FINANCIAL LITERACY AND INVESTMENT DECISION IN NEPALESE STOCK MARKET

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RECOMMENDATION

This is to certify that the thesis:

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has been prepared and approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented

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and found the thesis to be original work of the student and written in accordance to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

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DECLARATION

I hereby declare that the work reported in this thesis entitled, **FINANCIAL LITERACY AND INVESTMENT DECISION IN NEPALESE STOCK MARKET** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision, Joginder Goet of Shanker Dev Campus.

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ABBREVIATION

C.V.	:	Coefficient of Variance
EBL	:	Everest Bank Limited
F.Y.	:	Fiscal Year
i.e.	:	Example
LSBL	:	Laxmi Sunrise Bank Limited
LTD	:	Long Term Debt
MBL	:	Machhapuchre Bank Limited
NABIL	:	Nabil Bank Limited
NI	:	Net Income
NOI	:	Net Operating Income
P.E.	:	Probable Error
r	:	Correlation Coefficient
ROSE	:	Return on Shareholders' Equity
S.D.	:	Standard Deviation
tcal	:	Calculated value of t
ttab	:	Tabulated value of t

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Investors play a critical role in the economy by directing their savings into different sectors, aiming to maximize wealth while minimizing risks. Recently, there has been a growing awareness among individuals about making wise investment choices. Many are dissatisfied with traditional options like bank fixed deposits due to their low interest rates, which often fail to keep pace with inflation, resulting in negative real returns.

As a result, people are increasingly looking towards more lucrative sectors such as industry, trade, services, and banking, which offer better potential returns. Investments can take various forms, including loans, equity investments, or holding stocks. Essentially, investing involves postponing current consumption to build future wealth, with the goal of achieving financial objectives over the investment horizon.

Deciding to invest is a pivotal decision due to the uncertainties surrounding future wealth. Time and risk play crucial roles in shaping investment choices, often pulling investors in different directions. Investors tend to prefer certain investment options over others based on how well these options align with their risk tolerance and expected returns.

Returns from investing in stocks, for instance, typically come from dividends and capital gains, both of which are uncertain and subject to market fluctuations. This necessitates navigating an unpredictable market environment. In contrast, safer investments such as treasury bills or savings certificates carry lower risks compared to stocks.

Despite the higher risks associated with stocks, many investors are drawn to them in hopes of future price appreciation. The intrinsic value of a stock can theoretically be determined through analysis of publicly available financial data. However, in reality, investors often do not thoroughly analyze financial statements before investing in stocks. Ideally, the market price of a stock should converge towards its theoretical value, which is derived using various valuation models.

In recent years, investing in businesses in Nepal has grown increasingly risky due to the country's unstable economy, inflation, governmental instability, and historical challenges such as Maoist insurgency and political turmoil. The Nepalese stock market reflects significant volatility, prompting cautious consideration among potential investors. This heightened perception of risk encourages individuals to explore safer alternatives like gold, savings deposits, or to opt for immediate consumption rather than investment. This study aims to provide insights to investors by utilizing concepts from the Capital Asset Pricing Model (CAPM), aiding in informed decision-making.

Investment options encompass a wide range of choices through which individuals can allocate their funds for profitable purposes. These include tangible investments like gold, silver, bank deposits, stocks, mutual funds, insurance, government securities, real estate, and provident funds. In today's complex financial landscape, the abundance of investment options can overwhelm individuals, making decision-making challenging. Some avenues offer potentially high returns but carry significant risks, while others provide lower returns with minimal risk. This study seeks to investigate investor preferences among these alternatives. Primary data will be collected through questionnaires, and analysis will involve statistical methods such as percentages, chi-square tests, and logistic regression.

Investment also involves directing funds towards capital goods such as factories, farms, equipment, livestock, and machinery, which are used in the production of goods and services. Savings constitute the primary source of investment, distinguishing between saving postponing current consumption and investment allocating funds into assets that enhance future national output. This distinction categorizes investments into real investments, typically involving tangible assets like land or machinery, and financial investments, which are contractual agreements such as stocks and bonds. Investment plays a crucial role in the economic development of any nation, representing the deployment of current resources for long-term benefits. Essentially, investment involves foregoing immediate consumption for future gains, with careful consideration of time and risk. For instance, investments in government bonds prioritize time considerations, while investments in stocks are influenced by both time and risk factors.

Investing in the stock market plays a crucial role in mobilizing capital and fostering economic development. The process begins in the primary market with Initial Public Offerings (IPOs), where company's first issue shares to investors. These shares are subsequently traded in the secondary market on stock exchanges, where investors buy and sell them at market-determined prices. Equity shares represent ownership stakes in companies and their prices fluctuate based on supply and demand dynamics.

Investors typically engage directly in buying and selling securities or delegate these activities to brokers or fund managers. Their primary objective is to achieve capital appreciation, selling shares at prices higher than their purchase price, and to earn returns through dividends distributed from company profits. This study focuses on understanding investors' attitudes towards equity market investments and their varying risk tolerance, influenced by factors like gender, age, income, education, and occupation. It categorizes investors into conservative, moderate, and aggressive based on their risk management strategies (Keown & Petty, 2009).

Alongside the stock market, investors have a wide range of alternative investment options. These include traditional choices like bank deposits and gold, which have been used for generations, as well as newer options such as mutual funds, commodities, and derivatives. The study specifically examines equity investments, where a company's capital is divided into equity shares. Shareholders benefit from dividends and potential capital appreciation, and also possess voting rights, allowing them to participate in company decisions in proportion to their share ownership (Yashaswini, 2019).

In today's competitive financial environment, there exists a multitude of investment opportunities, yet a significant majority of investors favor equity as their primary investment vehicle. This preference is largely attributed to the relatively low initial investment requirements and the high liquidity associated with equity investments. Investors appreciate the fact that trading in equities demands minimal time and offers swift access to cash, which adds to its appeal as a convenient option.

This study aims to investigate how investors' perceptions shape their investment choices and the underlying reasons guiding these decisions across different scenarios. By analyzing these factors, the research aims to uncover the motivations that drive investors

towards equity investments amidst a wide range of available investment alternatives in the market.

1.2 Statement of the Problem

Investing involves navigating a delicate balance between potential profitability and risk, presenting investors with a complex decision-making process. When confronted with multiple similar investment opportunities, choosing the optimal one becomes particularly challenging. No investment is devoid of risk; each carries a certain level of uncertainty. The key challenge lies in finding the right equilibrium between risk and return to maximize shareholder wealth.

Decisions made in uncertain environments necessitate evaluating the additional return required to justify assuming measurable risks. Investors often rely on past performance to form expectations about the future, although predicting future events with certainty remains impractical. Therefore, every investment decision inherently involves weighing potential returns against inherent risks.

In such contexts, a thorough analysis of historical market trends coupled with future expectations serves as the foundation for making informed investment decisions. This approach enables investors to assess potential risks and forecast future outcomes to the best of their abilities before committing their capital.

In Nepal, the listing of shares on the NEPSE (Nepal Stock Exchange) and subsequent trading represent a relatively recent development. The market is characterized by low trading volumes, a scarcity of professional brokers, early growth stages, limited share price movements, and inadequate investor information. While substantial research exists on government-owned enterprises, studies specifically focusing on companies listed on NEPSE and actively traded in the stock market are limited in Nepal. This study aims to address this gap by exploring the application of the Capital Asset Pricing Model (CAPM) within the Nepalese context.

Compared to developed markets, Nepal's capital market is relatively small, with few brokers, a limited number of listed companies, and minimal trading activity. Investors often lack a comprehensive understanding of the benefits and risks associated with

participating in the stock market. Given the nascent stage of the market, any misconduct within the securities market could have severe repercussions on the national economy. Restoring investor confidence following such events poses a significant challenge.

In Nepal, the initial public offering (IPO) phase encounters unique challenges unlike those in developed nations where public offerings are well-established and attract broad participation. Economic disparities exacerbate the complexity of engaging investors across different financial instruments that could potentially bridge the gap by generating passive income. Therefore, this study aims to explore investor perceptions across various demographic factors.

Nepal's capital market is still in its developmental stages, characterized by limited participation and vulnerability to saturation. Investment decisions here are often influenced by rumors and investor sentiment, emphasizing the critical need for investor education. Educating investors about financial instruments and market dynamics is crucial to mitigate manipulation risks and foster informed decision-making. This research also seeks to gauge investor awareness, particularly regarding IPOs in Nepal, recognizing the pivotal role of financial literacy in shaping investment behaviors (AL-Tamimi & Kali, 2009).

The primary market in Nepal has undergone significant structural changes, transitioning from traditional methods where investors queued for hours to submit IPO applications. Today, this process has been streamlined with online application systems, significantly reducing allotment times and facilitating quicker listing of securities. These advancements have boosted market liquidity and reduced issuance costs associated with securities.

Despite these improvements, a notable segment of retail investors in Nepal's stock market remains speculative. These investors often lack comprehensive information or conduct thorough analysis, preferring short-term investments aimed at quick returns. Many sell their stocks shortly after listing on NEPSE (Nepal Stock Exchange). Understanding the behavior and proportion of such investors is crucial for evaluating new offerings and their impact on the market.

This study focuses on evaluating individual stocks of selected NEPSE-listed companies using the Capital Asset Pricing Model (CAPM). It aims to assess these stocks for various decision-making purposes and employs various statistical tools for stock analysis. Primary research through questionnaires targeting stock market investors complements this analysis.

In summary, Nepal faces specific challenges in its IPO stages, contrasting with the smoother execution seen in developed markets. Addressing these challenges is vital for bolstering investor confidence and fostering broader participation in IPOs within Nepal's evolving capital market landscape.

i) What perceptions do investors hold regarding market inefficiencies and their impact on investment decisions in Nepal's stock market, particularly concerning initial public offerings (IPOs)?
ii) What is extent do factors like management quality, company reputation, financial performance, industry sector, and market information influence investors' decisions to invest in both the primary and secondary markets?
iii) How do investors' views on market inefficiencies affect their investment decisions, and what implications does this have for both the primary and secondary markets?

1.3 Objectives of the Study

The overarching goal of this research is to investigate market inefficiencies and investment decisions within the Nepalese stock market. The specific objectives are as follows:

i) To explore investors' perceptions regarding the primary and secondary markets, focusing on factors such as management quality, company reputation, financial performance, industry sector, and market information.

ii) To examine how management quality, company reputation, financial performance, industry sector, and market information influence investors' decisions to invest in both the primary and secondary markets.

iii) To analyze the impact of perceptions of market inefficiencies and investment decisions on the Nepalese stock market, specifically examining their effects on both the primary and secondary markets.

1.4 Significance of the Study

This study aims to provide in-depth insights into the efficiency of the Nepalese stock market and various calendar anomalies affecting stock returns. The findings from this research will have significant implications for financial managers, analysts, investors, and future researchers, particularly in leveraging seasonal anomalies for effective portfolio diversification.

A significant portion of Nepal's population remains unaware or unfamiliar with public offerings. Therefore, this study aims to benefit individuals seeking knowledge about both the primary and secondary markets, particularly aiding general investors and organizations involved directly or indirectly in public offerings. Additionally, it aims to assist issuing companies in understanding investor perceptions and preferences towards Nepal's primary and secondary markets.

This research aims to uncover key factors influencing investor perceptions and the dynamics of risk-return relationships in investments within Nepal's primary and secondary markets. It also serves as a valuable resource for students and researchers interested in studying these markets.

Investing in various sectors of the stock market is significantly influenced by investor psychology, where frequent fluctuations in company prices highlight the critical role of investor sentiment. Behavioral finance, a relatively underexplored area in Nepal, finds its focus in this study, contributing essential literature to the field. While international studies on this concept abound, comprehensive research on perceptions specifically tailored to Nepal is lacking.

In today's diverse investment landscape, investors have access to numerous investment alternatives ranging from tangible assets to entrepreneurial ventures. This diversity allows investors to accumulate substantial shares, thereby influencing company management and the broader stock market.

1.5 Limitations of the Study

This study forms part of the Master in Business Administration program at Tribhuvan University, Faculty of Management, fulfilling partial academic requirements. Its focus is to analyze specific facets of the primary share market in Nepal. References and studies pertaining to the Nepalese capital market are currently sparse. The study faces constraints due to limited time and resources. Moreover, research on public reactions to the stock market has revealed several identified shortcomings.

i) This study is based on primary data
ii) This study has analyzed and evaluated for limited data.
iii) The sample size of 150 used for collecting primary data may not adequately represent the entire population.
iv) Only consider the investors of Kathmandu Valley.

1.6 Organization of the Study

The study was divided into five different chapters. The titles of these chapters are as follows:

Chapter I: Introduction: First chapter deals with introduction of the study, statement of the problem, objectives of the study, significance of the study, limitation of study and organization of the study.

Chapter II: Review of Literature: Second chapter deals with conceptual review, theoretical review, empirical review and research gap were presents.

Chapter III: Research Methodology: The third chapter outlines the research methodology employed for conducting the study. It includes details on sample selection, data sources, procedures for data collection, and the tools used for data analysis, which are integral components of this research.

Chapter IV: **Data Presentation and Analysis:** Fourth chapter is the main part of the study, which describes about the presentation and analysis of data, major finding, to find out the appropriate way to the financial literacy and investment decision in Nepalese Stock Market.

Chapter V: **Summary, Conclusion and Recommendations**: Last chapter of the study includes the conclusion. That deals about the main themes of the study and the conclusion of the study with recommendation for improvement. The exhibits, bibliography, and appendixes (questionnaire) are incorporated at end of the study.

CHAPTER-II
REVIEW OF LITERATURE

This chapter this chapter highlights upon the existing literature and research related to the present study with a view to functioning out what had already been explained and how the present research adds to this dimension. Under this research, various books, journals, articles and previous research has been consulted and reviewed.

2.1 Conceptual Review

All securities, whether within the money or capital market, are initially issued in the primary market. This market involves direct participation of companies or governments, where they receive direct benefits from the sale of new securities. Once these securities are traded among individuals, businesses, governments, or financial institutions, they enter the secondary market. Here, securities are likened to "used" or "preowned" items, facilitating transactions among savers and investors. This study focuses exclusively on Initial Public Offerings (IPOs), examining the processes and activities involved in raising funds through the primary market. The operations of the secondary market, significant in merchant banking, are not within the scope of this study. Both primary and secondary markets operate within the broader realms of both capital and money markets.

A literature review serves as an inventory of existing knowledge within a research field. By examining relevant literature, researchers gain insight into the current state of their area of study. Analysis alone cannot adequately present the study framework; reviewing related materials is crucial for providing clarity and establishing the foundational basis of the research.

The term 'investment' typically invokes financial contexts familiar to many. While it often involves substantial sums and large-scale transactions, investments encompass a wide range of opportunities. Investing in the stock market, traditionally perceived as complex but increasingly accessible, is a common avenue. Another popular investment type, particularly in the UK, involves property. Investing in residential properties for rental income is seen as mutually beneficial, albeit requiring significant initial capital or

substantial loans. Similar to stock market investments, property investments are generally considered long-term strategies.

Investment, broadly defined, involves trading current resources for potential future returns, inherently balancing time and risk. It entails allocating saved resources towards potential future benefits, with uncertain outcomes. Investments can be categorized into real assets, such as tangible goods used in production like buildings and machinery, and financial assets, which represent indirect claims to real assets. Financial assets, such as stocks and bonds, are traceable instruments that distribute income or wealth among investors, either directly through financial markets or indirectly through pooled funds. The returns from financial assets derive from the income generated by the real assets they represent.

This study focuses specifically on IPOs within the primary market context, highlighting the foundational role of a literature review in establishing the study's framework. It explores various forms of investments, including stocks and property, underscoring their roles in financial markets and their distinct risk and return characteristics.

A market functions as a platform where goods and services are exchanged, either directly between buyers and sellers or through intermediaries. It is crucial for a market to provide accurate information about prices, transaction volumes from the past, and the current dynamics of supply and demand.

In contrast, a financial market is specifically designed for trading securities. Securities encompass a range of financial instruments such as equities (stocks), bonds, and debentures. Financial markets serve as unified platforms where all participants, including buyers and sellers, converge to engage in trading activities.

The primary role of financial markets is to facilitate the transfer of funds from individuals or entities with surplus funds to those in need of funds. This process efficiently allocates resources by redirecting capital from investors who do not have immediate productive uses for their funds to those who can utilize them effectively.

Financial markets are broadly categorized into money markets and capital markets. The money market deals with short-term debt instruments and marketable securities, facilitating transactions for temporary funding needs. In contrast, the capital market focuses on long-term securities such as bonds and stocks, providing avenues for businesses and governments to raise long-term capital (Gitman, 2003).

In essence, financial markets play a crucial role in enhancing economic efficiency by facilitating the efficient allocation of funds, thereby supporting economic growth and development.

2.1.1 Financial Market

A financial system comprises institutional arrangements that mobilize surplus funds from savers to borrowers or spenders within an economy. It's essential components include financial assets, financial markets, and financial institutions. Financial markets specifically facilitate the mobilization of funds through transactions involving various financial instruments, analogous to goods and services markets but dealing with assets such as currency, deposits, checks, bills, bonds, and debentures.

Financial markets serve as platforms where entities with surplus funds interact with businesses capable of efficiently utilizing those funds. Their primary objective within an economy is to allocate savings effectively over time to parties that either invest in tangible assets or consumer goods and services. Financial intermediaries, such as commercial banks, life insurance companies, and pension funds, play a crucial role in this process by converting direct claims into indirect ones. They acquire primary securities and issue their own securities to investors, thereby facilitating the flow of savings from savers to users of funds indirectly.

Efficient financial markets are essential for ensuring adequate capital formation and promoting economic growth within an economy. They facilitate the orderly transfer of funds to productive businesses and projects (Luckett, 1984).

Financial instruments are pivotal in transferring funds from surplus-spending units to deficit-spending units based on short-term or long-term credit needs. The money market provides short-term credit for working capital requirements, while the capital market

addresses long-term credit needs for acquiring fixed assets. This distinction underscores the critical roles played by both markets in the financial system.

In summary, financial markets are institutional frameworks where financial assets and credit instruments are traded. They facilitate direct transactions between suppliers of loans and investments and borrowers, ensuring transparency and efficiency in fund allocation. Short-term debt instruments are transacted in the money market, while long-term securities such as bonds and stocks are traded in the capital market (Gitman, 1988).

2.1.2 The Capital Market

The capital market (CM) specifically refers to the marketplace where long-term funds are borrowed and lent, facilitating the transfer of capital between lenders and borrowers. This market involves transactions centered on long-term debt or equity instruments such as common stocks, bonds, preferred stocks, and convertible issues. The term "capital" in this context signifies a commitment over an extended period from both the lender and borrower.

In practical terms, the capital market encompasses institutional arrangements that enable the borrowing and lending of long-term funds. Public limited companies require long-term capital to finance their operations and expansion plans, while governments need substantial funds for initiatives like education, healthcare, and defense. Both entities raise funds by issuing various securities, with stock exchanges playing a crucial role in mobilizing these funds within the capital market.

Furthermore, investment institutions, unit trusts, industrial banks, and insurance companies also raise funds through public offerings and, at times, government support, utilizing these funds for long-term investments. Securities traded in the capital market generally have long-term characteristics, with some being perpetual while others have fixed maturity dates. Investment trusts and insurance companies are significant participants in the capital market ecosystem.

In many developing economies, the capital market often lacks organization but plays a vital role in channeling funds from savers to users, given the substantial volume of financial assets involved. The capital market can be divided into two primary segments:

the primary market and the secondary market. The primary market handles the issuance of new securities, facilitating initial offerings, while the secondary market deals with previously issued securities, allowing for their trading and enhancing liquidity (Luckett, 1984).

2.1.3 Primary Market

Securities that are offered for the first time enter the primary markets, where they are originally sold by the issuer directly to the public. Whether the issuer is a newly established company or one with an established history, the primary market serves as the platform for these initial offerings. The volume of new issues in the primary market, particularly common stocks, varies with market conditions. During periods of high or increasing market activity, the number of new offerings tends to rise, while it decreases during low or declining market phases (Weston & Brigham, 1981).

The central entity in the primary market is the investment banking firm, which acts as a traditional intermediary. When a company seeks external funds, especially in developed economies, it typically engages an investment banker. Investment bankers specialize in marketing new securities and advising companies on their structure. One common arrangement is underwriting, where the investment banker agrees to purchase securities from the issuer and then sells them to the public.

In addition to underwriting, many companies opt for private placements of securities. Private placement involves directly selling securities to investors without the involvement of an investment banker. This method is often chosen for its cost-effectiveness and because it avoids the expenses associated with traditional underwriting (Luckett, 1984).

2.1.4 Secondary Market

Securities that have already been issued enter the secondary market, which constitutes the primary arena for trading within the capital market. Unlike the primary market, where proceeds from securities sales benefit the issuer, in the secondary market, these proceeds accrue to the current owners of the securities. This market facilitates transactions among individual and institutional investors alike.

The primary role of the secondary market is to provide liquidity for securities acquired in the primary market. Once investors obtain securities through initial offerings, they use the secondary market to sell them as needed. The secondary market is typically divided into two main categories: the over-the-counter (OTC) market and registered stock exchanges. These segments offer platforms for trading securities subsequent to their initial issuance, allowing investors to buy and sell securities based on market demand and prevailing conditions.

The Over-the-Counter Market

The over-the-counter market (OTC) is a venue where securities not listed on formal stock exchanges are traded. When a company first offers its securities to the public, these securities are typically traded in the OTC market. This market encompasses all transactions in securities that occur outside of registered stock exchanges. In practice, the OTC market is predominantly driven by the activities of dealers and brokers. These entities span a spectrum of sizes, from large firms engaged in global trading to smaller operations focused on local markets (Brigham & Houston, 2001).

The Stock Exchanges

Stock exchanges are organizations composed of members who gather voluntarily to facilitate the trading of securities issued by prominent companies to the public. Only securities that have undergone listing procedures can be traded on these exchanges, where transactions typically operate through auction systems. Membership in these exchanges is open to a broad national market, ensuring accessibility for virtually anyone interested in participating (Luckett, 1984).

Stock exchanges play a crucial role in capital markets by providing a dynamic marketplace for corporate shares and other listed securities. Their primary objective is to enhance the tradability of securities, efficiently allocate investment funds, foster economic growth and wealth creation, and promote maturity, liquidity, marketability, and diversification of investments. The establishment and growth of capital markets through stock exchanges have also contributed significantly to the dissemination of information about various securities, while implementing robust listing criteria that benefit investors.

2.1.5 Capital Market in Nepal

Nepal's capital market history dates back to the founding of Biratnagar Jute Mill in 1936 A.D., which marked the onset of industrial development in the country. Following this, various mills for rice, cotton, and sugar were established. In 1937, Tejarath was established to provide loans to government employees, coinciding with the introduction of the first Industrial Act aimed at promoting the capital market. However, during this period, public participation in industrial ownership was limited, with the majority of shares concentrated among Rana families.

The transition to democracy in 1950 brought renewed efforts to revive struggling industries, although initial focus on developing the capital market was limited. Significant strides were made in establishing institutions and industries during this period. Nepal adopted the Panchayat System in 1960, temporarily sidelining democratic reforms. Government bond issuance commenced in 1964, becoming a significant component of the securities market trading.

A pivotal moment occurred with the announcement of the Industrial Policy in 1974, leading to the establishment of the Securities Marketing Centre. Formed through collaboration between Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC), this institution aimed to mobilize capital for various industries and companies. By 1976, the center evolved into the Securities Exchange Centre (SEC), operating under the Securities Exchange Act from April 13, 1984, marking a shift towards a systematic and regulated securities market environment.

Under interim governments, financial reform efforts included the establishment of the Citizen's Investment Fund, a pioneering institution in Nepal's capital market. Another significant milestone was the formation of NIDC Capital Markets Limited. Nepal transitioned to a market-oriented economic system, prompting structural changes in the SEC. Consequently, in 1993, the Securities Exchange Board of Nepal (SEBO/N) and Nepal Stock Exchange Limited (NEPSE) were established as separate entities at the policy level, reflecting the evolving economic landscape (Shrestha, 1992).

Constituents of Capital Market in Nepal

Nepal's capital market is structured around essential institutions and entities that include the Securities Exchange Board of Nepal (SEBON) and the Nepal Stock Exchange Limited (NEPSE). These organizations play pivotal roles in regulating and facilitating trading activities within the Nepalese securities market. SEBON oversees the regulatory framework, ensuring compliance with securities laws and promoting investor protection. NEPSE serves as the primary platform where securities such as stocks and bonds are bought and sold, providing liquidity and price discovery mechanisms for investors and issuers alike. Together, these components form the backbone of Nepal's evolving capital market infrastructure, supporting economic development and investment opportunities in the country.

Securities Exchange Board of Nepal

The Securities Exchange Board of Nepal (SEBON) was established on May 26, 1993, with the primary objective of protecting and promoting the interests of investors by regulating the securities market. Beyond its regulatory role, SEBON aims to foster the growth of Nepal's securities market. Its responsibilities include ensuring a well-regulated and orderly environment for both primary issuances and secondary trading of securities. SEBON also oversees the protection of investors' interests during public offerings of securities, including mutual funds and trust funds.

SEBON's functions encompass advising the government on matters related to capital market development and investor protection, supervising and approving stock exchanges to ensure the integrity of securities trading, registering and regulating members involved in primary and secondary market activities, and conducting research, training, and educational programs focused on regulatory and developmental aspects of the capital market.

The governing board of SEBON comprises seven members from various sectors, including government and private entities. This includes a chairman appointed by the Government of Nepal for a term of four years. Other board members include a joint secretary from the Ministry of Law, Justice & Parliamentary Affairs, a representative from the Nepal Rastra Bank (NRB), a member from the Institute of Chartered

Accountants of Nepal, a representative from the Federation of Nepalese Chambers of Commerce and Industries, and a market expert appointed by the government.

Stock Exchange Limited

The Securities Marketing Centre was established in 1974 with a specific mandate to manage government bonds. By 1976, it underwent transformation into the Securities Exchange Centre (SEC), assuming responsibilities in facilitating public offerings by corporate entities. There is eighteen years later, in 1993, the SEC further evolved into the Nepal Stock Exchange Ltd. (NEPSE), operating under the Securities Exchange Act as a non-profit organization.

NEPSE's primary mission is to enhance the marketability and liquidity of both government bonds and corporate securities. It achieves this objective by facilitating trading activities through its trading floor, where brokers and market makers act as intermediaries. Prior to its transformation into a stock exchange, the SEC played a central role in the capital market, engaging in brokering, underwriting, managing public offerings, and providing market-making services for government bonds and other financial instruments (Nepal Stock Exchange Ltd., 1994).

On January 13, 1994, NEPSE officially commenced its trading operations, marking the introduction of newly appointed brokers and market makers to its trading platform.

2.2 Theoretical Review

A. Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) stands as a pivotal theory in stock market dynamics, shaping investment strategies by focusing on the level of efficiency within capital markets. Market efficiency, in this context, refers to the ability of markets to accurately and swiftly incorporate new information into security prices. In an efficient market, prices reflect all available information and serve as unbiased estimates of their true investment worth. This means that fundamental factors such as earnings, interest rates, dividend policies, and economic conditions logically determine security prices. Efficiency also implies that investors cannot consistently predict price changes based on known information because such information is already reflected in current prices. Only

new and unpredictable information can lead to adjustments in prices. The hypothesis posits that if price changes were predictable, investors would exploit these patterns to consistently outperform the market, thereby undermining market efficiency (Cheney & Moses, 1992).

According to the Efficient Market Hypothesis (EMH), the price of any stock, whether undervalued or overvalued, is constantly adjusting in response to new information. In an efficient market, the equilibrium price of a security reflects the collective judgment of investors regarding its true value. This ensures that capital is allocated efficiently within the economy based on accurate price signals. Mispriced securities in inefficient markets can lead to suboptimal capital allocation, which negatively affects economic efficiency. Despite the advantages of market efficiency for the economy, it presents challenges for investors seeking to generate profits through investment strategies. The perceived randomness of stock prices in efficient markets highlights the effectiveness of market mechanisms. Efficient markets facilitate the flow of capital to businesses that can use it most effectively, thereby promoting economic growth. They ensure that well-managed and innovative enterprises receive adequate financing while redirecting resources from less productive ventures. Efficient capital markets are crucial for a country's economic development, fostering wealth creation, improving welfare, and expanding educational opportunities. In contrast, inefficient capital markets, often found in underdeveloped countries, may suffer from fixed or manipulated prices, restricted capital flow, and a lack of investor trust, all of which impede economic progress (Bhalla, 1997).

The Efficient Market Hypothesis (EMH) categorizes market efficiency into three forms: weak form, semi-strong form, and strong form. According to the weak form, historical prices provide no useful information for predicting future stock prices, suggesting that stock prices follow a random walk. The semi-strong form posits that all publicly available information, including fundamental and technical analysis, is rapidly and accurately reflected in stock prices. Therefore, investors cannot consistently achieve superior returns through these analyses. In contrast, the strong form of the EMH asserts that all information, whether public or private, is immediately and accurately incorporated into stock prices, implying that no investor can consistently outperform the market.

Valuation plays a critical role in financial management, where the reliability of market prices as indicators of value is influenced by market efficiency. Financial managers utilize various models to assess the value of stocks. For instance, the Net Asset Value (NAV) model calculates shareholders' equity by subtracting liabilities from assets and dividing by outstanding shares. The Dividend Discount Model (DDM) and Price-Earnings (P/E) ratio model are also employed to estimate intrinsic value based on expected dividends and earnings growth (Alexander et al., 2003). These valuation models assist financial managers in making informed decisions regarding investment opportunities and asset allocation.

C. Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM) is a cornerstone in financial economics, aimed at predicting the relationship between the risk and expected returns of risky assets. Initially proposed by William F. Sharpe, who received the Nobel Prize in Economics in 1990 for his work, CAPM is grounded on several simplifying assumptions.

These assumptions include the idea that investors are similar in all respects except for initial wealth and risk tolerance. They operate under conditions where they focus on maximizing the expected utility of their terminal wealth by selecting among portfolios based on expected return and standard deviation. Additionally, all investors can borrow or lend unlimited amounts at a risk-free rate (denoted as KRF), and there are no restrictions on short selling any asset. Furthermore, investors hold identical expectations regarding the expected returns, variances, and co variances among all assets, implying homogeneous expectations across the market.

CAPM also assumes perfect divisibility and liquidity of all assets, no transaction costs or taxes, and that investors are price takers meaning their individual buying and selling decisions do not influence stock prices. The model concludes that the riskiness of an individual stock is best measured by its contribution to the overall risk of a well-diversified portfolio. The remaining risk after diversification, known as market risk, represents the systematic risk inherent in the market, which can be quantified by how closely a stock's price movements align with those of the market as a whole.

2.3 Empirical Review

2.3.1 Review of Journal and Articles

Ahmad and Wu (2022) conducted a study examining the impact of herding behavior on investment management and perceived market efficiency in an emerging market context, specifically focusing on the Pakistan Stock Exchange (PSX). The research adopts a deductive approach within the framework of behavioral finance to elucidate how herding behavior influences investment decisions and market efficiency perception among individual investors. Using a questionnaire and employing a cross-sectional design, the study collected data from 309 investors actively trading on the PSX. Data analysis was conducted using SPSS and AMOS software, employing structural equation modeling (SEM) to test hypotheses. The findings reveal significant insights: herding behavior negatively affects perceived market efficiency and investment performance, while positively influencing individual investors' decision-making processes. This research contributes novel empirical evidence on the relationship between herding behavior and investment management practices, particularly in an emerging market like Pakistan. It underscores the behavioral aspects influencing investment decision-making, shedding light on how herding behavior shapes perceptions of market efficiency. Importantly, the study fills a gap in the literature of behavioral finance, which has been predominantly explored in developed economies with limited attention in developing countries.

Kong et al. (2022) conducted a study focusing on the impact of economic policy uncertainty (EPU) on firm investment decisions, examining Chinese A-share listed companies from 2007 to 2019. The research explores how varying levels of EPU influence firms' investment efficiency and scale, highlighting implications for both macro and local economic uncertainties. The findings indicate that macro EPU tends to restrain firms' investment scale and efficiency, contributing to the potential risks of either overinvestment or underinvestment. On the other hand, local EPU tends to expand firms' investment scale but also exacerbates the risk of inefficient investment outcomes. Specifically, macro EPU is found to promote firms' investment in research and development (R&D) while hindering green investment initiatives. Conversely, local EPU inhibits R&D spending but encourages green investments. Moreover, the study reveals

that macro EPU significantly impairs firms' overall business performance, whereas local EPU has a comparatively lesser impact in this regard. These insights underscore the importance of stable macroeconomic policies to mitigate uncertainty effects. Additionally, firms are encouraged to optimize their investment strategies and enhance risk management frameworks in uncertain economic environments. This research contributes valuable empirical evidence on how economic policy uncertainty influences firm investment decisions, providing practical implications for policymakers and firms aiming to navigate and mitigate the challenges posed by uncertain economic conditions.

Jains and Lakshmi (2023) conducted a study investigating the impact of investment inefficiency on expected returns within Indian firms, many of which are characterized by a promoter and family-owner-dominated ownership structure. This unique ownership dynamic often exacerbates the agency problem, particularly the conflict of interest between majority and minority shareholders. This prompted the researchers to explore how investment inefficiency, defined as the deviation from optimal investment levels based on firms' characteristics, influences the ex-ante measure of expected returns, specifically the implied cost of capital. Their findings reveal a positive relationship between investment inefficiency and expected returns. This conclusion was drawn from baseline results derived using pooled ordinary least squares (OLS) estimation and robustness tests conducted using a two-step generalized method of moments (GMM). The study's sample comprises listed firms in India over the period from 2016 to 2021. This research contributes significant insights into the financial dynamics of Indian firms, shedding light on how deviations from optimal investment levels impact expected returns, thereby enriching understanding in the realm of corporate finance and investment decision-making.

Albagli et al. (2023) investigated the impact of imperfect financial markets on investment inefficiencies, particularly focusing on the consequences of noisy information aggregation in decision-making. Their study delves into how market imperfections create endogenous rents, leading to overinvestment in situations where upside risks is prominent and simultaneous underinvestment in scenarios involving downside risks. In a partial equilibrium framework, these inefficiencies are notably exacerbated when investments can easily scale up, especially in contexts where upside risks are prevalent. The study

highlights that such conditions can lead to suboptimal allocation of resources, where firms may overly commit to projects with high upside potential while neglecting investments that mitigate downside risks. Moreover, in a general equilibrium context, the collective actions of shareholders aiming to enhance individual firm values introduce a novel externality through pricing mechanisms. This externality can amplify investment distortions associated with downside risks but counteract distortions related to upside risks. This dual effect underscores the complex interplay between market dynamics, risk perception, and investment efficiency in imperfect financial environments. Albagli et al.'s research contributes valuable insights into the broader implications of market imperfections on investment behavior, shedding light on how noise in information aggregation can lead to suboptimal decision-making and resource allocation in financial markets.

Mohammad and Salhy (2023) conducted a quantitative study focusing on the Economics of Behavioral Finance and its impact on investment decisions among residents of the Kurdistan Region of Iraq during the period 2020-2022. The research aimed to analyze how behavioral biases and levels of financial education influence investment choices among 200 regional investors. Using regression analysis, the study explored the relationship between behavioral biases, financial literacy, and investment decisions. It was found that investment choices in the region were significantly affected by behavioral biases such as loss aversion and overconfidence. Additionally, investors with higher levels of financial education showed reduced susceptibility to these biases, indicating a positive influence of financial literacy on investment behavior. The statistical analysis confirmed the significance of these relationships, with a p-value of less than 0.05. Overall, the research highlights the substantial impact of cognitive biases on investment decisions in Iraqi Kurdistan. It underscores the importance of financial education in mitigating the effects of behavioral biases and promoting informed investment choices. The study suggests that enhancing financial education initiatives could improve investment behavior and reduce the adverse effects of biases, thereby benefiting regulators, financial institutions, and individuals seeking to expand financial inclusion and economic development in the region.

Almansour et al. (2023) conducted a study exploring the influence of behavioral finance factors on investment decisions in the Saudi equity markets, with a focus on the mediating role of risk perception. While traditional finance theory assumes market efficiency and rational decision-making, behavioral finance contends that psychological and emotional factors can affect stock prices and investment choices. The research utilized an online questionnaire distributed among 150 individual investors, of which 134 responses were analyzed using structural equation modeling (SEM). The study identified several key findings: herding behavior, disposition effect, and blue chip bias significantly enhance investors' perception of risk. Overconfidence was found to positively influence investment decision-making directly, but not risk perception. Importantly, risk perception itself was significantly linked to investment decision-making, indicating its mediating role between behavioral finance factors and investment choices. This study, conducted in the cultural context of Saudi Arabia, underscores the specificity of behavioral finance impacts in different cultural settings. It acknowledges limitations such as the focus on specific behavioral factors and the potential existence of other influential variables affecting risk perception and investment decisions. Overall, the findings emphasize the critical role of understanding risk perception in investment behavior. They suggest that investors and financial advisors should be mindful of behavioral biases such as herding and overconfidence, as these can significantly affect risk perceptions and ultimately impact investment outcomes. The study calls for tailored strategies from policymakers and advisors to mitigate these biases and enhance investment decision-making effectiveness.

Laili et al. (2024) conducted an analysis using the Capital Asset Pricing Model (CAPM) to evaluate investment decisions in shares of PT Mustika Ratu and PT Multi Indocitra, both listed on the Indonesian Stock Exchange (IDX) during the period of 2022. The study aimed to assess the profitability and risk associated with these investments and categorizes shares as efficient or inefficient within the cosmetics sub-sector. The research focused on utilizing astute information exploration and processing by prospective investors as crucial decision-making tools affecting future risk and profitability outcomes. The qualitative approach employed in the study involved quantitative data sources such as recent stock prices, interest rates, and the Indonesian Sharia Stock Index

obtained from authoritative sources including the official websites of the Indonesian Stock Exchange, Yahoo Finance, and Bank Indonesia. By applying the CAPM methodology, the study aimed to provide insights into the relative efficiency of shares within the cosmetics industry, thereby assisting investors in making informed investment decisions based on rigorous financial analysis and market data. This approach underscores the importance of robust quantitative methods in evaluating investment opportunities, particularly in dynamic sectors like cosmetics listed on the IDX.

Mokni et al. (2024) investigated the efficiency dynamics and influencing factors in the crypto currency market, focusing on Bitcoin and Ethereum. Unlike previous studies that primarily explored time evolution in market efficiency without delving into driving factors, this research aimed to address this gap comprehensively. The study utilized daily data spanning from August 7, 2016, to February 15, 2023, employing the Adjusted Market Inefficiency Magnitude (AMIMs) measure and quintile regression analysis. It revealed varying levels of market efficiency over time for Bitcoin and Ethereum. Interestingly, the quintile regressions underscored that global financial stress consistently decreased the AMIMs measures across all quintiles. Additionally, crypto currency liquidity exhibited a positive and significant impact on AMIMs regardless of market efficiency levels, whereas money flow's positive effect was significant specifically during periods of high efficiency in both crypto currencies. Moreover, the study highlighted the COVID-19 pandemic's notable positive impact on crypto currency market inefficiencies across most quintiles, indicating a significant external influence on market dynamics during crisis periods. These findings contribute valuable insights into understanding the complexities of crypto currency market efficiency and its sensitivity to global financial conditions and external shocks like the COVID-19 pandemic.

Lam et al. (2024) conducted a study focusing on the relative importance of behavioral finance factors in the investment decisions of real estate investment trusts (REITs) in Australasia. Grounded in theories of behavioral finance and normative decision-making models, the research aimed to ascertain the significance of heuristic biases compared to conventional decision factors in shaping investment choices within REITs. A triangulation approach was employed, beginning with qualitative multiple case studies involving four selected Australian and New Zealand REITs across the industry. The case

studies identified several behavioral heuristic biases that influenced investment decisions, including investor sentiment, anchoring factors, and overconfidence. These factors were found to be as influential as normative decision factors in shaping investment judgments. However, the heuristic availability of information did not significantly impact experienced REIT fund managers. The findings were derived from expert review surveys involving six frontline fund managers, providing a foundational understanding that suggests further research should expand to encompass a broader range of REITs across Australasia to enhance the robustness and applicability of the results. The study underscores the importance of awareness among REIT fund managers regarding significant behavioral biases, particularly investor sentiment, which emerged as the most influential factor. By highlighting the relative significance of behavioral factors in property investment decisions within Australasian REITs, the research aims to guide fund managers toward more rational investment practices and enhance market efficiency. Furthermore, extending the study's scope to include both Australia and New Zealand contributes to broader insights beneficial for the entire Australasian real estate investment market.

2.2.2 Review of Previous Thesis

Paneru (2023) conducted a study on stock market efficiency and the determinants of investment decisions in Nepal. The research aimed to assess both weak and semi-strong forms of market efficiency in the Nepal Stock Exchange (NEPSE) and investigate the influence of weekends on stock returns. The study also explored investor decision-making processes, focusing on four key variables: earnings announcements, dividend announcements, insider information, and intrinsic stock value. The sample comprised 86 active investors in NEPSE who participated in a questionnaire survey. Additionally, secondary data from 20 NEPSE-listed companies, including commercial banks, development companies, finance companies, and microfinance institutions, were analyzed. The methodology included event study techniques using three models: the mean-adjusted return model (MAR), the market-adjusted model (MKRM), and the risk-adjusted model (RAR) to evaluate semi-strong form efficiency. Non-parametric tests (run and autocorrelation tests) were used to assess weak form efficiency, and regression analysis with dummy variables was employed to analyze the weekend effect. The

findings indicated that the Nepalese stock market is weak form efficient but not semi-strong form efficient, implying that abnormal returns cannot be reliably expected by investors. However, exceptions were noted for certain companies: NMBMF was found to be not weak form efficient, while SCB and MNBBL exhibited semi-strong form efficiency based on the MAKR and RAR models. Primary data analysis revealed that only two variables, intrinsic value (IV) and earnings announcements (EV), significantly influenced investor decisions. Dividend announcements (DA) and insider information (II) showed no significant impact. Furthermore, the study found no evidence of a weekend effect in the Nepalese stock market. These findings provide important insights for investors, policymakers, and brokerage firms in Nepal, offering a basis for further research and strategies to enhance market efficiency and investor decision-making processes.

Suresh (2021) investigated the Impact of Financial Literacy and Behavioral Biases on Investment Decision-making. The study focused on how investors' financial literacy affects their investment decisions and how various behavioral biases, including heuristic bias, framing effect, cognitive illusions, and herd mentality, collectively influence decision-making processes. The research employed a questionnaire using Likert scaling to gather data on the study variables, which were then analyzed using Structural Equation Modeling (SEM). The findings revealed that heuristic bias exhibited a significant positive correlation with the formation of behavioral biases in decision-making. In contrast, the framing effect, cognitive illusions, and herd mentality showed negative associations with the development of behavioral biases. The study also highlighted that investors tend to rely more on heuristic biases than other irrational techniques when making investment decisions. Consequently, the level of financial literacy among individual investors emerged as a crucial factor influencing their decisions in the stock market. In conclusion, Suresh's study underscores the importance of understanding both financial literacy and behavioral biases in shaping investment decision-making processes, providing valuable insights for investors aiming to mitigate the impact of biases and enhance their investment strategies.

Acharya (2022) conducted an Empirical Study on Behavioral Factors Influencing Individual Investors' Decision Making in the Nepal Stock Exchange. Despite centuries of

financial study, behavioral finance, which integrates human behavior into financial decisions, represents a relatively recent area of exploration. Behavioral finance theories, rooted in psychology, seek to understand how emotions and cognitive biases impact the behaviors of individual investors. The research titled "Behavioral Factors Influencing Investment Decision Making: An Empirical Study of Nepal Stock Exchange" aims to explore the influence of behavioral biases on investors' decision-making processes. The study incorporates a comprehensive theoretical framework and reviews relevant literature, encompassing both theoretical and practical studies in the field. Methodologically, the study adopts a quantitative approach where a structured questionnaire was designed and distributed among a sample of 400 individual investors active in the Nepal Stock Exchange. Out of the targeted respondents, 204 usable responses were analyzed. The reliability of the data was assessed using Cronbach's Alpha, which ranged from 0.68 to 0.806, indicating high reliability. The findings of the study indicate that a significant proportion of investors (36.7%) are motivated by bonuses and dividends, while 33.8% engage in short-term trading. The correlations between investment decision-making and various behavioral biases such as Regret Aversion Bias (0.721), Loss Aversion Bias (0.765), Representativeness (0.730), Price Anchoring (0.738), and Overconfidence (0.613) were found to be strong and positive. Furthermore, the regression analysis revealed that the model including these variables is statistically significant at a 95% confidence level, with an R-squared value of 0.905. This indicates that 90.5% of the variation in investment decisions among investors in the Nepal Stock Exchange can be attributed to the combination of regret aversion bias, loss aversion bias, representativeness, price anchoring, and overconfidence. In conclusion, Acharya's study underscores the critical role of behavioral biases in shaping investment decisions, highlighting the need for investors and financial professionals to be aware of these biases to make more informed and rational investment choices.

Shakya (2021) conducted an analysis on Behavioral Biases of Stock Investment Decisions among Nepalese Investors. The research aimed to explore how behavioral biases influence the investment decisions of Nepalese investors, emphasizing the irrational aspects of human behavior in the context of financial decision-making. Behavioral finance, as a discipline, highlights how cognitive biases impede investors

from achieving complete rationality when making investment decisions, particularly in situations involving uncertainty and risk. The study specifically focused on four main behavioral biases: anchoring, overconfidence, disposition effect, and herding behavior. These biases are known to significantly impact investors' decision-making processes by influencing their perceptions of risk and their propensity to follow market trends or hold onto losing investments. Conducted exclusively among investors within selected business sectors in the Kathmandu Valley over a limited timeframe, the study employed a specific set of analytical tools to assess the effects of these behavioral biases on individual investment decisions. The findings of the study underscore the importance of understanding and mitigating these biases to enhance investment decision-making among Nepalese investors. Furthermore, the study suggests avenues for future research, including expanding the scope to analyze the impact of behavioral biases on group or corporate investment decisions. Future studies could also explore additional behavioral biases that may exert unique influences on individual investment decision-making processes. In summary, Shakya's research contributes valuable insights into how behavioral biases manifest in stock investment decisions among Nepalese investors, highlighting the need for further exploration and strategies to mitigate their impact for more informed decision-making.

Bhatta (2019) conducted a study on the perception of investors towards Initial Public Offerings (IPOs) in Nepal, critically analyzing various factors influencing investor decisions. The research found significant correlations among factors such as Quality Management, Company Goodwill, Company Performance, Company Sector, and Market Information, indicating their collective impact on investor perceptions during investment decision-making. Notably, Company Goodwill emerged as the most influential factor, with a mean value of 1.5655 ± 0.18, followed closely by Company Performance and Market Information. The study revealed that the majority of IPO investors in Nepal are male, indicating a dominant male presence in the share market. Additionally, investors predominantly belong to the age group of 25 to 40 years, characterized as active and risk-tolerant compared to other age groups. Educational qualifications of investors mostly include bachelor's degrees, with a significant proportion holding master's degrees or higher. Financially, the study noted that most investors tend to invest amounts less than

ten thousand units in IPOs, reflecting a cautious approach. Investors generally possess a required level of awareness regarding IPOs, viewing them as relatively risk-free investments. The analysis highlighted a strong positive correlation ($r = 0.719$, $p = 0.000$) between consideration of Company Goodwill and investment decisions, underscoring its pivotal role in influencing investor choices in the primary market. In conclusion, Bhatta's research underscores the importance of factors such as Company Goodwill, Company Performance, and Market Information in shaping investor perceptions towards IPO investments in Nepal. The findings provide valuable insights into investor demographics, behaviors, and attitudes, suggesting avenues for enhancing investor education and market participation.

Dangol (2017) conducted a study focusing on investors' perceptions of market efficiency in Nepal. The research employed a structured questionnaire to investigate how equity investors perceive market efficiency in the country. The study targeted three specific groups of informed investors through judgmental sampling: (1) academicians, particularly university teachers, (2) chartered accountants, and (3) corporate officials. According to the findings, Nepalese investors generally acknowledge the existence of weak form and semi-strong form market efficiency, but they reject the notion of strong form market efficiency. Specifically, they believe that stock prices reflect historical price information and publicly available news promptly (weak form), as well as all publicly available information including financial statements and announcements (semi-strong form). However, they do not believe that stock prices fully reflect all insider information (strong form). The study highlighted dividend announcements as significant market-moving news in the Nepalese share market, emphasizing the importance investors place on such information. Additionally, the research found that Nepalese investors do not adhere to the dividend irrelevant theory; instead, they recognize the dividend signaling effect, suggesting that dividends convey valuable information about a company's financial health and prospects. An intriguing insight from the study was that Nepalese investors' investment decisions are primarily driven by their confidence in their personal ability to outperform the market, regardless of their beliefs about market efficiency. This indicates a strong influence of overconfidence bias in their decision-making process. In summary, Dangol's study provides valuable insights into how Nepalese investors

perceive market efficiency and the factors influencing their investment decisions, contributing to the understanding of behavioral dynamics in emerging market contexts like Nepal.

2.4 Research Gap

Over the past decades, the financial markets have faced unforeseen economic turbulence that has significantly impacted stock returns. This study aims to analyze how the Nepalese stock market reacts to both tangible and intangible information, and explores investors' perspectives on issues affecting the market.

The study identifies several factors influencing investment decisions in the Nepalese capital market. Firstly, the capital structure and average pricing method play crucial roles in shaping investor decisions. Secondly, political developments and media coverage exert significant influence on market dynamics. Thirdly, investors' beliefs in luck and their level of financial education also impact their investment choices. Lastly, trend analysis emerges as another important factor influencing stock market movements.

The research underscores the importance of both tangible (quantifiable data) and intangible (non-quantifiable factors such as beliefs and perceptions) information for success in the Nepalese capital market. The study was conducted with a focus on the Kathmandu district, which hosts a substantial number of investors. Convenience sampling was employed to ensure the collection of accurate, reliable, and valid data from local investors.

This study fills several research gaps in the field. Firstly, it addresses the complexity introduced by the COVID-19 pandemic, which has significantly altered market dynamics globally. Secondly, it focuses on the equity market within Nepal, an area less explored compared to mutual funds, portfolio management, and insurance investment decisions. Thirdly, it extends beyond the Kathmandu Valley to examine investment behaviors in other regions of Nepal. Lastly, it considers the evolving technological landscape, highlighting the shift towards digital platforms for investment transactions like demat accounts, mero share, C-ASBA, and ASBA.

This research provides valuable insights into the factors influencing investment decisions in the Nepalese equity market, contributing to a deeper understanding of local investor behavior and market dynamics amidst changing economic and technological landscapes.

CHAPTER-III
RESEARCH METHODOLOGY

This chapter elucidates the research design employed in this study, essential for comprehending the topic and gathering pertinent data through appropriate techniques. It commences with outlining the research plan and design, detailing the population and sample selection criteria. Additionally, it addresses the procedures for data collection, specifies the instruments used for data gathering, and provides insights into the tools and techniques employed for data analysis. This chapter serves as a comprehensive guide to the research methodology employed in the study.

3.1 Research Design

The study relies on primary data and information gathered from investors. It employs a descriptive and causal-comparative research design to investigate investors' perceptions towards initial public offerings (IPOs). Specifically, the study examines 150 investors within Kathmandu District. These methods were deemed suitable as the research aims to explore cause-and-effect relationships among various variables related to IPO perceptions. The data collected is meticulously presented and analyzed utilizing SPSS software.

3.2 Population and the Sample of Study

The term used to describe the large group under study is the population. Due to the size of this group, gathering detailed information from every member can be challenging. Instead of examining each individual, a smaller subset known as the sample is selected to represent the entire population. Sampling involves drawing conclusions about the entire population based on this representative subset.

This research focuses on understanding investors' perceptions towards initial public offerings (IPOs) within the Nepalese context, specifically targeting investors in Kathmandu District. The aim is to gauge public response to IPOs in Nepal. There are a total of 50 brokers registered with the Nepal Stock Exchange (NEPSE) who facilitate

transactions in the securities market. From these brokers, 150 small-scale investors within Kathmandu Valley have been chosen, actively engaged in buying and selling shares.

In this study, all investors within Kathmandu District are considered the population, with a sample size of 150 selected using convenience sampling technique. Convenience sampling involves selecting samples that are readily available, without applying judgment or probabilities. Prior to data collection, the questionnaire was pre-tested to ensure its effectiveness, and the study primarily utilizes descriptive research methods.

3.3 Nature and Sources of Data

This study relies on primary data to fulfill its specific objectives, gathered through a structured questionnaire survey method. Various types of primary data sources exist, including interviews, observations, experiments, and questionnaires. In this research, the questionnaire survey method was chosen to explore investors' perceptions towards Initial Public Offerings (IPOs) in Kathmandu District. Data collection for the study involved administering a questionnaire designed on a 5-point rating scale, ranging from 1 for "Strongly Agree" to 5 for "Strongly Disagree." This scale was used to gather responses from participants regarding their views and opinions on IPOs in the context of Kathmandu District.

3.4 Questionnaire

The structured questionnaire was distributed via email for this study. This method allowed for both the delivery and collection of questionnaires electronically, ensuring that researchers could verify the completeness of responses and minimize instances of missing data. Additionally, it provided an opportunity for researchers to clarify any queries respondents might have had about the questionnaire, thereby enhancing the overall quality of the data collected.

3.5 Data collection procedure

The data required for this research is sourced primarily from primary sources, gathered through online means. The collection method employed for obtaining the data was a questionnaire distributed to respondents located within Kathmandu district. Once the primary data was collected, it was organized and presented in tabular form. The analysis

of the data involved utilizing software such as SPSS and Microsoft Excel, along with various statistical tools to ensure comprehensive analysis and interpretation.

3.6 Data analysis methods

Various statistical tools such as mean, median, standard deviation, and correlation were employed to analyze and interpret the data collected from primary sources. SPSS was utilized for processing and analyzing the collected data. The data were initially organized using tabulated frequency distributions within the SPSS software. Subsequently, correlation analysis was performed to assess the strength of relationships among the variables.

Analysis involves a meticulous examination of available facts to derive conclusions based on established principles and sound logic. The data collected from primary sources were tabulated, categorized, and analyzed using appropriate statistical and financial tools. The questionnaires also included open-ended questions to gather qualitative insights.

Comparative analysis was conducted using percentages, graphs, and charts to illustrate the findings effectively. The statistical tools employed facilitated the presentation of comparative results in a clear and meaningful manner.

Percentage

Percentages are widely used as a tool to compare quantities or variables. Essentially, the term "percentage" refers to parts per hundred. It represents a fraction where the denominator is always 100, and the numerator of this fraction indicates the rate or proportion being measured as a percentage. This allows for straightforward comparisons between different values by expressing them in relation to a common base of 100.

Correlation analysis

Correlation is a fundamental statistical measure that assesses the strength of the relationship between variables. It quantifies how changes in one variable relate to changes in another. When two or more variables are correlated, it means that variations in one variable tend to correspond with variations in another variable. However, correlation does not indicate causation; it merely indicates the degree of association between variables. Correlation coefficients range between -1 and +1. A correlation coefficient of

+1 signifies a perfect positive correlation, where an increase in one variable consistently accompanies an increase in another. Conversely, a correlation coefficient of -1 indicates a perfect negative correlation, where an increase in one variable aligns with a decrease in the other. When the correlation coefficient (r) approaches zero, it suggests a weak relationship between variables, meaning changes in one variable do not significantly affect changes in the other. Thus, correlation analysis provides valuable insights into how variables are related but does not imply that changes in one variable cause changes in another.

Regression Analysis

Regression analysis encompasses a set of statistical techniques designed to explore and quantify the relationships between a dependent variable and one or more independent variables. It serves two main purposes that are conceptually distinct.

Firstly, regression analysis is extensively utilized for prediction and forecasting. In this context, it shares common ground with machine learning techniques, aiming to predict outcomes based on historical data patterns. By fitting a regression model to observed data, analysts can make informed predictions about future trends or values of the dependent variable.

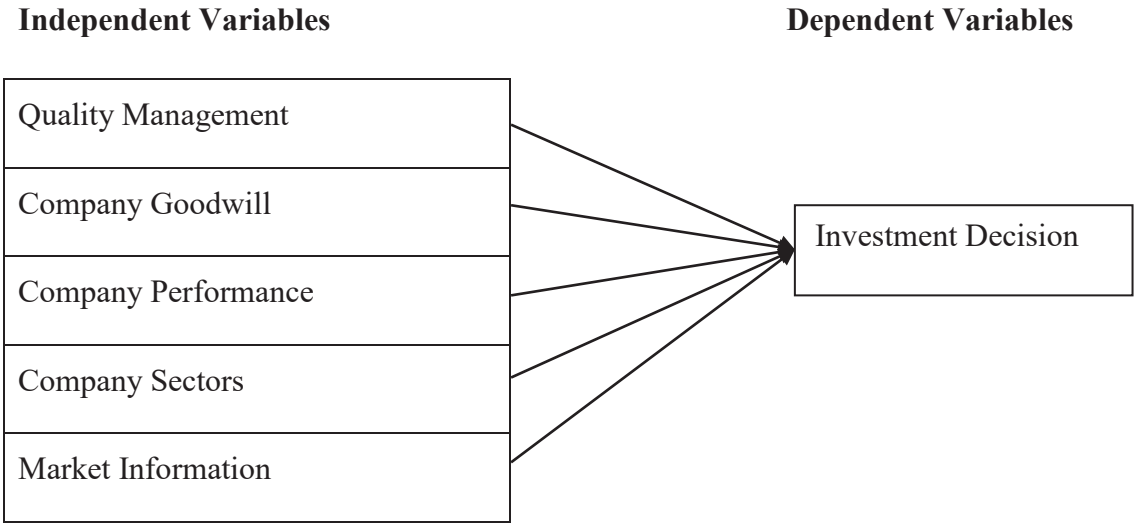
Secondly, regression analysis can also be employed to investigate potential causal relationships between independent and dependent variables. While correlation measures the degree of association between variables, regression analysis can provide insights into whether changes in independent variables lead to changes in the dependent variable. This causal inference, however, requires careful consideration of other factors and assumptions, such as controlling for confounding variables and ensuring the validity of the model assumptions.

Regression analysis serves as a versatile tool in statistics, aiding both in predictive modeling and in exploring potential causal relationships between variables in empirical research.

3.7 Research Framework and Definition of Variables

A conceptual framework is a graphical or diagrammatic representation that visually illustrates the anticipated relationships between causes and effects within a financial context. It is alternatively referred to as a conceptual model or research model. This framework incorporates various variables and depicts the hypothesized relationships among those variables, reflecting the expected outcomes based on theoretical underpinnings. In essence, a conceptual framework provides a structured way to outline the interconnections and dependencies between different factors or variables in a financial scenario, helping to clarify the theoretical foundations and expected pathways of influence within a study or research project.

Conceptual Framework



(Sources: Gnawali, 2022)

Figure 1: Research Framework

Terms used

Quality management

Quality management is the act of overseeing all activities and tasks that must be accomplished to maintain a desired level of excellence. This includes the determination of a quality policy, creating and implementing quality planning and assurance, and quality control and quality improvement.

Company Goodwill

Goodwill is an intangible asset that accounts for the excess purchase price of another company. Goodwill is calculated by taking the purchase price of a company and subtracting the difference between the fair market value of the assets and liabilities.

Company performance

Company performance is a combination of both the financial and non-financial aspects of an organization. These aspects gauge how well a company is executing their business strategy and can be looked at to identify areas for improvement.

Company sectors

Company sector is an area of the economy in which businesses share the same or related business activity, product, or service.

Market Information

What is conveyed or represented by a particular arrangement or sequence of things." genetically transmitted information"

Investment decision

It relates to as how the funds of a firm are to be invested into different assets, so that the firm is able to earn highest possible return for the investors.

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

This chapter includes data presentation and analysis. The data and information collected from the respondents are presented and analyzed according to response of respondents. All the questionnaires are distributed and collected by the researcher own self. The collected data are analyzed using different tools and techniques. Results found from the analysis are systematically presented and carefully interpreted or explained in the following sections.

4.1 Nature of the Respondents

Respondents are taken from Kathmandu valley as a random sampling method. The tenure of the respondents in their respective gender, age, occupation, is presented in the following manner.

The 1 shows that out of 408 individuals surveyed, 234 were male and 174 were female. The majority of individuals fell into the age group of 36-45, with 115 individuals (28.2%) falling into this category. The most common level of education was high school, with 144 individuals (35.3%) having this level of education. The largest occupation group was government employer, with 154 individuals (37.7%) falling into this category. The most common investment amount was in the range of 30-50 thousand, with 157 individuals (38.5%) investing in this range.

Over half of the individuals surveyed (54.4%) applied for a public offer, while 45.6% did not. Only 45.1% of individuals opened a Demat account. The most common reason for investment was for dividend purposes, with 139 individuals (34.1%) citing this reason.

Based on the result from Figure 4.1 the analysis of gender shows the highest percentage was found in males with a result of 57.35 percent as the major respondents in this research and 408 respondents whereas females have 42.65 percent. It can be concluded that the majority of respondents were male (57.35 %).

Table 1

Respondent profile

Variables	Component	Frequency	Percent
Gender	Male	234	57.4
	Female	174	42.6
	Total	408	100
Age Group	18-25	116	28.4
	26-35	84	20.6
	36-45	115	28.2
	46-59	66	16.2
	60+	27	6.6
Education	High School	144	35.3
	Bachelor degree	121	29.7
	Master degree	77	18.9
	Doctoral degree	66	16.2
	Total	385	100
Occupation	Business	46	11.3
	Student	140	34.3
	Government Employer	154	37.7
	Private employer	68	16.7
	Total	408	100.0
Investment amount	1-10 thousand	46	11.3
	10-30 thousand	116	28.4
	30-50 thousand	157	38.5
	50 thousand and above	89	21.8
	Total	408	100
Apply IPO	Yes	222	54.4
	No	186	45.6
	Total	408	100
Open Demat	Yes	184	45.1
	No	224	54.9
	Total	408	100
Reason for Investment	Liquidity	46	11.2
	Dividend Purpose	139	34.1
	Capital Gain	121	29.7
	Quick Return	102	25.0
	Total	408	100

(Source: Field Survey, 2024)

Based on the result from figure of which investigates the age level, where the highest percentage was the age of 18-25 years old at 28.43 percent, followed by age of 36-45 years, which was 28.19 percent. Similarly, the age of 26-35 years was 20.59 percent o. The aged 46-59 years old were 16.18 percent and the lowest percentage is the aged above

60+ years old at 6.62percent, respectively. It can be concluded that the majority of respondents were age group 18-25 (28.43%).

The results of educational level in percentage and frequency. Based on the result, the highest percentage was for High School, which has 35.29 percent respondents, followed by Bachelor's Degree, which has 29.66 percent respondents. Similarly, the Master's Degree has 18.87 percent respondents and the Doctoral degree has the lowest percentage of 16.18 respondents. It can be concluded that the majority of respondents were in high school (35.29%). The table 1 discloses that 34.31 % of the respondents are involved in students, similarly both 11.27 % of respondents are business sectors and16.67% respondents are private employer but 37.75% of the respondents are government job. It can be concludes that most of respondents response for student and government employer highest investment on Primary Market.

It was shows that the 28.4% of the respondents' verdicts on them invest Rs.1-10 thousand in Primary Market. However 20.6% of the respondents said that, they invest in Primary Market and the amount range are Rs.10 to 20 thousand, comparably 28.2% of the respondents are invest in Primary Market the range aboutRs.20 to Rs. 30 thousand just as 16.2% of the respondents are invest bulk amount likely to the range have Rs. 30 to Rs.50 thousand, and 6.6% of the respondents are said that above Rs50 thousand.

The final conclusion shows that, the small skill investors are very high in Nepalese share market in current scenarios likely to they invest in IPO within the range amount is Rs.1 to 10 thousand investment in Primary Market.

4.2 Descriptive Analysis

Descriptive statistics are employed to analyze the data gathered from respondents during research. In this analysis, we present frequency distributions for each service dimension, which serve as our dependent variables. Furthermore, we include essential metrics such as minimum, maximum, mean, and standard deviation for each dimension. Ratings for these factors were assessed on a scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Table 2

Descriptive Analysis

Variables	QM	CG	CP	CS	MI	ID
Average (Mean)	3.96	4.13	3.78	3.91	3.95	3.99
Std. Deviation	0.955	1.019	1.170	1.078	1.126	1.030
C.V.	0.124	1.027	1.028	1.056	1.047	1.045
Minimum	1.780	31.54	12.30	22.27	56.10	62.10
Maximum	2.14	61.82	1.76	83.95	62.20	102.92

Quality management is an independent variable in this study, focusing on three key factors that influence investment decisions: QM1: legitimacy of company, QM2: Founder CEO, and QM3: Human resources. Table 2 presents descriptive data on how investors perceive these quality management factors in the context of secondary market investments. All factors are rated above 3 on a scale from 1 to 5, indicating significant consideration given by investors to quality management when making such investments.

Specifically, the mean values for QM1 and QM2 are 3.96 and 3.91, respectively, which are higher than the mean value of 3.66 for QM3. Notably, the standard deviation for QM3 (1.114) is greater than that for QM1 (0.955) and QM2 (0.948), suggesting higher variability in responses regarding human resources compared to the other factors.

Overall, the average mean value across all three factors is 3.84, underscoring the importance that investors attribute to quality management when deciding to invest in both secondary and primary markets.

4.3 Correlation Analysis

Pearson the relationship between several independent and dependent variables related to the research is ascertained using correlation analysis. Any two variables' linear connection with one another is measured. This analysis was conducted on variables with straightforward multiple-choice responses. To evaluate the strength or degree of link between the research variables, a correlation matrix was created. A positive correlation indicates that the link is directional, with one increasing in response to a rise in the other.

A negative correlation, on the other hand, shows the opposite of the above: an increase in one whiles the other declines.

Table: 3

Pearson's correlation matrix

Variables		ID	QM	CG	CP	CS	MI
ID	Pearson Correlation	1	.266**	.442**	.393**	.117*	.407**
QM	Pearson Correlation		1	.204**	.374**	.134**	.292**
CG	Pearson Correlation			1	.224**	.166**	.257**
CP	Pearson Correlation				1	-.035	.403**
CS	Pearson Correlation					1	-.024
MI	Pearson Correlation						1

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

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

Source: correlation using SPSS

Table 3 presents the correlation coefficients and their significance levels among six variables: investment decision, quality management, customer goodwill, company performance, industry sector, and market information.

The Investment Decision variable has a positive and significant correlation with Consumer Goodwill ($r = 0.442$, $p < 0.01$), Consumer Performance ($r = 0.393$, $p < 0.01$), and Market Information ($r = 0.407$, $p < 0.01$). It also has a moderate positive correlation with Quality Management ($r = 0.266$, $p < 0.01$). However, its correlation with Company Sector is not statistically significant ($r = 0.117$, $p > 0.05$).

The Quality Management variable has a positive and significant correlation with Consumer Goodwill ($r = 0.204$, $p < 0.01$), Consumer Performance ($r = 0.374$, $p < 0.01$), and Market Information ($r = 0.292$, $p < 0.01$).

The Consumer Goodwill variable has a positive and significant correlation with Consumer Performance ($r = 0.224$, $p < 0.01$) and Market Information ($r = 0.166$, $p < 0.01$).

The Consumer Performance variable has a positive and significant correlation with Market Information ($r = 0.403$, $p < 0.01$). However, its correlation with Investment Decision is not statistically significant ($r = -0.035$, $p > 0.05$).

The Company Sector variable has a weak and not significant correlation with any of the other variables in the table (all $p > 0.05$).

The Market Information variable has a positive and significant correlation with Investment Decision ($r = 0.407$, $p < 0.01$), Quality Management ($r = 0.292$, $p < 0.01$), and Consumer Goodwill ($r = 0.166$, $p < 0.01$). It also has a positive and significant correlation with Consumer Performance ($r = 0.403$, $p < 0.01$).

4.4 Regression Analysis

Regression analysis is limited to determining whether there is a strong link between two variables. Regression analysis, which is used in statistical modeling to focus on the relationship between a dependent variable and one or more independent variables, is a statistical procedure for estimating the relationship among the variables.

The results of a correlation analysis can only indicate whether there is a significant association between two variables. However, even if a correlation coefficient shows that two variables have a strong association. It is used to create predictions and describe the nature of relationships. To determine the link between dependent and independent variables, linear regression analysis was used.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.685[a]	.469	.450	1.03215

a. Predictors: (Constant), MI, CS, QM, CP, CG

Table 4 presents a summary derived from a likely regression analysis, possibly linear regression. It includes key metrics used to evaluate the model's fit and explanatory power the coefficient of determination (R), often referred to as R, indicates how much of the variance in the dependent variable (outcome) can be explained by the independent

variables (predictors). Here, R is 0.685, suggesting that approximately 68.5% of the variance in the dependent variable is accounted for by the independent variables. R Square (R^2) is the square of the correlation coefficient (R) and represents the proportion of the variance in the dependent variable that is explained by the independent variables. The value of R^2 is 0.469, indicating that 46.9% of the variance in the dependent variable is explained by the independent variables. Adjusted R Square is a modification of R^2 that adjusts for the number of predictors in the model. It penalizes the inclusion of irrelevant predictors and aims to provide a more accurate reflection of the model's explanatory power.

In this study, the adjusted R square is 0.450, which signifies the proportion of variance in the dependent variable explained by the independent variables after accounting for the model's complexity. These metrics collectively gauge how effectively the independent variables predict the variation in the dependent variable, offering insights into the model's overall fit and its ability to explain the outcomes under investigation. Model Accuracy of the study that the Std. Error of the Estimate shows that the standard deviation of the residuals, which are the differences between the observed and predicted values. In this case, it is 1.03215, providing a measure of the accuracy of the model's predictions. The predictors included in the model are listed as (Constant), MI, CS, QM, CP, and CG. These are likely independent variables used to predict the dependent variable. Overall, the model appears to have moderate predictive power, as indicated by the R^2 value. The adjusted R square is slightly lower, suggesting that some predictors may not be contributing significantly to the model. The interpretation of the coefficients for each predictor (MI, CS, QM, CP and CG) would provide more insights into their individual contributions to the dependent variable.

Table 5

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	135.427	5	27.085	25.424	.000[b]
	Residual	153.407	144	1.065		
	Total	288.833	149			

a. Dependent Variable: ID

b. Predictors: (Constant), MI, CS, QM, CP, CG

Table 5 provides an ANOVA (Analysis of Variance) summary of the regression analysis conducted. It outlines several key statistics to assess the significance and explanatory power of the regression model. The Regression Sum of Squares (SS) quantifies the total variability in the dependent variable (ID) explained by the regression model. In this instance, the regression sum of squares is 135.427. Degrees of Freedom (df) indicates the number of predictors in the model, which in this case is 5, corresponding to MI (Market Information), CS (Company Sector), QM (Quality Management), CP (Consumer Performance), and CG (Consumer Goodwill). Mean Square (MS) is obtained by dividing the sum of squares by its degrees of freedom. It represents the average variability explained by each predictor. Here, it is 27.085. The F-statistic (F) is the ratio of the mean square for regression to the mean square for residuals. It tests whether the overall regression model is statistically significant. The F-statistic reported here is 25.424.

The Significance (Sig.) level, indicated by the p-value associated with the F-statistic, determines whether the regression model is statistically significant. A low p-value (typically below 0.05) suggests that the model is significant. In this case, the p-value is very low (0.000), indicating strong statistical significance. The residual Sum of Squares represents the unexplained variability in the dependent variable not accounted for by the regression model, which here is 153.407.

The Total Sum of Squares combines the regression sum of squares and the residual sum of squares to represent the total variability in the dependent variable. In this case, the total sum of squares is 288.833.

The Total Degrees of Freedom is the total number of observations minus one, which is 149 in this analysis. The dependent variable analyzed here is ID, and the predictors included in the model are listed as (Constant), MI, CS, QM, CP, and CG.

Overall, the regression model is highly statistically significant (p-value<0.05), indicating that the predictors (MI, CS, QM, CP, and CG) collectively contribute significantly to explaining the variability in the dependent variable (ID). The F-statistic of 25.424 confirms that the variance explained by the model is significantly greater than the unexplained variance.

Table 6

Regression Coefficient Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.609	0.281		2.169	0.005
	QM	0.052	0.052	0.045	1.004	0.005
	CG	0.320	0.044	0.314	7.252	0.000
	CP	0.221	0.048	0.217	4.623	0.000
	CS	0.076	0.044	0.072	1.717	0.041
	MI	0.227	0.046	0.227	4.968	0.000

Sources: Calculation of using SPSS version 26

The table 6 provides information on the unstandardized and standardized coefficients for each predictor variable. The unstandardized coefficient (B) represents the change in the outcome variable associated with a one-unit increase in the predictor variable, while holding all other variables constant. The standardized coefficient (Beta) represents the change in the outcome variable associated with a one-standard deviation increase in the predictor variable, while holding all other variables constant.

The table also provides information on the statistical significance of each predictor variable, as indicated by the t-statistic and associated p-value (Sig.). A smaller p-value indicates that the predictor variable is more strongly associated with the outcome variable.

In this table, the constant term (i.e., the intercept) has a coefficient of 0.609, which means that the predicted outcome value when all predictor variables are equal to zero is 0.609.

Consumer Goodwill has the highest unstandardized coefficient of 0.320, which indicates that for every unit increase in Consumer Goodwill, the dependent variable also increases by 0.320 units. Similarly, Market Information also has a significant coefficient of 0.227, indicating that it has a positive relationship with the dependent variable.

Quality Management, on the other hand, has a low coefficient of 0.052 and is not significant at the 0.05 level. This suggests that there is no significant relationship between Quality Management and the dependent variable. Company Sector also has a low coefficient of 0.076 and is not significant at the 0.05 level, indicating that it may not be a strong predictor of the dependent variable.

Consumer Performance has a coefficient of 0.221, which suggests that it has a positive relationship with the dependent variable, and is significant at the 0.05 level. Overall, the results suggest that Consumer Goodwill and Market Information are strong predictors of the dependent variable, while Quality Management and Company Sector are relatively weak predictors. Consumer Performance falls somewhere in between.

4.5 Major findings

The research conducted revealed that there is a positive correlation between various criteria and investment decisions. Nevertheless, personal factors such as gender, education, and individual characteristics have a significant impact on investors' satisfaction with their investments.

- The average mean scores for the various factors affecting investment decisions in investing secondary Marketing are: 3.74 for quality management, 3.59 for consumer performance, and 3.84 for company sector, 3.61 for investment decision, and 3.54 for market information.
- Legitimacy of the company, founder CEO, and human resource value are important factors for investors when making investment decisions in investing, with average mean scores of 4.13, 3.87, and 3.47, respectively.

- Investors consider earning per share (EPS) and return on investment (ROI) to be important factors when making investment decisions in investing with average mean scores of 3.77 and 3.60, respectively.
- Investment in insurance companies is considered the most favorable company sector for investing investment; with an average mean score of 3.91.Comment on media, future prediction and forecast, and past performance are all important factors for investors when making investment decisions in investing secondary Market with average mean scores of 3.50, 3.48, and 3.63, respectively.
- There is a significant positive correlation between Consumer Goodwill and Investment Decision ($r = 0.442$, $p < 0.01$).
- There is a significant positive correlation between Consumer Performance and Investment Decision ($r = 0.393$, $p < 0.01$).
- Quality Management and Company Sector are weaker predictors of Investment Decision in the regression model (Beta = 0.045, $p > 0.05$; Beta = 0.072, $p > 0.05$, respectively).
- The overall R-squared value of the regression model is 0.450, indicating that the predictors explain 45% of the variance in Investment Decision.
- The intercept term in the regression model is also significant ($B = 0.609$, $p < 0.05$), suggesting that there are other factors not included in the model that are also influencing Investment Decision.

The study mentioned in the original prompt found that the quality of management in an organization influences investment decisions (Gnawali & Niroula, 2021). This is consistent with previous research that has identified management quality as an important factor in investment decisions (e.g., Kim & Le, 2020; Kacperczyk & Schnabl, 2013).

Investors may assess management quality in a variety of ways, including analyzing the leadership team's experience, evaluating the company's governance structure, and reviewing financial statements and disclosures (Kim & Le, 2020). Additionally, investors may look for evidence of the management team's strategic vision and ability to execute on that vision (Kacperczyk & Schnabl, 2013).

The study also found that the sector of the company has a positive and significant association with investment decisions. While previous research has identified specific sectors that are more attractive to investors (e.g., insurance, hydropower, microfinance, and banking), this study found that the sector itself is an important factor in investment decisions (Adhikari, 2017; Gnawali & Niroula, 2021; Gnanwali & Niroula, 2021). This suggests that investors may be more likely to invest in companies in certain sectors due to perceived growth potential or other factors.

Investors may consider a range of factors when evaluating the attractiveness of a sector, including market trends, regulatory environment, and competitive landscape (Garcia-Feijoo et al., 2017). Additionally, investors may look for opportunities to diversify their portfolio by investing in companies across multiple sectors (Malkiel, 2020).

The study's finding of a positive association between market information and investor decision-making is consistent with previous research (Gnawali &Niroula, 2021; Vakil, 2018). Investors may use a variety of sources to gather market information, including financial news websites, social media, and professional networks (Garcia-Feijoo et al., 2017). Companies can enhance their market information by providing timely and accurate financial disclosures, as well as engaging with investors through channels such as earnings calls and investor conferences (Gnawali & Niroula, 2021).

Finally, the study's finding of a favorable but significant association between investment decisions and company goodwill and performance is consistent with previous research (Khatri, 2017; Srinivas & Rao, 2017). Investors may evaluate a company's goodwill and performance based on factors such as brand reputation, customer satisfaction, and financial performance (Garcia-Feijoo et al., 2017). Companies can enhance their goodwill and performance by investing in customer service, product innovation, and operational efficiency (Khatri, 2017).

In conclusion, this study and previous research suggest that investors consider a range of factors when making investment decisions, including management quality, sector, market information, and company goodwill and performance. Companies can enhance their attractiveness to investors by demonstrating strong leadership, operating in attractive sectors, providing accurate market information, and maintaining strong goodwill and

perform an Overall, the research established that the independent variable being investigated displays both significant and insignificant associations with investment decisions.

CHAPTERE V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter, which includes a summary of the research, a conclusion, and consequences of the study three sections, serve as a summary of the entire chapter. The initial One gives a general review of the research findings and the investigation. The following portion derives the study's conclusion, and the third section makes a few suggestions recommendations.

5.1 Summary

This study's main goal was to learn more about how investors perceive and are aware of initial public offerings Primary and Secondary Market. Similar to that study, this one looks at the variables that influence investors' Primary and Secondary Market investing decisions. Among the many elements that can five criteria, including quality management and firm performance, might persuade investors to purchase an initial public offering Primary and Secondary Market.

The text focuses on the factors that influence investors' decisions to invest in initial public offerings Primary and Secondary Market investing. The study looks at variables such as quality management, firm performance, goodwill, and market information, which can persuade investors to purchase a Primary and Secondary Market investing. Data was collected from 408 investors through a questionnaire, and statistical analysis was conducted on the data.

The study found that each variable evaluated had an impact on investors' investment decisions. The importance of the capital market in providing long-term assets for businesses was highlighted, with Primary and Secondary Market investing being a key mechanism in the primary market. The Nepalese capital market was also examined, which is relatively new but contributes to the growth of the country's financial system.

The capital market offers funds for long-term asset improvement, which is essential for companies. In contrast, money markets offer short-term solutions. Primary and Secondary Market investing are when institutions issue their securities to the general

public to raise funds for the first time. They are a significant opportunity for companies to raise capital in the primary market mechanism.

The study reveals that the Nepalese capital market is a relatively new concept, but it contributes to the growth of the country's financial system. The stock market is an essential component of the capital market, and it plays a vital role in the development of the country's economy.

Overall, the study highlights the importance of factors such as quality management, firm performance, and market information in influencing investors' decisions to invest in Primary and Secondary Market investing. Additionally, the capital market is crucial for companies to obtain long-term assets, and Primary and Secondary Market investing are a key mechanism in the primary market. The Nepalese capital market is still in its early stages but has the potential to contribute significantly to the growth of the country's economy.

5.2 Conclusion

The main aim of the research study was to improve investor perceptions regarding Nepal's initial public offerings (IPOs) and investments across Primary and Secondary Markets. Upon critical analysis, all elements and their respective sub-factors were observed to be interconnected and influential in shaping investor perceptions of investment decisions. Notably, factors such as Quality Management, Company Goodwill, Company Performance, Company Sector, and Market Information exhibited significant correlations with each other and played crucial roles in influencing investor decision-making.

Quality Management was positively correlated with investment decisions, as were Consumer Goodwill, Consumer Performance, and Company Sector. Investors placed considerable emphasis on factors such as the legitimacy of the company, the role of the founder CEO, and the value of human resources when making investment decisions in both Primary and Secondary Markets. Metrics such as Dividend Premiums, Earnings Per Share (EPS), and Return on Investment (ROI) were identified as pivotal considerations for investors assessing Consumer Performance.

Investor preferences varied across different industry sectors, with insurance companies emerging as the most preferred among the options studied. It was evident that investors do not view IPOs as risk-free or guaranteed profit-making ventures. Media commentary and future forecasts had minimal influence on investor decisions for Primary and Secondary Market investments, whereas past performance held greater importance.

In conclusion, the study emphasized that Quality Management, Consumer Goodwill, Consumer Performance, Company Sector, and Market Information collectively wield substantial influence over investment decisions in Nepal's Primary and Secondary Markets. Furthermore, the research highlighted that investors do not view investments in these markets as entirely risk-free or guaranteed paths to financial gains. Additionally, factors such as the company's credibility, the impact of the founder CEO, and the perceived value of human resources were identified as pivotal factors influencing investment decisions in these contexts.

5.3 Recommendations

The study provides insights into the factors that influence investors' decisions to invest in initial public offerings primary and secondary market investing.

- It highlights the importance of factors such as company goodwill, performance, market information, and quality management in investors' decision-making process.
- The results suggest that companies looking to issue Primary and Secondary Market investing need to focus on building and maintaining a good reputation, strong performance, and providing reliable market information to attract investors.
- The study can be useful for companies, issue managers, regulatory bodies, students, and researchers who are interested in the primary and secondary market investing market.
- It can help these stakeholders to better understand the psychology of primary investors and make more informed decisions about primary and secondary market investing investments.

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Appendix

Questionnaire

Dear Respondent,

I am Biddhya KC from Shankar Dev Campus, Tribhuvan University. I am pursuing Master of Business Studies with Finance as major. As a part of the MBS study, I am conducting a research entitled "Financial Literacy and Investment Decision in Nepalese Stock Market". As an investor in stock Market, you are humbly requested to fill this questionnaire. This study is carried out purely for academic purpose and the information given will be treated with confidentiality and for only the purpose of this study. Your response and time is greatly appreciated.

1. What is your Gender?

a. Male

b. Female

2. In which age group do you lie?

c. Below 30 Years

d. 30-40 years

e. Above 40 Years

3. What is your academic qualification?

a. Undergraduate

b. Graduate

c. Master

4. Please mention your Positions or Responsibility:

a. Directors

b. Manager

c. Assistant Manager

d. Officer

e. Charter Accountant

f. Others

5. How long is your Professional experience? (in year)

a. Below 5 years

b . 5 to10 years

c. Above 10 years

S.N.	Factor	Answer				
		1	2	3	4	5
A.	**Quality Management**					
1.	Do you consider that legitimacy of company affects in your investment in stock market?					
2.	Do you consider that founder CEO affects in your investment of stock market?					
3.	Do you consider that human resource value affects in your investment in stock market?					
B.	**Company Goodwill**					
1.	Do you consider that historical background will affect while investing in stock market?					
2.	Do you consider that age of company affects in your investment in stock market?					
3.	Do you consider that current financial position affecting in your investment in stock market?					
C.	**Company Performance**					
1.	Do you consider that dividend premium matter more for your investment in stock market?					
2.	Do you consider that earning per share (EPS) make investors to invest in stock market?					
3.	Do you consider that return on investment (ROI) make investors to invest in stock market?					
D.	**Company Sectors**					
1.	Do you consider that investment in banking sector of stock market is better?					
2.	Do you consider that investment in insurance company of stock market is better?					
3.	Do you consider that investment in hydropower company of stock market is better?					
E.	**Market Information**					
1.	Do you consider that comment on media affects in your investment in stock market?					
2.	Do you consider that future prediction and forecast affect your investment in stock market?					
3.	Do you consider that the past trend of stock market, while investing in stock market?					
F.	**Investment decision**					
1.	Do you conclude that individual invested have more risk in stock market investment?					
2.	Do you consider those stock market is risk free from of investment?					
3.	Do you consider that stock market is guaranteed way of making money?					

Thank You!

FINANCIAL LITERACY AND INVESTMENT DECISION IN N...

By: Biddhya K.C

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CHAPTER-I INTRODUCTION 1.1 Background of the Study Investors play a critical role in the economy by directing their savings into different sectors, aiming to maximize wealth while minimizing risks. Recently, there has been a growing awareness among individuals about making wise investment choices. Many are dissatisfied with traditional options like bank fixed deposits due to their low interest rates, which often fail to keep pace with inflation, resulting in negative real returns. As a result, people are increasingly looking towards more lucrative sectors such as industry, trade, services, and banking, which offer better potential returns. Investments can take various forms, including loans, equity investments, or holding stocks. Essentially, investing involves postponing current consumption to build future wealth, with the goal of achieving financial objectives over the investment horizon. Deciding to invest is a pivotal decision due to the uncertainties surrounding future wealth. Time and risk play crucial roles in shaping investment choices, often pulling investors in different directions. Investors tend to prefer certain investment options over others based on how well these options align with their risk tolerance and expected returns. Returns from investing in stocks, for instance, typically come from dividends and capital gains, both of which are uncertain and subject to market fluctuations. This necessitates navigating an unpredictable market environment. In contrast, safer investments such as treasury bills or savings certificates carry lower risks compared to stocks. Despite the higher risks associated with stocks, many investors are drawn to them in hopes of future price appreciation. The intrinsic value of a stock can theoretically be determined through analysis of publicly available financial data. However, in reality, investors often do not thoroughly analyze financial statements before investing in stocks. Ideally, the market price of a stock should converge towards its theoretical value, which is derived using various valuation models. In recent years, investing in businesses in Nepal has grown increasingly risky due to the country's unstable economy, inflation, governmental instability, and historical challenges such as Maoist insurgency and political turmoil. The Nepalese stock market reflects significant volatility, prompting cautious consideration among potential investors. This heightened perception of risk encourages individuals to explore safer alternatives like gold, savings deposits, or to opt for immediate consumption rather than investment. This study aims to provide insights to investors by utilizing concepts from the Capital Asset Pricing Model (CAPM), aiding in informed decision-making. Investment options encompass a wide range of choices through which individuals can allocate their funds for profitable purposes. These include tangible investments like gold, silver, bank deposits, stocks, mutual funds, insurance, government securities, real