

**EXPECTATIONS AND PREFERENCES OF INVESTORS ON
FINANCIAL SECURITIES IN NEPAL**

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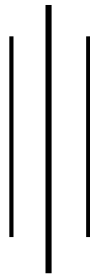
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*In partial fulfillment of the requirements for the degree of
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July, 2014

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

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Entitled:

**EXPECTATIONS AND PREFERENCES OF INVESTORS ON FINANCIAL
SECURITIES IN NEPAL**

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

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VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

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SECURITIES IN NEPAL**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the

Degree of Master’s in Business studies (M.B.S.)

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled “**EXPECTATIONS AND PREFERENCES OF INVESTORS ON FINANCIAL SECURITIES IN NEPAL**” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of **Rita Maskey**, Assoc. Prof., Shanker Dev Campus.

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ABBREVIATIONS

CDM	Central Department of Management
CIT	Citizen Investment Trust
F/Y	Fiscal Year
MBS	Master of Business Studies
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
OTC	Over the Counter
SEBON	Security Board of Nepal
SEC	Securities Exchange Commission
TU	Tribhuvan University
WTO	World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Market is an institution set up by society to allocate the resources that are scarce relative to the demand for them. Markets are the channels through which buyers and sellers meet to exchange goods, services and resources. In economic system market can be classified into three types viz. factor market, product market and financial market. Factor markets are markets where factor of production are exchanged. Product markets are the markets where goods and services are exchanged. Financial markets are an institutional mechanism created by society to channel savings and other financial services to those individuals and individuals willing to pay for them. In financial market, the financial system fulfills its various roles through markets where financial claims and financial services are traded. These markets may be viewed as channels, through which moves a vast flow of funds that is continually being drawn upon by demanders of funds and continually being replenished by suppliers of funds.

The flow of funds through the financial markets may be divided into many segments, depending on the characteristics of financial claims being traded and the need of different investors. The financial system comprises all the financial institutions, financial markets, procedures and practices adopted in these markets and the financial instruments which facilitate the transfer of funds from surplus-spending units to deficit-spending unit. It is customary to classify financial markets are:-1. Capital market and money market. 2. Primary market and secondary market. One of the most important divisions in the financial system is in between money market and capital market. The thesis mainly concerns with the financial instruments, investors' preferences and investment.

A real or virtual document representing a legal agreement involving some sort of monetary value. In today's financial marketplace, financial instruments can be classified generally as equity based, representing ownership of the asset, or debt based, representing a loan made by an investor to the owner of the asset. Foreign exchange instruments comprise a third, unique type of instrument. Different subcategories of each instrument type exist, such as preferred share, equity and common share equity.

In Nepal investment are being in order to maximize the value of their securities. Investment alternatives are not so wide, so most of the investors are concentrated upon few securities. In Nepal real assets, precious metals and collections are other investment alternatives for investment. Bond, debentures, preference shares, convertible securities, treasury bills are the available securities. Right share and ripo agreement also exercises in Nepal. Investors determine their appropriate securities by analyzing the features of securities and their own objectives. Investors give preferences to the securities by matching their objectives and trend to respond investor's expectations.

Preferences in the financial market are the outcome of investors' awareness and maturity of the market. Both primary and secondary market is creeping in their infancy in Nepal. Only one stock exchange was owned by government up to one decade of its establishment. There are only 23 brokerage firm and 181 listed companies in Nepal stock exchange. The primary market is also not so efficient due to lack of investment alternatives. Primary issues of bank and financial institutions are being oversubscribed by many times. Regulating agencies SEBON, NEPSE has given full authority to regulate the market but are not so effective. Rules and regulations are not so appropriate to promote and develop a sound capital market.

Nepalese financial market is in infancy as compared to other south Asian neighbors. The overall share market index is not being consistent near thousand in Nepal. Industrial development is so behind which determines the development of the financial market. Investors are not so aware about investments. In lack of knowledge

Nepalese share market is dominated by signaling rather than analysis of firm, industry and overall economy. Investor's preferences and expectations are diversified. According to the nature of financial instrument, investors prefer different securities. Investors have their own expectation according to companies' performance, trend and economic estate. The concerned companies are not fulfilling investor's expectation in proper way.

Financial market helps the organization to raise the required fund by selling their financial assets as security. The buying and selling of securities helps the nation by channeling the money in capital market. Financial market is both market place and a process where long term as well short term securities are sold in order to fulfill their capital investment by companies. Financial instruments are the securities which are used to raise fund. Investment is sacrificing of current money in expectation of future return. Financial instruments use to have their own features. Investor chooses certain securities for their certain objectives. Investor's preferences and expectation makes the security popular and attractive. Usually most of the companies issues popular securities to easily subscribe them in market. Public also demand popular security. This demand and supply of security channels the public money from saving to capital. Company gets the capital need and the investors get the investment need from investment process. Investors always want to be assured that the money should be available back whenever need and the money should grow at desired level.

This study was concentrated upon Nepalese financial market, available financial instruments, and investor's expectations from the securities. This study will also concentrate upon availability of securities, investors' preference on securities and companies' response upon investors' expectations.

1.2 Statement of the Problem

Investors have various expectations and preferences which are determined by their objectives. Usually investors choose wealth maximization as their objectives. Furthermore they like to invest to meet contingent cash need. The objectives of investors is determined by need, age, income, occupation, time horizon, liquidity need etc. The available information helps investors to choose and give preferences to the securities. To subscribe the chosen security issuing company should find out the investors expectation and preferences. In Nepal bond, debentures, common stock, treasury bills, saving deposit and their certificates and convertible securities are available as financial instruments. Bank and financial institution, insurance companies, producing processing and trading companies, hotels, hydropower, and telecommunication companies are available as companies to invest. On the other hand government bond and treasury bills are available as government securities. Certificates of deposits and repurchase agreement can be used for financing but cannot be traded in secondary market. Common stock is most popular and dominating securities in Nepalese secondary as well primary market. Most of the common issues are being oversubscribed by more than 20times. The banks and financial institutions have become the first choice of investors. Investors are expecting more from banks and financial institutions. More than 50% transactions of stock exchange are being dominated by banks and finance.

Banks and financial institutions and their common stocks are most preferred in Nepal. The main issue is that why the common share is most popular in trading? Why commercial banks have remained first choice in trading? What are the investor's expectations to run behind the banks and financial institutions? Are the investor's expectations being fulfilled by concerned companies? Taking all above into considerations this study will focus on the following problems.

1. Which instrument is dominating Nepalese capital market?
2. How much Nepalese investors are aware about all available investment alternatives?

3. What is the investor's attitude about risk of their investment?
4. Which is the most dominating investment sector and investment instrument?
5. What are the investor's expectations from their investment?
6. How the companies being able to fulfill the investor's expectations?

1.3 Objectives of the study

The main objective of the study is to examine the investors to the financial instruments and to find out their expectation that they buy securities. Some specific objectives have also made as follows:

1. To study and analyze the state of investment in financial instruments.
2. To examine the investor's preferences of different financial instruments.
3. To examine the investor's expectations to choose certain instruments and certain companies.
4. To find out whether the companies are able to fulfill the investor's expectations or not.

1.4 Significance of the Study

The research is very useful to all the parties who are involved in securities business person, market makers, broker, investors, financial analyst who are involved in stock market as it provide guideline to stock market and helps investors to take proper investment decision. Security issuing company and merchant banking company also can take benefit from it because it helps to know them about investor's preferences and expectation about security and security issuing company. Investors are the major part of the security market so their need and expectations should be identified. Fulfillment of investor's expectations always stimulates them to participate actively in investment activities.

Researcher academicians, students, and policy makers may also be benefited from this study as it give some practical insight that can be very useful to turn the theoretical knowledge into practice.

1.5 Limitations of the study

Today world is dynamic, everything existing here are of limited character. Every principle rule and formula and conditions are applied within the limitations likewise, this study cannot escape from limitations the study is confined only to investor's preferences to financial instruments. Following factors have limited the scope of this study.

1. The scope of the study is limited within the frame work of financial instruments used in Nepalese financial market. It has not considered other investment alternatives available in investment environment.
2. The study is focused on capital market and money market instruments.
3. Institutional investors are not taken into consideration.
4. The validity of data are depend upon the published sources.
5. The validity of results depends upon accuracy of response because this study is heavily depends upon primary data.
6. The study covers the data up to 2012/13 only.

1.6 Organization of the study

The study incorporates five chapters as follows.

Chapter I: Introduction: First chapter is the introductory part of the research consists general background, statements of problems, objectives of the study, significance of the study and limitations of the study.

Chapter II: Review of literature: Second chapter is related to review of related literature that covers the review of national international literature related to financial instruments, investor's preferences and expectations.

Chapter III: Research methodology: This chapter the research guidelines consists of research design, population and sample, data collection sources and procedure and data analysis tools are outlined with detailed purpose.

Chapter IV: Data presentation and analysis: In this chapter available data will be presented in appropriate format and data will be analyzed to show available financial instruments, investors preferences on available instruments, investor's expectation form security and company. Findings from analysis will also be presented in this chapter.

Chapter V: Summary, conclusion and recommendation: Fifth chapter is the concluding part of the research covers summary of the study, conclusion of the study and recommendations for further improvement.

Finally, bibliography and appendices have been also incorporated.

CHAPTER II

REVIEW OF LITERATURE

This part of the study includes review of past literature that helps creating theoretical framework for the study. To attain this purpose this chapter incorporates conceptual review which includes review from national international journals and existing research papers. It includes also an overview of Nepalese financial market and security market and existing investment environment; and empirical review which consists of review of previous researches done in the same topic.

2.1 Conceptual Framework

All the theoretical concepts regarding financial market, financial instruments or investment alternatives, financial market arrangements in Nepal, investment and investment objectives, investors preferences and expectations and other related issues.

2.2 Financial Market and Financial Instruments

The financial system fulfills its various roles through markets where financial claims and financial services are traded. These markets may be viewed as channels through which moves a vast flow of funds that is continually being drawn upon by demanders of funds and continually being replenished by suppliers of funds.

Market is simply defined as an area for potential exchanges. Thus market is a group of buyers and sellers interested in negotiating the terms of purchase or sales of goods and services.

Similarly, financial market is that market is traded- loaned or borrowed-in-terms of different financial assets or instruments stocks and bonds are traded. "Securities" means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government by a notification published in the Nepal Gazette or

receipts relating to deposits of securities as well as rights and interest relating to securities (Security Exchange Act, 1983). Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buying and selling orders that flow from investors' demand and supply preferences determine the price of securities in the security market. It plays a significant role in bridging gap between the deficit and surplus units of society. The common stock, preferred stock, debentures and government securities are mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stock is traded through NEPSE. The government securities are also important securities, which are issued by Nepal Government through Nepal Rastra Bank (NRB). "Financial assets or simply a security is only a piece of paper that represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. These rights are transferable to another investor and with it will go all its rights and conditions. So, it is just a legal representation of the rights to receive prospective future benefits under stated conditions" (Alexander, 1998).

Financial market is the common floor that helps creating the trade of financial securities. The major purpose of financial market is to transfer funds from lenders to borrower. They are the intermediary link in facilitating the flow of funds from savers to investors. Financial market is defined as a market mechanism that allows people to buy and sell financial securities, currencies, and foreign exchanges or other exchangeable items of value at low transaction cost and prices reflecting an efficient market system. Financial markets like any other general or specialized market places interested sellers in one place thus making their task easier to find for prospective buyers. The financial market could signify trading in financial products or the raising of capital. The relevant financial market in both the cases would be the stock exchange which facilitates trade in stocks, bonds and warrants. Financial markets can also mean money market which provide for short term debts and investment as well as derivatives markets providing instruments for the management of financial risk.

Financial market is used interchangeably with capital markets which may be primary or secondary depending in nature newly issued or existing securities. In financial markets parlance, world financial market or global financial markets is of key importance as it is a compendium of resources for financial markets worldwide including those of those of the developed and the developed and the developing countries. In this context, it can be added that, development of the financial markets into smooth and efficient body is one of the basic features for overall development of the nation. Participants in the financial market commonly distinguish between the capital market and money market, former referring to borrowing and lending for long term investment purpose and the latter term generally referring to borrowing and lending for periods of a year or less (Vishwanath, 2003).

Generally assets can be real and financial. Real assets can be tangible or intangible. Plants, machinery, office, factory, furniture and building, precious metals are examples of tangible assets while technical knowhow; technological collaborations, patents and copyrights are intangible assets. Generally, real asset possess productive capacity and are less liquid in comparison to financial assets. The capital formation is the direct outcomes of this productive investment .Financial Assets or Instruments are cash, evidence of an ownership interest in an entity, or a contractual right to receive, or deliver, cash or another financial instrument. Financial instruments can be categorized by form depending on whether they are cash instruments or derivative instruments: Cash instruments are financial instruments whose value is determined directly by markets. They can be divided into securities which are readily transferable and other cash instruments such as loans and deposits where both borrower and lender have to agree on a transfer. Derivatives instruments are financial instruments which derive their value from the value and characteristics of one or more underlying assets. “Financial Assets or Instruments are pieces of paper representing an indirect claim to real assets held by someone else. These pieces of paper represent debt or equity commitments in the form of IOUs (written document providing evidence to debt) or stocks certificates” (Thapa 2003).

Because of the divisibility, marketability and availability of the information financial asset is getting much more popular now a days. The investor's decision is always guided by his/her own preference over the investment instruments. The preference of investors guide their decision in which to invest and in which to not. Various factors influence on investor's preference to make a choice or investment alternative, this study will focus on them.

2.2.1 Money Market and Instruments

The money market is the financial market for short term borrowing and lending. Money market deals with short instruments having maturity of less than one year. It provides short term liquidity funding for the financial system. The money market is where short term obligations such as treasury bills, commercial paper and bankers acceptances are bought and sold. The money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods of time, typically up to thirteen months. Money market trades in short-term financial instruments commonly called “Papers”. This contrasts with the capital market for longer-term funding, which is supplied by bond and equity. The core of the money market consists of banks borrowing and lending to each other, using commercial paper, repurchase agreements and similar instruments. Money markets are used to facilitate the transfer of short term funds to those with deficient funds. Money market deals with the short term financial needs. Here the investors find the instruments with the maturity of short period, usually less than a year. Such instruments which have maturities within one year are referred to as money market securities/ instruments (Madura, 1998).

Money market instruments used to be of following characteristics

-) All debt typed.
-) Maturity of one day to one year.
-) High degree of liquidity.
-) High degree of safety or low interest rate risk and issued by highly creditworthy organizations.

Money market does not operate by itself. In fact, the actual operation of money market instrument depends on using a wide variety of money market instruments. The characteristics of the various money market instruments that agree in common are low default risk, short-term to maturity and high marketability. Financial claims are supported by the given money market instrument characteristics. Thus, the money market instrument include among all-Treasury Auction, Treasury Bills, Commercial Paper, Banker's Acceptance, Certificate of Deposit (CDs), Eurodollars, Repurchase Agreements, Federal Funds, and so on.

Though having many money markets instrument practices in global market place but in Nepal, few instruments practice that are Treasury bills and repurchase agreement. We can find only government securities are traded in market as more reliable & secure securities. Due to unsecured & undeveloped phenomena of Nepalese industrial sector & lack of high class consultancy for the other instruments, those are not issued.

So we mainly focus on Treasury bills and repurchase agreement.

Treasury Bills: The Treasury bills are short-term money market instrument that mature in a year or less than that. The purchase price is less than the face value. At maturity the government pays the Treasury bill holder the full face value. The Treasury Bills are marketable, affordable and risk free. The security attached to the treasury bills comes at the cost of very low returns.

Certificate of Deposit: The certificates of deposit are basically time deposits that are issued by the commercial banks with maturity periods ranging from 3 months to five years. The return on the certificate of deposit is higher than the Treasury Bills because it assumes a higher level of risk.

Commercial Paper: Commercial Paper is short-term loan that is issued by a corporation use for financing accounts receivable and inventories. Commercial Papers have higher denominations as compared to the Treasury Bills and the Certificate of Deposit. The maturity period of Commercial Papers is a maximum of 9 months. They are very safe since the financial situation of the corporation can be anticipated over a few months.

Banker's Acceptance: It is a short-term credit investment. It is guaranteed by a bank to make payments. The Banker's Acceptance is traded in the Secondary market. The banker's acceptance is mostly used to finance exports, imports and other transactions in goods. The banker's acceptance need not be held till the maturity date but the holder has the option to sell it off in the secondary market whenever he finds it suitable.

Euro Dollars: The Eurodollars are basically dollar- denominated deposits that are held in banks outside the United States. Since the Eurodollar market is free from any stringent regulations, the banks can operate at narrower margins as compared to the banks in U.S. The Eurodollars are traded at very high denominations and mature before six months. The Eurodollar market is within the reach of large institutions only and individual investors can access it only through money market funds.

Repos: The Repo or the repurchase agreement is used by the government security holder when he sells the security to a lender and promises to repurchase from him overnight. Hence the Repos have terms ranging from 1 night to 30 days. They are very safe due government backing.

a. Treasury Bills or T-bills

Government may raise necessary fund to finance development project and recover deficit in budget through issuing different types of debenture and bond having different features and characteristics. The term requirement of fund for the government may be different. Therefore government may issue different types of bond and debenture on the basis of maturity period. Besides that, government securities and bond may be categorized into different types on the basis of eligibility of banking and other institutions to purchase such securities and bond. One of them is treasury bills, is one of the government securities and is very popular money market instruments. T-bills have very short maturities, with a maximum of one year. These securities are bought at a discount from its promised payment in maturity. T-bills have no coupon or stated interest. The interest on the investment is represented by the difference between the promised payment and purchase price (Haugen, 1997). The size of the discount is determined in an auction, which will depend on the terms of the bill and the prevailing market conditions. In the U.S security market, T-bills are issued by U.S. Treasury. The treasury sells bills at regularly scheduled auctions to refinance maturity issues and to help finance current federal deficits. It also sells bills on an irregular basis to smooth out the uneven flow of revenues from corporate and individual tax receipts. Persistent federal deficits have resulted in repaid growth in T-bills in recent years. Because of the low risk and short maturity of these instruments, T-bills are attractive investments for many financial market participants. In Nepal, Nepal Rastra Bank makes the auctions of T-bills.

b. Commercial Paper

Commercial paper is a short-term unsecured promissory note issued by corporations and foreign governments. It is a low-cost alternative to bank loans for many large credit-worthy issuers. Issuers are able to efficiently raise large amount of funds quickly and without expensive securities exchange registrations. They sell paper, either directly or through independent dealers' investors in commercial paper earn competitive, market-determined yields in notes whose maturity and amounts can be

tailored to their specific needs (Hahn, 1998). The note is often additionally backed by unused bank lines of credit and/or a guarantee of a parent corporation. These notes are issued for terms ranging from one day to one year (Hatch 1983).

Commercial paper is typically issued at a discount from face value, matures on a specific day and is negotiable. Credit risk is perceived to be relatively low and liquidity is also low. Accordingly, investors tend to hold to maturity. Consequently, yields on commercial paper exceed those on Treasury obligations of similar maturities. Because of the advantage of commercial paper for both investors and issuers, commercial paper has become one of America's most important debt markets. It is the second largest money market instrument in terms of outstanding debt behind T-bills. Money market funds are the largest investors in commercial paper. Issuers, banks, thrifts, non-official corporations, state and local government bodies are also important investors in this instrument (Santomero and Babbel, 1997) Nepalese financial market has not get any commercial paper for the purpose of raise capital.

c. Certificates of Deposits (CD)

A certificate of deposit or CD is a time deposit with a bank. They are issued at discount to the face value. A CD is a document evidencing a time deposits placed with a depository institution. A CD can be legally negotiable or non-negotiable, depending on certain legal specifications of the CD. Most CDs feature fixed interest rates to maturity; however some CDs have variable interest rates. CDs are issued both in bearer and registered form. "Four types of CDs are mostly popular with differing rates, risks and liquidity in America. They are: Domestic CDs, Eurodollar CDs, Yankee CDs and Thrift CDs". (Santomero and Babbel, 1997:257)

A bank tries to sell as many CDs as possible directly to investors because banks have limited capability to sell all their CDs directly to investors. However, they often sell some of their CDs to dealers who resell them to investors. Certificate of deposit (CD) represents a negotiable certificate issued by banks and other financial institutions in return for a term deposit. Certificates of deposits are highly liquid, almost risk-free and yield higher return than Treasury bills, so they are popular form of short-term

investment for companies and individual investors. Investors who want frequent liquidity invest in certificate of deposit to get funds converted into cash quickly (Subedhi, 2003).

d. Bankers Acceptance

It is a promissory note issued by a firm and accepted by a banker. By accepting the note the bank promises to pay the holder of the note a stated amount of money at maturity. A banker's acceptance was invented to suit the needs of a party requiring temporary finance to facilitate the trading of specific goods. The party needing finance would approach investors for this temporary finance. The investors or lenders would then lend a certain amount to the borrower in exchange for a document stating that the debt would be paid back on a certain date in the short-term future. The redemption of the loan would have to be guaranteed by a bank, called the acceptance by the bank making the arrangements. Thus the name is "banker's acceptance" (Berg, 2003; Hatch, 1983).

It is, thus, simply a time draft drawn on and accepted by a bank. Before acceptance, the draft is not an obligation of the bank; it is merely an order by the drawer to the bank to pay a specified sum of money on a specified date to a named person or to the bearer of the draft. Upon acceptance, which occurs when an authorized bank employee stamps the draft "accepted" and signs it, the draft becomes a primary and unconditional liability of the bank. If the bank is well known and enjoys a good reputation, the accepted draft may be readily sold in an active market (LaRoche, 1983). In exchange for guaranteeing the time draft, the accepting bank is given international trade documents, temporary title to the goods that are related to the transaction, and a commission for its services. Investors in BAs include commercial banks, foreign central banks; money market funds are issued with maturities ranging from one to six months (Santaomero and Babbel, 1997).

Bankers' acceptance has very active secondary market especially in the developed economy like American. For example in America the yields of B As are slightly lower than those of commercial paper because Bas are less risky due to the borrower's

pledge to pay, the collateral of goods and the guarantee of accepting bank. Over the past 70 years, investors have not suffered any losses of principal. Bills are very popular in export-import business. Acceptances arising from imports into the United States accounted for 28 percent, those arising from the United States accounted 24 percent, and those arising from the storage of goods in or shipments of goods between foreign countries accounted for 38 percent (Santomero and Babble, 1997).

e. Repurchase Agreements

The term repurchase is a transaction called REPO when viewed from the perspective of the supplier of the such transaction is called a REPO when viewed from perspective of the supplier of the securities (the party acquiring the funds) and a reverse REPO or matched sale-purchase agreement when described from the point of view of the supplier of funds (Lumpkin, 1998).

Repurchase agreements are collateralized loans. Dealers in Treasury securities, dealers in securities issued by federal agencies, and large banks are the primary borrowers that use repurchase agreements. Securities in the dealers' inventory are used as collateral. "The major players in the REPO market are banks, savings institutions and non-bank securities dealers. Investors such as banks, money market funds, and other non-financial firms who have funds to invest for short periods of time, take it as an attractive alternative to the zero return received from idle balances in a checking account" (Santomero and Babbel; 1999). In Nepal to provide the liquidity to the commercial banks NRB is arranging the REPO.

f. Short term municipal Securities

Local governments often have temporary needs for cash to finance their own expenditures to provide funds to some tax-exempt entities such as non-profit hospitals, colleges and to a limited degree, to provide funds to private firms and individuals. To meet such needs, they often issue short-term municipal securities. These securities are issued in two forms. Interest-bearing notes and discount notes. The interest earnings and the capital gains in the case of municipal securities are generally exempted from

the taxes, provided that the investor is a resident of the state or city that issues the debts instrument. Individual, mutual funds, banks and other corporations are the major types of investors in municipal securities” (Santomero and Babble; 1997). Nepal has not the experience of issuing municipal securities till the date.

g. Other Instruments

There are several instruments popular in money market of different countries. Various derivatives like right, futures, SWAP, and federal funds, federal agency discount notes, Eurodollars etc are very popular in America. Apart from it mutual funds can also be the effective investment alternatives. Right and mutual funds are already in practice in Nepal.

2.2.2 Capital Market and Capital Market Instruments

Capital market is an important part of financial market, in which long term financial instruments such as equities and bonds are raised and traded. Capital market securities include such marketable debt securities with long term financial instruments, such as equities and bonds. It also includes such marketable debt securities with maturities of a year or more and equity securities. Capital market deals with longer term and relatively riskier securities. Business and industries issue shares and other securities to raise funds from capital market. In the context of our country, capital market is slowly growing as well as improving. Growth of capital market has made it possible for the public limited companies to raise the long term capital by issuing share and other industries bonds to the investing public. Stock certificates, bonds, debentures, certificates of deposit with maturities over 1 year, collateralized mortgage obligations and beneficial instruments.

Most of the capital market financial instruments are transferable from one owner to another. Capital market provides a channel for the borrowing and lending of long term funds. This is designed to finance long term investments by business, governments and households. The principal suppliers and demanders of funds in the capital market are more varied than in the money market. Capital market is the market for securities, where companies and government can raise long term funds. It is a market in which

money is lend for period longer than a year. The capital market includes the stock and the bond market. Financial regulators; such as the U.S. Securities Exchange Commission (SEC), oversees the capital market in their designated countries to ensure that investors are protected against fraud in USA as of Nepal it is seen by SEBON. The capital markets consist of the primary market and secondary market. The primary markets are where new stock and bonds issues are sold (underwriting) to investors. Capital market provides a channel for the borrowing and lending of long-term funds. This is designed to finance long-term investments by business, governments, and households. Trading of funds in the capital market makes possible the construction of huge establishments like: factories, school and highways. Financial instruments in the capital market have original maturities of more than one year. The principal suppliers and demanders of funds in the capital market are more varied then in the money market. Families and individuals, government, business of varied sizes, pension funds, mutual funds etc. (Rose, 2000) Capital market provides a channel for the borrowing and lending of long-term funds. This is designed to finance long-tern.

Some Popular Instruments in Capital Market

a. Equity Share or Common Stock

Equity share is also known as common stocks or ordinary shares. Common stock represent an ownership position in a company, hence, common shareholders are the real owner of a company. Equity referred to as shareholders' fund on balance sheets consist of equity capital, retained earnings and preference capital. However, in most cases, it is considered as equity capital.

The holders of common stock are the owners of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligation have a right to the earnings of the firm after all expenses and obligation have been paid; but they also run the risk receiving nothing if earning are insufficient to cover all obligations.

Common stock holders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare a dividend. Capital gains arise from an advance in the market price of the common stock, which is generally associated with a growth in per-share earnings. Earnings often do not grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as in the timing of these investment decisions for common stocks has no maturity date at which a fixed value will be realized. People invest in equities because they want to make more income than they do in a savings account. For the possibility of making more income, they assume more risk. There are several advantages and disadvantages of investing in stocks. The likelihood of dividends and price appreciation motivates most investors to consider common stocks. Many companies may declare relatively small cash dividends, perhaps with a return of only 2 or 3 percent. But these companies may also offer a good chance for price appreciation over time. Equity investments also offer a high potential return. Greater than average returns are possible if one buys and sells the correct stocks.

On the other hand, in equity investments risks of various types are also present. There is the financial risk that the company will go bankrupt. There is the liquidity risk that the price of a stock might be quite low when one wants to sell it. Along with them inflation risk also presents. In the period of high inflation, market prices of equity are depressed. Uncertainty of yield is another disadvantage of common stock. Even a company with an excellent record of paying cash dividends might skip some dividends during market downturn since, many stocks vary in price with certain news events, world happenings and economic and political variables, investors need to be alert to current happenings in order to know when to sell quickly in order to reap profits or reduce losses (Garman et al, 1985).

b. Preferred Stock

Preferred stock is a fixed income security. Preferred stock is similar to bonds in some respects and to common stocks in other ways. Another means of raising funds is preferred stock. Preferred stock is a security, which is accorded certain preferential treatment over common stock. Its claim isn't really fixed and definite in the sense that it can force the firm into bankruptcy if it is not paid in full. On the other hand, its claim is limited in size to a specified amount. In general no dividends can be paid on the common stock until the specified amounts have been paid to preferred stocks. Preferred are usually perpetual however some can be callable also (Haugen, 1997). Preferred shareholders do not share in the profitability of a firm beyond the stated dividend rate, in this ground it is rather curious why they are called 'preferred'. But, they are superior in two areas:

1. Although they have no rights on dividends, if corporation allocates earning to declared dividends, preferred shareholders must receive before common shareholders.
2. In the event of forced liquidation, preferred shareholders have a claim on remaining assets up to the par values, as a priority over common shareholders.

b. Bonds

Bond as a debt security is given different names in different countries. In the United Kingdom and India the term 'bond' is common, but in the United States the popular term is 'bond'. In Nepal the term is generally referred to as debenture mostly. Typical debt securities are called 'notes', 'debentures', 'bonds'. Bonds are also known as contractual obligations since the creation of a debt is implemented by some form of contract fixing the rate of interest and defining the terms and conditions of repayment (Whyte, 1951). Bonds exist in a variety of forms- the corporate bonds (debentures), government bonds, municipal bonds, etc. The firm which wants to raise a few million amount prints up fancy pieces of paper called bonds and try to sell them. Many individuals and financial institutions are interested in buying these papers. The paper also states when the bond will mature- the date when the loan will be paid off to whoever owns the bond at that time. Some bonds have an original maturity of only a few years, while others have twenty or thirty years. At times, perpetual bonds called consols have been issued (Ritter and Silber, 1993).

There are two key features of corporate bonds that play a critical role in their value. Beyond interest rate risk that affects nearly all debt, the price an investor is willing to pay for corporate issue will be influenced by its call ability and credit quality. Most corporate bonds contain call provisions that allow the issuer to retire the bonds beyond some specific call date but prior to maturity.

Usually, there is a modest premium (e.g., one-half a coupon) paid above par value by corporation to the bond holders when exercising this call. Some bonds are convertible into common stock at a pre-specified price. This is attractive to investors because investors can benefit from appreciating stock prices by converting into common shares, while being protected from depreciating stock price by retaining the bond status. Because of this attractive feature, convertibles have lower promised coupon payments than ordinary bonds. The option of conversion is a sweetener attached to straight debt. Since holders of a convertible have a choice to convert debt into equity, the agency problem is reduced.

Types of Bonds

Corporate bonds come in five main variables.

1. Debentures that have a secondary claim to the general assets and revenues of a firm are called subordinated debentures.
2. In the event of a default, holders of such subordinated securities must wait until the claims of the senior debt obligations have been satisfied before they are eligible to receive the proceeds of asset liquidations.
3. Bonds, backed by mortgage collateral assets are referred to as mortgage bonds.
4. Bonds backed by rolling stock are termed equipment obligations.
5. Bonds backed by marketable securities are known as collateral trust bonds.

a. Other Investments

1. Rights

Rights are issued by a corporation to existing common stockholders in connection with the sale of additional shares of stock at a specified attractive price within a specified time. A rights issue is offered to all existing shareholders individually and may be rejected, accepted in full or (in a typical rights issue) accepted in part by each shareholder. Rights are often transferable, allowing the holder to sell them on the open market. Rights can be sold separately from the share to other investors during the life of the right or shareholders must either take up the rights or let them lapse. Once the rights have lapsed, they no longer exist). Subscription price for new share, number of new shares, and value of right and effect of the rights should be considered before issuing rights by financial manager.

Stockholders of most corporations will experience dilution of their ownership position. The issuing corporation often prefers selling shares to current stockholders because it is less expensive. A right is a legal instrument offered to a stockholder to purchase a proportionate number of shares of new company stock at a specific price during a limited time period. Rights have intrinsic financial value because they are normally offered at a price somewhat lower than the current market value of stock. Consequently, a market exists for the buying and selling of rights and once again we

inter the world of the speculation. An especially, attractive speculative investment is using margin to buy rights with the hope that the value will rise (Garmen et al, 1985). In Nepal here is no any experience of exercise the right in secondary market. Corporations only offers rights to its existing shareholders and they buy the new share at lower than market price but they can't sell their right of buying new share to others.

2. Options

An option is a legal contract giving its owner the right to buy or sell a fixed number of securities at a particular date at an exercise price. Exercise price is that price at which the security associated with a option is not obliged to buy or sell at the exercise price. Investor will only use the right if it is profitable. The individual who has purchased the right is known as the option buyer. The seller of an option is known as the option writer. There are two types of options on securities futures:

-) **Call Options:** An option to buy is known as call option. A call option gives its owner the right to buy security at a specified exercise price on or before a specified exercise date.
-) **Put Options:** A put option is an option to sell. Put option is usually buy in the expectation of falling price of the security and can be protect a profit on an investment.

3. Futures

A future contract is agreement between two parties to buy or sell fixed number of particular security for delivery at a fixed date in the future at a fixed price. Investors can profit from increase or decrease in the prices of various commodities by purchasing and selling future contracts. A future contract deals in both rights and obligations regarding the underlying commodity. The buyer of futures, also called the long, has the right and obligation to receive the underlying commodity, at some future date. The seller of the futures, also called the short has the right and obligation to deliver the asset on a specific date in the future. Forward contracts are also very similar with future contracts. These contracts obligate you to buy or sell commodity at

a particular price on a particular day. The price at which the asset is transferred is negotiated when the contract is sold by the short to the long on the floor of a future exchange. Thus, both parties know exactly how much the asset will cost them in future time.

4. Warrant

A warrant is a certificate issued by a company which gives the holder the right to buy a share of the same company at a predetermined price during a given time period. It is like a call option. Warrants generally expire on a certain date, although some have perpetual lives.

Sometimes the issuer will try to establish a market for the warrant and to register it with a listed exchange. In this case, the price can be obtained from a broker. But often, warrants are privately held or not registered, which makes their prices less obvious. Warrants can be easily tracked by adding a “W” after the company’s ticker symbol to check the warrant’s price. Unregistered warrant transactions can still be facilitated between accredited parties, and in fact several secondary markets have been formed to provide liquidity for these investments.

5. SWAPS

SWAPS are more recent addition to the financial markets than contingent claims discussed so far, the SWAPS markets has been in-existence since the early 1980s and the introduction of standardized contracts and dealing mechanisms through the international SWAP dealers association has lowered the transaction costs and made operations are accessible to users.

Currency and interest rate SWAPS are the most common type in the market. A currency SWAP transfers the obligation for payment in one currency to another party who, in turn, undertakes an obligation for payment in other currency. The difference between the two types of SWAPS is that an interest rate SWAP only involves the exchange of interest payments, while the principal remains the obligation of the initial borrower. Therefore the riskiness of the loan is still associated with the writer of the

debt and not transferred. SWAPS are conducted through an intermediary, usually a market-maker, or a bank, which accepts the default risk, and earns a fee both participants dependent on the level of that risk. SWAPS prices are negotiated by auction, usually conducted on the telephone and are very much under the control of the market-maker (Piesse et al, 1995).

6. Mutual Fund

A mutual fund is a professionally managed type of collective investment scheme that pulls money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. The mutual fund will have a fund manager that trades the pulled money on a regular basis. Most mutual funds in investment portfolios are continually adjusted under the supervision of a professional manager, who forecasts cash flows into and out of the fund by investors, as well as the future performance of investments appropriate for the fund and chooses those which he or she believes will most closely match the fund's stated investment objective. A mutual fund is administered under an advisory contract with a management company, which may hire or fire fund managers.

2.3 Securities Innovation

One of the chief characteristics of financial market is their ability to develop innovative financial instruments. The last two decades have witnessed unprecedented innovation in the range of manner in which firms issue securities. Just as engineers apply scientific principles to design new products and services, financial engineers apply principles of financial economics for the purpose of structuring, pricing and managing the risk of financial contracts. Financial engineers involved in design, development and implementation of financial instruments and process and the formulation of creative solutions to problems in corporate finance. Innovative instruments make financial market more complete and efficient. Financial engineering involve three types of activities-design of new financial instruments, developments of new financial processes and providing creative solutions to problems in corporate finance (Vishwanath, 2000).

Firms issue innovative securities for many reasons, but two of the most important are to escape the bite of taxes and regulation. Tax and regulatory frictions are the basic motivators for financial innovations (Grinblatt and Titman, 2003).

Following are the factors responsible for innovations on financial instruments.

-) Transaction cost
-) Taxation
-) Agency cost
-) Minimization of risk
-) Opportunity to increase an asset's liquidity
-) Regulatory and legislative changes
-) Level and volatility of price and interest rates
-) New financial theories and similar other technological factors

Recent innovations include the creation of assets-backed securities, which are securities that are collateralized by cash flows from assets, like mortgages and accounts receivables. In March 1994, for example, northwest airlines brought the first airline industry asset-backed certificates to the market. They were backed by northwest's accounts receivable-their ticket payments (Girnblatt and Titman, 2003).

Occasionally conditions that influence the macro economy, such as inflation lead to innovative debt securities. For example, during 1989 Kuwait crisis, the crude oil prices sky rocketed, at that time several firms were convinced by their investment banks that it was a good time to issue oil-linked bonds. They were characterized by lower than normal coupon rates and to compensate investors for low. The principal was to be paid either four times the per-barrel price of oil or \$100 at maturity, whichever was larger, the emerging and growing capital markets are more able to welcome the financial innovations, as was seen in Russia in 1994 (Grinblatt and Titman, 2003).

Likewise, Indian capital market has also witnessed a few innovative debt instruments in the recent past. Some of these innovative instruments are deep discount bonds,

capital indexed bonds, secured premium notes etc. a deep discount bond is issued at 'deep discount' to the face value of the instrument. The bond appreciates to its face value till maturity. The investor does not receive any interest during the life of the instrument. The capital indexed bonds, were designed to eliminate the purchasing power risk.

The pace of financial innovation has been remarkable, given that new security designs cannot be patented, are easily copied, and once copied, their profitability to the inventor drops dramatically. To encourage such a rapid pace of innovation, successful security designs gave to be phenomenally profitable to the inventor for that brief period of time before competitors introduce imitations (Grinblatt and Titman, 2003). Financial engineering can be used not only in reducing financing costs and crating customized financial instruments but also in advancing a company's strategic goals (Vishwanath, 2000).

2.4 Investment

Investment in its broadest sense means the sacrifice of current money for future money. Two different attributes are generally involved: time and risk. The sacrifice takes place in present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain. Investment in its simplest form means employing money to generate more in future.

Rarely, their current income exactly balances with their current consumption. These unbalance will lead either to borrow or to save in order to spend in future. Peoples unsatisfied nature in terms of current earning and making more money has led to the existence of the investment. They always hope of getting enlarged their current sum in the future which is uncertain. Hence, investment is the sacrifice of certain present value for the uncertain future rewards. In other way, it is property or another possession acquired for future financial return or benefit. The ultimate objective of investment is to increase systematically the individual's wealth. It is reflected in terms of profit, risk, speculation and wealth. The higher the level of desired wealth, the higher the return must be received. An investor seeking higher must be willing to take

higher degree of risks as well. In economic point of view investment refers to employing money on any physical or tangible assets, for example, a building, or machinery and equipment. On the other hand, in finance point of view investment refers to money utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. People get involved in investment in the expectation that it will generate cash flows in the future. In capital market point of view, investment refers to the buying of a financial products or any valued item with anticipation that positive returns will be received in the future. The most important feature of investment is that they carry high market liquidity.

Investment is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in the current periods is foregone in order to obtain a greater return in the future (Britannica Encyclopedia 2003). An investment is a commitment of money that is expected to generate additional money. Every investment entails (involves) some degree of risk - in the sense that it requires a present certain sacrifice for a future uncertain benefit. Under investment analysis, examination of marketable financial instruments such as common stocks, preferred stocks, bonds, put options, call options, combination options, futures contracts on the traditional commodities, financial futures, and other investments, as well as the risks associated with each are performed (Francis, 200: 1-2).

Investment can be made in two kinds of assets viz. real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. Whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc. However, we are not going to deal with the investment on no financial sectors. Investment is made in an anticipation of future return. Such a rate of return desired by the investors from their investment is certainly positive.

The length of time from the date of investment to the final date is called planning horizon, investment horizon or holding period. In other words, investment implies the employment of the fund with the objective of realizing additional income or growth. And it includes sacrifice of current rupees and waiting for reward (Francis, 2000: 1). Thus, investment is regarded as the function of risk and return. Every investor's main objective in making investment is to maximize ones wealth. Financial assets are another name given to the financial instruments or securities. Investment in real assets requires a huge amount of capital, and the money thus invested becomes idle where there is very little probability of getting higher returns. If the situation and the market turn favorable only capital gain can be realized. There is also a great problem of liquidity of such assets. However, investing in financial assets is possible with a lower amount of capital, little effort to analyze and make decisions. Both the benefits of capital gain and normal gain can be reaped at a time. "Investing is about money in the same way that school is about education.

It is not about chance or whims and not about fooling around, it is about having enough for the rest of your life. It is not about asset allocation and pie charts and financial planning. Investing about your life and being able to live the way you want to live" (Subedi, 2003). "Investment should always ensure two aspects; first the money should be available back when it is needed; second, the invested money should grow because a rupee's real value today is greater than a rupee's value tomorrow in a world of inflation. Investment, thus, is simply concerned with the incremental of the investor's wealth" (Cheney and Moses, 1999).

Generally, investment is distinguished from speculation based on time-horizon and risk-return characteristics of the investment. The true investor's is interested usually in long-term investment with a good rate of return, earned on a consistent basis. Such investors are normally not willing to take high risk and expect moderate rate of return. In practice, most investors have irrational behaviour due to lack of intelligent speculation in the sense information from market to investigation and decision of investment is important. This is what the regulating authority is drawing the attention of investors to have investigation before investment.

2.4.1 Types of Investors

Investors are those people who invest their saving in securities to assume risk for expectation of future return. Though there is not much attraction of investors towards the world of financial instruments. Depending on investors nature, attitude, involvement, risk, capacity, knowledge and information, investor's can be classified in different way. So there are many types of investors in the market. On the basis of information, Investors are classified into individual investors and institutional investors.

a) Institutional Investors

An institutional investor is an investor, such as a bank, insurance company, retirement fund, hedge fund, or mutual fund that is financially sophisticated and makes large investments, often held in very large portfolios of investments. Because of their sophistication, institutional investors may often participate in private placements of securities, in which certain aspects of the securities laws may be inapplicable. Institutional investors face fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves.

b) Individual Investors

Individual investors are those who buy and sell securities for their personal account, and not for another company or organization. Individual investors buy in much smaller quantities than larger institutional investors. Individual investors are part timer; they are the businessman, government worker, doctors, lawyers and even housewives, students and unemployed adults.

When an individual buys securities, holds them and gets divided of profit through price appreciation, the cash flow becomes income to the people. Individuals have an opportunity cost in obtaining investment information, such as reading publication, tracking stocks prices and building a files on securities.

2.4.2 Investment Process

Investors follow a set of procedures to arrive at correct investment decision. This set of procedure is known as investment process. IT includes the formation of investment objective, construction of a portfolio, revision of the portfolio and evaluation of the performance of the portfolio. Proper adherence to the investment process helps an investor to decide what to invest in, how much to invest, and when to invest. The investment process includes an analysis of the following five steps:

a) Set investment objectives

It is the first step of the investment process. It involves determining the investment objective and the amount of one's ingestible wealth. Investor objectives should be stated in terms of both risk and return. Setting a clear investment policy also involves the identification of potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, ingestible wealth, tax considerations etc.

b) Perform security Analysis

It is the second step of the investment process. It concerns searching of various potential financial assets by examining individual securities in the light of risk and return. For this purpose, investor can use methods like technical analysis and fundamental analysis. These analysis facilitate selection of securities for investment.

c) Construct a Portfolio

It is the third step of the investment process. At this stage we identify assets in which to invest and what proportion of the investor's wealth to put in each one. While constructing portfolio is divided into three components, the first component is in an investment strategy and portfolio allocation. The second component is the asset selection decision, where individual assets are picked within each asset class to make up the portfolio. The final component is execution, where the portfolio is actually put

together, where investors have to trade off transactions cost against transactions speed. In this stage, many investors fail

d) Portfolio Revision

Portfolio revision means repeating the previous three steps of the process. Over the period of time, the objectives of the investor may change and the current portfolio may no longer be optimal. The investor can sell some unattractive securities and introduce attractive ones to form new optimal portfolio. Some securities that are initially unattractive may turn out to be attractive later and vice versa.

e) Portfolio Performance Evaluation

The last step of the investment process is to evaluate the investment performance in terms of return and risk experienced. Investing is after all focused on one objective and one objective alone, which is to make the most money we can, given the risk constraints us operate under.

Investors are not forgiving of failure and unwilling to accept even the best of excuses, and loyalty to money managers is not a commonly found trait. By the same token, performance evaluation is just as important to the individual investor who constructs his or her own portfolio, since the feedback from it should largely determine how that investor approaches investing in the future.

2.4.3 Investment Objectives and Preference of Investors

Investment is all about making multiplying and making money to earn money by investing in available alternatives rationally. Investment is the outcome of your needs and goals. People invest money for different purpose that is; investors invest to increase income, to have funds available during retirement years and specific goals that depend upon age, income, planned activities and attitude about risks. Becoming a successful investor takes times and effort. Getting ahead through investments requires willingness, ability and discipline. Willingness involves understanding your innovations. Investing requires that an individual invest money in assets that will

generate the desired wealth when it is needed for retirement, children's education or other financial goals. That is why; an investor seeking higher returns must be willing to face higher levels of risks.

Preference on investment depends upon the nature of investors. Risk lover (investor) prefers on the stock which have high return and risk averse investor prefers on the stock which have low risk even though the stock have low return. So, investors vary in their preferences. Some investors are very concerned about the possibility of losses with stocks and prefer to keep a lower proportion of stocks in their portfolios. Other investors are less concerned about the possibility of losses with stocks and prefer to keep a higher proportion of stocks in their portfolio. Some investors prefer stocks of socially responsible companies and some conventional companies. Some investors prefer foreign stocks while others prefer domestic stocks. Some people believe that they can pick stocks that would earn higher than average returns where as some people believe that they are unable to do so.

Investment objective is to increase systematically the individual's wealth. The principal objective in making investment is to earn return that compensates investors for the risk bearing of the investment.

Generally, people invest for the reasons like making too much money just sitting in the bank, getting rich quickly, buy a Mercedes-Benz Automobile, retire with a secure income, and fulfill the desire of parents.

Ability has to do with knowing alternative investments finding investment funds and making intelligent investment decisions. And, discipline describes the courage to act responsible in financial matter (Garman; 1985).

While wealth maximization may remain an investor's investment objective over a lifetime, age or family circumstances will necessarily force the investor to change his or her investment objective. Thus an investment objective is not static rather it varies from person to person, from time to time and from one circumstance to another circumstance. It will be most difficult when full achievement is hardly possible or

when it is a question of selecting the investments which, through falling short of complete fulfillment of purpose, yet come nearest to attaining what is required.

“Investors, as buyers of financial products, expect to obtain three characteristics from the financial requirements. They are the expected return, security and liquidity” (Blake; 2000:57)

While making investment the investor should consider about the compensation for the investment that it is going to provide in future will the investment return or not. These issues should be considered while defining the objectives of the investment are described below:

1. Safety
2. Growth
3. Regular return
4. Liquidity

1. Safety

Investor wants the return of the investment or the original principal i.e. the guaranteed return at the end of specified period. Safety doesn't take into consideration the amount of loss due to inflation but rather whether or not the dollars placed into the investment are guaranteed to be returned at a later time. Many investors equate the objective of safety of principal with the purchase of high quality investment instruments. Savings accounts, certificates of deposit, and savings bonds all have a virtually guaranteed return of principal. While these types of investments may help to keep the amount of the portfolio reasonably constant inflation may reduce its purchasing power.

“Investor looking for some investment income but cannot risk much loss of principal.”

For the pension funds, investment of safety instruments is more desirable. Hence, investors often seek to keep the portfolio safe in terms of purchasing power by seeking enough growth to offset changes in the cost of living (The Economics, April 26th 2003).

2. Growth

Primarily, most of the investors expect the increment in secured principal. Price appreciation of principal in addition to the secured principal is also one significant objective of investors. An investment is purchased with the hope of earning a capital gain at the time of sale. An important task for the investor is to balance the desire for safety of principal with the desire for growth in a manner consistent with her or his personal preferences.

3. Regular Income

Investors may realize investment income either in the regular income is either necessary or highly desirable. A retired individual often needs a high level of current or regular income to be able to supplement income from social security. The idea here is that current income received in the form of capital appreciation is in a more favorable tax position than current income received in the form of dividends or interest.

The need of regular income varies greatly, depending upon such factors as the age, wealth, and non-investment income of the investor. Bonds, preferred stocks, and other investments with high current yields are traditional income investments.

“Income also may influence risk preferences. High-income investor may be willing to choose higher risk investment since they can more easily contribute additional investment capital. The need of regular varies greatly, depending upon such factors as the age, wealth, and non-investment income of the investor. Bonds, preferred stocks and other investments with high current yields are traditional income investments”. (Steverson and Jennings, 1984)

4. Liquidity

Liquidity is the ease with which you can convert your assets to cash at fair market value. It is essential that you recognize the need to convert your assets into cash at the appropriate times. As the definition says the ability to turn an investment into cash

quickly at a value close to the original amount of the investment is liquidity. Since greater liquidity generally results in lower return, it is necessary to give serious consideration to the inherent tradeoffs.

2.5 Overview of Financial Market in Nepal

The issuances of government securities as well as corporate securities have not made a long history in Nepal. In the corporate sector the shares floated by Biratnagar Jute Mills, the first corporate entity in Nepal, in 1936 AD, were the first common stock. Biratnagar Jute Mills is the pioneers for the public issue of debentures also. It issued 1600 debentures of Rs. 500 each. In Nepal the treasury bills, for the first time was issued by the government four decades ago, in 1962. Likewise, development bonds were issued for the first time in 1964.

Very few companies followed the Biratnagar Jute Mills. Due to very high dividend (i.e. 110%) declared by the Mill, some companies, some company's issuances have been found oversubscribed by three to four times (Shrestha 2003). Before the establishment of Security Exchange Center, there were no institutional arrangements to undertake and manage the new issues of securities. Initial Public Offerings (IPOs) have to be made as per the provisions of company Acts. But, the provisions made by company Acts were not adequate and relevant. The company act 1936 did not even included preferences shares, as corporate securities. It was recognized as corporate security only by company act 1964.

Later on, the government felt that one separate body should be established to give a systematic figure to financial market of Nepal. As a result, SEC came to existence in 1967. At the same time, to handle or manage the purchase and sales of government securities became its major activity due to very few public issues made by corporate bodies. Till 1983, the concept of well-structured secondary market has not evolved in Nepal. No separate acts were to regulate trading of securities.

It was 1983, when the first Security Exchange Act 1983 got enactment. The act prohibited the exchange of unlisted securities. It entrusted the SEC as the operated the

stock exchange by listing the corporate securities. Actually that security exchange act 1983 has created dual responsibilities-operator or regulator for SEC that was difficult and contradictory also. That necessitated the reform in the act. Which latter on resulted as amendment concerted SEC into Nepal Stock Exchange Limited (NEPSE) and create separate body Security Board of Nepal (SEBON). NEPSE is acting till now as an organization exchange center for the securities. It is only body which handles the trading of securities of financial market of Nepal.

In 1983, Nepal government also released Security Exchange Regulations for the effective implementation of Security Exchange Act. This regulation made detailed provisions regarding licensing, operating, registrations, listings as well as functions, power and duties of SEBON. Further on, SEBON was empowered as an ape's regulator of the capital market, by the second amendment in Security Exchange Act in 1997.

In this way, capital market has got a structures shape and institutional arrangements. It is still growing and developing. SEBON is developing several guidelines and directives to regulate the stock exchange, IPOs, issuing bodies and brokers. NEPSE is also empowered to make by laws to regulate listing and trading of securities. Although the history of financial instruments in Nepal begins with issue made by Biratnagar Jute Mills, it gets further developments only after the restoration of democracy and liberalization policy. Between 1984 and 1990, 42 companies were listed, out of which more than 25 companies had some of the government ownership. Further on Government's privatization policy also enabled new industrial companies to enter the stock market. Of the total public issues approved in 1994 and 1995, 28.4% was issues of privatized companies. The growth of stock market has mainly been due to the liberalization and resulting growth of financial sector (commercial banks and finance companies) rather than that of the industrial sector. The companies that are listed are presented in the table listed below.

Table 2.1
Listed Companies in NEPSE up to Year 2012/2013

S.N.	Sector	No. of companies
1	Commercial Banks	30
2	Development Banks	96
3	Finance Companies	58
4	Insurance Companies	22
5	Hotels	4
6	Manufacturing and Processing Companies	18
7	Trading Companies	4
8	Other	2
9	Hydropower	6

Source: Nepal stock.com.np.

There more companies in operation at present but only listed in Nepal Stock Exchange Ltd are presented in the table above. Investors in Nepal are various types. Some are very small investors who hold just 10 or 20 shares of the companies. However, some investors are so cunning and shrewd that they play with different securities to earn more. Very few investors have technical knowledge of investments like; portfolio formation and risk diversification. Besides, institutional investors are also the major segment. Although they are not actively participating in the secondary market, in the primary market, in the primary market they are also considered as the notable segment investors, or the purchases of the securities.

2.6 Review of Related Studies

This part of the study includes the review of international and national researches that help developing the foundation of the research.

2.6.1 Review of Articles and Journals

Kozlow (2008) has written an article on "*Classifications: Financial Instruments, Functional Categories, Maturity, Currency and Types of Interest Rate.*" The objectives of classification of financial instruments will be spelled out. The potential dimensions by which instruments can be classified are numerous, so the classification involves identifying the most economically crucial features. The implications of a high degree of financial innovation will be discussed—in particular, that the classification will need to define the instruments with reference to the characteristics, not just specific types of instrument, so that it is applicable to new instruments and helps deal with hybrid and other borderline cases. The importance of classification of financial assets for understanding financial markets and for consistency with other datasets, particularly monetary and financial statistics, will be highlighted. In addition, the financial asset classification will be presented as the foundation for the functional category classification, which in some cases takes into account the type of instrument.

Clendon (2011) has published an article on "*What is a financial instrument?*" In this article, looking at the definition of a financial instrument, which is that a financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

With references to assets, liabilities and equity instruments, the statement of financial position immediately comes to mind. Further, the definition describes financial instruments as contracts, and therefore in essence financial assets, financial liabilities and equity instruments are going to be pieces of paper.

For example, when an invoice is issued on the sale of goods on credit, the entity that has sold the goods has a financial asset – the receivable – while the buyer has to account for a financial liability – the payable. Another example is when an entity

raises finance by issuing equity shares. The entity that subscribes to the shares has a financial asset – an investment – while the issuer of the shares who raised finance has to account for an equity instrument – equity share capital. A third example is when an entity raises finance by issuing bonds (debentures). The entity that subscribes to the bonds – ie lends the money – has a financial asset – an investment – while the issuer of the bonds – i.e. the borrower who has raised the finance – has to account for the bonds as a financial liability.

So when we talk about accounting for financial instruments, in simple terms what we are really talking about is how we account for investments in shares, investments in bonds and receivables (financial assets), how we account for trade payables and long-term loans (financial liabilities) and how we account for equity share capital (equity instruments). (Note: financial instruments do also include derivatives, but this will not be discussed in this article.). In considering the rules as to how to account for financial instruments there are various issues around classification, initial measurement and subsequent measurement.

This article will consider the accounting for equity instruments and financial liabilities. Both arise when the entity raises finance i.e. receives cash in return for issuing a financial instrument. A subsequent article will consider the accounting for financial assets.

Kamala (2012) has published an article on "*Financial Markets and Financial Instruments in Nepal.*" Market is simply defined as an area for potential exchanges. Thus market is a group of buyers and sellers interested in negotiating the terms of purchase or sales of goods and services. Similarly, financial market is that market is traded- loaned or borrowed-in-terms of different financial assets or instruments stocks and bonds are traded. "Securities" means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government by a notification published in the Nepal Gazette or receipts relating to deposits of securities

as well as rights and interest relating to securities (Security Exchange Act, 1983). Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buying and selling orders that flow from investors' demand and supply preferences determine the price of securities in the security market. It plays a significant role in bridging gap between the deficit and surplus units of society. The common stock, preferred stock, debentures and government securities are mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stock is traded through NEPSE. The government securities are also important securities, which are issued by Nepal Government through Nepal Rastra Bank (NRB). "Financial assets or simply a security is only a piece of paper that represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights.

Basnet (2013) has written an article on "*Financial Instruments: Presentation.*" The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IFRS 9 *Financial Instruments*, and for disclosing information about them in IFRS 7 *Financial Instruments: Disclosures*. The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component.

Such components shall be classified separately as financial liabilities, financial assets or equity instruments.

2.6.2 Review of Thesis

This part of study includes the research in Nepal held in the related filed to this study.

Subedi (2003) has carried out a research entitled "*Investor's Awareness in Securities Market in Nepal*" was mainly concerned with the investors.

Objectives of the study were as follows:

-) To examine the investors to the financial instruments and to find out their expectation that they buy securities .
-) To find out whether the companies are able to fulfill the investors' expectations or not.

The research design was followed descriptive vs. analytical. The study was mainly based on secondary sources of data obtained from NEPSE.

Based on the analysis of data following major findings were drawn:

-) The study indicated that 24.54% of the total investors responded that there are better opportunities for investors in non-securities sectors while 75.46% respondent were better opportunities for Nepalese investors in sector.
-) The study concluded that among these respondents who chose securities market as better sector for investors respondents the banking, finance, insurance, manufacturing, hotel, trading and other sector are suitable for investment in ranking.

Upadhyaya (2004) studied "*Investors preferences and financial instruments.*" The study was mainly concerned with investors preferences on financial instruments.

The objectives of the study were as follows:

-) To examine and analyze the preferences of the Nepalese investors in selecting securities.

-) To study the preferences of the investors in the financial instruments.
-) To assess investors awareness regarding the investment decision in selecting securities and to analyze the investment trend in the security market of Nepal.

The study was mainly based on secondary sources of data. Beside this, primary data were also used. Rank, correlation coefficient, t-test were used as analytical tools in the study.

Major findings of the study were as follows:

-) The study shows that there are no professional firms providing financial assistance and advice to the existing as well as prospective investors, the government should arrange for creating such environment for the development of financial professionalism.
-) Market makers, brokers, concerned public limited companies, and other concerned bodies should launch programs to increase investor's awareness regarding security.
-) The study tried to reveal the preferences of Nepalese investors but contains the error on selection of samples of the study. Use of NEPSE and SEBON staffs and brokers as categories of investors is questionable matter.

Paudel (2004), study is regarding "*Government securities practices in Nepal.*"

Based on the analysis and interpretation of data, following major findings were drawn:

Following were the objectives of the study:

-) To analyze and find out the government securities practices in Nepal.
-) To analyze the problems in government securities practices in Nepal.

Descriptive cum analytical research design was followed in the study. The study was mainly based on secondary sources of data. Beside this, primary data were also used. Rank, correlation coefficient, t-test were used as analytical tools in the study.

Following were major findings of the study:

-) T-bills are the most welcomed security in comparison to other government securities. 50% respondents were found aware of securities since few years ago only. 59.1% respondent told that they prefer government securities due to tax and risk character.
-) Large investors thought to invest idle cash in government securities and only few of them use loan in order to purchase the government securities.

Amatya (2005), has conducted his study on "*Present status of debt securities market.*" The study pointed out the problems of debt securities market in Nepal.

Following are the objectives of the study:

-) To analyze the present status of debt securities market in Nepal.
-) To analyze the problems of debt securities market in Nepal.

Descriptive cum analytical research design was followed in the study. The study was mainly based on secondary sources of data. Beside this, primary data were also used.

Following major findings were obtained:

-) The ownership of the government securities and T-bills was dominated by financial institutions and insurance company. Individual participation was increasing but not sufficient.
-) The trend of T-bills was in increasing trend during observation period and forecast also shows the increase in future. The trend of development bond was also in increasing trend during observation period, but the trend of national saving bond was in decreasing trend in last years of observation.

Tamrakar (2006), has conducted her study on "*Development of Financial Instruments in the Nepalese Capital Market.*"

Following are the objectives of the study:

-) To identify the different investment alternatives and their current status.

-) To analyze the development of different investment alternatives in Nepalese capital market.

The study was mainly based on secondary sources of data. Beside this, primary data were also used. Rank, correlation coefficient, t-test were used as analytical tools in the study.

The major findings on study were as follows.

-) Most of the investors are interested in investment of shares of corporate sectors, whereas preference share and debentures are in low limits. In comparison to them, mutual fund and limit schemes are used significantly.
-) Employed investors like to invest their saving in corporate securities whereas unemployed investors like to invest their saving in real estate than corporate securities.

Darhsandhari (2007), has conducted his study on “*Investors preferences in financial instruments in Nepal.*”

The objectives of the study were as follows:

-) To analyze the investors preferences in financial instruments in Nepal.
-) To find out the role of financial instruments in Nepal.

Mainly the researcher used secondary data for the analysis of the study through various published and unpublished sources. Needed primary data and information that supported the study were gathered through questionnaire.

The major findings were as follows:

-) Common stock was most popular investments sector; debts and preferred stock are less preferred by investors. The reason for the popularity is the right in participation in earning.
-) The most preferred sector of investment, according to the research, was banking sector, finance was the second attractive sector. Likewise, insurance,

hotel, trading, manufacturing, processing simultaneously other sector of investment. Investors objectives of the investment in these sectors were maximize return, enhance social status, and minimize the possible risk.

Bhattarai (2011) has carried out a study on "*Practices of Money Market and Its Instruments in Nepal.*"

Objectives of the study were as follows:

-) To identify the various money market instruments and participation in Nepalese money market
-) To examine the yield concept and trading procedure of money market instruments.
-) To analyze the role of money market to control the economic activities in the country.

The data used in this study was basically secondary in nature. Collected data were presented in the tabular form prescribed by Nepal Rastra Bank debt management group. Outcomes of the research were also presented in the diagrammatical way as well as comparative bar diagrams.

Following major findings have been drawn.

-) The transaction of Repurchase Agreement only occurs between the NRB and local commercial banks. There is the regulatory provision about the Repurchase Agreement that, Nepal Rastra Bank must be the one party to conduct the Repurchase Agreement either to fulfill short fund of commercial bank or to meet the requirement of NRB.
-) Very few banks have found to use non-negotiable CDs as short term sources of funds; however it has been found that banks issuing the CDs are increasing in recent years. The interest rate of non-negotiable Certificate of Deposit is also increasing trend. Generally, most of the money market instruments issue on discount at par. Certificate of Deposit issue on simple interest yield methods.

Ojha (2013) has carried out a study on *"Investors' Preferences and Expectations on Financial Instruments in Nepal."*

The objectives of the study were as follows:

-) To examine the investors to the financial instruments.
-) To find out their expectation that they buy securities.
-) To find out whether the companies are able to fulfill the investor's expectations or not.

The secondary data source for the study is taken from NEPSE reports, SEBON reports, NRB reports, reports of issues like managers etc. on the other hand, to know about preferences of the investors primary data are collected through the questionnaire.

Major findings of the study were as follows:

-) Preferences of different categories of investors, as well as different size of investors were also found similar. Common stocks appeared as the most preferred instrument for all them.
-) Results showed that investors prefer banking and financial sector in comparison to other sectors like; manufacturing and processing, trading and hotels. Commercial banks, finance companies, hydropower companies, other group were found to be most preferred sectors.
-) Most of the respondents were unaware about government securities. Majority of investors who have invested in government securities have invested because they do not have risk.

2.7 Research Gap

Some studies related to the topic had been conducted as a thesis for the partial fulfillment of Master's level. Some relevant research has been found to be conducted in favor of individual investors in Nepal which are useful to this study. Overall previous thesis related to securities and Nepalese investor's assumptions of investments alternatives found to be incomplete. Some were related only with psychological factors of investors and some were related only with developments of

financial instruments. Most of the research works were found not addressing exclusively on the investor's preference in the context of Nepal. Investor's behavior like investments habit, psychological factors and awareness changes with passage of time. So does their preferences and priorities. In this regard, this study covers all these aspects and examines current perceptions and attitude of investors about financial instruments and provides fresh findings and recommendations. That is why, this study, contribute new approach toward preference of financial instrument which is not sought yet by previous researchers. This study, in true sense fills the gap of ignorance with knowledge for seekers. Hence, the research covers what factors affect the investors to invest in securities and which instruments are preferred by investors through the access of investor's awareness regarding the investment decisions in selection of securities through primary and secondary data analysis using different statistical tools which is new to previous research.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in entire aspect of the study. It may be understand as a science of studying how research is done scientifically. It helps to analyze, examine and interpret various aspect of research work (Paudyal, Basnet and Pant, 2012). This chapter is concern to a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answer as per objectives.

3.1 Research Design

Research design is a planned structure of investigation conceived to obtain answer to research objective through the analysis of data. This study will adopt descriptive cum analytical research design. For the analysis of primary data to know the preference of investor in various securities the descriptive research design will be used in case of secondary data analysis. To validate the primary data analysis results, the analytical research design will be used. So the study describes and explores the scenario of financial instruments as well as tries to analyze the investor's preferences toward instruments.

3.2 Population and Sample

The entire number of investors of listed financial instruments is the population of the study. The total population of investors is very large which includes very small investors to analysts and professional investors. Investors were taken as subjects on random sampling basis. The investors will be taken based on their features like; small, large, male female, less informed, analyst and so on. Survey was conducted on various points like: NEPSE floor, Broker's office and several other places. Investors are surveyed as per the accessibility i.e. those which are in valley of Katmandu.

Table 3.1
Features of Sample

Population	Sample features	Sample number
All investor of security market as unit of analysis as individual	Small investor, large investors, male, female, less informed, informed, analyst, professional, various sector investors.	100

Source: Sample survey, 2014.

3.3 Sources of Data

The secondary data source for the study is taken from NEPSE reports, SEBON reports, NRB reports, reports of issues like managers etc. on the other hand, to know about preferences of the investors primary data are collected through the questionnaire. Thus, both primary and secondary sources are used for the collection of the data. The study heavily depends upon the primary source, since the main objectives of research is to know about the preferences of investors over financial instruments.

3.4 Data Collection Procedure

To collect the primary data structured questionnaire survey have been used. But some open end questions are also included in the questionnaire to liberalize the response of preference of investors. For the secondary data different publications were taken into considerations for instance reports, journals, bulletins etc of different relevant sources like: NRB, NEPSE, SEBON etc.

3.5 Data Analysis Tools

For the purpose of analysis, data are presented in various forms. Different relevant statistical and financial tools are used. They are:

3.5.1 Statistical Tools

1. Median Analysis

Median gives the middle value in the sets of numbers. In the distribution of scores, median distribution remains exactly same if the lowest score is simply 1 Formula to calculate median for ungrouped data is given below:

Median = value of $[\frac{n+1}{2}]^{\text{th}}$ item

Where,

N = Number of items

2. Chi-Square Test (χ^2)

Chi square is one of the simplest and most widely use non-parametric test in statistical work. It has been used to check whether there is any association between two independent variables as well as to check the uniform distribution of the investor's response toward various options. Chi-square statistics helps to test the association as well as uniformity. Formulae of chi-square are given below:

$$\sum_{i=1}^r \sum_{j=1}^c \frac{(n_{ij} - E_{ij})^2}{E_{ij}}$$

Where,

χ^2 = Chi square statistics

r = Numbers of rows

c = Numbers of Columns

n_{ij} = Number of cases categorized on the i^{th} row and j^{th} column

Where, $E_{ij} = \frac{R_i \cdot C_j}{N}$

N = Total number of cases

d.f. = (r-1) (c-1)

3. Kruskal-Wallis Test (Non Parametric ANOVA)

Kruskal-Wallis test helps us to test the hypothesis whether the responses of two categories of subjects are significantly different or not. Kruskal-Wallis Test H has been calculated to test whether there is any difference in the preferences of different investors or not, the formula for H is given below:

$$H = \frac{12}{N(N+1)} \left[\sum_{j=1}^k \frac{R_j^2}{n_j} \right] - 3(N+1)$$

Where,

- K = Number of samples
- n_j = Number of cases in j^{th} sample
- N = Number of cases in all samples combined
- R_j = Number of ranks in the j^{th} sample

If the calculated value is greater than tabulated value then Null hypothesis is rejected.

3.5.2 Financial Tools

Growth Rate

Growth rate is used to see how the investment on government securities and common stocks are growing. This helps to reflect the investment made on those financial instruments and performance over them. Growth rate is calculated as given below.

$$\text{Growth rate} = \frac{V_1 - V_0}{V_0} \times 100$$

Where,

- V_1 = value of current year
- V_0 = value of previous year

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, an attempt has been made to show the various dimension of financial instruments used in Nepalese economy. The chapter devotes to demonstrate the various dimensions of the financial instruments used in Nepalese financial institutions and central bank to mobilize and fulfill short-term liquidity. This part of study includes the analysis of secondary data regarding the issuance of financial instruments in Nepal and the trading volume. It also includes analysis of primary data collected through questionnaire survey. The study mainly depends on the data collected from published and unpublished secondary sources and collected primary data from own survey.

4.1 Analysis of Secondary Data

The secondary data collected through published sources are analyzed under this chapter. The data has been taken from the newspaper, journals, bulletin, and annual reports of concerned companies, SEBON, NEPSE, and NRB.

4.1.1 Corporate Securities

Issue and subscription of the corporate securities are analyzed to find out the investors preferences and expectations upon corporate securities. Corporate sector issue in Nepal is more dominating than others. It can be apparently explained through the table 4.1.

Table 4.1
Issues of Corporate Securities

(Rs. in million)

Fiscal Year	Common Shares		Preference Share	Debenture	Mutual Fund	Bonus Share
	Ordinary share	Right Share				
2002/03	148	30	80	0	0	0
2003/04	412.46	124.6	0	0	93.25	0
2004/05	118.5	365.79	0	0	82.91	0
2005/06	378.76	387.87	0	360	138.48	0
2006/07	551.5	162.24	0	0	100	0
2007/08	755	365.79	0	300	62.87	0
2008/09	300.89	387.87	400	300	45.49	0
2009/10	579.8	162.24	0	850	0	1560.45
2010/11	380.25	429.92	0	250	0	1300
2011/12	1728.83	5075.20	0	50	0	2804.34
2012/13	1923.21	5145.30	0	73	0	2434.82
Total	19914.02		480	2183	523	8099.61
Ranking as per issue amount	1		5	3	4	2

Source: SEBON Annual Report

The table 4.1 shows the amount of different types of securities issued under different time during 2002/03 to 2012/13 in financial market. The total amount of issue is about Rs. 31199.63 million. Table further shows that right share have domination in the total amount i.e. Rs. 12636.82 million and then after there is domination of ordinary share. Bonus share has the second position in ranking according to the amount of issue. The third position of issue of debenture may be due to capital increment need of corporate sectors. Mutual fund and preference share have fourth and fifth position respectively. It is clear from the table that public has the most preference on common share.

The common share has been leading the issues from past to present. It has taken a height in recent two years. The amount of common share has increased due to the issue of right share to increase the amount of paid up capital of bank and financial institutions to meet the obligation of Nepal Rastra Bank. Preference share has been started to issue from 2006 and has taken a height of 400 million in 2008 but now a day's companies are not willing to issue preferences shares. Debenture issue also has taken place in Nepalese financial market from 2005 and its issue is growing every year. Bonus share has become a means to increase capital for profit earning corporations in last year's. Mutual fund has been issuing in former years in negligible amount but now a days it has been neglected. It is very clear that companies are issuing common share to raise needed capital. Some profit earning companies are issuing bonus share which can benefit the shareholders and that will also meet the capital increment need of the concerned company. Some companies are issuing debentures because that should not pay unlimited benefit as to the common share and whose cost of capital use to be very low than other instruments. Though having more ups and down in issue common share is the most preferred securities and the mutual fund is the least preferred security in the market. Form this it can clearly said that the common share is the security from which investor expect more return and the mutual fund is the security from which investors expect least return.

Table 4.2
Public issue and Subscription in 2012/13

(Rs. in million)

S.N.	Name of the Company	Issue Amount	Issue Date	Subscription Times
1	Kamana Bikash Bank	73.00	2011/10/04	14.77
2	Country Development Bank	101.00	2011/10/11	21.23
3	Chilime Hydropower	291.80	2011/10/11	477
4	Gurans Life Insurance	108.00	2010/10/19	25.31
5	Professional Bikash Bank	30.00	2010/12/10	13.09
6	Purnima Bikash Bank	30.00	2010/12/28	13.86
7	Rara Bikash Bank	66.03	2011/12/20	31.40
8	Multi-Purpose Finance	10.00	2011/02/06	16.00
9	Corporate Dev. Bank	60.00	2011/03/21	41.34
10	Sangrila Bikash Bank	96.00	2011/05/10	84.08
11	Shine Dev. Bank	80.00	2011/06/05	65.54
12	Muktinath Dev. Bank	70.00	2011/06/07	242.87
13	Bhargav Bikash Bank	40.00	2011/08/07	-
14	Hama Merchant and Finance Ltd.	74.00	2011/02/07	57.35

Source: NEPSE Annual Report

Table 4.2 shows the Initial Public Offering their issue amount and subscription times. The common shares have been oversubscribed by at least more than 13.09 times and up to 1103 times. Ordinary share of Chilime Hydropower has over-subscribed by 477 times and the ordinary share of Professional Bikas Bank has been oversubscribed by more than 13.09 times. This trend shows the chunk of Ordinary share.

The general investors have a belief that though the issuing company may not distribute profit in future but the share's price will be appreciated in future. The companies who were in loss while issuing the ordinary share in public also

oversubscribed. This type of oversubscription may be due to lack of proper information about share.

It can clearly be seen that the public issue of common shares are being oversubscribed by huge amount. On an average the IPOs of 2012/13 was oversubscribed by 78.85 times of offering. Among the 14 company Chilime Hydropower is the only company that issued shares on public during 2012/13. This domination of shares of Banks and Financial Institutions shows that common shares of Banks and Financial Institution are the most preferred financial instruments in Nepalese financial market. It can easily be said that investors are expecting many more from the common share of banks and financial institutions because they are showing their interest much on them. Investor has expectation that either the company will distribute dividend or the capital will be appreciate future.

4.1.2 Government Securities

Investor has choice of corporate or government securities depending on their nature of risk aversions or risk seeking. Government securities are risk free securities but they provide very minimum return as compared to corporate securities. We have details of government securities issued in Nepalese capital market in different years. Government issues Treasury Bills, Development Bond, National Saving Bond, Public Saving Cards etc. We have following table to show the issue of government securities in Nepal.

Table 4.3
Issues of Government Securities

(Rs. in million)

Fiscal Year	Treasury Bills	Development Bond	National Saving Bond	Citizens Saving Certificate	Special Bond
2002/03	27610.8	5962.3	12476.4	0	13994.3
2003/04	41106.5	11090.7	11536.1	628.1	9259.3
2004/05	46844.9	13090.7	10659.9	931.1	9621.7
2005/06	49429.6	17549.2	9029.8	1178.9	8946.2
2006/07	51383.1	19999.2	6576.8	1428.9	8176.3
2007/08	62970.30	17959.2	3876.8	1678.9	3469.8
2008/09	74445.3	19177.1	1516.9	1391.0	2773.5
2009/10	85033	21735.40	1116.9	3014.4	339.4
2010/11	86515	29478.50	216.9	4433.6	229.6
2011/12	102043.7	35519.40	0	5126.9	169.7
2012/13	112343.8	36754.61	0	5264.6	181.9
Total	739726	228316.31	57006.5	25076.4	57161.7
Percent	66.80	20.61	5.15	2.26	5.16
Ranking	1	2	3	5	4

Source: NRB Quarterly Economic Bulletin

Table 4.3 shows the issuance of government securities in different year during the last decade. Government is giving top most priority on Treasury Bills and secondly it is issuing the development bond on market. Special Bond, National Saving Bond and Citizen Saving Card come in third fourth and fifth position. Treasury bill is easy to subscribe in market so government choose the Treasury Bills to raise the required fund. The Treasury bill hold the sixty-five percent of the total issue Development Bond holds almost 20.61 percent of issue. Special Bonds and National Saving Bond holds 5.16 and 5.15 percent which are ranked as third and fourth according the amount of issue. It has found that most of government bond has purchased by bank and

financial institution, insurance companies, provident fund, government business enterprises and general public. The major portion of government issues is purchased by banks financial institutions and insurance companies. The companies who are not allowed to invest their fund in risky financial instruments and the company who are directed by NRB to invest certain percent of their fund in government securities are actively participating in auction of government securities. Negligible amount is being individuals. The least interest of general public in government is due to less return as compared to other risky financial instruments. The cause of least public participation is due to huge amount to purchase minimum number of government securities.

It is clear from the chart that the trend of issuing treasury bills is in increasing trend and in highest amount from the binging. In former days the development bond was not so intended issue but now days it is the second preferred Government Issue. Citizens saving certificate and the national saving bonds are in decreasing trend in recent years.

4.1.3 Secondary Market & Investor's Preference in Financial Instruments

Secondary market also reflects the investor's preferences up on financial instruments. For this purpose the secondary securities transaction in Nepalese secondary market will be analyzed. The data available from Nepal stock exchange and security board are used here to find out the investors preferences upon financial instruments.

4.1.3.1 Listing

Listing is entry of any securities in secondary market to transact through brokerage firm. Listing shows the preferences of concerned company upon certain financial instruments. Table below shows the listing of securities in NEPSE during fiscal year 2012/13.

Table 4.4
Listing of Securities during 2012/13

(Rs. in million)

S.N.	Type of Security	Listed Amount
------	------------------	---------------

1	Ordinary Share	7346.08
2	Right Share	280.98
3	Bonus Share	4214.15
4	Corporate Bond	1600.00
5	Mutual Fund	1250.00

Source: NEPSE Annual Report 2012/13

Table 4.4 shows the listing of securities in fiscal year 2012/13. The listing trend shows that there is domination of listing of ordinary share. Bonus share is in second and corporate bond is in third position. Mutual Fund is in fourth position. The above figure also shows that bonus share has become another means to meet the capital increment for the profit earning organizations.

4.1.3.2 Trading Volume

To find out the investors preferences in instruments and sectors of investment it is necessary to analyze the sectorwise trading trend in stock exchange. The only stock exchange of Nepal NEPSE has classified the companies into 9 trading sectors. Companies having similar products and objectives has grouped under same groups. The environmental effect and earning opportunity use to be same for the companies under same group. Almost the companies under same group has similar type of earning pattern. Investors may have belief upon certain sector. Some may like to invest upon hydropower company because of having more opportunity of earning. Some may like to invest on banking industry because they are earning very good and distributing dividend too. The trading volume helps us to findout which is the sector of investment on which investors are prefering to invest much.

Table 4.5
Annual Sectorwise Trading Volumes in Year 2012/13

(Rs. in million)

S.N.	Sectors	Traded Amount	Percentage	Ranking
1	Commercial Bank	14089	69.4	1
2	Development Bank	972.04	4.7	4
3	Finance Companies	454.11	2.24	6
4	Insurance Companies	1618.82	7.97	3
5	Hotel	100.41	0.49	8
6	Manufacturing and Processing companies	74.88	0.37	9
7	Trading Companies	6.95	0.03	11
8	Hydropower Companies	2226.00	10.96	2
9	Mutual Fund	115.20	0.57	7
10	Preferred Stock	50.81	0.25	10
11	Other	593.12	2.92	5
Total			100.00	

NEPSE Annual Report 2012/13

According to table 4.5 trading volume it is clear that investors like to invest upon the common share of commercial banks at first and Hydropower and insurance companies in 2nd and 3rd respectively. Development bank is the 4th most preferred company to invest; other companies lies in 5th position according to traded amount. Finance companies stands 6th, Mutual Fund and Hotel are in 7th and 8th position. Similarly Manufacturing and preferred stock stands for 9th and 10th respectively. This ranking is according to traded amount in the certain group. There are few companies in some group some single companies are representing some sectors of investment. But as a whole it is clear that there is chunk on common shares of bank and financial institutions.

4.1.3.3 Market Capitalization

Market capitalization is the product of number of share traded and price per share. The market capitalization shows that which group or certain security is being traded in high price as well in high quantity. Market capitalization of different sectors can be taken as the indicators of investors' preference in those sectors. Higher market capitalization indicates higher percentage of investors. The higher market capitalization also shows that the share is being actively traded in stock exchange. The security having low price may also have higher market capitalization because of high quantity of share. From the point of view of market capitalization the result may differ than that of trading volume. Traded amount shows that how much amount was traded but capitalization combines the traded amount and no. of shares.

Table 4.6
Sectorwise Market Capitalization in 2012/13

S.N.	Sectors	Market Capitalization in million	Percentage
1	Commercial Banks	196778.78	53.88
2	Finance Companies	28788.71	7.88
3	Development Banks	29425.15	8.06
4	Insurance Companies	1234.45	0.34
5	Manufacturing and Processing Companies	8448.25	2.31
6	Trading Companies	13496.12	3.70
7	Hotel	1887.52	0.52
8	Hydropower Companies	18259.15	5.00
9	Others	66866.12	18.31
	Total	365184.25	100.00

Source: NEPSE Annual Report, 2013

According to Table 4.6 it can be said that the most dominating group is commercial Banks which holds 53.88% of total market capitalization. Other group holds the

18.31% of market capitalization which is second largest group as per market capitalization. Development banks, finance companies, hydropower companies, trading companies, insurance companies, manufacturing and processing companies and hotel covers 8.06%, 7.88%, 5.0%, 3.70%, 2.31%, 0.52% and 0.34% respectively. Overall the banking industry is domination Nepalese capital market. Others and hydropower companies are following the capitalization of banking industry. After the listing of common share of Nepal Telecom the other group has become the second market capitalize in Nepal Stock Exchange. But because of holding more than 50% of the total market capitalization commercial banking sector is the most choice of the investors. The trend shows that the second and third sector of investment is hydropower and telecommunication industry.

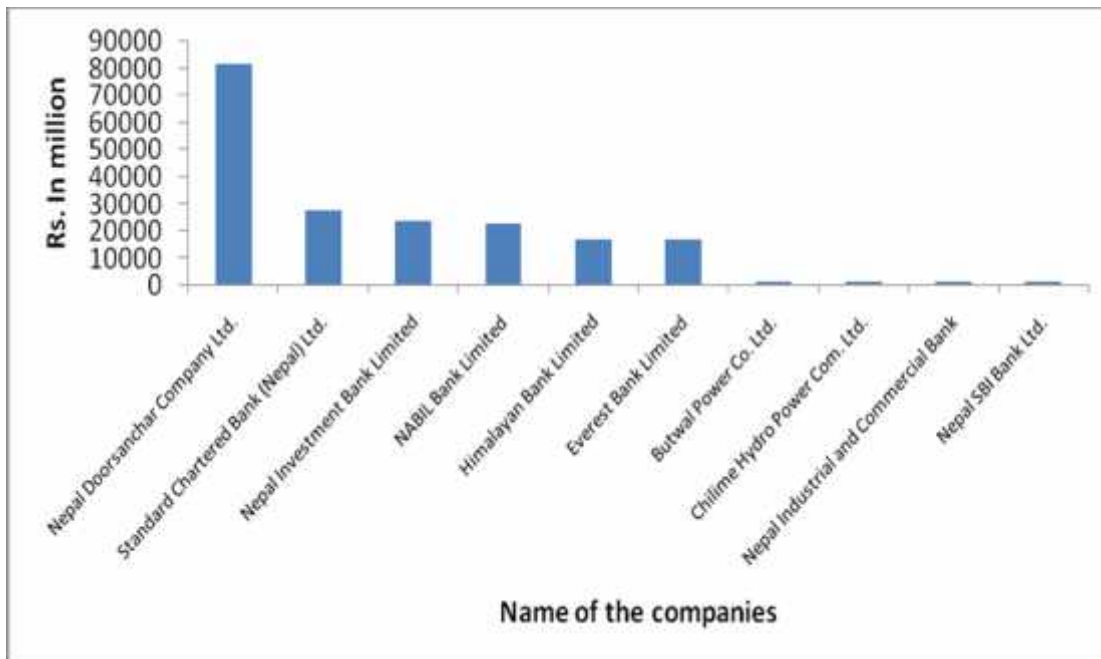
Table 4.7
Top Ten Companies as per Market Capitalization in 2012/13

(Rs. In million)

S.N.	Name of the Companies	Capitalization
1	Nepal Doorsanchar Company Ltd.	81840.00
2	Standard Chartered Bank (Nepal) Ltd.	27785.40
3	Nepal Investment Bank Limited	23896.40
4	NABIL Bank Limited	23031.15
5	Himalayan Bank Limited	17193.22
6	Everest Bank Limited	16891.41
7	Butwal Power Co. Ltd.	1700.64
8	Chilime Hydro Power Com. Ltd.	1697.31
9	Nepal Industrial and Commercial Bank	1530.40
10	Nepal SBI Bank Ltd.	1434.21

Source: NEPSE Annual Report 2013

Figure No. 4.1: Top Ten Companies as per Market Capitalization in 2012/13



According to Table 4.7 and figure 4.1, Nepal Doorsanchar Company (Nepal Telecom) has the highest market capitalization. This said that the share of Telecom was traded in NEPSE at highest numbers over the year. Standard chartered bank is the second market capitalization. Though standard chartered has highest share price among the share traded in stock exchange it is in second in market capitalization. The second position of standard chartered is because of less number of shares and less trading in the trading days. Butwal Power Company and Chilime Hydropower Company are in 7th and 8th position respectively. The table can prove that though Nabil and Himalayan companies are in 4th and 5th position in trading volume but they are within top ten markets capitalize over the year. So investor wants to invest upon the shares of banking sectors too. This capitalization also said that investor has begun to analyze the earning possibility and dividend distribution of the company on whom they are investing. It can also be concluded that investors on secondary market are wise than that of primary market. In other word the investment in secondary shares are done after proper analysis of the company, industry and economy of the country.

4.2 Primary Data Analysis

This section includes analysis and presentation of primary data collected from different respondents. The data was collected from different categories of investors through questionnaire, such as staffs involved in the trading of securities in secondary market, general investors, professional investors etc. The purpose of the analysis is to achieve the objective of the study. The detail about the respondents is as follow.

Table 4.8
Analysis of Respondents

Gender	Number	Percentage
Male	70	70%
Female	30	30%
<u>Age</u>		
Below 30	26	26%
30 and above	74	74%
<u>Education</u>		
Less than graduate	20	20%
Graduate	46	46%
Post Graduate and above	14	14%
<u>Employment status</u>		
Unemployed	18	18%
Job holder	44	44%
Self employed	28	28%
Retired	10	10%
<u>Category</u>		
Less informed	41	41%
Informed	38	38%
Well informed	17	17%
Analyst/Professional	4	4%
<u>Size</u>		
Small	65	65%
Medium and large	35	35%

Source: Field survey, 2014.

Gender, Age

Among the Respondents 30% were female investors rest 70% were male investors. According to age 26% were under the age of 30 years and 74% were 30 year and above that. The age distribution shows that most of the investors are matured and entry of layman into investors is nominal.

Education

On the basis of education of investors they were classified into less than graduate, graduate and post graduate and above. On them most of investors were found to be graduate. 20% of the investors were graduate 46% were less than graduate and 14% were post graduate and above. This shows that most of the investors are well educated because graduation is considered as well educated.

Employment Status

Majority of the investors were found to be jobholders. 44% of the total investors were found job holders. 28% were self-employed, 18% were unemployed only 10% were retired. This shows that most of investors are regular earner who invests their amount of savings on financial instruments. Self-employed investors also use to have money to invest in securities. Retired and unemployed investors should either invest their past savings or operate investment from credit and reinvest the gain from investment.

Information about Investment

As per the information of investment investors were classified into less informed, informed, well informed and analyst/professional investors. Majority of the investors like to say their selves as less informed investors there is another group of investor who likes to be said as informed investors. 41% of the investors are less informed and 38% of them are informed investors 17% were well informed and 4% of them were analyst/professional investors. This classification result shows that most of investment is done without proper analysis and without gathering proper information about the

investment. But some people are informed about investment alternatives and investment environment.

Size of investment

65% of the investors are small sized investor who invests 50 thousand or less as investment and 35% were medium or large investors. This result shows that most of the investment is done from small investors. Nepalese investment is dominated by small investors.

4.2.1 Preferences Over Major Investment Alternatives

For the analysis of investment alternatives of Nepalese investors were asked in which they make they make the investment most. The four alternatives were corporate securities, government securities, real estate and bullion. The table below indicates the total rank and the rank assigned as per investment preferences.

Table 4.9

Ranks of Investment alternatives

S.N.	Alternatives	Rank Sum	Rank
1	Corporate Securities	290	1
2	Government Securities	268	2
3	Bullion	244	3
4	Real Estate	198	4

Source: Field survey, 2014.

Median=256,

As per the median analysis the alternatives which have the rank sum of more than 256 are the preferred alternatives and the alternatives having rank sum less than 256 are less preferred securities. On the basis of rank and median analysis it can be said that corporate securities and government securities are the preferred investment alternatives whereas real state and bullion is less preferred alternatives. In this case corporate securities are most preferred securities and bullion is less preferred investment alternative.

Taking response of total cases 100, the investment alternatives are ranked as per their rank sum. It shows that corporate securities are the most preferred alternatives.

Government securities are second preferred investment alternatives bullion and real estate falls in 3rd and 4th position respectively.

4.2.2 Preferences as Per Employment Status

Preferences over the investment alternatives may vary with the types of investors. From the population two groups were separated on the basis of employment status. Jobholders and self-employed were taken as employed investors whereas unemployed and retired were taken as unemployed investors. Employment directly affects the earnings of the investors and earnings have impact over investment decision and preferences. Hypothesis is to be tested in this regard is that whether there is significant difference between preferences of employed and unemployed investors or not.

Null Hypothesis H_0 = There is no any significant differences between the rank given by unemployed and unemployed investors.

Alternative Hypothesis H_1 = There is significant differences between the ranks given by unemployed and employed investors.

Kruskal Walis one way non-parametric ANOVA by ranks has been used to test the differences in two groups.

Table 4.10

Ranking of Preferences as per Employment Status

	Investment Alternatives	Rank Sum	Rank
Unemployed investors	Corporate Securities	49	3
	Government Securities	57	2
	Real Estate	64	1
	Bullion	47	4
Total			10
Employed Investors	Corporate Securities	207	5
	Government Securities	181	6
	Real Estate	166	8
	Bullion	172	7
Total			26

Source: Field survey, 2014.

$$\mathcal{R}^2 = 5.33$$

Tabulated value of chi-square at 5% level of significance with 1 degree of freedom is 3.841. Since the calculated value (5.33) is greater than the tabulated value. Hence null hypothesis is rejected. It can be concluded that person holding a job and a person

without a job has different preferences toward investment alternatives. It can be concluded that job holder investors and jobless or retired investors use to have different investment preferences toward investment alternative. Employed or investors having regular earning has preferred the corporate securities and government securities respectively but Unemployed or people do not having regular income has preferred Real estate and government securities most. Employed investor has bullion and real estate in 4th and 5th alternative whereas unemployed investors has corporate securities and bullion as 4th and 5th investment alternatives respectively. It can be conclude that employed investors are willing to take additional risk in order to take more return so they have preferred corporate securities most. The retired people want to invest the lump sum amount into land and buildings and they enjoy playing with real-estate business. Some unemployed investors do not want to take risk anymore so they prefer risk free government securities.

4.2.3 Preferences over Financial Instruments

This part of study considers only the financial investment alternatives and their preferences by the investors. Study has considered common stock, Preference share, Government bond, Debentures, Mutual fund and treasury bills as the major financial instruments, since these are the major instruments that are traded in Nepalese financial market.

Table 4.11

Rank of Financial Instruments

S.N.	Financial Securities	Rank Sum	Rank
1	Common Stock	238	1
2	Government Bond	220	2
3	Debentures	213	3
4	Preferences Shares	208	4
5	T-Bills	199	5
6	Mutual Fund	196	6

Source: Field survey, 2014. Median = 210.50 Details in appendix -7

Table 4.11 shows the rank sum and ranks of the financial instruments. As per the calculation the common stock has highest ranking and mutual fund has the lowest ranking. Since we have median of 210.50, the instruments having rank sum of more than 210.50 are preferred instruments and those having less than 210 are less preferred

instruments. So common stock is the most preferred instrument in financial market which has 238 rank sum and the government bonds are the second preferred instruments which has 220 rank sum. Corporate debentures, preferences shares, Treasury bills lies in third, fourth and fifth position of investors preferences. Mutual fund is the least preferred instruments in the financial market it has least rank sum of 196. In recent years the convertible feature on preference share has drawn the attention of the investors toward it. Treasury bills are heavily exercised by banks and financial institutions to manage liquidity. Individual involvement in treasury bills is nominal. Due to least return and close-end system mutual fund is not being able to retain the investor's faith on it.

4.2.4 Preference Over Investment Sector

According to classification made by NEPSE there are nine investment sectors in Nepalese secondary market. As per the respondents' view the sector of investment has ranked as described in table 4.12.

Table 4.12
Ranking of Sectors of Investment

Investment Sectors	Rank as Best	Ranking
Commercial Banks	36	1
Development Banks	17	2
Finance Companies	13	3
Insurance Companies	10	4
Hydropower	8	5
Other	6	6
Manufacturing & Processing Companies	5	7
Trading Companies	4	8
Hotels	1	9

Source: Field survey, 2014.

From the table 4.12 it is clear that investors have most preferences on securities of commercial banking sectors. Among 100 investors 36 investors ranked the commercial banking as best investment sector available in Nepal. 17 on 100 ranked development banks as second preferred investment sector. Finance companies, insurance companies, hydropower companies and other sectors are ranked as 3rd, 4th, 5th and 6th position in ranking by sample of investors. Manufacturing companies, trading companies and hotels are the least preferred sectors of investment. It is clear that transparency, high profit and dividends has made the financial instruments of

banks and financial instruments more attractive though they may give less return. There are other, hydropower and manufacturing and processing companies which has been distributing same level of dividend as compared to banks and financial instruments. Up to some extent it can be said that Nepalese financial market is not so developed so most of the investors buy whatever available in the market. Most of the investors are passive they take suggestions of well-known investors and make their investment. And a large number of investors run after the rumor of the market.

4.2.5 Preferences over Investment Objectives

The major investment objectives (as reviewed in former chapter) of the investors in this study are considered as the price increment or growth, regular return, liquidity and safety. Different investors might have different objectives. Table 4.15 shows the frequency of ranks provided by respondents to those objectives, rank sum and ranks.

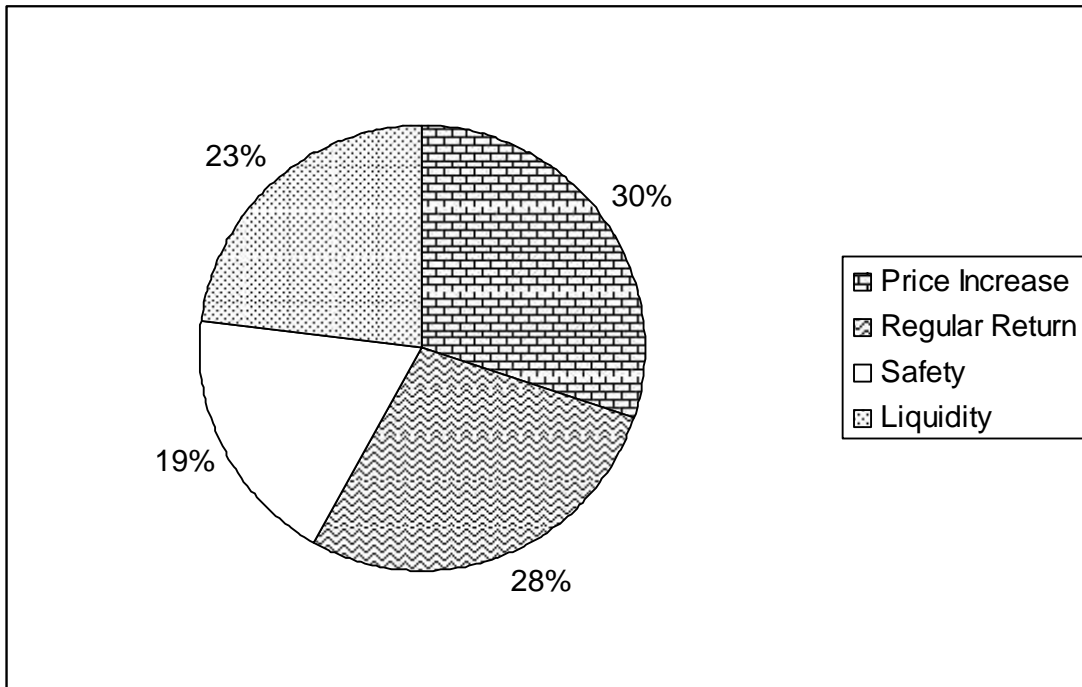
Table 4.13

Investment Objectives and Investors Preferences

Research Variables	Types of Investors				Total
	Less Informed	Informed	Well Informed	Analyst	
Price Increase	8	16	3	3	30
Regular Return	13	12	2	1	28
Safety	11	6	1	1	19
Liquidity	13	8	1	1	23
Total	45	42	7	6	100

Source: Table no - 4.13

Figure 4.2
Investment Objectives



The figure 4.2 shows 30 percent investors invested focusing price increase, 28 percent for regular return, 23 for liquidity and remaining 19 percent for safety purpose.

To test whether the different types of investors has same type of preferences over investment objectives chi square test for independence of attributes were used.

H_0 = the investors has similar types of preferences over investment objectives.

H_1 = the investors do not have similar types of preferences over investment objectives.

Calculated value of χ^2 is 5.34. Tabulated value of χ^2 at 10% level of significance with 3 degree of freedom is 6.251 Since $\text{Cal } \chi^2 < \text{Tab. } \chi^2$ null hypothesis is accepted. Hence we can conclude that the investors prefer all the investment objectives equally. As per this research out of 100 samples 30 has preferred price increment as best objective.

4.2.6 Opinion Regarding Propositions

To know the awareness of investors in different regards, different propositions were provided. The propositions and their responses are presented as followed.

Table 4.14

Opinion Regarding Propositions

S.N.	Propositions	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Total
1	One should not invest whole amount in the same investment instruments, s/he should form a portfolio of different alternatives.	54	32	10	4	0	100
2	Banking is the biggest investment sector	46	34	9	6	5	100
3	Nepalese investors don't have defined preferences they just follow the whim or Orumor	50	19	14	10	7	100
4	Nepalese investors do detailed analysis before investing in corporate securities.	14	20	22	26	18	100
5	We don't have wide choice of investments, so we buy whatever floats in market.	35	22	30	8	5	100
6	Government securities yield less than corporate securities, so they are not attractive.	29	28	32	9	2	100
7	The main attraction of securities of bank and financial institution is due to right share and bonus share rather than cash dividend and capital appreciation	46	34	9	7	4	100
8	First one should save a certain level of amount very safely like: deposits in bank, than only he has to invest the surplus amount in securities.	28	20	41	8	3	100

Source: Field Survey, 2014

Tale 4.14 summarizes the ranking made by investors among propositions. The first proposition was to find out the awareness about investment risk minimization. Most of the investors are strongly agree constructing portfolio while investing in securities, 54 was calculated mode on 100 investors. More than 50% investors are strongly agreed to construct portfolio for investment in financial instruments. Most of the investors were agree that they should not invest whole amount in same investment. Second proposition was to find out investors preferences on investment sector. 46% of the investors were strongly agreed that banking is the biggest investment sectors. As a whole 80% of investors were agreed that banking is the biggest investment sector. There were few who disagree that banking is the biggest investment sector 11 on 100 were disagree that banking is the biggest investment sector. 3rd proposition was to find out whether investor has defined preferences or they purchase whatever float in the market. 50 investors are strongly agreed that Nepalese investors don't have defined preferences they just follow the whim and rumor. 19 investors are agreed that Nepalese investors follow whim and rumor. 7% investors are strongly disagreeing that Nepalese investors follow whim and rumor on preferences of the instruments. Most of the investors disagree that Nepalese investors do detailed analysis before investing in corporate securities. At about 44% investors disagree that investors do detail analysis before investing in corporate securities. Only 14 are strongly agreed and 20 are agreeing that investors do detail analysis before investing in corporate securities. 5th proposition was to find investors response about availability of financial instruments in Nepal. Most of the investors are agree that they do not have wide choice of instruments so they buy whatever float in the market. 22 on 100 are agreed and 35 are strongly agreed that they don't have wide availability of financial instruments. Less than 22% were agreed on wide availability of the financial instruments. 6th proposition was set to find out the awareness about the return of government securities and its comparison with corporate securities. Most of the investors are unaware about the return of government securities. 32% of the investors were neither agree nor disagree that government securities yields less than corporate securities so they are not attractive. More than 56% are agreeing that government securities yield less than corporate securities so they are not attractive. More than 75% investors are agree on the proposition that the main attraction of securities of banks and financial institution is right share and bonus share rather than cash dividend. It means that most of the investors want to have huge number of share rather than take cash benefit. The

company which is going to distribute right share their price use to be in bullish trend in Nepalese secondary market. The 8th proposition was asked that one should save a certain level of amount very safely like: deposits in bank, than only he has to invest the surplus amount in securities. It was set to find out the awareness of investment risk. But most of the investors found to be unaware about it. If we invest all our money in securities and in bullish days of securities market we would be in heavy loss. So to have chance to resume we should have some amount very safety in deposit in banks. 41 on 100 neither agree nor disagree they should have some amount very safety before making investment. Some of them know this principle of investment, 20 are agree and 28 are strongly agree on this proposition to save some amount in banks and financial institution before making investment.

4.2.7 Consideration for Investment Decision

In the course of taking decision of investment in the security market different reasons were analyzed as presented in following table. In this regard different reasons were provided and asked the most important factor for investment decision.

Table 4.15

Consideration for Investment Decision

S.N.	Alternatives	Frequency	Rank
1	Company's track-record/ goodwill	27	1
2	Management team and promoters	23	2
3	Forecasted profit	16	3
4	Possibility of distributing bonus share and right share in future	12	4
5	Environmental factors of the concerned company and the economic situation of the country	9	5
6	Expected risk level	6	6
7	Taxation	4	7
8	Liquidity and maturity	2	8
9	Inflation	1	9

Source: Field survey, 2014.

Awareness of the investors regarding the investment in financial market and investment helps to the development of the security market. The above table shows that most of the investors consider company's track record/goodwill most importantly before making investment decision. 27% percent of the sample investors opine that they consider the concerned company's track record/goodwill before making

investment decision. Management team and promoters of the concerned company is the second major factor which investors analyses before making investment decision. 23% of sample was agreed that they do analysis about the Management team and promoters of the concerned company. Forecasted profit is the third major factor for consideration for investment decision. 9 major factor which are crucial for investment decision were asked with investors which is presented in above table. Those factors are ranked as per opinion of investors.

4.2.8 Attitude Toward Re-investment

Reinvestment process which makes the circulation of investment in investment. Investors were provided with following four variables and asked about the preferences of following options.

Table 4.16
Attitude Toward Re-investment

	Re-investment Options	Frequency	Percentage
Re-invest	Purchase more securities of same kind	50	50
	Purchase some other type of securities	35	35
Total		85	85
Do not Re-invest	Spend in durable products	10	10
	Save it in bank deposit	5	5
Total		15	15

Source: Field survey, 2014.

Table No. 16 shows investors attitude toward re investing the amount gained form investment in securities. The majority of investors want to re-invest the return. 85% want to re-invest return in securities and rests of 15% spend the return in other than in securities. 50% want to purchase same kind of securities but 35% want to purchase some other kind of securities. 10% want to spend return in durable products but only

5% want to save the return in bank. The investors said that the decision to select which instrument to invest fully depends upon the market scenario.

4.2.9 Investors Expectations

The investors were asked what about their expectation toward the company of which they are holding some securities. Summary of their response is presented in the table below.

Table 4.17
Ranking of investors' Expectations

S.N.	Expectation	Frequency	Rank
1	Distribution of Right share in order to get huge number of share	44	1
2	Distribution of bonus share and get benefit from capital appreciation	30	2
3	Distribution of cash dividend to get regular cash inflow	18	3
4	Regular cash dividend or interest and huge amount at the end of intended period.	8	4

Source: Field survey, 2014.

As per table 4.17 it is clear that most of the investors are expectation that the company will distribute right share in future and they would be having huge number of shares as cheaper price and selling those right share they would enjoy the capital gain. 44% of sample investors were agreed that they buy the share which will distribute right share. Right share has become the main attraction on the company's share. Bonus share is the share on which investors should not pay any money but they can sell the share in market at present market value. 30% of sample investors were agreed that they buy share for bonus share. To get the capital gain a large number of well informed investors is attempting the companies having possibilities of distributing bonus share. Another most preferred expectation is that the company will distribute regular cash dividend and the investors will meet regular cash need. 18% of sample investors are expecting regular cash dividend from the companies. Only near about

8% of the sample investors want regular cash dividend or interest as return and at the end of intended period they want huge amount liquidating the securities.

4.3 Major Findings of the Study

The major objectives of this study is to assess the investors preferences in making investment however on the basis of the overall study made here, following are the major findings of this study.

Major findings from Secondary Study:

-) Out of total issuance, 50% of total issue covered by common stock. Since, it has highest coverage in total corporate issues: it means common stock is the most widely used corporate security with compared to other securities.
-) The Treasury bill hold the sixty-five percent of the total issue Development Bond holds almost 20.61 percent of issue. Special Bonds and National Saving Bond holds 5.16 and 5.15 percent which are ranked as third and fourth according the amount of issue.
-) Investors like to invest commercial banks at first and Hydropower and insurance companies in 2nd and 3rd respectively. Development bank is the 4th most preferred company to invest; other companies lies in 5th position according to traded amount. Finance companies stands 6th, Mutual Fund and Hotel are in 7th and 8th position. Similarly Manufacturing and preferred stock stands for 9th and 10th respectively.
-) Most dominating group is commercial Banks which holds 53.88% of total market capitalization. Other group holds the 18.31% of market capitalization which is second largest group as per market capitalization. Development banks, finance companies, hydropower companies, trading companies, insurance companies, manufacturing and processing companies and hotel covers 8.06%, 7.88%, 5.0%, 3.70%, 2.31%, 0.52% and 0.34% respectively.
-) Nepal Doorsanchar Company (Nepal Telecom) has the highest market capitalization and lowest has found in Nepal SBI Bank Ltd.

Major findings from Primary Study:

-) Major investment alternatives i.e. corporate securities, government securities, real-estate and bullion are found. Among them, corporate securities are found

the most preferred investment alternatives whereas real-estate is the least preferred alternative. Those who are less educated, less informed and are unemployed are found to be unaware of securities market, so they were found quite reluctant toward heavy investment on financial instruments. They are found interested in real estate and bullion.

-) Common Stocks appeared as the most preferred financial instrument. Responses toward Treasury Bills were found very low. However, government bonds appeared as the second most preferred financial instrument. Those investors who are more aware and educated have positive attitude toward government bonds.
-) Preferences of different categories of investors, as well as different size of investors were also found similar. Common stocks appeared as the most preferred instrument for all them.
-) Results showed that investors prefer banking and financial sector in comparison to other sectors like; manufacturing and processing, trading and hotels. Commercial banks, finance companies, hydropower companies, other group were found to be most preferred sectors.
-) Capital gain was found to be most preferred investment objective for all type of investors either they are less informed, informed, small or large investor.
-) Most of the respondents were unaware about government securities. Majority of investors who have invested in government securities have invested because they do not have risk.
-) Nepalese financial market is lacking well-informed and professional investors. Most of the investors are educated but lacking the knowledge of market and investment opportunities.
-) Most of the investors in Nepal found as the moderately risk taker for the average rate of return only few seems taking higher risk for the return maximization.
-) Commercial banks and finance companies are the major institutional investors in Nepal. They make higher investment on government securities in comparison to common stock.
-) Most of the investors are expecting to have huge number of securities in future from present investment. The investment environment has slightly sifted

toward return distributing companies' rather than right distributing company. Bonus share, Cash dividend and right share are the return or benefit that investors are expecting from the companies. Investors want timely disclosure of information about the company. Some of investors are investing on shares of the companies so that they can participate in the AGM.

-) The existing feature of common stock and that of preferences share or debenture both are not in the context of Nepalese economy. Common stocks rarely use to pay dividends to the investors and the interest rates offered to the preferences share and debentures are very low.
-) At present interest rates offered on corporate debentures or government bonds both are less than existing inflation rate so most of the returns on fixed income securities are negative. It has been found that the hybrid nature of instrument should be invented to response the investors' expectations.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study was conducted to explore out the preferences and expectations of Nepalese investors toward financial instruments and the overall investment environment. During this study investor were classified into less informed, informed, well informed, analyst/professionals, according to the information about investment and financial instruments. Large and small investors were classified as per investment amount. Job holder, self-employed, retired and unemployed were classified as per employment status. 100 investors were taken as sample in order to represent each investor group. During this study majority of investors had found unaware about financial instruments. Most of the investors who have their own investment they have invested as per the suggestions of friends and relatives. Most of the primary investment is done on whim and rumor. Most of the investors are holding securities they do not know what to do of it. Some of the investors are unaware about the distributed dividend. Passive nature of investors has been reflected on the unclaimed dividends of the companies. Theoretically right dilutes the market price of the share of concerned company so it is wisest to average their securities purchasing right shares. Some portion of investors do not know about the right distribution of the concerned company of whose they are holding some securities. Some informed and well informed investors are running behind the company which is going to offer right share so most of the share of right distributing companies are going up in the secondary market. We know the security which is not popular among investors that would not subscribe in the market. Considering the theory we can say that the common share is the most preferred security. Issue amount in the primary issue, market capitalization, over subscription of public issues by many times and the investors views shows that the common stock is the most preferred financial instrument in existing financial market of Nepal. The secondary data shows that investor's expectation is slightly changing into return distributing company rather than the companies distribute very minimum return or distributes right shares. Domination of Nepal Doorsanchar Company is proof that investors are willing to do some analysis before making investment decision. Chilime Hydropower Company and Butuwal Hydropower

Company are also in top ten companies as per market capitalization. There is least possibility of distributing right share by Doorsanchar Company, Chilime and Butwal hydropower companies but they being heavily exercised by secondary investors. While collecting the information from investors that whether the companies are being able to fulfill their expectation majority were found dissatisfied. Majority of the investors had the buy and hold strategy on investment in financial instruments so most of the respondents were willing to have huge number of securities from the company by right or bonus share. Those who were expecting cash as regular dividend are still not satisfied because few companies are distributing cash as dividends. The companies who are highly reputed and earning much profit are distributing cash dividend. Those promoters who cannot sell the securities in their market are willing to distribute cash dividends rather than bonus share as the uniliver Nepal is distributing cash dividend by more than 100 percentages. Expectations other than return or benefits are also not being responded by the concerned companies. Delaying to transfer the ownership of the purchased securities is the most burning issue. Though the company is in profit they are not distributing to shareholders, they are concentrated on increasing the benefits to the employees in many means. Timely completion of AGM and timely disclosure of public information is delaying. The profits of some companies have differed in audited and unaudited balance sheet by more than 100%.

5.2 Conclusion

From the research it has been found that currently the large portion of investors prefers common stock most to invest. The amount of common stock's issue is highest, the public issues of common stock are being oversubscribed by more than 80 times, listing of common stock is highest in Nepal Stock Exchange and most of the respondent prefers common stock most. Treasury bills are the most preferred government security. Trend of treasury bills issue shows that it is the most preferred government security. Commercial banking is the most preferred sector of investment. Sector wise trading volume, market capitalization and respondent's views proves that commercial banking is the most preferred sector of investment. Capital gain is the most preferred investment objectives. Employed investors prefer corporate securities but unemployed investors prefer government securities and bullion. Company's track record and goodwill is the most consideration that investors do before making

investment decision. Investor wants to buy same type of securities if they gain from their present investment. Investors expect to have huge number of securities so they are investing on the company who has possibilities of distributing right or bonus share.

The chunk of investment on common stocks is due to least availability of other investment alternatives. Most preference upon commercial banks is due to transparent policy and distribution of return. IPOs are being oversubscribed because we have no wide availability of financial instruments and investors lack the awareness about investment and risk return nature. Government securities are not being able to attract individual investors due to least interest rates.

5.3 Recommendations

Based on the findings of the study, following recommendations have been made for further improvement:

-) There is huge attraction on common share but people are unaware of preferences share, debentures and other derivative securities. People who know about debenture and preference share do not want to invest on them because of least interest and dividend. Hence security innovation is necessary to avail wide range to invest. The security having quality of common share and fixed income yielding security should be the answer to the expectation of investors.
-) Every organization should oblige to disseminate public/investors related information within specified time. Violation of the rule should be punished. Now a days the banks and finance companies are providing little bit public related information except that other companies are not fulfilling investor's expectations.
-) Due to unclear policies and passiveness of regulating entities primary as well secondary issues are not so fair. SEBON and NEPSE should act as full-fledged authority rather than watch dog to promote and protect investor's interest.
-) Public awareness is still lacking whether about financial instruments or investment or return and benefit. People do not trust upon other securities expect common stock though they pay more return.

-) Risk analysis always has been neglected by Nepalese investors. They say the shares of banks and finance will never go down below face value.
-) Decentralization of brokerage firm has been done but most of corporate offices and stock exchange are centralized in Kathmandu which is making the security transaction difficult.
-) Commodities market has been started which is bringing little bit investment alternatives but few people know about it so awareness about derivatives and commodity market should be raised.
-) Least return on government securities is making less attractive. The return should be at least more than saving offered by financial institutions.
-) Central depository system and increment in number of broker should be done initially to increase secondary transaction.
-) At present interest rates offered on corporate debentures or government bonds both are less than existing inflation rate so most of the returns on fixed income securities are negative. It has been found that the hybrid nature of instrument should be invented to response the investors' expectations.

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APPENDICES

Appendix 1

Frequency table for ranking of investment alternatives

Rank	Investment alternatives			
	Corporate Securities	Governments Securities	Real Estate	Bullion
1	10	18	26	46
2	24	20	34	22
3	32	38	10	20
4	34	24	30	12
Rank Sum (Rank×Frequency)	290	268	244	198

$$\text{Median} = \text{Value of } \left[\frac{(N+1)}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{Value of } \left[\frac{(4+1)}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{Value of } 2.5^{\text{th}} \text{ item}$$

$$= \frac{320+296}{2}$$

$$= 256$$

Appendix 2

Frequency table for ranking made as per employment status Unemployed

Investors

		Investment Alternatives			
		Corporate Securities	Government Securities	Real Estate	Bullion
Rank	1	10	8	4	11
	2	8	6	7	7
	3	5	7	10	6
	4	2	4	4	1
Rank Sum		49	57	64	47

Employed Investors

		Investment Alternatives			
		Corporate Securities	Government Securities	Real Estate	Bullion
Rank	1	13	20	24	19
	2	16	18	20	25
	3	22	23	22	21
	4	24	14	9	10
Rank Sum		207	181	166	172

$$H = \frac{12}{N(N+1)} \left[\sum_{j=1}^k \frac{R_j^2}{n_j} \right] - 3(N+1)$$

Where,

K = no. of samples

N_j = number of cases in jth sample

N = n_j, the number of cases in all sample combine.

R_j = Sum of ranks in the ith sample.

$$= \frac{12}{8 \times 9} \left[\frac{10^2}{4} + \frac{26^2}{4} \right] - 3 \times 9$$

$$= 5.33$$

Appendix-3

Rank of Financial Instruments

		Financial Instruments					
Rank		Common Share	Government Bond	Preference Share	Debenture	Mutual Fund	T-bills
	1	26	23	31	26	31	29
	2	20	42	35	38	43	45
	3	44	27	29	33	25	24
	4	10	8	5	3	1	2
Rank Sum		238	220	208	213	196	199

Median = Value of $\left[\frac{(N+1)}{2} \right]^{th}$ item

$$= \left[\frac{(6+1)}{2} \right]^{th} \text{ item}$$

$$= 3.5^{th} \text{ item}$$

$$= \frac{208 \Gamma 213}{2}^{th}$$

$$= 210.5$$

Appendix-4

Ranking of Investment Sectors

Investment Sectors	Rank as Best	Ranking	Percentage
Commercial Banks	36	1	36
Development Banks	17	2	17
Finance Companies	13	3	13
Insurance Companies	10	4	10
Hydropower	8	5	8
Others	6	6	6
Manufacturing & Processing Companies	5	7	5
Trading Companies	4	8	4
Hotels	1	9	1
Total	100		100

Appendix-5

Preferences of investors as per types and objectives

Research Variables	Types of Investors				Total
	Less Informed	Informed	Well Informed	Analysist	
Price Increase	8	16	3	3	30
Regular Return	13	12	2	1	28
Safety	11	6	1	1	19
Liquidity	13	8	1	1	23
Total	45	42	7	6	100

Calculation of observed and expected values

Observed Value (O)	Expected Values (E) $\frac{(RT \times CT)}{WT}$	$(O - E)^2$	$\frac{(O - E)^2}{E}$
8	13.50	30.25	2.240741
13	12.60	0.16	0.012698
11	8.55	6.0025	0.702047
13	10.35	7.0225	0.678502
16	12.6	11.56	0.917460
12	11.76	0.0576	0.004897
6	7.98	3.9204	0.491278
8	9.66	2.7556	0.285259
7	7	0	0
6	6.2	0.04	0.00645
Total $\sum \frac{(O - E)^2}{E}$			5.339332

Here calculated Value of Chi Square $\chi^2 = 5.34$

Degree of freedom $= (R-1) \times (C-1) - 6$

$= (4-1) \times (4-1) - 6$

$= 3$

Tabulated Value of Chi square at 10% level of significance at 3 degree of freedom is 6.251.

Appendix- 6

Analysis of Propositions

S.N.	Propositions	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Mode
1	One should not invest whole amount in the same investment instruments, s/he should form a portfolio of different alternatives.	54 (54%)	32 (32%)	10 (10%)	4 (4%)	0 (0%)	54
2	Banking is the biggest investment sector	46 (46%)	34 (34%)	9 (9%)	6 (6%)	5 (5%)	46
3	Nepalese investors don't have defined preferences they just follow the whim or rumor	50 (50%)	19 (19%)	14 (14%)	10 (10%)	7 (10%)	50
4	Nepalese investors do detailed analysis before investing in corporate securities.	14 (14%)	20 (20%)	22 (22%)	26 (26%)	18 (18%)	26
5	We don't have wide choice of investments, so we buy whatever floats in market.	35 (35%)	22 (22%)	30 (30%)	8 (8%)	5 (5%)	35
6	Government securities yield less than corporate securities, so they are not attractive.	29 (29%)	28 (28%)	32 (32%)	9 (9%)	2 (2%)	32
7	The main attraction of securities of bank and financial institution is due to right share and bonus share rather than cash dividend and capital appreciation	46 (46%)	34 (34%)	9 (9%)	7 (7%)	4 (4%)	46
8	First one should save a certain level of amount very safely like: deposits in bank, than only he has to invest the surplus amount in securities.	28 (28%)	20 (20%)	41 (41%)	8 (8%)	3 (3%)	28

Appendix-7

Questionnaire

Please tick the following options:

1. Among the following investment opportunities which one would you prefer?
 - a. Corporate securities
 - b. Government securities
 - c. Bullion
 - d. Real estate

2. Which would you have desire to invest among the following financial instruments available into the Nepalese financial markets?
 - a. Common stock
 - b. Government bond
 - c. Debentures
 - d. Preference shares
 - e. T-bills
 - f. Mutual fund

3. What has the present scenario of Nepalese investment sector preferred by Nepalese investors?
 - a. Commercial banks
 - b. Development banks
 - c. Finance companies
 - d. Insurance companies
 - e. Hydropower
 - f. Others
 - g. Manufacturing and processing companies
 - h. Trading companies
 - i. Hotels

4. What are the major specific objectives are motivating to Nepalese investors to conduct investment decisions?
 - a. Price increase
 - b. Regular return
 - c. Safety
 - d. Liquidity

5. What are the major factors that should be taken into the consideration by investors while conducting investment decisions?
 - a. Company's track-record/goodwill
 - b. Management team and promoters
 - c. Forecasted profit
 - d. Possibility of distributing bonus share and right share in future
 - e. Environmental factors of the concerned company and the economic situation of the country
 - f. Expected risk level
 - g. Taxation
 - h. Liquidity and maturity
 - i. Inflation

6. What does the behaviour investors show towards reinvestment of their fund?
 - a. Re-invest
 - Purchase more securities of same kind
 - Purchase some other type of securities
 - b. Do not re-investment
 - Spend in durable products
 - Save it in bank deposit

7. What does the future expectation motive to investors to made investment at present?
 - a. Distribution of right share in order to get huge number of share
 - b. Distribution of bonus share and get benefit form capital appreciation
 - c. Distribution of cash dividend to get regular cash inflow
 - d. Regular cash dividend or interest and huge amount at the end of intended period

8. Opinion regarding propositions:

S.N.	Propositions	S.A	A	NAND	D	SD
1	One should not invest whole amount in the same investment instruments, s/he should form a portfolio of different alternatives.					
2	Banking is the biggest investment sector					
3	Nepalese investors don't have defined preferences they just follow the whim or rumor					
4	Nepalese investors do detailed analysis before investing in corporate securities.					
5	We don't have wide choice of investments, so we buy whatever floats in market.					
6	Government securities yield less than corporate securities, so they are not attractive.					
7	The main attraction of securities of bank and financial institution is due to right share and bonus share rather than cash dividend and capital appreciation					
8	First one should save a certain level of amount very safely like: deposits in bank, than only he has to invest the surplus amount in securities.					

SA = Strongly agree

A = Agree

NAND = Neither agree nor disagree

D = Disagree

SD = Strongly disagree

Appendix-8

Characteristics of Money Market Instruments

Money Market Instruments	Principal Borrowers	Principal Investors	Duration (Common Maturities)	Credit Risks	Liquidity	Timing of Payment Risk
Treasury Bills	Government	Individuals, non-financial and financial corporations, money market funds etc.	3, 6 and 12 months	Assumed to be none	Very active secondary market	Known
Commercial Paper	Financial and non-financial corporations	Non-financial corporations, money market funds	20-45 days	Medium to very low, rated by credit agencies	Limited secondary market	Known
Certificates of Deposits	Large banks and thrifts	Non-financial corporations, money market funds, individuals	1, 2, 3, and 6 months	Low to high; not guaranteed against default	Active secondary market	Known
Banker's Acceptance	Financial and non-financial corporations	Non-financial corporations, money market funds, governments	1-9 months	Very low; major banks are guarantors	Active secondary market	Known
Repurchase Agreements	Banks, security dealers, other owners of government securities	Non-financial corporations and financial institutions	1 day, 1 week, 3-6 months, flexible term	Low risk collateralized by treasury securities, collateral price risk	High liquidity but no secondary market	Flexible
Short-Term municipal Securities	State and local governments	Insurance companies, Individuals	1-12 months	Rated by credit agencies	Moderately secondary market for larger issues	Known

Source: Santomero and Babble; 1997.