return that compensates the investors for deferred

consumption. An additional rate of return should be added to the risk-free rate of return that provides premium for additional risk bearing.

$$E(R_j) = R_f + RP_j \dots\dots\dots (1)$$

Where,

$E(R_j)$  = Required rate of return for asset j.

$R_f$  = Risk-Free- rate of return.

$RP_j$  = Risk premium for stock j.

Risk, in simple word, is an uncertainty. Risk and uncertainties are the facts of life so to the common stockholders. Technically, their meanings are different. Risk simply investment, means a chance of happening some unfavorable event or danger of losing some value. Risk suggests that a decision and their relative livelihoods at the times he makes decision.

In other, Uncertainty is simply a lack of definite outcome; it is anything that could happen- any unknown event, which may be favorable or unfavorable on the other hand. Uncertainty involves a situation about which the likelihood the possible outcomes is not known. The troubles arises from the fact the despite different interpretation of uncertainty and risk, people often use them interchangeably. Although it is quite clear what precisely these two terms means, authorities in the field of finance do agree that the risk is the product of uncertainty. If we interpret certainty as a future outcomes, which is 100% sure to happen. Uncertainty is then just the opposite of certainty that refers to all possible future outcomes none of which is known for sure to happen.

Risk, on the other hand, is the product of all potential outcomes expressed with probability associated with each of them and it is measured in terms of the degree of variability in the probability distribution of such outcomes.

“The practice is to translate the uncertainty into mathematical value which represents the uncertainty into a mathematical value which represents the best

estimate of all uncertain value. But risk is treated differently. Although risk arises from uncertainty, its magnitude depends upon the degree of variability in uncertainty, its magnitude depends upon the degree of variability in uncertain cash flows, & it is measured in terms of standard deviation. In project analysis, the project risk indicated the probability of returns being less than the expected value-higher the probability of such loss or less returns, higher the project risk.

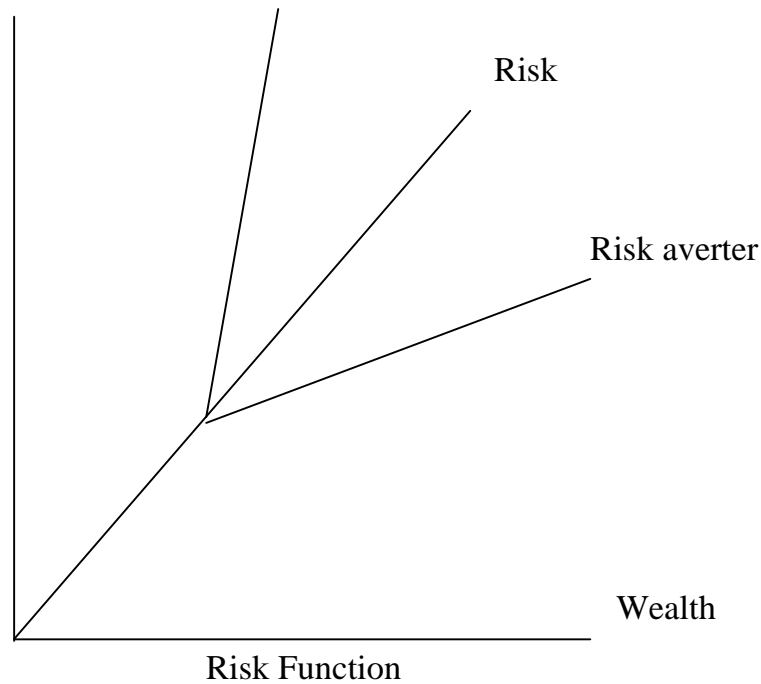
**Basically, Risk is the possibility or chance of meeting danger or suffering loss.**

“Assets having greater chances of loss are viewed as more risky than those with lesser chances of loss. More systematically, the term risk is used interchangeably with certainty to refer to the variability of returns associated with a given asset. For example, a government bond that guarantees its holder \$100 interest after 30 days has no risk, since there is no variability associated with return. In equivalent investment in a firm’s common stock that may earn over the same period anywhere from \$0 to \$100 is very risky due to the high variability of return. The more certain the return from an asset, the less variability and therefore the less risk.

There may be investors who behave somewhat differently. Theoretically, we expect three distinct behaviors on investors: (i) To bear more risk, (ii) To avoid risk, and (iii) To be indifferent to risk. A particular behavior depends upon whether the utility of wealth to an individual investor increases, decreases, or remains constant as wealth increases. In reality, rational investors do not assume more and more risk just for the sake of increasing a little more wealth. The following figure illustrates utility functions for three types of behavior.

Utility

Risk Seekers



Most generally, risk defined is the probability of the occurrence of unfavorable outcome. But risk has different meanings in different context, risk refers to the probabilities of that returns and therefore the value of an assets or security may have alternatively outcomes.

A number of factors may contribute to investment uncertainty. The factors usually mentioned with respect to marketable securities are business risk, financial risk, liquidity risk, default risk, interest rate risk, management risk and purchasing power risk. Risk is a difficult concept to grasp. Some of the statistical methods that can be used to measure risk of underlying financial assets are discussed below:

### **a. The Range**

The range is one of the traditional methods of measuring risk, which simply communicates the difference between the best possible return and the worst possible returns, it does not provide any information about the distribution of the rates of return between the extremes.

*The range = Best possible rare of returns – Worst possible rate of returns.*

The degree of risk of an underlying security is reflected in the magnitude of the difference. The smaller difference the lower will be the degree of risk.

**b. Standard Deviation**

The standard deviation ( ) is the other measure of investment risk. The smaller the standard deviation the lower will be the degree of risk of the stock. The formula for calculating the standard deviation is:

$$\text{Standard deviation ( )} = \sqrt{\frac{\sum (R - E(R))^2}{N}} \dots\dots\dots (2)$$

In the equation, R is the possible rates of returns, and E(R) is the average mean return and N is the number of observations. The variance can also be used to measure risk, which is the square of the standard deviation.

Total risk ( ) can also be defined as the sum of systematic risk plus unsystematic risk. Systematic risk has its source factors that affect all marketable assets and thus cannot be diversified away. The sources of systematic risk are market-pervasive. The measure of systematic risk permits an investor to evaluate an asset's required rate of return relative to the systematic risk of the stock. Unsystematic (or company-specific or unique) can be reduced through diversification. The relationships among total risk, systematic risk and unsystematic risk are shown below.

Total Risk ( ) = Systematic risk + Unsystematic risk;

With, Systematic risk = ( )(<sub>jM</sub>), and Unsystematic risk = ( )<sub>j</sub>(1- <sub>jM</sub>).

In the equations <sub>jM</sub> is the correlation coefficient between the returns of a given stock 'j' and the return on market portfolio.

**c. Coefficient of Variation**

The coefficient variation (CV) is another useful measure of risk. It is the standard deviation divided by the expected return, which measures risk in terms

of per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase with the increment in risk, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk.

$$\text{Coefficient of Variation (CV)} = \sigma / E(R)$$

#### d. Beta Coefficient

The beta coefficient ( $\beta$ ), a measure of systematic risk, can be calculated by using the following formula.

$$\text{Beta coefficient } (\beta) = \text{Cov}(i, M) / \sigma_M^2$$

Cov(i,M) is the covariance between the return of an individual asset and the returns of the market and  $\sigma_M^2$  is the variance of the market returns. Stocks can be classified as aggressive or defensive or average depending on the value of beta coefficients. In general the CAPM indicates that an asset's required return should be related to the risk-free rate of return plus a risk-free return based on the beta of the asset.

<u>Beta coefficient</u> ( $\beta$ )	<u>Stocks classification</u>	<u>Degree of risk</u>
<i>Exactly 1</i>	<i>Average stock</i>	<i>Equally risky as the market</i>
<i>Greater than 1</i>	<i>Aggressive stock</i>	<i>More risky than the market</i>
<i>Less than 1</i>	<i>defensive stock</i>	<i>Less risky than the market</i>

Beta coefficient can also be related with the CAPM equation to determine the required rate of return of a given stock. The required rate of return ( $K_i$ ) is the risk free rate of return ( $R_F$ ) plus a risk premium  $\{RP_M = E(R_M) - R_F\}$  based on the beta of the stock ( $\beta$ ).

#### e. Investment Strategy

Investors can take two positions on securities viz: long position and short position.

**Long position:** A long position involves simply buying and holding the assets in order to profit from any price appreciation, cash dividends, interest, or other income. This is the most popular investment strategy. A long position in a security is appropriate in anticipation of a rising price. A long position results in positive returns if the price of the stock increases, while negative returns occur for the short position. Long position is less risky than short position because the maximum loss on a long position is 100 percent, which would occur if the price declined to zero.

**Short position:** Short sales allow investors to profit from a decline in a security's price. An investor borrows a share of stock from a broker and sells it. Later, the short seller must purchase a share of the same stock in the market in order to replace the share that was borrowed. This is called covering the short position. The short seller anticipates the stock price will fall, so that the share can be purchased at a lower price than it initially sold for; the short seller then reap a profit. Short sellers must not only replace the shares but also pay the lender of the security any dividends paid during the short sale. A short position offers more risk than a long position in the same security.

Investors are said to take long position when they buy or own shares of stocks. However, there is not any provision for short trading of securities so that there is not any existence of short selling of securities in Nepal. It is because of underdeveloped and inefficient security market.

### **2.1.5 Relationship between Risk and Return**

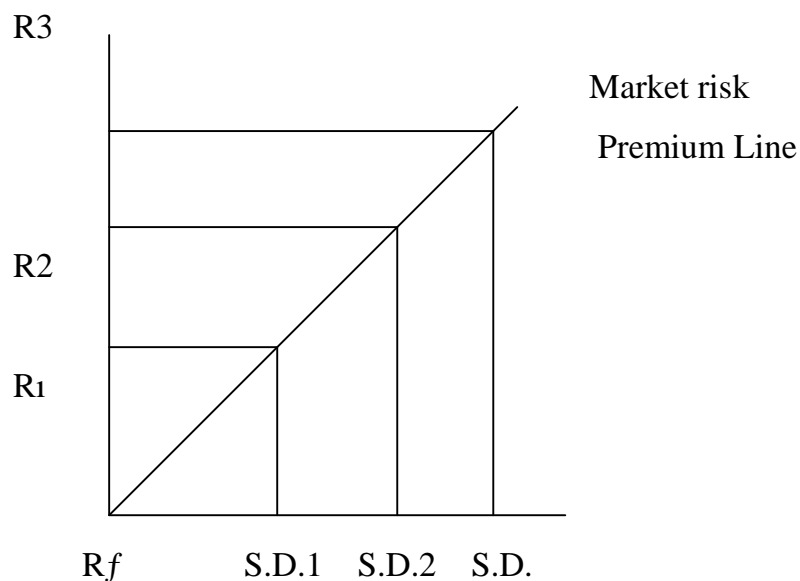
Having briefly discussed about the return is described by investors' Perception about the risk and their demand for compensation. Those investors who can tolerate higher level of risk should be regarded with higher level of return .This statement is supported by the most empirical studies of historical risk – return relationship .No investors like to invest in risky security unless he is assured of adequate compensation for the assumption of risk. Therefore, it is the investor required risk premium, that established a link between risk and return, in a

market dominated by investors higher risk will commended higher premium, and the trade off between the two assume a linear relationship between risk and risk premium.

"The observed difference in both the levels and variability of the rates of return across securities are indicative of the underlying risk return relation in the market.(James H. Lorie, Peter Dodd and Mary Hamilton Kemoton; The stock market: Theories and Evidence.

Generally, there is a positive relationship between rates of return it means an investor can usually attain more return by selecting dominant assets that involve more risk. While it is not always true that a investor riskier assets will pay higher average rate of return, than usually. The reason is that investors are risk averse . As a result, high risk assets must offer investors high return to induce them to make the riskier investment . Naturally, investors are preferred more return and risk . It means investors will not choose an investment that guarantee less return and less risk. It means investor will not choose an investment that guarantee less return when investment promising higher returns in the same level of risk class is readily available.

"Risk and return relation ship" can be shown by following figure:



The above figure 2.2 represents a higher risk in a linear fashion indicating a premium of  $r_1$  for standard deviation 1 degree of risk,  $R_2$  for standard deviation 2 and so on. Under the assumption of linear relationship the risk premium increases or decreases in proportion to a change in the level of the risk.

### **2.1.6 The Investment Environment**

The investment environment encompasses the kinds of marketable securities that exist and the place and the process of buying and selling. The investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in, how extensive the investments should be, and when the investments should be made.

To begin the investment environment, investment at first should be clearly defined. A distinction is often made between investment and savings. Savings is defined as foregone consumption; investment is restricted to “real” investment of the sort that increases national output in the future. Now, it is useful to make a distinction between real and financial investments. Real investments generally involve some kind of tangible asset, such as land, machinery, or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds. But the focus is on the various ways the resources come from to pay for the land and the construction of the apartments.

The investors’ motive of buying the securities offered in the primary market is to trade those securities subsequently in the secondary market thereby making a profit. Although transactions in the secondary market do not generate for issuers, the fact that such a market exists makes the securities more attractive and thus facilitates real investment. Investors would pay less for new shares of common stock if there were no ways to subsequently sell them quickly and inexpensively.

There are three main elements of the investment environment: **securities** (also known as financial investments or financial assets), **security markets** (also known as financial markets), and **financial intermediaries** (also known as financial institutions).

### **2.1.7 Investment Policy**

The old adage (saying, proverb) “If you don’t know where you’re going, any road will do” aptly applies to investing. When an investor is an individual or represents an institution, without a clear sense why investments are being made and how long-run goals are to be achieved, he or she is likely to pursue inefficient approaches that lead to unsatisfactory results. An investor needs a plan that directs his or her efforts. That plan is called an investment policy.

Investment policy is a combination of philosophy and planning. On the one hand, it expresses the investor’s attitudes toward important investment management issues such as, “Why am I investing in the first place?” or “To what extent am I willing to accept the possibility of large losses?” The answers to those questions will vary among investors in accordance with their financial circumstances and temperaments. Investment policy is also a form of long-range strategic planning. It delineates the investor’s specific goals and how the investor expects those goals to be realized. In this sense, investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor’s assets.

Essentially, any relatively permanent set of procedures that guide the management of a plan’s assets fall under the rubric of investment policy. Nevertheless, a comprehensive investment policy should address a group of issues that includes (but is not restricted to):

**Mission Statement:** A description of long-run financial goals. For example, an individual might be focusing on savings for a child’s college education. A

pension fund might be intended to accumulate sufficient assets to fund promised benefits.

**Risk tolerance:** The amount of risk that an investor is willing to bear in pursuit of the designated investment missions. An elderly retiree may have a relatively low risk tolerance. Conversely, a well-defined pension fund with a young work-force may have a relatively high risk tolerance.

**Investment objectives:** The specific investment results that will indicate when the investment program has been successful. For example, an investor's common stock portfolio might be expected to perform at least as well as a broad stock market index over a multilayer period.

**Policy asset mix:** The investor's long-run allocation to broad asset classes, such as stocks and bonds. This choice is by far the most important decision that the investor makes and should be consistent with the investor's mission, risk tolerance, and investment objectives.

**Active Management:** The extent to which the investor attempts to "beat" the market by hiring investment management firms that analyze and select individual securities or groups of securities expected to exceed the performance of specified benchmarks.

A critical of any investment policy involves the preparation of a written Investment Policy Statement (IPS). An IPS summarized the investor's key investment policy decisions and explains the rationale for each decision. The level of IPS detail will vary among investors. Institutional investors, who typically have complex investment programs, should generally prepare more detailed statements than individual investors. Nevertheless, an IPS serves the same role for all investors: It enforces logical, disciplined investment decision

making, and it limits the temptation to make counterproductive changes to an investment program during periods of market stress.

### **2.1.8 Review on Basic Terms Associated With Investment**

It is imperative to become well acquainted with the terms and provisions mentioned below to have some attitude on securities.

"Securities" means shares, stocks, bonds, debentures, debenture stocks issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by His Majesty's Government and it includes the securities issued under full guarantee of His Majesty's Government or securities as prescribed by His Majesty's Government by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities (<http://www.sebonp.com>, *Securities Exchange Act, 2040*).

**Securities Markets:** Security market is the market where the trading of securities takes place. These are the mechanisms for channeling savings to the ultimate investors in real assets. The financial market can be classified in various ways. But the most common classification is to classify it as (i) money market and capital market, and (ii) primary market and secondary market.

There is an organization – SEBO/Nepal – solely responsible for advising HMG on the issues related to capital market and protecting investors' interest, monitoring and supervising securities transactions, conducting studies and researches related to capital market, regulating public securities, and organizing workshops, seminars and conferences (<http://www.sebonp.com>). Besides, there are several organizations that act as the stake to the investors and the securities transaction. NEPSE is the solely market for secondary transaction of securities. On a frequent basis, the commercial banks have dominated the share market in terms of volume and value of share trading.

### **2.1.9 Investment Alternatives or Financial Instruments Available in Nepal:**

Today, there are securities of 145 companies listed for trading in the Nepal Stock Exchange (NEPSE). These include a total of 142 common stocks from different companies and 3 debentures. Among the listed 142 common stocks, only 62 are included in the grade A companies on the basis of volume and value of their transactions in the market (<http://www.nepalstock.com>).

Also not mentioned here are preference shares issued by some companies.

1. Common stock
  2. Treasury bills
  3. Certificate of deposit
  4. Banker's acceptance
  5. Government securities
  6. Corporate bonds
  7. Preferred stocks
- 
1. **Common Stocks:** These are also known as ordinary Shares or equity shares. The shares of common stocks entitle to dividends from profits left after paying regular fixed interest to the debt-holders and dividends to the preference shareholders. Common stocks represent the ownership of a corporation but to the typical investor, a share of common stock is simply a piece of paper distinguished by two specific features:
    - i. Dividends to its owners,
    - ii. Capital gain( due to price appreciation)While claiming the right to the assets at the time of liquidation and the right to the earnings of the company, they come at the last of all. Therefore, they are considered as the riskiest of all available securities. But investors can earn higher returns to compensate the higher level of risk.
  2. **Treasury Bills:** Treasury bills are short-term securities issued by the government which has a maturity period of maximum 91 or 182 or 364

days. They are normally issued on denominations of '000' and are sold on discount basis. In Nepal, it has been issued only by the Nepal Rastra Bank on behalf of His Majesty's Government. There is no provision for participating individual investors in its issue.

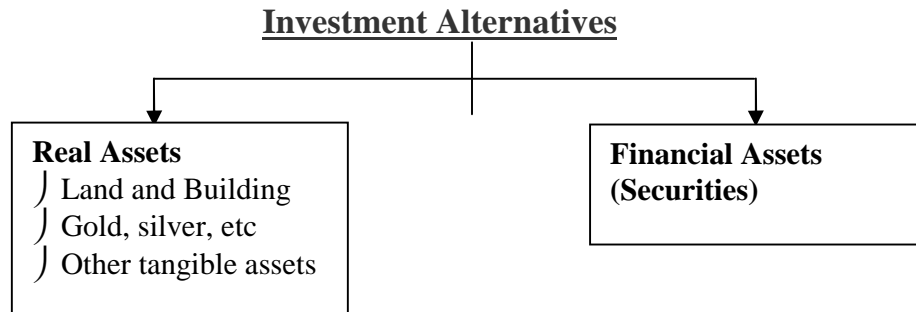
3. **Certificate of Deposit:** A certificate of deposit (CD) represents a negotiable certificate issued by banks and other financial institutions in return for a term deposit. Certificates of deposits are highly liquid, almost risk-free and yield higher return than Treasury bills, so they are popular form of short-term investment for companies and individual investors. Investors who want frequent liquidity invest in certificate of deposit to get funds converted into cash quickly.
4. **Banker's Acceptance:** It is a *promissory note* issued by a firm and accepted by a banker. By accepting the note the bank promises to pay the holder of the note a stated amount of money at maturity.
5. **Government Securities:** To meet the uncovered expenses, government offers debt securities to the public from time to time. Those securities offered to the individual and institutional investors are the least risky ones and provide lower returns to the investors in comparison to the returns received from other corporate securities. Government securities of Nepal are issued by NRB, the central bank of Nepal, on behalf of the government. Treasury bills, Development bonds, National Saving bonds and Citizen Saving bonds are important types of government securities in Nepal. Financial institutions (like provident funds, insurance companies), business enterprises and individuals invest on them. The total amount of government bonds outstanding was Rs. 28,241 million on mid-January 2002
6. **Corporate Bond:** Corporate bonds (also termed as debentures interchangeably) are long-term debt securities issued by corporations. They

are riskier than government and municipal bonds and hence offer higher return. Bondholders enjoy strong legal position to pay return and refund the principal amount at maturity date and have priority over common stock and preferred stock in dividend and liquidation right. Bonds are suitable for investors who require fixed return on a consistent basis on their investment. They are traded in organized exchanges as well as over-the-counter market. A bond is a long-term promissory note issued by a business or governmental unit. It is a piece of paper representing the amount borrowed and the term to be repaid. They have a term mentioned in the paper to be repaid the amount thus lent known as maturity period. “Debenture means the bonds issued by the company under this act with its assets as collateral.”

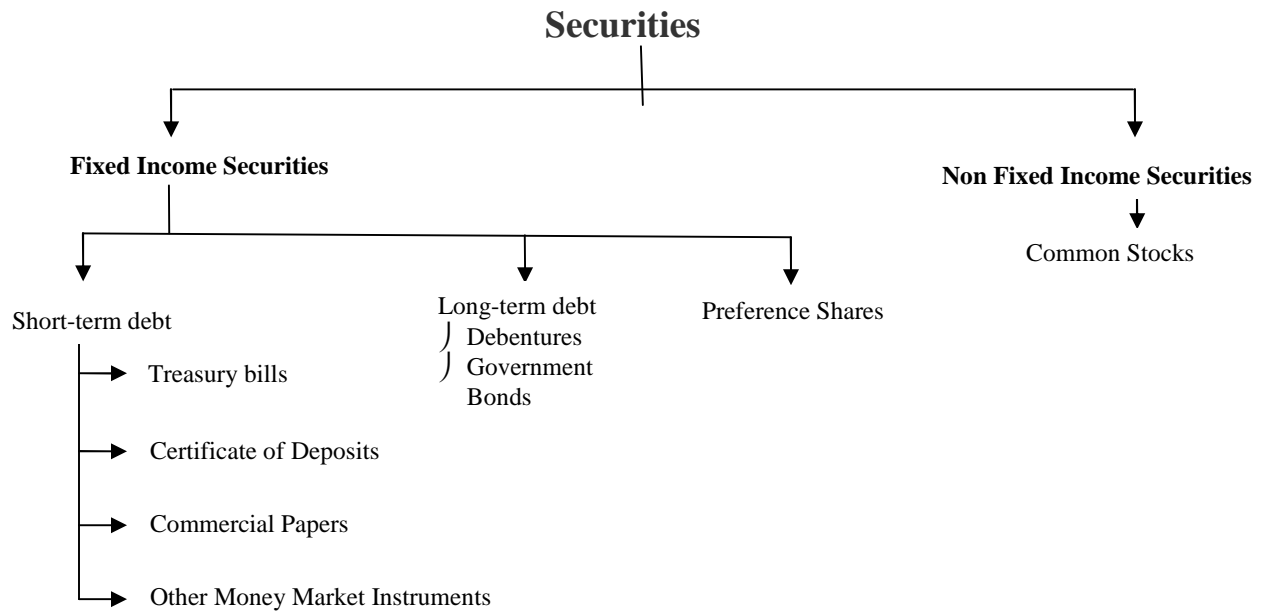
Corporate bond has not been popular investment alternative in Nepal. There are only two outstanding bonds (debenture) listed in Nepal Stock Exchange. One is Rs. 100, 8.5% 100,000 debentures of Himalayan Bank Ltd and the other is 19% .

7. **Preferred Stock:** Preferred stock is a hybrid, fixed income security. It is also recognized as a hybrid security because it carries some characteristic of debt and some feature of equity securities. Preferred stockholders have priority over common stocks both at the time of claim of dividends and at the claim of the assets at the time of liquidation. It is suitable for investors demanding fixed return on their investment. Likewise other long-term securities, it is traded in organized exchanges as well as over-the-counter market. Companies in Nepal such as Necon Air, Birat Shoe Factory, Everest Bank, Jyoti Spinning Mills, etc. have issued preferred stock as a source of financing.

## Investment alternatives for investors



## Types of Securities



(Source: Jack Clark Francis, *Investments Analysis*)

### 2.1.10 Investors' Perception of Market in terms of Risk

**Bear market**, in securities and commodities trading, signifies a declining market.

A bear is an investor who expects prices to decline and, on this assumption, sells a borrowed security or commodity in the hope of buying it back later at a lower price, a speculative transaction called selling short. The term bear may derive from the proverb about “selling the bearskin before one has caught the bear” or perhaps from selling when one is “bare” of stock.

**Bull market**, on the other hand in securities and commodities trading, means a rising market. A bull is an investor who expects prices to rise and, on this assumption, purchases a security or commodity in hopes of reselling it later for a profit. A bullish market is one in which prices are generally expected to rise.

) **What make the investors to invest in the securities and how can the investment attitude be developed in their minds?**

) **What investors see before investing in the securities? How their level of awareness is determined and how can it be measured?**

Various factors play a direct and positive role inducing investors to buy and hold the securities. Among them the name and fame of the company issuing the securities and their past performances in regards to the dividend distribution, earnings, etc, play the leading role. Besides, performing other analysis such as technical analysis and fundamental are conducted on the securities before investing as major criteria while investing on securities. The Nepalese securities market being an inefficient market, it becomes difficult to assess the market and deduce to a certain core idea on the basis of trend analysis.

Every investor being a rational investor is found to perform security analysis knowingly or unknowingly, calculate the prospective earnings and estimate the returns before investing in securities. However, they may be ignorance of different risk factors associated to it and may set back on awareness level.

#### **2.1.11 Factors to be Considered before Investing in Securities**

Stock investors who want to invest in the stock market. Stock investors' do not invest directly in corporation. At first, they come in stock exchange market. They invest on the information base of prospectus of company and other public market and details, which are published by the company.

While investment policies needed to be formed, the investor needs to consider many factors. Usually, these are the factors to be considered in the investment planning decision.

Investing is all about making money by investing in the stock market rationally. If the investor is not well informed about the share of the company which he is buying or is not prepared by analyzing the company's both current and future prospects then he will hurt himself by investing in the share of that company. "Investing without first learning all you can about an opportunity is like running through an unfamiliar room with your eyes closed". Says Dena Ohman, Wyoming's Secretary of State, "You're going to hurt yourself." People do not have to see the securities as only an alternative way to invest their money in. "More than anything else, no one has anything to hang their hats on." What reason do they have to buy stocks?" The following things are basis for the investments to meet the criteria of stability and strength. Let's review the typical investments considered by most. The following are the criteria investors will apply to each Investment choice :

- a. Security of Principal
- b. Liquidity
- c. Stability of Income
- d. Strength (Leverage)
- e. Rate of Inflation
- f. Cash Flows
- g. Mobility
- i. Limited Management Requirements

### **2.1.12 Earnings Associated with Securities**

Earnings are synonymous to return, reward for waiting and risk taking. These words may be used interchangeably. To make any decision on investment

regarding securities, the kind and the nature of earnings that come from such investment plays a crucial role. In other words, earnings are the basis of selection of the securities for investors. The returns or earnings that come from investment in different kinds of securities are given different names according to the nature of the securities. As there are two kinds of securities namely debt securities and ownership securities, the incomes generate from them are also named as fixed and non-fixed income.

## **Dividend**

Corporations may pay out parts of their earnings to the shareholders as a return on their investment. Stock dividends which are often paid yearly in the context of Nepal are usually in the form of cash, but it may be additional shares or scrip.

### **A Cash Dividend**

The residual earnings (left after paying to the debt-holders, and preference shareholders if any) paid to the common stockholders also called equity shareholders or ordinary shareholders in the form of cash is known as cash dividend. It is paid to the shareholders in the form of Dividend per share (DPS). For this, first of all Earnings per share (EPS) is determined by the board of directors and are paid fully or retained fully or partially paid and partially retained in the company on the basis of growth perspective of company.

### **B. Stock Dividend :( Bonus Shares)**

Instead of paying the dividend in the form of liquid cash, the board of directors of a company may decide to give the bonus shares or stock from the profits earned on the basis of shares held previously called stock dividend. Thus, it is the dividend paid to the stockholders in the form of extra or bonus stock.

## **Interest**

Interest is defined as the cost of funds used in the business. It is paid to the lender of loans. In public companies, the debt-holders also called bond holders or

debenture holders are paid in fixed amount as stated at the time of issue. It must be paid compulsorily irrespective of the profit or loss position of the company.

## **Capital Appreciation**

It is the vital and the most counting part in the investment of securities. This concept is true and valid in case of common stocks only. However, it may also be happened in case of some debentures and preference shares. As defined earlier, it is the capital gain realized from selling a stock for more than its Purchase Price.

Both these methods of analysis of securities can be deduced and included under the term quantitative analysis. When a securities analyst focuses on a corporation's financial data in order to project potential future performance, the process is known as quantitative analysis. This methodology involves looking at profit and loss statements, sales and earnings histories, and the statistical state of the economy rather than at more subjective matters such as management experience, employee attitudes, and brand recognition. While some people feel that quantitative analysis by itself gives an incomplete picture of a company's prospects, advocates tend to believe that numbers tell the whole story (<http://www.google.com/Individual Investors/Dictionary of Financial Terms>).

## **2.2 Review of Related Studies**

### **2.2.1 Review of Journals/Articles**

#### **Useful terms in stock Trading**

Nawaraj Baral, a well known stock-broker of Opal Securities Pvt. Ltd, opined that the individual, who keeps interest to invest in stock, must adopt some important basic principles of buying & selling commonly. The initial step when buying stocks is to decide what company to buy stock in. You can only buy or invest in stock in any publicly held company, which means that the public can control the company. Fortunately, most of the larger companies, listed in share market are publicly held, and you can buy shares from those companies. When

selecting a company to invest in, you should make sure they are in a strong industry, and make sure the company is storing & growing or progressing day by day.

This would make it a good stock to invest in, although finding a newer company that is growing rapidly might get you more profits quicker. Principally, there are three types of profit as follows:

1. **Dividend:** the periodic payments made by the company out of the profits in cash.
2. **Bonus:** the issued certificates instead of the cash payment.
3. **Capital Appreciation:** The capital gain realized from selling a stock for more than its Purchase Price.

To obtain the different types of profit, investors must adopt simple analytical concept of investing. Mostly, there are two types of analysis.

1. Fundamental Analysis
2. Technical Analysis

**Fundamental Analysis:** Fundamental analysis is one method, in which one studies the company's existing management/board/ executive, balance sheet, the income statement, the statement of sources and uses of funds, fixed assets and situation in the market. It is based on mathematical calculation on publicly available accounting figures. Fundamental analysis is good for long-term. It will help to identify companies that represent good value (*Ibid.*)

There are numerous techniques of determining the values of the stock. Among them, a couple of simplest techniques to the new investor are:

- a. **Earning-Per-Share (EPS):** EPS is calculated by dividing the corporation's total earnings or income by the outstanding number of shares of corporation.

**b. Price – Earning – Ratio (P/E Ratio):** A corporation's price-earnings ratio is calculated by dividing the current price of a share of the company's stock by its earnings per share. These calculations represent fundamentals in the sense that they reflect the calculations represent fundamentals in the sense that they reflect the effectiveness of a company's business operation (EPS) and the market's current assessment of the company's worth in relation to its earnings (PE Ratio).

While making a decision to buy or sell a particular stock, expectation are formed regarding future fundamentals. If expectations about the corporation's operations improve and investors expect higher earnings per share, then the price of the stock is likely to rise. Investors expect that more people will want to buy shares to participate in the increased profitability. If, however, expectations turn pessimistic and shareholders anticipate lower earnings per share, then holders of the stock will try to sell their shares, reducing the stock's price.

### **Technical Analysis**

Technical analysis is another method, in which one studies the companies, totally based on Data/Charts/Graphs, in which one identifies the trends the company has, and invests accordingly. Generally, we can say, technical analysis has some market forecasting abilities.

### **2.2.2 Review of Newspaper Articles**

Of the total transaction, the commercial bank group captured 66.97 percent while Finance group captured 21.01 percent. Similarly, the insurance group captured 10.13 percent and the development bank group captured 1.71 percent. This shows that most of the investors like to buy the shares of the commercial banks, and the trading of the finance companies shares is on the rise day by day. The finance companies shares are being preferred by the investors.

### **2.2.3 Review of Related Thesis**

There are no proper researches performed in this specific topic. However, some studies related to the topic had been conducted as a thesis for the partial fulfillment of master's degree in T.U. In this context, seven different thesis are reviewed here. The study performed by MR.Gopal Prashad Bhattra In 1995, entitled ," Assessment of performance of listed companies in Nepal," by Ms. Pramina pandey in 2000, entitled Risk and Return Analysis of common stock investment," by Mr.Mohan Purna Satyal in 2002, entitled " Risk and return analysis of listed company,"by Ms. Pramila Tuladhar In 2002, entitled " A study on risk and return analysis of common stock," by Mr. roopak joshi in 2002, entitled " Problems in choice of optimum portfolio of stocks in Nepal Stock Exchange " and by Mr. Ram Hari Khadka in 2004, entitled " Analysis of Risk an return on selected Nepalese commercial banks listed in NEPSE" and by Mr. Badri Subedi , entitled " Investors Awareness on securities" are reviewed here.

The study performed by Gopal Prasad Bhatta In 1995 on assessment of the performance of listed companies in Nepal " is based on ten listed companies' data using five years data from 1990 to 1995. Among different objective one was to the performance of listed companies in terms of risk and return. In this study Bhatta Has summarized the details as a Highly significant positive correlation and addressed the relationship between risk and return character of the company.

### **Findings and Conclusions**

The analysis were based on the available information, Showed that high price stocks have higher beta risk than others .So these companies require satisfying the investors for their risk premium.

Likewise, required rate of return, which revels efficiency of management of the companies were also analyzed, which showed conflicting result . A high price

stocks have higher beta risk than others. So these companies require satisfying the investor for their risk premium.

Likewise required rate of return, which reveals efficiency of management of the companies were also analyzed, which showed conflicting result . A high priced stock, for example, Bishal Bazaars Co. in his study has higher required rate of return but lower rate of return .while another high priced stock of solute Hotel Limited and Nepal Bank limited had lower required rate of return and higher rate of return. So the study of Bhatta gave same what conflicting result.

Bhatta took only 10 companies for study i.e. two from banking sector one from insurance sector one from hotel sector, Three from Manufacturing sector and two from trading sector . In his study Bhatta found that some having high earnings per share but does not show high price in the market.

**Pramina Pandey** has studied in **“Risk and return Analysis of common stock investment”** in 2000. The study is based on eight insurance companies are listed in Nepalese but only six insurance companies are taken in to an account.

The specific objectives of this study are:

- ) To analyze the risk, return and other relevant variable that helps in making decisions about stock and investment in insurance companies.
- ) To understand and identify the problems faced by individual investor and insurance companies .
- ) To calculate the risk and return of the common stock of insurance companies and other relevant variables that should be considered while deciding investment in stock.
- ) To suggest some practical ideas and materialized recommendations based on analyses of data.

Randomly selected 6 listed companies in NEPSE index .It covers the 6 years from the F/Y 2049/50 to 2054/55. The study is based on historical and secondary data. These data are collected from NEPSE parietals, articles and previous research report etc. and from different website of internet .Data are analyzed by using financial as well as stoical tools. The financial tools include market price, dividend amount, expected return of individual and portfolio statistical tools represent the hypothesis testing i.e.-test.

### **Findings and Conclusion**

Economically Nepal is backward; its economic performance is no satisfactory. Generally, public are least understood about the stock market and have fake conceptual thoughts about its risk.

1. Expected return on the common stock of NLGI is maximum. This high rate of return is due to unrealistic annual return. Expected return on the common stock of HGI and EIC id lowest with negative value .In overall industrial sector, expected return of financial and insurance sector is highest.
2. When risk and return compared to different industries, finance and insurance is best as per highest expected return with higher degree of risk where as trading industry has minimum return and return.
3. From the first hypothesis, it concludes that there is no significant different between the portfolio return of as of insurance companies and overall market portfolio.
4. Stock of the NLGI is the riskiest share as it is highly sensitive with market due to its greater degree of beta coefficient .
5. Price evaluation shows common stock of only NIC and UCL are under priced but others are overpriced.
6. From the second hypothesis test, portfolio beta of insurance companies is not equal to market beta or 1.

7. In Nepal, commercial banks occupy large percent of traded and whereas insurance sector is being low responsive towards it's trading. They though insurance companies were eager to collect premium but not too willing to settle down claims .As for the investor, it is important to analyze each investment, comparing to potentials returns with the risks.
8. Though positive correlated, portfolio can reduce risk in compared to risk associated with individual stock by investing 66% on stock on NIC and 34% on stock of NBL can reduce risk.

Pandey took only 6 companies for study . In his study , Pandey found that some companies having high earning per share while some having heights earning per share but does not show high price in the market.

**Mohan Purna Satal** has studies on "**risk and return analysis of listed company**" in 2002. the study is based on eight companies listed in NEPSE.

**The major objectives of the study are as follows:**

- ) To examine the movement of market price of share.
- ) To study the risk and holding period return associated with investment .
- ) To analyze the relation between risk and return of individual stock with that of market.
- ) To provide suggestions on the basis of findings

The research is based on historical data .It covers five years data from FY 2052/53 to FY 2056/57 . The collected data is analyzed with appropriate financial and statistical tools. Randomly selected 8 companies two from banking, two from insurance, two from finance and one each from trading and manufacturing sector listed in NEPSE has been taken as sample in his research . It is assumed that these 8 companies represent risk and return of the whole groups and the market . Data for research was collected from secondary source .However, opinion has also been taken with individual investors, related organizational officials SEBO?N and

NEPSE staffs and other related personalities .For data analysis, financial tools as well as statistical tools are used .MPS,DPS,HPR,ERR,SD,CV, Beta and Students "T"test was calculated.

### **Findings and Conclusion**

Mr Satyal obtained following findings from the study in terms of risk and return is as follows:

1. Among selected companies HBL has the maximum market capitalization and NEFINCO has the minimum market capitalization.
2. Most of companies share price is moving in positive trend; however the price of NIC and BBC is in decreasing trend.
3. The return of Nil is maximum 63.2% but it's risk is also maximum 95% .Risk is minimum in NFC i.e. 16.7% .The best way of analysis is C.C. ,which is the unitary in measure. As the C.V. of HBL is 0.55, he stock of HBL is best for those, who are risk averters. C.V. =0.55 means for obtaining the 1 more unit of return of return an investor is to bear the risk of 0.55 unit.
4. As there is comparison of C.V. , banking sector has minimum of 0.66 and that of other sector has 4.32 .So it is better to invest on share of banking sector for the risk sector.
5. In industry wise, market capitalization, banking sector has high capitalization, it means there is higher trading and turnover on the shares of banking sectors.
6. Among the selected sectors, trading company is least aggressive or defensive . Trading company is overpriced and all others are under priced. It is better for the investors to purchase the under priced share . The expected return on trading sector is maximum and risk of banking sector is minimum.

7. From the testing of first hypothesis Dull hypothesis is accepted .It is concluded that an average return on the CS of selected companies and that of market is equal for 5% level of significance. Slimily, from the testing of second hypothesis, It is concluded as there is no significance between the portfolio beta of selected companies and market beta.

Satyal took only 8 companies including two from banking, two from insurance , two from Finance, and one each from trading and manufacturing sector listed in NEPSE . Banking sector is better to invest in share compare to share of other sector . But this finding is more useful as he did not use total number of banks for the study and he does not use any of the primary data collecting tools.

**Pramila Tuladhar** has study on " **A Study on Risk and Return Analysis of common share** " in 2002. The study based on eleven companies listed in NEPSE.

**The major objective of the study are as follows:**

- ) To describe the risk return and other relevant variable those are very important in making decision on stock investment .
- ) To identify the problems faced by the individual investors in stock market.
- ) To analyzed the risk and return of common and their portfolio.
- ) To access the past and present stated of investment of common stock.
- ) The study will provide some of the strong recommendation based on the analysis of data.

Randomly selected 11 companies two from each category listed in NEPSE have been taken as sample in her research .It is assumed that these 11 companies represent risk and return of the whole groups and the market .The study is based on recent historical data .It covers seven year periods from FY 1995/96 to FY

2001/02 for the study. The study is more empirical or analytical based and less descriptive . The data is collected through annual trading reports published by NEPSE and its web site [www.nepalstock.com](http://www.nepalstock.com), various booklets and journals, annual reports and bulletin of BRB and opinion survey has also been taken with the individual investors, NEPSE staffs and stockbrokers .The following calculation are done during the research viz.ERR,RRR,S.D.,C.V.,portfolio risk & return, realized rate or return, systemic and unsystematic risk, risk minimizing portfolio, student's 'T' test .Tools for calculation index, correlation coefficient etc.

### **Findings and Conclusion**

Ms Tuladhar obtained following finds from the study in terms of risk and return is as follows.

1. Among each sample, ERR of Nepal Bangladesh Bank is the highest.
2. Bishal Bazaar Co. has the lowest S.D. and Nil has the highest S.D. among them .So, BBC's return is more consultant and less risky .As the fact higher the risk, higher will be the return, but some companies' common stock are providing higher return at relatively lower risk.
3. Nepal Bangladesh Bank has the lowest C.V.
4. According to sector-wise compression, banking sector has the highest ERR with 11.29. Other sector has the highest S.D. with 43.73 and trading sector has lowest S.D. with 11.10 other sector has the highest C.V. with 595.78 and insurance and finance have lowest C.V. with 285.28
5. Nepal Bangladesh Bank and Nepal Lever have most beta risk.
6. By understanding, investment risk and its return to the potential returns, investor's can make their portfolio and improve their chances for greater return .Similarly, it is more worth to go for portfolio more worth to go for portfolio rather than investing with guess work and rather than investing in a single security.

Ms Tuladhar in his study said that the variation in the data was also found when comparing with different sources .She also did not use any the primary data collecting tool she tremendously used different tools to calculate the risk and return of common stock of the companies under study.

**Mr. Ropopak Joshi** has studies on; " **Problems in choice of optimum portfolio of stocks in Nepal Stock Exchange** " has done in July 2002. This study is based on 21 listed A graded companies data are used to analyze.

The main objective of the study is to find out and analyze the major problems of investor, facing regarding selection of most profitable stocks in NEPSE and other objectives are

- ) To analyze the trend of NEPSE .
- ) To analyze the problems and find out some resolution for the problems.
- ) To suggest the measures for the improvement of the stock market as well as for better meet of invest.
- ) To try to find out the best portfolio of NEPSE to invest.

Selected 21 graded companies' data from listed company in NEPSE . The studied is mainly based on secondary data gathered from NEPSE, SEBO and different institution .Where descriptive analysis is made with the help of information collected by questioner and meeting with concerned peoples regarding selection on of most portfolio stock of NEPSE . Therefore to conduct the study analytical and descriptive research has been made from readily available data of stock market. Some information is gathered with the help of questionnaire and meeting with people. Various financial tools are used to find out the best stock available in the NEPSE such as standard deviation, holding period return, coefficient of variation, Portfolio standard deviation and others.

## Findings & Conclusions

1. With the help of coefficient of variation more variable stocks are ignored where as the only lesser variable stock are used to construct portfolio.
2. It return more the only yard stick to make investment decision than CIT be the better one which gives the optimum of 37% monthly Holding period return .
3. Per standard deviation NHDFC seems better though its HPR comes to negative .So to make decision easier negative return stocks were ignored and picked three least standard deviation stock to construct portfolio.
4. Due to high fluctuation almost stocks seems riskier so to invest in single stock means to welcome the risk .So the diversify the risk investment possibility more searched in different efficient lets and the analysis and calculation concluded the stock of CIT and PFC be the best when the proportion on investment of PFC and CIT is 55% and 45% respectively.
5. Portfolio management is a new concept for Nepalese investor due to lack of sufficient information, proper investment is not possible.
6. Limited No. of security broker, lack of opportunity of invest and many were reasons are there, which is acting as beerier of development of NEPSE .
7. Due to lack of financial tools only three stock portfolios were constructed and analyzed, even many stocks broker does not give the information to the investor.
8. Investor are purchasing and selling their stock mostly on the pressure of broker. Due to lack of sufficient information the decision of purchase and sell of stocks be difficult. It needs special knowledge as well adequate skill small change in proportion of investment may change the risk and return in very large scale .So it is difficult task.

**Ram Hari Khadka** has studied on, Analysis of risk and return on selected Nepalese commercial banks listed in NEPSE " in 2004 with special reference to seven commercial banks.

**The major objectives of the study are as follows:**

- ) TO measure the systemic and un systematic risk of the commercial banks.
- ) To determine whether the shares of commercial banks in Nepal are overpriced/underpriced by analyzing risk and return characteristics of individual shares.
- ) To provide suggestions for improvement on the basis findings.

For data analysis purpose, exploratory and comparative research designs have been used to this study. With the help of the research designs the study evaluates the risk and return of the seven selected commercial banks of Nepal. Study covers five years data from fiscal year 1997/98 to 2001/2002 . Out of 11 commercial banks listed in NEPSE, 7 are taken for research .The study was heavily depends upon secondary sources of data .capitalization turnover market index and other information's monthly stock price has been used through out the study.

**Findings & Conclusion**

1. Though Nepal Bangladesh Bank, which is hard hit by the event (Return = - 0.8809), the ranking of the bank is placed as the highest return earner among them.
2. All the shares under review generated higher rate of return than the market portfolio except Nabil Bank ltd .
3. The unsystematic risk of Nabil Bank Ltd is the highest on among the shares renewed , which is 95.59% and SCBN has lowest one being 45.17% .Total variance or total risk of NB bank has the highest. It was in the second last position in terms of systematic risk being risk less explained by the market in comparison with the other stocks.

4. Based on coefficient of variation (V.V.) which measures risk/unit of stock individually, SCBN Ltd. has the lowest C.V. (1.98) and Nabil Bank has the highest one (3.35)
5. The Negative correlation coefficient of Nabil bank (-0.21) revealed that the return on the bank goes down if the market return goes up . The rest of the shares moved in the direction the market moves.
6. None of the share price in equilibrium .Share of Nabil bank is near to the required rate or return minus excess return excess return implies that is over priced, hence unattractive. The shares with higher realized returns than the required rate of return are under priced and will be striking towards the equilibrium . Therefore, the price of share of banks reviewed except Nabil bank is under priced. The market forces will cause the price of Nabil bank slightly fall.
7. As beta of the stocks of Nepal Bangladesh Bank and Standard Chartered Bank Nepal Ltd. are greater than 1, thir shares are more risky than the market.
8. Though the shares of commercial Banks in Nepal are Heavily traded in NEPSE, none of share price is correctly priced.

**Badri Subedi** in his research “Investors’ Awareness in the Securities market in Nepal” concluded that investors in Nepal are lacking awareness on listed companies, operation and potential role of securities market, techniques of financial analysis, and risks and rewards of holding those securities. In addition, he also concluded that investors have very little knowledge of the trading procedures and price formation mechanism in NEPSE. Also the quality of information available to investors and the investors’ rationality in regards to securities investment is quite low.

Badri Subedi in his findings concluded that the level of investors' awareness in the securities market was found to be very low and moderate level as responded by most of the investors while it is at very low and very high level as responded by very few investors. Moreover, his report revealed that the rumour and whim is found highly and moderately responsible in influencing the decision of the investors in share investment as responded by most of the investors whereas it is at low and very low responsible as per some of the investors.

His thesis was related to the measurement of degree of general awareness of investors including both individual and institutional in regards to securities investment. In the thesis report revealed above, 11 companies were taken as sample. And for the materialization of thesis 72 no of investors were taken by him as sample. But my thesis is solely concerned with the individual investors' attitude on securities and their anticipation of earnings. So I have taken a sample of 40 people (mostly from NEPSE) as respondents of my questionnaires. Institutional investors have not been included in this thesis. In addition, prices of the securities have not been tested in this thesis as conducted by him and these things are left to the investors.

#### **2.2.4 Role of Information in Shaping the Attitude of Investors on Securities:**

Market information is an essential matter to the present and potential investors to know about the capital markets, especially about the listed companies' right information in the right time and at the right place

Investment being an information-oriented subject, most of the investors undertake their investment decisions guided by the quantity and quality of the information on the basis of expectations for the future. In plight of this, investors need to know the characteristics of various investment alternatives and must be informed on the

procedures of how they are traded institutions and markets where they are available. Various public and private, published and unpublished information need to be sorted and analyzed. All these tasks of investors are reflected in the security analysis performed by them before investing in securities.

There are two broad categories of information: Internal and External.

Internal information consists of data and events made public by firms concerning their operations. It mainly takes the form of interim and annual reports to shareholders, and public and private statements of the officers and managers of the firm. The principal information sources generated initially by a firm are its financial statements.

External sources of information are those generated independently outside the company. These sources provide supplements to company-generated information by overcoming some of its bias such as public pronouncements by its officers. The external information sources also provide certain kinds of information not found in the materials made available by companies themselves

# **CHAPTER - III**

## **RESEARCH METHODOLOGY**

### **3.1 Research Design**

In order to conduct any type of research, a well-set research design is indispensable to meet the objectives of the study. In general, research design means definite procedures and techniques which guides the study and provides ways for research viability. It is arrangements for collection and analysis of data. To achieve the objectives of this study, both descriptive and analytical research design have been used. The data have been collected, presented, organized, and analyzed. In addition various descriptive techniques have been adopted to evaluate attitude of investors on securities. Based on those, some generalizations have also been made and necessary recommendations have been provided at the end. The collected primary data had been represented in the tabular form, sorted and organized, infiltrated, analyzed, and concluded. As far as possible, the numerical data had been revealed in respective suitable diagrams such as pie-charts, bar diagrams, etc.

### **3.2 Population and Sample of the Study**

The population for this study comprised of all public investors who generally touched in NEPSE with related to banking sector, finance sector, development bank sector, manufacturing and processing sector, insurance sector, trading sector, hotels, and other sector. I have selected the 60 respondents as a sample for the study and I distribute the questionnaire as randomly. To obtain the view from different respondents, 15 questionnaire are distributed among businessmen, 17 questionnaire are distributed among the students, 14 questionnaire are distributed among the managerial level of bankers, and 14 questionnaire are distributed among the general public and brokers.

### **3.3 Sources of Data**

Convenient sampling method has been implemented for the collection of data. The total numbers of questionnaires distributed for getting responses were 60. However, data from 43 individuals have been collected in this research.

Data have been collected using two sources viz: primary and secondary as depicted below. The secondary data have been assembled, organized and filtered. It is followed by the collection of primary data by using views of respondents and questionnaires. As implied by the nature of thesis, primary source of data is in mainstream.

#### **A. Secondary Data Collection**

It is an indispensable source of data for literature reviewing. Various abstracts from websites, textbooks, articles, journals and publications related to securities and its investors were consulted and reviewed in various institutions, organizations and concerned people as well. I think this will certainly help in understanding the current trend of investment and attitude of investors towards securities along with the returns desired by them. In this way, the literature part will be prepared.

#### **B. Primary Data Collection**

On this part of data collection, both structured/unstructured questionnaire methods have been used. The related individuals – existing and potential investors – were given the schedule of questionnaires to fill in through direct personal visit. Primary data were acquired using questionnaires and interviews from investors, brokers and staffs of NEPSE and SEBO/N. However, the individuals had been selected on a judgmental basis. As far as possible, efforts are organized to minimize or avoid biasness and technical errors. Also, the related experts had been consulted frequently. In the course, direct e-mail or telephone enquiries had also been used. Moreover, NEPSE and SEBO/Nepal were visited frequently. Thus,

most of the data are of primary in nature regarding the subject matter as per the requirement of this thesis. Some inferences and generalizations have been made in the course of preparation of report as demanded by the situation. For the purpose of organization of data, some modifications have also been levied without manipulating the core intention of the respondents.

### **3.4 Data Presentation and Analyses Procedures**

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study mostly based the analysis of primary data with the help of and using by different tables, graphs and figure, the descriptive method is used to analyze the primary research also.

### **3.5 Necessary Tools and Techniques**

The research is fully based on the primary data with the help of questionnaire, the tool and techniques which are used for the study are as follows:

#### ***Multiple Bar- diagrams and graphs***

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

#### ***Pie- diagram***

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the

given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data.

### ***Percentage***

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent

# **CHAPTER - IV**

## **DATA PRESENTATION AND ANALYSIS**

### **4.1 Presentation and Analysis of Trend of Secondary Market**

This chapter is basically focused upon the analysis of collected data from different secondary sources.

#### **4.1.1 Market Review**

During the first nine months of the current fiscal year (FY2007/08), all the major indicators of the secondary market have shown a substantial rise. During the period, the trading of equities rose by about 169 percent to Rs. 14.92 billion, while market capitalization and the NEPSE index recorded a sharp rise of 91 percent and 51 percent respectively. Similarly, market indicators have registered a significant growth in March-April 2008. However, the monthly data for mid-March-mid-April, 2008 compared with the previous month's data (mid-February-mid-March, 2008) has shown a sharp decline (- 42.4 percent) in the trading amount and a moderate rise in the NEPSE index and market capitalization. The performance of the primary market was encouraging during the first nine months of the current fiscal year compared with the performance in the same period in FY 2006/07.

##### **4.1.1.1 Primary Market**

The primary market is a financial market where shares and bonds are issued. Though there are many financial instruments, mainly three types of shares—ordinary, right, bonus—and two types of bonds—corporate and government—are issued in the Nepali primary market.

**Table No. 4.1**

**Primary issues approved by SEBON for FY 2007/08**

S.N.	Types of securities	For the first nine months		For the month of Mar/Apr	
		No. of issue	Rs. in million	No. of issue	Rs. in million
1	Debentures	1	1500.00	0	0
2	Ordinary Shares	8	402.40	0	0
3	Right Shares	21	3538.92	4	454.83
Total		30	5441.32	4	454.83

Source: [www.sebonp.com](http://www.sebonp.com)

In the first nine months of the current fiscal year many corporate organizations got approval from the Security Board of Nepal (SEBON) to issue different kinds of financial instruments. The government owned Nepal Electrical Authority got approval to issue corporate power bonds worth Rs. 1,500 million. Eight companies got approval to issue ordinary shares amounting to Rs. 402.4 million. All of these companies except Seti Bittiya Sanstha Limited have already floated shares in the market. SEBON has also approved the issuance of right shares worth Rs. 3538.92 of the 21 listed companies. So in total 30 companies were given approval to issue shares and bond. The net worth of these shares was Rs. 5441.32 million. However, no approval was given to issue debentures and ordinary shares in mid-March-mid-April, 2008 even though four companies were given approval to issue right shares amounting to Rs. 454.83 million. During mid-March-mid-April, 2008 three companies, namely Prudential Bittiya Sanstha Limited, Lumbini Bank Limited and NIC Bank Limited, issued right shares of Rs. 458.4 mill

**4.1.1.2 Secondary Market**

Performance of the secondary market during the first nine month of FY 2007/08 has already been described above. Hence, the major indicators are as follows:

**Table No. 4.2**  
**Major indicators of NEPSE**

Particulars	Mar/April 2007	Feb/Mar 2008	Mar/April 2008
NEPSE Index	494.59	714.76	746.69
Traded Amount ( Rs. in million)	510.23	1876.38	1081.25
Market Capitalization (Rs.in million)	133398.82	230817.17	241127.8
Traded Companies	84	102	109
Market Days	16	20	16
No of listed companies	131	146	146

Source: [www.sebonp.com](http://www.sebonp.com)

In the review period mid-March-mid-April 2008, the NEPSE index increased by 252.1 points from the previous year and by 31.93 points from the previous month. Market capitalization and the number of traded companies also increased significantly by 80.76 percent and 29.76 percent respectively during the month compared with the same month last year. A total of 131 corporate institutions were listed until mid-April 2007 whereas number of listed companies rose to 146 in mid April, 2008.

#### **4.1.1.3 Trading**

As presented in the table below, the number of shares and their trade value during mid- March-mid-April have decreased by 42.38 percent and 27.53 percent respectively from last month. However, the number of traded shares has increased by 29.59 percent and the traded amount has increased by 111.86 percent during the month compared with the traded shares and amount of the same period last year. Decrease in the trading volume this month is also expressed by the monthly turnover to market capitalization ratio that stood at 3.8 percent. The ratio was 8.1 percent last month.

**Table No. 4.3**  
**Trading at NEPSE**

Particulars	Mar/April, 2007	Feb/Mar 2008	Mar/Apr, 2008
Traded Amount ( Rs. in million)	510.23	1876.38	1081.25
No of Traded Shares ('000)	1225.26	2191.18	1587.86
Turnover to Market cap. Ratio	3.8 percent	8.1 percent	3.8 percent

Source: www.sebonp.com

The market remained closed for five days in April because of the Constitution Assembly elections. Naturally, the traded volume decreased in March-April as compared to the Feb-March, in which Rs. 309.99 million worth block shares of Bottlers Nepal Ltd (Balaju) were traded. Almost all the listed companies declared their dividend, bonus and right shares at the end of the first nine month of the current fiscal year. So no new information was available on the stock exchange to boost up the trading. The total trading turnover of the first nine months increased by 168.91 percent to Rs. 14.92 billion compared with the same period last year, thanks largely to the increase in the number of listed companies and investors' growing confidence.

#### **4.1.1.4 Group-wise Distribution of the Traded Amount**

The group-wise distribution of the traded amount shows that the trading of commercial banks occupied 47 percent of the total volume. Finance companies, development banks, hydropower and insurance companies occupied 24, 13.47, 13.40 and 2.04 percents of the total volume respectively during mid-March-mid-April 2008. Hotels, trading, manufacturing and processing companies have less than one percent share in the total transaction. Machhapuchchhre Bank Limited traded the most number of shares—278.21 shares-in mid- March-mid-April 2008.

The value of its traded shares was also the highest. In terms of the value and number of shares traded, Machhapuchchre Bank Limited topped the chart in mid March--mid April, 2008. During the month 278.21 thousand shares of Machhapuchchre Bank amounting to Rs 153.40 million were traded. In terms of the number of transactions, Annapurna Bikas Bank (with 386 transactions) topped the chart. Altogether, shares of 105 companies were traded during the month.

#### **4.1.1.5 Trading of Promoters' Shares**

The Nepal Stock Exchange has adopted a different price quoting mechanism for the first trading of promoters' shares of the listed companies from this month. For the first trading, the price of a promoters' share of a company that has a positive net worth could not be less than half of five times its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Previously, promoters' shares were traded on the basis of the market price of the ordinary share. A total of 391.91 thousand promoters' shares worth Rs. 151.71 million of 3 listed companies-Alpic Everest Finance Limited, KIST Merchant Banking and Finance Limited and Machhapuchchhre Bank Limited—was traded during the mon

#### **4.1.1.6 Listing**

For the secondary trading, securities like common share debentures and government bonds, rights share and bonus shares must be listed on NEPSE as per the legal provision. In mid-March-mid-April a total of eight companies—Kumari Bank Limited, Diprosc Development Bank Limited, United Finance Limited, Annapurna Finance Limited, Development Credit Bank Limited, Nepal Housing and Merchant Finance Limited, Himalayan Bank Limited and Standard Finance Limited—listed their bonus shares. The number of shares was 4.61 and their net

worth was Rs. 461.05. Similarly, 250,000 publicly floated ordinary shares, worth Rs. 25 million, of Lumbini General Insurance Company Limited were also listed during the review period.

Almost all banks and financial institutions have been issuing bonus and right shares, after they received directives from the Rastra Bank to double their paid-up capital. So the listing of the bonus and rights shares of existing companies has risen. No new company was listed on NEPSE during the month. A total of 146 companies have been listed on NEPSE. Their paid up value reached Rs. 24.58 billion. Since NEPSE started listing government development bonds for liquidity in FY 2005/006, 11 development bonds, worth Rs. 11.65 billion, have been listed on the stock exchange. In this fiscal year alone four development bonds worth Rs.4.60 billion were listed on the stock exchange, though no bond was listed during mid March-mid April. However, there has not been much trading in development bonds. So the investors haven't been benefited by the NEPSE's attempt to provide liquidity to investors.

## **4.2 Presentation and Analysis Primary Research Study**

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study mostly based the analysis of primary data with the help of questionnaire. The collected primary data had been represented in the tabular form, sorted and organized, infiltrated, analyzed, and concluded. The descriptive analyses of the study from each questionnaire are as follows:

### **4.2.1 Securities Preferences of the Individual Investors**

In Nepalese context, all of the investors are found to invest in common stocks. Only some of them are found to invest in the debentures and preference shares

issued by the company along with common stocks. Till date, security means common stocks or simply stocks in the minds of investors. Only common stocks are popular in the market and thus the companies have issued common stocks as the major source of capital. Very few companies have issued debentures and the debenture market has not been well developed in Nepal. Only some companies have used debentures as the outer source of funds in tandem with the shares of common stocks. However, the use of preference shares in the capital funding is very low because of its unpopularity among the investors. Its trading in the secondary market is almost non-existent. Other short-term securities like Treasury bills, commercial paper, etc are not found to be invested by the sampled investors. Commercial papers have not been found to be issued by any companies of Nepal. On the part of Treasury bills, the individual investors are not allowed to invest in it.

**Table No. 4.4**  
**Securities preferences of the individual investors**

<b>Types of securities invested</b>	<b>No of respondents</b>	<b>% of respondents</b>	<b>Comment</b>
Treasury bills	None	-	Individuals are not allowed
Common stocks only	40	93	Highly preferred and known to public
Preference shares only	None	-	Almost non-existence/uninformed
Debentures only	None	-	Prospective market
Common Stocks and debentures	3	7	Debenture market is not developed
Other govt. securities	NA	-	Not available
Total	43	100	

Sources: Appendix 1 (Information obtained from the questionnaire)

Out of the 43 respondents, almost 93% of them were found to be invested only in common stocks, especially from commercial banks. Out of 43 sampled individuals no one was found to invest in the preference shares & 3 are found to invest debentures and common stocks. Beside, these sample persons, I had asked personally to some other people visiting the NEPSE. Most of them answered that they didn't know anything about this mechanism and thus came there to learn at first and then invest if they found reliable. Moreover, they replied that they were ignorant to the procedures of investment in NEPSE and were indifferent to securities of any sector till that period.

#### **4.2.2 Regularity Visit of Respondents in the NEPSE**

The one questionnaire is distributed to know whether the investors regularly visit the NEPSE or not. It comes to know that more of the investors visit the NEPSE in regular basis or in frequent basis. Hence, around 40% of the respondents declared that they didn't visit the NEPSE and give less interest for the daily transactions of the NEPSE.

**Table No. 4.5**

**Regularity visit of respondents in the NEPSE**

<b>Types of securities invested</b>	<b>No of respondents</b>	<b>% of respondents</b>	<b>Comment</b>
Regularly visit	13	30	Generally fully involved
Not in Regular	17	39.5	Busy
Little bit visit	14	30.5	Some interest
Total	43	100	

Sources: Appendix 1 (Information obtained from the questionnaire)

As per table, 30% of the total investors are the frequent visitors of NEPSE. They are actively engaged on trading and investment of securities. 39.5% of the total investors almost never visit NEPSE and are not informed of the activities and

listings frequently and timely. Once they invest in the securities, they wait for the higher and consistent cash dividends as their earnings regardless of augmentation in the price. Their category belongs to part time investment. Out of total respondents only 30.5% of the investors visit NEPSE occasionally and show little interest in the activities and listings of the securities. They also take the security as part time investment. One-third of the investors belong to this category. They have little time to study, analyze and trade the securities frequently.

### 4.2.3 Sources of Information for Investors

From the sampled questionnaire, it comes to know that most of the investors generally get information from friends for the securities investment and selling. We can assume this truth as we are generally touch many friends daily and can believe the information of the friends. But, another truth is that some are also behind the Whims and Rumours of the market.

**Table No. 4.6**  
**Sources of Information for the Investors**

<b>Types of securities invested</b>	<b>No of respondents</b>	<b>% of respondents</b>	<b>Comment</b>
Friends	17	40	Generally fully involved
Relatives	8	18	Busy
Stock Brokers	4	9	Some interest
Whims and Rumours	14	33	
Total	43	100	

Sources: Appendix 1(Information obtained from the questionnaire)

As per table, 40% of the total investors collect information from friends for the selling and investment of securities. They are actively engaged on trading and investment of securities. However, 18% of the total investors are based on their relatives opening and only 9% of the investors are depends on the stock brokers.

They never visit NEPSE and are not informed of the activities and listings frequently and timely. Further, 33% of the investors are behinds the Whims and Rumours of the market .Once they invest in the securities; they wait for the higher and consistent cash dividends as their earnings regardless of augmentation in the price. Their category belongs to part time investment.

#### **4.2.4 Sector-wise Preference of Securities by Investors**

It comes to know from the study that only the securities from commercial banking sector, selected finance and insurance companies, etc and a few from manufacturing and trading sectors are preferred by the investors to make investment. In case of primary offerings, the investors only prefer to invest in the shares of A graded commercial banks and finance companies. The investors who still own the securities of other sectors beyond A graded categories have shown pessimistic attitude and they are desirable to sell them and purchase the shares of commercial banks and finance companies instead. The data are analyzed in the tabular form as follows:

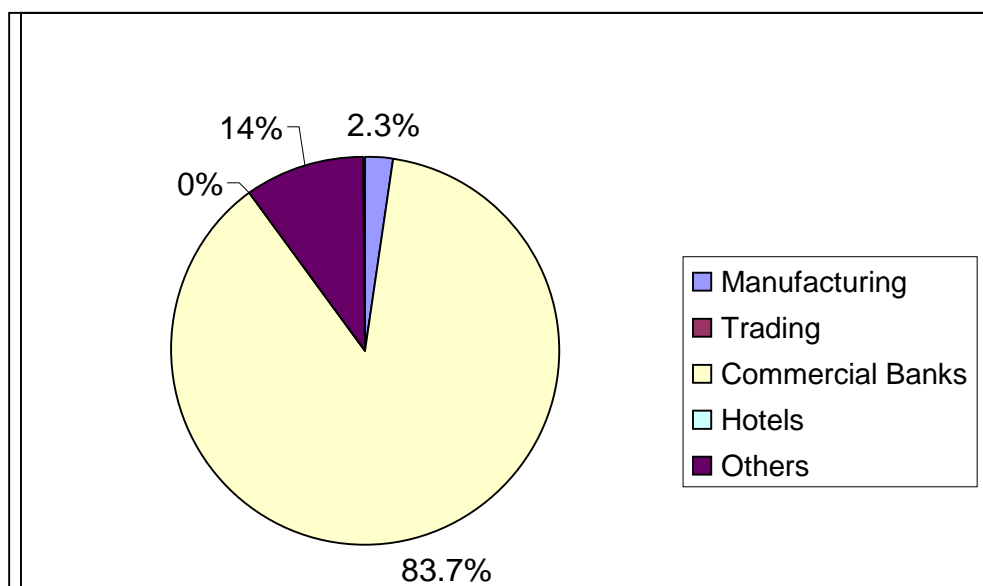
**Table No. 4.7**

#### **Sector-wise preference of securities by investors**

<b>Sector of shares</b>	<b>No of respondents</b>	<b>Comment</b>
Manufacturing	1	Very less preferred
Trading	NA	Not preferred
Commercial Banks	36	Highly preferred
Hotels	NA	Not preferred
Others*	6	Less preferred `
Total	43	

Sources: Appendix 1(Information obtained from the questionnaire)

**Chart No 4.1**  
**Percentage of Respondents Preference of Securities of Various Sectors**



Sources: Appendix I (Information obtained from the questionnaire)

The above table No. 4.4 clearly depicts that 83.7% of the investors have invested and are desirable to invest only in the shares from commercial banking sector. The investors feel protected and assured to invest in the shares of commercial banks. In other words, 83.7% of the investors were found to invest solely in the shares of commercial banks. 14% of the investors were found to invest in the other sectors shares. Other sectors include shares of finance companies, insurance companies, development banks, etc. Only 2.3% of the total investors invested in the shares of manufacturing companies. However, these investors made investment in these sectors in the past days. Today, they are trying their best to sell the securities they own.. The data revealed above clearly depicts that the securities from commercial banking sectors are preferred by the recent and prospective investors. Investors feel safeguard and protected while buying this sector shares. They don't hesitate to invest in the primary offerings of commercial banks. This is because the commercial banks have a very high level of credibility in the market as compared to the performance of other securities.

#### 4.2.5 Desireness of Earnings from Securities Invested

The under mentioned table clearly depicts that all investors like to receive the earnings in the form of capital appreciation. It is an implied term while investing in securities, especially common stocks. Most of the respondents belong to the middle class families, however some are also from lower and some are from higher middle class level. As all the investors invest in common stocks, earnings associated with common stocks in various forms are found in major part to be preferred by the investors.

Moreover, the table above depicts that some investors don't prefer cash dividend on a regular basis. This doesn't matter to them if the company fails to pay the cash dividend but the price of the security of that company should have augmented so that they may reap a gain of capital appreciation. Bonus shares instead of cash dividend are preferred by most of the investors. However, for most of the investors anticipating higher rate of dividends, securities distributing higher rate of dividends are considered as better securities with better performance.

**Table No 4.8**

#### **Desireness of earnings from securities invested**

<b>S. N.</b>	<b>Types of earnings</b>	<b>No of Respondents</b>	<b>Comment</b>
1.	Regular fixed income/interest	2	Less Preferred
2.	Regular Cash dividend only	5	Moderately preferred
3.	Both Cash dividend & bonus shares	10	Highly preferred
4.	Both Cash dividend & Capital appreciation	8	Moderately preferred
5.	Cash dividend, bonus shares & capital appreciation	14	Highly preferred
6.	Bonus shares only	1	Less Preferred
7.	Bonus shares & Capital Appreciation	3	Less Preferred

	<b>Total</b>	<b>43</b>
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Sources: Appendix 1(Information obtained from the questionnaire)

The above table depicts that investors are willing to take minimum risks only if they are assured of getting higher positive returns. Their expectations about securities risk and returns are the sole factors for shaping the demand and supply of securities i.e. market price of the stocks. In this way, expectation is the main cause of the price formation mechanism. Price is the function of expectations about the future cash flows, and various risk factors.

Again, the above table portrays that most of the investors of the securities prefer cash dividend and capital appreciation than any other forms of earnings. As the number of investors in the debt securities is low, it can be regarded that they don't like to earn a fixed income investing a fixed portion. They can bear risk in anticipation for higher unlimited future earnings and likely changes in the price of the security, especially stocks.

#### **4.2.6 Detection of the Level of Earnings Anticipated by the Investors**

It is the nature of beings to anticipate higher returns without limit from what they have invested. However, in the sense of rational judgment and decision in the expectation of earnings, it comes to know from the study that the most likely anticipation of the stockholders' level of earnings ranges between 20 – 25 %.

**Table No 4.9**

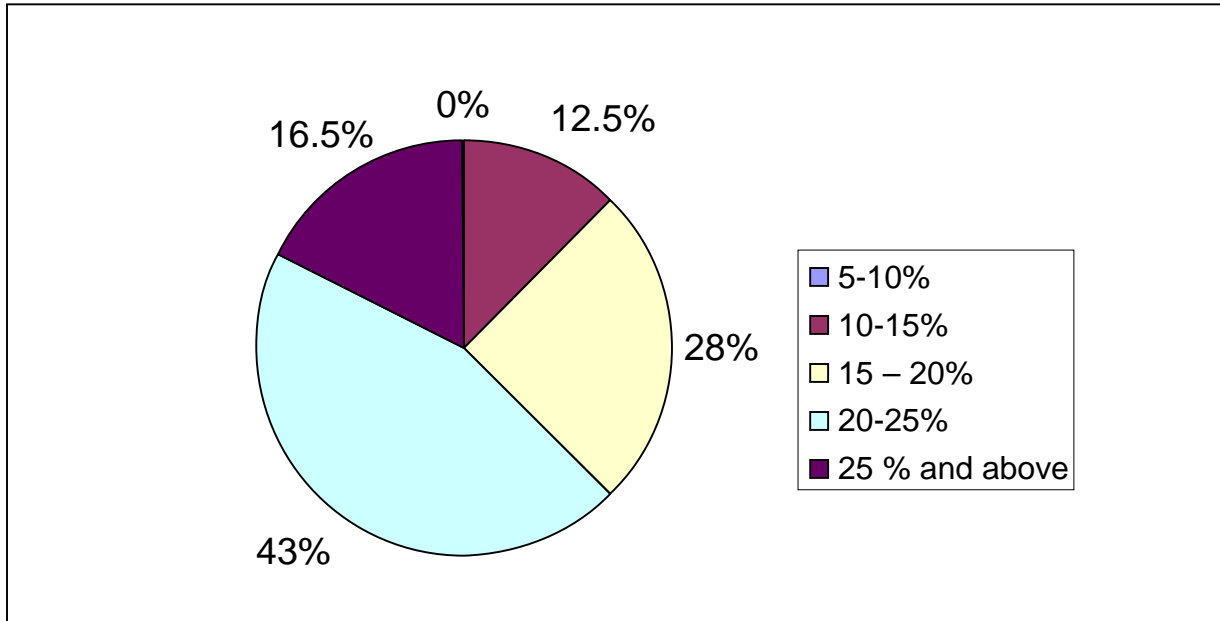
**Detection of the Level of Earnings Anticipated by the Investors**

<b>Level of Earnings Anticipated</b>	<b>No of Respondents</b>	<b>% of Respondents</b>
5-10%	-	0
10-15%	6	12.5
15 – 20%	12	28
20-25%	18	43
25 % and above	7	16.5

<b>Total</b>	<b>43</b>	<b>100</b>
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Sources: Appendix 1 (Information obtained from the questionnaire)

**Chart No. 4. 2**  
**Percentage of respondents**



Sources: Appendix 1 (Information obtained from the questionnaire)

The data presented in the above table delineates that none of the investors want to receive the cash dividend below 10 % as return from common stocks. If it doesn't be so they prefer stock dividend instead of cash. Also it doesn't seem any matter if the company retains all of their earnings for its own use such as expansion, refunding, etc. But it does matter to them the increase in the value of capital they invested initially. Almost of the investors of common stocks don't hesitate to receive cash dividend. However, some of the investors don't like to receive cash but like to receive bonus shares. All of the investors (100 %) desire capital appreciation and they responded that it is the implied expectation while investing because this is the factor which is useful in secondary trading of securities.

#### **4.2.7 Investors Classification by Occupation**

One questionnaire is conducted to categorize the investors and the test of the knowledge of the different class structure by occupation about security investment, the details of same are analyzed in the tabular for as follows:

**Table No. 4.10**  
**Investors Classification by Occupation**

<b>Occupation</b>	<b>No of Respondents</b>	<b>Percentage Respondents(%)</b>
Business	15	34.8
Student	8	18.8
Service	14	32.5
Others	6	13.9
<b>Total:</b>	<b>43</b>	<b>100</b>

Sources: Appendix 1(Information obtained from the questionnaire)

As per above table, about one third of the total individual investors are from business sector. However, in the course of interaction, it was found that people who did not have any particular work or regular profession also claimed their profession as business. And the regular visitors of NEPSE are from this sector. The full time investors who take security investment as their major profession are also from this sector. But there are very few people who make security investment and trading as their major profession. Most of the investors are part timers. It is clearly seemed that only some privileged castes and the people from business sector are quite familiar to the benefits of security investment than others. The participation of the investors from service sector is the highest of all. This shows the data. Out of the sampled investors, about 18.8% are students and most of them belong to management faculty. The students from other faculties have rare participation as compared to that of management. The investors from other sectors

– households and sundry – comprise of 13.9% of the total individual investors. They don't know anything about securities – how these are issued, why to invest in securities, etc. Individual investors share in the capital market is quite low both in volume and value.

#### **4.2.8 Investors' Opinion on Investing in Primary Offerings and in Secondary Market**

The investors hesitate to invest in the initial public offerings issued in the market. They doubt upon the better performance of the companies issuing such IPOs and are feared on trading such securities in the secondary market. However, some are found interested to invest in the primary securities in an anticipation of selling them in the secondary market at a certain higher price than that purchased in the primary market.

70% of the sampled investors like to invest in the securities at the secondary market. It is because they can observe the trend of the past performances of the available securities, analyze them and decide to invest the securities accordingly. The secondary market make easy to get same also.

#### **4.2.9 Attitudes on Investing in Securities: (Is it Same as Speculation or Gambling?)**

Regarding the answer to this question, respondents have given mixed feeling about it. Out of the 43 respondents, only 40 responded to it. Some investors have been found taking the security investment very lightly. They are unaware of risk and return, price formation mechanism, and capital appreciation. For such kinds of investors, the term speculation and investment is indifferent to each other. While few are found relating it to gambling also. Only few investors have good knowledge on the difference among these three. And these terms differ from each

other on the basis of quality and quantity of the extracted information, and the duration of investment.

#### **4.2.10 Factors that are considered Before Investing in the Securities**

The criteria of investment differ from one investor to another. Every individual is different from other so is the criteria of investment, preference of the securities, and attitude differs from one investor to another. Nevertheless, there are some common key points and decisions that are found to be performed by the most of the investors while investing in the securities.

The investors who are the regular visitors of the NEPSE are found to be the investing high class investors while the sampled individuals do not include any odd-lot investors.

In addition to the factors the investors take into consideration while selecting the security and making investment on it, some investors have been found to observe, predict and analyze the political situation also. This is because political risk has become the major risk factor today that is very hard to predict. Some investors are ready to bear higher amount of risk and uncertainties if they found probability of getting higher returns. 38 out of 43 investors reported that they observe and analyze the financial picture of the company which they are going to invest in. 35 respondents reported to have observe the historical trend of the company's performance. 34 out of the sampled 43 investors have revealed that they study a series of the price behavior from the past to present. Only 8 investors have been found to be familiar with the term portfolio and some are found to be acting very wisely and therefore they can be considered as the rational investors. 10 out of 43 sampled persons have knowledge on both the methods of analyzing security fundamentally as well as technically. They include 4 management students and 6 from business sector. 30 sampled investors also do perform analysis on their part

but they are ignorant of the terms technical and fundamental analysis. However, all investors thoroughly analyze, observe, and judge the performances of the company either by themselves or through the help of others before investing. Investors generally look at goodwill and management of the company issuing such security. The criteria of selection of security, preference, and the factors the individuals take into consideration varies from investor to investor. However, the most common points can be enumerated as follows:

- ) Company's prospect of growth
- ) Goodwill and management of the company
- ) Promoters of the company
- ) Company's five year forecast
- ) Security analysis
- ) NEPSE Index
- ) Portfolio formation

Simply go on investing in the company's shares which seeks profitable. During the course of thesis, it is found that all people extract information, analyze in their best ways and then only invest on that. But the real difference lies on the knowledge of various analyzing criteria and selection of the securities.

Some of the investors have also been found to study and analyze the past trend of dividend. Most of the investors have been found to be enticed to invest in the regularly transacting securities especially securities of Grade A companies. Also in such listings of the companies, the sectors of the securities are sought.

#### **4.2.11 Problems Faced by Investors Regarding Securities Investment and Trading**

90% of the investors reported that they had faced innumerable problems from the date of investment to selling of securities. They had to face problems regarding correct information, projected data manipulation, trading procedure and other

ambiguous rules presence in NEPSE. In addition, their grievance as per their responses was lack of credibility in the financial statements and projected statements especially when they were going to invest in the Initial public offerings.

There are innumerable problems that the investors have to face while purchasing and selling of securities. Monitoring and regulation part of the companies by the concerned bodies are not found efficient. For most of the companies, projected earnings and statements do not match at all. Some investors as reported by them incurred a heavy loss in an anticipation of getting higher returns due to manipulated projected statements and performances opened for investors. This is due to lack of proper implementation of rules and regulations and effective monitoring. There is only one secondary market for trading of securities. And only Grade A companies securities are traded. So there is a great problem in the selection of the securities. Most of the investors want to sell the low graded or lower performing securities and they want to buy the better performing securities which have growth prospective. As a result, there is always scarcity of securities for the potential buyers to invest in the desired securities, especially from commercial banking sector. However, there are plenty of securities available from various sectors for which there is shortage of potential buyers. It means that there is a great problem of liquidity for securities not excluded in A grade companies. Thus, it had become problem for them to sell the security at the time of extreme need for cash.

70% of the respondents wrote that most of the companies listed in the secondary market listings are not trustworthy. One has to be suspicious and careful while investing in the securities of the companies opened for the first time to public as there is always a fear of getting untrue picture and manipulated information in the form of projected financial statements and performances. Consideration of the

other internal factors of the organization such as internal management, promoters, goodwill of the issuing company also need to be done while making investing decisions. In concluding words, some companies were found to reveal unrealistic pictures in their projected statements. In fact, these are the problems due to inefficiency and inability of regulatory bodies as they are responsible to monitor the activities of the companies. Hence, these factors cause difficulty in trading.

In Nepal, there is neither possibility of full time investment nor sufficient and developed capital market.

### **4.3 Major Findings of the Study**

From this primary research study, following are the major findings:

1. It comes to know that most of the shareholders are common stock holders. Thus, securities mean only the common stocks for most of the investors in Nepal.
2. Investors invest in the primary market securities because they anticipate selling it at a higher price than the price which they were bought.
3. Majority of them also prefer regular cash dividends. But there are also investors who like to receive capital appreciation and bonus shares instead of getting cash in the form of dividend.
4. 40% of the total investors collect information from friends for the selling and investment of securities. They are actively engaged on trading and investment of securities. Further, 33% of the investors are behinds the Whims and Rumours of the market.
5. Businessmen and service holders comprise of 34.8% and 32.5% of the total individual investors. Students' participation, especially from management faculty, in the trading and investing of securities is also quite appreciable.
6. Among the sampled investors, 90% are not satisfied with the working procedures and regulations of the concerned bodies.

7. Gambling is an adhoc decision made quickly without acquiring any information and gaining any knowledge.
8. From the review of secondary data, it comes to know that During the first nine months of the current fiscal year (FY2007/08), all the major indicators of the secondary market have shown a substantial rise and promoter's share are also started for trading.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter summarizes the study in brief, reports the conclusions and finally outlines the recommendations.

#### **5.1 Summary**

This study is limited to the individual investors investing in the corporate securities, especially common stocks, bonds, debentures and preference shares. For individual investors, securities investment may be a very beneficial factor from the point of view of income generation and small saving mobilization. Even a small investor with a small sum of money can be benefited directly.

Due to geopolitical situation of the country, many people are living in the dark shadow of the illiteracy and poverty. Most of the people in Nepal are ignorant to the securities investment. The history of security investment is not an age old tradition in Nepal. The history of security market in Nepal dates back to 1936 AD with the issue of the shares of common stock by Biratnagar Jute Mills for the first time. A year later, debentures were also issued. At that time, only few people and institutions were involved in the investment. Besides, corporate securities, government also issue securities to the investors through Nepal Rastra Bank. But institutional sectors only are allowed to invest in such securities such as Treasury bills and government development bonds. However, individual investors can also participate in the investment of government bonds.

In view of the growing investment preferences of securities in Nepal by investors, an organized exchange secondary market for securities was opened as Securities Marketing Center in 1976. It was converted into Securities Exchange Center later. And in 1994 it was renamed as Nepal Stock Exchange as only the secondary market for securities issued by corporations.

Two kinds of securities are opened for individual investors. They are primary securities and secondary securities. The former include the common stocks, preference shares and debentures. And the latter include bank deposits, life insurance policies, and unit schemes. Only NIDC Capital Market and Citizen Investment Trust are performing the functions of investment companies in Nepal.

For this study purpose, primary data have been used in mainstream as per the requirement of this thesis. Secondary data have also been collected for literature reviewing. For primary data collection, responses were collected from 43 investors through direct questionnaires and the responses were collected. For this, convenient sampling method has been implied.

Out of the total sampled investors/respondents, 93% are found to invest in the common stocks only and the rest 7% are found to invest in the debentures and preference shares along with common stocks. Thus, securities mean only the common stocks for most of the investors in Nepal. Among the available stocks of different sectors, 83.7% of the investors are found to invest in the common stocks of commercial banks and 16.3% in selected finance and insurance companies. Potential investment in the shares of manufacturing companies is almost non-existent.

Investors invest in the primary market securities because they anticipate selling it at a higher price than the price which they were bought. Another factor for

investment in common stocks is due to expectation of higher returns in the form of cash dividends, possibility of getting capital gain and additional shares as bonus. On the part of form of earnings from common stocks, all investors are fond of reaping benefits of capital appreciation. Majority of them also prefer regular cash dividends. But there are also investors who like to receive capital appreciation and bonus shares instead of getting cash in the form of dividend.

43% of the investors anticipate a return ranging between 20-25% in liquid cash. 16.5% want to receive more than 25% return from their investment. None of the investors want to receive less than 10% from their investment committed. That's why fixed income securities are not becoming popular among the investors.

40% of the total investors collect information from friends for the selling and investment of securities. They are actively engaged on trading and investment of securities. However, 18% of the total investors are based on their relatives opening and only 9% of the investors are depends on the stock brokers. They, never visit NEPSE and are not informed of the activities and listings frequently and timely. Further, 33% of the investors are behinds the Whims and Rumours of the market.

Businessmen and service holders comprise of 34.8% and 32.5% of the total individual investors. Students' participation, especially from management faculty, in the trading and investing of securities is also quite appreciable.

Among the sampled investors, 90% are not satisfied with the working procedures and regulations of the concerned bodies. They feel threatened and are uncertain of the performances of the companies in which shares they have invested in. They have been facing many problems in trading and investment of the desired

securities as there is only one secondary market for such trading of securities. The companies are not found reliable.

In fact, the term securities investment, gambling and speculation are three different terms. They differ with each other clearly on the basis of the availability, intake and usage of the information. Gambling is an adhoc decision made quickly without acquiring any information and gaining any knowledge. Here the result comes out spontaneously in a few seconds to hours to a day. It is the riskiest of all. Speculation is an investment with a very short-holding period in an anticipation of making quick profit. Under speculation, investors scan the information through various methods and analyze the securities before investment but the investment period ranges from a few days to few months. Speculation has also greater risk than in investment made by a rational investor. And investment is done for a long period of time, where holding period is at least one year. All the information regarding securities are gathered, sorted and analyzed. In this part, trends of securities performance are studied, prices are estimated, and invested accordingly for a period of at least one year. Here the investor is normally not willing to take high risk and expects moderate rate of return.

## **5.2 Conclusion**

The prime sources of information for all the investors interested in securities transaction are newspapers and NTV. For the regular visitors of NEPSE and professionals, stockbrokers are the main source of information. Besides, rumors and friends and relatives are also the major sources of information for some. Still there is lacking sufficient and genuine information for trading of securities.

Based on our analysis we can conclude that most of the investors are risk averse. But the investors reveal three types of attitudes towards risk. Some believe in the notion 'no risk no gain', they are the risk seekers. Some are indifference to risk;

they bear it if it comes in the course of business and don't go after taking risk. The third ones like to avoid risk. They don't want to bear risk. They can be satisfied with the lower returns than bearing more risk.

Based on the analysis of the data, it can be concluded that the existence of the other securities besides common stocks is almost non-existent. It is because common stocks are quite familiar and popular among the investors from the investment point of view in the market. It is easy to trade in the secondary market. Also in common stocks, the stocks from commercial banking sector are more popular. However, only a few companies have gathered strength to issue debentures and preference shares. Most of the individual investors hesitate to invest in the debentures issued by the companies because of its non-flexibility in its earnings. Very few people like to receive constant lower returns. This is also the same reason for less popularity of preference shares among investors.

In the study of the participation of the investors according to their profession, most are found to be from business sectors. And the management students have greater knowledge of securities and investment than students of other faculties. People engaged on business or students studying management have good knowledge of securities investment process.

Nepalese securities market is underdeveloped. There are limited numbers of securities of listed companies to construct, analyze and choose portfolios. Among the available ones, only commercial banks are preferred by the investors. However, performance of the securities from finance companies is becoming good. So some investors have switched on to investment in finance companies securities. Yet there are loopholes in the trading procedures of securities. Reliability, feasibility and matching of the projected and the actual performance is another necessity.

Security investment, speculation and gambling are the three clearly distinguished and fundamentally different terms. These three are categorized and differentiated on the basis of the availability and usage of the information.

Expectations about future, various factors such as political trend, economic condition, etc have a direct role in the formation of price. Moreover, it is reflected in the form of demand and supply of share. Earnings capacity and projection of share, goodwill and management of the corporation are reflected directly in the demand for shares. If these are good demand will be high. As demand is high the market price will be high. At higher prices, the stockholders are willing to supply (sell) more. Thus it can be concluded that the market price of a share depends upon demand and supply of shares.

Security selection and analysis is a must part in the investment of securities. Individual investors in Nepal do not have much time, wealth and sufficient knowledge to analyze individual securities through technical and fundamental analysis methods, form portfolios, revised portfolios and evaluating portfolio performances. It can thus be regarded as the process of adhocism and gambling to some extent. Only few people are well acquainted with the securities investment and their benefits. Rest of the people even does not understand the term security. There is dominance of special caste groups in the investment. There are only a handful of securities to invest in. That's why it is difficult to construct and evaluate portfolio. Today political instability has dominated all the risks in the market affecting securities. So political whether the investors are aware or unaware of the fact, they actively engage on the analyzing of the securities both by means of fundamental and technical methods before investing in the securities. Information plays a key role in the investment. In concluding words, investment is the function of the quality and quantity of the available information.

Analysis of the data reveals that every individual investor wants to earn higher returns from the shares of common stocks invested. They assume that they take high risks while investing in the common stocks and thus want higher earnings. Only for our study purpose, the earnings have been leveled and classified. Otherwise, it is one's savy to expect higher returns from anything invested.

On the basis of the ways that the individual investors in Nepal deal with the securities and the study of their attitude and behavior to the securities investment, they can be called as speculators rather than the investors. Investors in Nepal anticipate windfall gains in the short period from securities rather than earning moderately on a consistent basis. In concluding words, most of the Nepalese investors are speculators rather than the rational investors. Most of the investors in Nepal are lacking sufficient knowledge on securities with regards to portfolio formation, performance evaluation, and as a whole of the entire investment process.

From the review of secondary data, it comes to know that During the first nine months of the current fiscal year (FY2007/08), all the major indicators of the secondary market have shown a substantial rise and promoter's share are also started for trading

### **5.3 Recommendations**

After analyzing the data, we have been able to extract information on the shortcomings of the individual investing criteria and problems faced by individual investors. Thus, certain recommendations, which I think will be helpful to minimize such problems to some extent, have been suggested for the concerned parties including the regulatory bodies and individual investors:

1. The companies are suggested to issue common stocks with correct prices and with reliable and standard projected performances on behalf of the

public investors to fulfill their requirement of the long-term capital. However, bonds and preference shares might also be issued proportionately.

2. Various researches, findings and studies on individual investors need to be conducted both by the companies and concerned bodies to identify the expectations, preferences and problems of the investors in securities investment.
3. Consulting firms and financial consultants should be opened for guiding the potential as well as existing investors. Stock-brokers need to play more active role in regards to these matters.
4. Individual investors' participation in the securities should be encouraged. Investors need to be given necessary education, trainings and provided different skills on securities investment. They should be made aware of the investment opportunities; benefits attached with the securities and rational investment processes.
5. There should be unambiguous rules and clear cut policies regarding securities investment. The rules and procedures need to be simplified further on behalf of the individual investors.
6. Effective monitoring and controlling should be ensured in regards to securities issuance, listings and performance rating. SEBO's activities need to be active in regards to the proper implementation of the rules and regulations.
7. There should be correct and timely flow of qualitative information to the investors.