A STUDY ON INDIVIDUAL INVESTORS RATIONALITY TOWARDS SECURITIES

A Thesis

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DECLARATION

I hereby declare that the data and work reported in this thesis entitled **" A Study on IndividualInvestors Rationality Towards Securities"** submitted to office of Dean, Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of the requirement of the degree of Master of Business Studies (M.B.S.) under the direction and supervision of Prof. **Dr. Shalik Ram Koirala**of Trihbuvan University.

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LIST OF ABBREVIATIONS

AGM	=	Annual General Meeting
ADB	=	Asian Development Bank
BFIs	=	Bank and Financial Institutions
BOP	=	Balance of Payment
BS	=	Bonus Share
CA	=	Capital Appreciation
CD	=	Certificate of Deposit
CS	=	Common Stocks
DPS	=	Dividend Per Share
EPS	=	Earning Per Share
F/Y	=	Fiscal Year
GDP	=	Gross Domestic Product
IPO	=	Initial Public Offerings
IPS	=	Investment Policy Statement
MPS	=	Market Price Per Share
NBL	=	Nepal Bank Limited
NEPSE	=	Nepal Stock Exchange
NIDC	=	Nepal Industrial Development Corporation
NPA	=	Non Performing Asset
NRB	=	Nepal Rastra Bank
RBB	=	RastriyaBanijya Bank
SEBON	=	Security Exchange Board of Nepal
SEC	=	Security Exchange Centre
SMC	=	Securities Marketing Centre
TU	=	Tribhuvan University

CHAPTER-I
INTRODUCTION

1.1 Background of the study

Nepal is a small landlocked country situated in between two large countries, India and China. It is a small piece of land, which comprises of the long chain of beautiful snow clad mountains where the highest peak of the world Mount Everest stands proudly. Though small in size, it is truly a nature's unique piece of work; it is a paradise in the earth. However, though it is gifted such tremendously by nature, it belongs to one of the least developed countries in the world. Industrialization is still in its initial stage and technology has not reached all throughout the country as it needs to be. A majority of people in Nepal live in the rural areas where education is a far cry for the people who thrive to meet their daily bread and butter. Because of illiteracy, primitive method of farming, lack of infrastructure as good roads, electricity, telephone etc., the country is far behind in terms of development, though it has started to take its initial pace.

Capital formation is one of the major problems faced by Nepalese economy. Developmental and other productive sectors cannot be materialized because of lack of capital. This is mainly because the savings are very low and moreover, people invest their savings in unproductive sectors like buying land and building, gold and silver etc., However, in the recent times people have started the habit of depositing their savings in banks, issuing insurance policies which is also a part of savings and other financial institutions in the recent years which are signs of positive development. Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth among smaller investors. As such, capital markets help the economy to generate more savings and productive investment. A basic feature of an efficient capital market is constant liquidity, i.e. an easy mechanism for entry and exit by investors. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where a capital market does exist, it is in a very rudimentary state. Private wealth and investments are concentrated among several large companies and individuals. As a result, these capital markets are very narrow based. They are constrained by limited investment opportunities and low income and savings rate. In many cases, the economy has high inflation, leading to a savings disincentive and capital flight. Financial sector development is a lengthy, evolutionary process. It is an indicator of the state of economic development of the country, since an efficient well developed financial market is only possible when there is substantial income generation and investment opportunities.

Financial market is a key to development in an economy. They are the intermediary link in facilitating the flow of funds from the savers to the investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrower and savers is done by BFIs. This credit market enables debt financing for investments. An alternative method of intermediation is through equity financing. This is only possible through the development of capital markets.

The history of capital market in Nepal dates back to 1936 A.D. Biratnagar Jute Mills issued 8000 ordinary shares of Rs. 100 each. In 1937, Tejarath Adda was set up to facilitate loans to the government employees and was converted into Nepal Bank Ltd. The bank issued ordinary shares at par value. Biratnagar Jute Mill was also the first corporate body to issue debentures of Rs.500 each in early 1936. Yet other significant developments related to capital markets were after the introduction of the Company Act in 1964. The first government bond was issued in 1964 through Nepal Rastra Bank to collect the developmental expenditures, which carried 6 percent rate of interest and had the maturity period of five years. HMG Nepal announced the Industrial Policy in 1974 and under this policy, an institution named Securities Marketing Centre (SMC) was established to deal in government securities, development bonds and national savings bonds and corporate securities of few companies. The government has the virtual monopoly over the security market. Then, Security Exchange Centre (SEC) was established in 1976 with an objective of facilitating and promoting the growth of capital market. It was the only capital market institution in Nepal. Securities Exchange Act came into force in 1984. Since then, SEC started to operate under this act. The purpose of this act was to provide systematic and favorable market environment for securities ensuring and protecting the interest of individuals and institutional investors as well as to increase the public participation in various firms and companies.

SEC had provided facilities to trade the government securities and few of corporate securities like shares and debentures. Only the shares of 10 companies were listed in SEC and there was no involvement of brokers and dealers in the securities market. So, SEC itself was undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Apart from this, there was the absence of effective secondary market to ensure liquidity to the securities. The interim government (1990/91) initiated financial reform program and two indirect investment vehicles-Citizen's Investment Fund and NIDC Capital Markets Ltd.-were established with the collective investment schemes in the corporate sector. Then, due to globalization that resulted in privatization and economic liberalization, it was felt necessary to change and make SEC compatible with the changing economic system. As a result, Government of Nepal brought about change in the structure of SEC by dividing it into two distinct entities-Securities Board, Nepal (SEBON) and Nepal Stock Exchange Ltd. (NEPSE) in 1993. Since then they are operating as the main constituents of securities market in Nepal. SEBON was established on June 7, 1993 with its mission to facilitate the orderly development of a dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness under the Securities Exchange Act 1983 (SEBO, 2001). It is an apex regulator of the securities market in Nepal. It registers the securities and approves the public issues. Moreover, SEBO frames the policies and programs required to monitor the securities market, provides license to operate stock exchange business and stock brokers and supervises and monitors the stock exchange operations and securities businesspersons. NEPSE Ltd. is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as brokers and market makers, etc. NEPSE opened its trading floor on January 13, 1994 through its newly appointed licensed members and has adopted an "Open Out-Cry" system for the transaction of securities.

The securities market plays a crucial role in mobilizing savings and channeling them into productive investment for the development of commerce and industry in the country. It assists the capital formation and economic growth in the country. But, the Nepalese security market is still in growing stage. Keeping this in view, the government has introduced the liberalization policy with the dawn of democracy for the economic and financial development of the country. There is a provision that at least 15 to 20% of the shares should be provided to the small investors. In developing countries like Nepal, the undeveloped capital market is still prevailing in the economy. The Nepalese securities market still could not take its height. The further improvement of this market is very crucial. It helps in accumulating even small savings for development activities of the economy, otherwise, which would have been spent in unproductive sector. But it is true that there is no presence even of organized money market in rural areas. Thus security market is only confined to the very limited urban areas of Nepal.

1.2 Focus of the Study

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

The place where the securities like stocks, bonds, etc are traded is known as securities market. On the basis of maturities of the securities traded, there are two types of security markets – capital and money market. Securities market is a mechanism created to facilitate the exchange of financial securities or assets by bringing together buyers and sellers of securities. Securities markets provide an effective way of procuring long-term funds by issuing shares and debentures or bonds for corporate enterprises and government and at the same time provide an investment opportunity for individuals and institutions. Thus, the market place for these financial securities is called securities market, which is further, subdivided into the primary and secondary market. The former market denotes the market for newly issued securities to the public whereas the latter market refers to the market for second hand securities, traded previously in the primary market.

Security market facilitates the process of transferring funds from savers to investors and acts as mechanisms created to facilitate the exchange of financial assets. Stated in another way, it is the place where financial assets are traded. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. It is found that investors are lacking adequate information on the securities in the market to make decisions about what to buy or the price to pay.

In early days of issuance, there were few investors, few securities to invest and the market mechanism was also not developed. Only stocks were considered as securities and dividends were anticipated in return. There had also been cases of over-subscription of securities in some companies in subsequent years. However, debentures were hardly accepted by the investors as securities. Later, bonds too were started to be issued and the market got little diversified. However, preference share was not found to be included in the list of corporate securities till the establishment of Company Act 1936. It was embodied as corporate security only in the Company Act 1964. In ancient times, people lacked information on investing in various financial instruments, choices were limited regarding securities to invest leading to difficulty in constructing portfolios and their performances evaluation as the number of stocks were few in the market. In fact, common people hesitated to invest their wealth in financial instruments.

Risk and Return are the two most important aspects for conducting rational investment decisions. Every rational investor attempts to minimize risk and maximize return. To do so, the investor must understand the concepts and measures of risk and return. There are many factors that should be considered while taking investment decision in the securities market. Some of these are the book values of the stock, risk-return trade off, company's future prospects, government rules and regulations, the direction on Nepal Rastra Bank and SEBON. Investors in Nepal are gradually getting conscious towards risk and return analysis. Investors may choose any securities: long term or short term and may have different behavior on the securities. Similarly, the return or reward may take several forms such as cash dividends or stock dividends (bonus shares) in case of stocks and regular cash inflows (interest receipts) in case of bonds and debentures, However, in case of short term securities such as treasury bills , commercial paper etc, return is the difference between par value and purchase price. Because of the poor governance and lack of timely and adequate information the investors depend upon some available experts for the analysis of stock price. Besides, individual investor depends upon whim and rumor in stock trading. So, this research is conducted to find out investor's rationality in investment in these securities and try to evaluate the investor's awareness and the ways to more effectively aware regarding the Nepalese Market and what are the things they consider while making investment and what are the securities in which prefer to invest.

1.3 Statement of the Problem

The stock market is booming slowly according to the need of economy though it is not sophisticated as in the advanced countries. The security market is taking its ride on a slow pace is, of course, affected by the investors' awareness. In this context, it is relevant to address the investor's needs and preferences towards the financial instruments. Therefore, the investors should be encouraged to make investments in security markets by creating congenial investment environment. Government and concerned parties should create such environment to investors. However, they must know the preferences of investors. It is necessary to conduct research on preferences of investors. This helps to identify how far the investors are aware regarding the investing decision. Following are the issues that the study will address:

- Whether the investors' prefer to invest in the securities or not ?
- Whether the investors are aware of the securities market or not. Do they know about the investment procedure and analyze the factors affecting the investment decisions?
- Whether there are any influencing factors that affect investors to invest in securities or not?
- What is the most preferred security or securities by the investor to invest in?

1.4 Objectives of the study

The general objective of conducting this research is to study the behavior pattern, preferences and investment trend in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. The specific objectives of conducting this research study are:

- To study the investors' attitude and their behavior towards investment made in securities.
- To analyze influencing factors that attracts investors to invest in particular securities.
- To find the basis of investment decision made towards securities?
- To study investors' preferences and their investment procedure in Nepalese security market.
- To provide suggestions on the basis of the above statement.

1.5 Significance of the study

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

Regarding the problems inherent and stated above, this study may act as a guideline to introduce the securities issued in the market, and the earnings associated with them to the investors. On the basis of study of investment trend, behavioral analysis and investors' earnings preference, we can infer certain core ideas on investors' attitude towards securities. Thus, it will be beneficial for the potential investors and the prospective issuers too. As a result, the trading of capital market may expand both in volume and value. Instilling positive attitude on securities and enticing the investors on taking rational decision is thus its major significance. In another way, it may also help in bolstering the earnings of minority investors and thus helps reduce the widening gap prevailing in our society. Hence, somewhere there lays the potentiality and significance of conducting this study. The topic thus selected, the focus and the objective thus targeted through it are of vital importance to the existing as well as potential investors. If referred seriously, this may bring a drastic change in investors' current attitude and induce them to invest more rationally. Moreover, this study aims to inculcate in the investors mind for conduction of fair securities transaction through proper analysis of risk and return and comparison of price with value. This study may bring the investors acquaintance on various terms related to securities, make them aware on their investment, provide a lot of information to the readers and also help a lot to further researchers.

1.6 Limitations of the Study

This research is conducted as a part of partial fulfilment of the Master's degree of Tribhuvan University. So, while the researcher has tried utmost to get into the core of the topic i.e., **Individual Investors Rationality towards Securities**. The major limitations of this study are listed as below:

- This research is mainly based on primary data. The investors are hesitant to give authentic and needed information as much as they are expected to be.
- There may be so many financial instruments but equity shares, preference shares, debentures and government bond are considered in this study.
- This is a descriptive research where the behaviour and attitude of investors are studied. So there will be more use of qualitative rather than quantitative techniques of analysis. Thus, the use of statistical tools is limited.
- The study considers only security investment as common stock investment.
- Since the study is conducted on individual investor's rationality and their opinion towards securities, the entire population could not be surveyed and thus, the information has been collected mainly from individual investors. Hence, the study may not be generalized for the entire investors in Nepal.

1.7 Organization of the Study

The whole study has been divided into five chapters as:

Chapter - I: Introduction

This chapter deals with the background of the study, focus of the study, statement of the problem, objective of the study, significant of the study, limitation of the study and organization of the study.

Chapter - II: Review of Literature

This chapter includes the conceptual review, review of related study and justification of the study. It includes review from books, reports, journal, previous thesis etc.

Chapter - III: Research Methodology

This chapter includes the research design, population and sample, sources of data, data collection technique and data analysis tools.

Chapter - IV: Data Presentation and Analysis

This chapter presents the primary data that have been collected through questionnaires and interviews as well as secondary data collected from different sources. They have been presented in the form of tables and diagrams. The major findings of the study have been also presented in this section.

Chapter – V: Summary, Conclusion and Recommendations

This chapter includes summary, conclusion and recommendations of the study.

CHAPTER - II

LITERATURE REVIEW

This chapter deals with the review of research studies related to similar topic. Under this chapter, a conceptual framework, compilation of extracts from various texts, journals, articles reports, previous thesis and terminologies related to investors have been presented.

2.1 Conceptual Framework

The individual investors are always searching for better investment alternatives, which can maximize their wealth and assure better financial features. The investors are in expectations of financial freedom in their life. Financial market with its wide range of security provides investor's investment alternatives that can make their cash flow secure and build healthy financial position. Their investment is basically based on the public information, which shows the real picture of the company. Investing on a particular security is neither a race nor a gambling but is a well-planned and strategic phenomenon in which there is assumption of certain risks and returns. In light of importance of investor's awareness to make rational investment decision one have to be well familiar with the whole investment environment and their mechanism.

2.1.1 Investment

An investment is a commitment of funds made in the expectation of some positive rate of returns. An investment involves sacrifices of current rupee for the future rupees. The sacrifice takes in present and in certain, whereas reward comes later and is uncertain. Every investment analysis entails some degree of risk-in the sense that it requires a present sacrifice for future uncertain benefit, under and investment analysis, examination of marketable securities such as common stocks, preferred stocks, bonds, put options, future contract on the traditional commodities, financial futures and other investment as well as the risks associated with each are performed.

Investment may be defined as the purchase by an individual or institutional investor of financial or real asset that produces a return proportional to the risk assumed over future investment.-F. Amling. An investment is a commitment of funds made in the expectation of some positive rate of return. If a investor is properly undertaken, the return will be commensurate with the risk investor assumes.- Donale E. Fisher and Ronald J. Jordan. Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Investment can be made in two kinds of assets i.e. real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors in broadest sense. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. Whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc. However we are not going to deal with the investment on non-financial sectors.

Investment is made in an anticipation of future return. Such a rate of return desired by the investors from their investment is certainly positive. The length of time from the date of investment to the final date is called planning horizon, investment horizon or holding period. In other words, investment implies the employment of the fund with the objective of realizing additional income or growth. And it includes sacrifice of current rupees and waiting for reward. Thus investment is regarded as the function of risk and return. Every investor's main objective in making investment is to maximize ones wealth. Financial asset is another name given to the financial instruments or securities. Investment in real assets requires a huge amount of capital, and the money thus invested becomes idle where there is very little probability of getting higher returns. If the situation and the market turn favorable, only then 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 and have higher liquidity. 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.

2.1.2 Types of Investment

A particular investor normally determines the investment types after having formulated the investment decision, which is termed as capital budgeting.

According to the financial terminology investment means the following:

- Purchasing Securities in Money or Capital Markets
- Buying Monetary or Paper Financial Assets in Money or Capital Markets

- Investing in Liquid Assets like Gold, Real Estate and Collectibles

Investors assume that these forms of investment would furnish them with some revenue by way of positive cash flow. These assets can also affect the particular investor positively or negatively depending on the alterations in their respective values.

Investments are often made through the intermediaries who use money taken from individuals to invest. Consequently the individuals are regarded as having claims on the particular intermediary. It is common practice for the particular intermediaries to have separate legal procedures of their own. Following are some intermediaries:

- Banks
- Mutual Funds
- Pension Funds
- Insurance Companies
- Collective Investment Schemes
- Investment Clubs

Investment in the domain of personal finance signifies funds employed in the purchasing of shares, investing in collective investment plans or even purchasing an asset with an element of capital risk. In the field of real estate, investments imply buying of property with the sole purpose of generating income.

Investment in residential real estate could be made in the form of buying housing property, while investments in commercial real estate is made by owning commercial property for corporate purposes that are geared to generate some amount of revenue.

Mentioned below are various types of investments:

- Capital Investment
- Financial Market investment
- Stock Investment
- Share Market Investment
- Land Investment
- Retirement Investment
- Real Estate Investment

- Gold Investment
- Portfolio Investment
- Business Investment
- Equity Investment

Capital Investment

Capital Investment is defined as the expenditure that may be incurred by a business organization in order to purchase machineries and other fixed assets. This expenditure is normally beneficial as it lays the foundation for future investments of similar kind. There are several uses of capital investment in the business circle. To start off capital investment primarily suggests the money that may be required for the companies to buy tangible assets like land, buildings or machines. Capital investment also implies the amount of money, which is required to purchase long-term assets besides the amount that is required for daily running of the business. Capital investment is also known as venture capital in the business circles.

An important aspect of capital investment is capital spending. Capital spending is normally performed for categories that are expected to last for more than a single year. The value of the assets being bought with capital spending is supposed to be important as far as the preparation of the cash flow statement is concerned.

The basic idea behind any investment is to increase the assets of a particular business unit. Any form of capital investment helps the particular investor to increase both the rate and amount of his output. Methods like Net Present Value and Internal Rate of Return are employed when the proposals for venture capital investments are judged.

Financial Market Investment

As per financial market investment, traders are provided with the opportunity to deal in financial securities, commodities and other freely interchangeable goods at affordable rates of transaction. The prices of these are reflective of effective market speculation. Here is existence of general as well as specialized financial markets in today's world. The general markets are the ones where a diverse group of commodities are traded, whereas the specialized markets are those, which are specialized in dealing only one kind of commodity or good. The financial markets of today bring the buyers with different interests in the same platform. This process enables them to locate the prospective buyers and enhances the efficacy of the market operations as a whole.

Stock Investment

The process of stock investment enables the stock traders or investors to trade in securities. Investors can operate individually or under the guidance of investment management companies. The system of stock investment is not devoid of prices and the process involves a considerable amount of risk and uncertainty. The ones who are most likely to be affected by the harsh nature of the stock investment are the new investors and those who are not wise in their decision making process.

It could be assumed safely that stock market investment is definitely not the right option if an investor is interested in making quick money. While investing in the stock market it is usual for the investors and the traders to be confronted with expenses like the following:

- Commissions
- Fees to be Paid for Brokerage and other Services
- Taxes

Share Market Investment

A share market is a place where shares are purchased and sold. It consists of both primary and secondary markets. Share market investment is an important activity that is carried out in all share markets. Investment in share market requires acquiring of an option, which is precisely the right of buying and selling a share as a holder. The right to buy is called the call option while the right to sell is known as put option. When the buyer buys an option, he needs to pay an option premium. For share market investment one simply has to buy a put option if he expects a price rise and a call option when a fall in price is expected. These two options are available for commodities and stocks. The swap, on the other hand, is available for currency rate exchanges.

Land as Investment

Land as investment is a long-term investment and as the price of land all over the world has taken an upswing, this form of investment can be termed as a safe bet. Big development companies, wealthy individuals and well-off farmers have involved themselves in land investment. However, a system for efficient development of land must be in place. With the increase in land prices with growing housing business in sub urban areas, construction of commercial complexes in the city area and government’s plan for widening of roads, investment in land can be very lucrative as capital gains are easily realized. Besides, land is a tangible asset and the investors can use it in their best interests.

Land investment forms a major part of real estate investment. The attachments to lands and buildings are not an essential requirement of land investment and it is the main point of difference between land investment and real estate investment. Land can be termed as the most basic form of asset. The land developer is entrusted with the duty of developing the land. Land appreciates in value with establishment of buildings and other proper amenities on it. The advantages of investing in land over the housing market are as follows:

The value of land is influenced only by its surrounding and not the entire real estate situation. Investing in residential lands can be a profitable proposition. The availability of facilities such as schools, hospitals and road access are very important. It is true that investment in lands may not produce immediate profits, but one is sure to gain in the long run.

Retirement Investment Planning

Retirement investment planning ensures financial security in the post retirement period. The retirement benefits prove to be of great use for the aged. A considerable amount of money should be invested in retirement investment schemes. Money must not be withdrawn indiscriminately from the retirement plans. Active monitoring of various retirement investments must be carried out regularly. Investment in social securities and stocks is another channel of retirement investment. One needs to develop the habit of saving early in life so as to accumulate enough money for good retirement investment policies. A sound investment strategy can contain an amount of risk but it does enhance the average annual returns on investment. Investment in short-term government bonds and government treasury bills is a good option as well. Investment in stocks can also be an option. But a major risk is the volatility of returns on the stocks. Investors should allow themselves at least 5 to 10 years before retirement if they want to look at it as a serious retirement investment option. One must be disciplined and focused if one has to receive maximum profits from investment in this option.

Real Estate Investment

Real estate investment has been a major form of investment since the 1970s. It is a major form of capital budgeting and is a very lucrative option for investing one's valuable money.

Real estate can broadly be defined as immovable property. Land and things attached to it in permanence like buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land. The advantages of real estate investment are as follows:

- It is a lucrative business opportunity
- It can be used as a means of getting rental income
- The burden of other taxable income can be assuaged through the profits obtained from resale of real estate
- It can be used as a collateral for securing loans for other business ventures
- The real estate speculators seek profit by trading in real estate futures.

A real estate investor can often be found owning more than one unit of real estate. The investor uses one unit as his residence and accrues rental income from the others. Investment in real estate also involves value appreciation of property overtime, which leads to capital gains. The whole program of real estate investment is a long-term process.

Gold Investment

Gold investment is a long-term investment scheme and involves low risks. People willing to invest in gold have a natural advantage because the demand for gold is much more than its actual supply. The price of gold normally keeps on rising. However, the investors should not invest the whole amount in one kind of gold investment. The gold industry is huge and has many facets. Investors need to exploit this favourable situation. They can even invest their money in gold mines. Investment in gold mines can be more lucrative than investing in physical gold.

The benefits of gold investment are as follows:

- Gold is a popular form of saving
- Gold is indestructible
- Gold is also used in ayurvedic medicines to cure many ailments
- Gold is a major requirement in the ornament industry
- The malleability and ductility of gold makes it very useful. Gold is a good conductor of electricity and liquid gold can be used to make magnificent microscopic circuits
- Gold can be transported easily
- Gold is the universal standard against which the value of any object can be assessed

- It retains as well as appreciates in value

Portfolio Investment

Portfolio investment refers to the passive holdings of the financial securities such as foreign stocks, foreign bonds and other foreign financial assets, which are not under the control of the investors.

Unlike foreign direct investment, the issuers of securities do not control the portfolio investment. The foreign direct investment involves the investors to make investment to acquire the lasting interest in the enterprises that are operational outside the domestic economy. A typical foreign direct investment relationship allows the parent enterprise and a foreign affiliate to form together a transnational corporation.

The portfolio investments are primarily connected with the portfolio diversification process and the examples of portfolio investment are:

- Purchasing of shares in a foreign company
- Purchasing of bonds that is issued by a foreign government
- Acquisition of the assets in a foreign country.

Business Investment

Business investment can give the investors a chance to invest in different kinds of business. The business investment can be a good option for the investors to manage their portfolio. There can be a number of business investment opportunities and depending on the market conditions and the trend of the market, the investors can go for the right business investment plan. Business investment typically means purchasing of an asset in the form of stock or bond in a company with a hope to get returns and interest in the future. The companies also release their shares and bonds in the capital market in order to collect money for some financial purposes. The assets that are purchased may be physical, intangible or financial depending on the nature of the asset.

The real estate investment is one kind of business investment where the money is used to purchase property where the sole purpose of the investment is to hold or lease the property for income where an element of capital risk is always involved. The real estate investment can be either residential real estate investment or commercial real estate investment. The business finance on the other hand refers to the business finance loan, which is one of the easiest ways to avail funds for the business. While the business world is going through a cutthroat competition, having a financial support seems to be important to grow the business. Both in order to start a new business or expanding the existing business, the finance is the most important aspect for any entrepreneur.

Equity Investment

The equity investment refers to the trading of shares of stocks and bonds in the share market by the individuals. The equity investment is also referred to as the acquisition of equity or ownership participation in the company.

Typically the equity investment is the ownership investment where the investor owns the asset of the company in contrast with the concept of having a loan. In this kind of investment there always lies a risk of the investor not earning a specific amount of money. Equity investment can also be termed as the provision to a firm in return to the partial ownership of that firm. An equity investor, in some cases, may assume some management control of the firm and may also share in future profits.

In order to understand the equity investment properly we need to go through the technical analysis and fundamental analysis. The technical analysis of equity investment is primarily the study of price history of the shares and stock market entirely while the fundamental analysis of equity investment involves the study of all available information that is relevant to the share market in order to predict the future trends of the stock market. The annual reports, industry data and study of the economic and financial environment are also included in the fundamental information of equity investment.

Mutual Funds and Segregated Funds

Mutual funds or other forms of pooled investment measures are the equities held by the private individuals, which are managed and governed by the prominent management firms. These types of financial holdings allow the individual investors to obtain the diversification of the fund. The segregated funds on the other hand are an alternative taken by the large private investors to hold the shares directly opposed to the mutual funds.

The prime advantage in investing in the pooled funds is that it gives the individual investors an access to the skilled professional taking financial decisions. An investor in the pooled funds also receives the services associated with fund from time to time. The major disadvantages involved in investing in the pooled funds are that the individuals have to pay a fee to the fund managers and that the diversification of the fund may or may not be appropriate for all the investors. In those cases, the investors may over-diversify by holding several funds thus reducing the risk.

2.1.3 Investment Planning

The basic idea behind any form of investment planning is to maximize the financial returns that could be employed in the future to ensure some sort of stability. The formulation of financial plan requires the particular individual to carefully consider his choices before making any decision.

Investment planning involves making an idea of the possible financial options that could be availed in order to secure the financial future for oneself or even achieve some ambitions. Quite often groups of individuals get together for the purpose of investment planning. Investment plans require careful scrutiny of the financial market. These plans are used to meet specific monetary objectives. It is mostly the responsibility of the particular firm to make the decision on the matter of management of money, which could be utilized in meeting long term asset investment plans or even for gathering working capital.

The system, which helps a particular investor in making an assessment of the amount that needs to be put in for the various business purposes, is an integral part of financial planning. To ascertain the source from where the money could be obtained is another important task.
An important aspect of investment planning is the development and performance of the investments in a particular span of time. This could help the investor to plan his forthcoming investments by cutting down on the amount of uncertainty involved in investments. Investment planning also helps the investors in channelizing their funds in the right direction.

A very important aspect of any investment planning is planning for retirement, as that is the time when an individual stops earning and has to make do with the savings. An extremely important device in this regard are the retirement planning investment calculators which have been helping people, over the years, to plan in advance for their retirement.

2.1.4 Investors

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

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

2.1.5 Investors Classification

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

2.1.5.1 Institutional Investors

The institutional investors are those who collects fund from wide source and invest their capital in security in security market. The institutional investors have dominated the security market as they have large capital available to invest. The institutional investors take advantage from the various profit available from the security market. The security market have been a good place to invest for institutional investors as it gives an opportunity to institutions to make their capital works or decrease nonperforming assets (NPA). They are investing organizations that trade large volumes of securities; thereby commanding reduced commissions and other special treatment. They are also the pullers of funds. A substantial portion of daily trading is for the account of institutional investors such as banks, trusts, pension funds, insurance companies, and mutual funds. Institutional Investors are firms that trade large volumes of securities, including mutual funds, banks, insurance companies, etc.
The major institutional investors existing in Nepal are as follows:

- NIDC Capital Market
- Nepal Share Market

- Nepal Merchant Finance and Banking Pvt. Ltd.
- Insurance Companies

2.1.5.2 Individual Investors

Individual owns a portfolio of securities and becomes investor and the average individual investors in securities are a part-timer, a majority of who do not possess ability and time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing and they make petty investment just with an anticipation of some additional earning for future. Individuals have an opportunity cost in obtaining investment information, such as reading, publication, tracking stocks prices, and building files on securities. These opportunities cost is the time and resources foregone that could have been used in other endeavors. It is not possible to depend on the earnings generated from securities investment. Mostly in Nepal, investors (individual) take it as one of the probable sources of passive income. It is because the securities market development is still in infancy and the formation of portfolio, its analysis and selection on the basis of performance is irrelevant and almost impossible. So the individual investors take it as only as a part-time investment.

2.1.6 Investment Decisions

Gross investment is determined by two main factors: the real interest rate and expected profit rate. The higher the expected profit rate on capital, the greater is the amount of investment. To decide whether to undertake an investment, a firm compares the expected profit rate with the opportunity cost of funds. This opportunity cost is the real interest rate. The lower the real interest rate, the greater is the amount of investment undertaken, other things remaining the same.

Lots of information related to financial asset is required to make investment decision. Situation of market, risk and return factors involved in the stocks, interest rate of banks, government policies, tax laws, regulations as well as attitudes of investor are the determinant whether the investment should be done or not.

2.2 Investors' Opinion towards Securities

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

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

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

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

2.3 Investors' Opinion towards Risk

Risk is the chance of unfavorable event. Risk is defined as the variability of possible returns around the expected return of an investment. Risk and return are inseparable from each other. When we expect more return on what we have invested, there will certainly be more risk and uncertainty to meet that anticipation. Viewed in another way, the securities that have more risk and uncertainty of getting the expected return demand higher rate of return to compensate the risk associated with it.

On the basis of the risk taking and attitude towards risk, there are three kinds of investors namely, *Risk-Bearer, Risk-Neutral, and Risk-Averter*. Risk Bearers are the ones who dare take risk in anticipation for higher return. Risk Neutrals take only minimum risk margin while investing while Risk Averters try as far as possible to minimize the risk and better be satisfied with minimum return on the other hand. Each investor has his own attitude toward risk and depends upon one's capacity as well as ability to tolerate a certain amount of risk. The real rate of return will provide a rate of return that compensates the investors for deferred consumption. An additional rate of return should be added to the risk-free rate of return that provides premium for additional risk bearing.

2.4 Investment Strategy

Investment strategy is actually the plan, which is followed by an investor to make profits and to achieve financial stability. Based on this investment strategy the investor identifies the areas where the money can be invested safely. At the same time the returns from that money is also of equal importance. The investment strategy also helps the investor to reduce the risk factor from the investment portfolio.

Now several investment options are available in the market. There are thousands of people who are making money from these options. Again, there are also a large number of investors who are facing losses every day. This means that if the investment is done in a proper manner, the profit can be made from every possible medium otherwise the result may be the opposite.

But to make the investment successful, an investor needs to do the homework properly. He or she needs to follow that market closely in which he or she wants to invest. There are several sources like the financial market news, several journals, internet and many more that can provide vital information about the financial market. These informations are very important to form a strategy. At the same time, the financial planners can also provide assistance to form an investment strategy, which suits the need of the investor.

Before planning a strategy for investment, one needs to be sure about the aim of his or her investment. One needs to decide about the desired returns and more importantly the amount of risk that he or she can bear. These factors are going to decide the suitable medium of investment for the investor. The investment medium may be anything; the investment portfolio of the investor should be diversified. Investing in one single medium may increase the amount of risk. In multi-investment, the risks related to one medium are covered through another one.

The two basic investment choices are the stock market and the bond market. The stock market is full of different types of shares and options. All these shares are different from each other in many aspects like the amount of risk and the pace of growth. Now, the investor needs to follow a certain investment strategy to invest in this market. The investor needs to choose some specific shares in which the money would be invested. At the same time, the investor should also buy some options to minimize the amount of risk involved in the shares. The bond market is not so complicated and so the strategies are very simple. Investors can take two positions on securities viz: long position and short position.

2.4.1 Long Position & Short Position

Based on future price expectation the investors can take either or both of two positions in a market-asset.

2.4.1.1 Long Position

A long position involves simply buying an holding the asset in order to profit from any price appreciation, cash dividends, interest or other income. This is the most popular investment strategy. This is the only position that many investors understand. A long position in a security is appropriate in anticipation of a rising price. Long position results in positive returns if the price of the stock increases, while negative returns occur for the short position.

Long position is less risky than the short position because the maximum loss on a long position is -100 percent, which would occur if the price declined to zero. Single-period rates of return under long position can calculated as follows:

$$\text{Rate of return} = \frac{\text{(Ending Price-Beginning Price) + Dividend}}{\text{Beginning Price}}$$

2.4.1.2 Short Position

Short sales allow investors to profit from a decline in a security's price. An investor borrows a share of stock from a broker and sells it. The investor is known as a short seller. Later, the short seller must purchase a share of the same stock in market in order to replace the share that was borrowed. This is called covering the short position. Any dividend distributed by the company during the short period should be paid to the brokerage firm by the short seller. The short seller receives interest from the broker on the amount deposited as a margin in the brokerage firm. A short position offers more risk than a long position in the same security. The reason is that the maximum loss on a long position is -100 percent, which would occur if the price declined to zero. Theoretically, however, there is no limit to the possible loss on a short position because there is no upper limit on the stock's price. If the price continues to rise, the short seller's potential loss grows because of the obligation to replace the borrowed shares. Single period rate of return for short position is calculated as follows:

$$\text{Rates of return} = \frac{\text{(Beginning price – Ending price) – Dividend}}{\text{Beginning Price}}$$

2.5 Investment Environment

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

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

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

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

2.6 Investment Policy

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

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

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

2.7 Review on basic terms associated with Investment

It is imperative to become well acquainted with the terms and provisions mentioned below to have some attitude on securities. “Securities" mean shares, stocks, bonds, debentures, debenture stocks issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government or securities as prescribed by 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.

2.7.1 Securities Markets

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

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

2.7.2 Financial Intermediaries

Financial intermediaries may refer to an institution or a person who act as the middleman and performs financial intermediation between two parties. It is typically an institution that facilitates the channeling of funds between lenders and borrowers indirectly. Financial intermediaries like financial advisor or brokers indirectly helps bring the borrowers and lenders together by providing their consultancy, advising and other services.

2.8 Investment Alternatives or Financial Instrument available in Nepal

A wide range of investment alternatives is available to the investor in addition to corporate securities. Traditionally, there were limited investment alternatives like common stock, preferred stock and bond as financial assets. But with the increase in financial market, concept and principle, a lot of other financial alternatives have mushroomed. Other financial assets that serve as investment alternatives are convertibles, warrants, rights, commodity futures, financial futures option etc. Real assets are other types of investment alternatives. Real assets include real estates and precious metals. Nepal's capital market is too small to provide various investment alternatives. Common stocks and government securities are popular alternatives but bond and preferred stocks can rarely be found. Other investment alternatives like options, futures, convertibles, warrants, are not in practice yet.

- Treasury bills
- Certificate of deposit
- Banker's acceptance
- Government securities
- Corporate bonds
- Preferred stocks

Common Stocks

These are also known as Ordinary Shares or Equity Shares. The shares of common stocks entitle to dividends from profits left after paying regular fixed interest to the debt-holders and dividends to the preference shareholders. Common stocks represent the ownership of a corporation but to the typical investor, a share of common stock is simply a piece of paper distinguished by two specific features:

- Dividends to its owners,
- Capital gain (due to price appreciation).

While claiming the right to the assets at the time of liquidation and the right to the earnings of the company, they come at the last of all. Therefore, they are considered as the riskiest of all available securities. But investors can earn higher returns to compensate the higher level of risk.

Treasury Bills

Treasury bills are short-term securities issued by the government which has a maturity period of maximum 91 or 182 or 364 days. They are normally issued on denominations of '000' and are sold on discount basis. In Nepal, it has been issued only by the Nepal Rastra Bank on behalf of Nepal Government. It is issued to fulfill deficit budgetary system in Nepal through which scattered funds are collected and mobilized in productive sector. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

Certificate of Deposit

A certificate of deposit (CD) represents a negotiable certificate issued by banks and other financial institutions in return for a term deposit. Certificates of deposits are highly liquid, almost risk-free and yield higher return than Treasury bills, so they are popular form of short-term investment for companies and individual investors. Investors who want frequent liquidity invest in certificate of deposit to get funds converted into cash quickly.

Banker's Acceptance

It is a promissory note issued by a firm and accepted by a banker. By accepting the note the bank promises to pay the holder of the note a stated amount of money at maturity.

Government Securities

To meet the uncovered expenses, government offers debt securities to the public from time to time. Those securities offered to the individual and institutional investors are the least risky ones and provide lower returns to the investors in comparison to the returns received from other corporate securities. Government securities of Nepal are issued by NRB, the central bank of Nepal, on behalf of the government. Treasury bills, Development bonds, National Saving bonds and Citizen Saving bonds are important types of government securities in Nepal. Financial institutions (like provident funds, insurance companies), business enterprises and individuals invest on them.

Corporate Bond

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

Corporate bond has not been popular investment alternative in Nepal. Few commercial banks like Siddhartha Bank Ltd, Nepal Investment Bank, Nepal SBI bank, Laxmi Bank and Kumari Bank Ltd. have issued debentures. Everest Bank Ltd has recently issured 70 crores 8% debenture.

Preferred Stock

Preferred stock is a hybrid, fixed income security. It is also recognized as a hybrid security because it carries some characteristic of debt and some feature of equity securities. Preferred stockholders have priority over common stocks both at the time of claim of dividends and at the claim of the assets at the time of liquidation. It is suitable for investors demanding fixed return on their investment.

Figure 2.1

Investment Alternatives for Investors

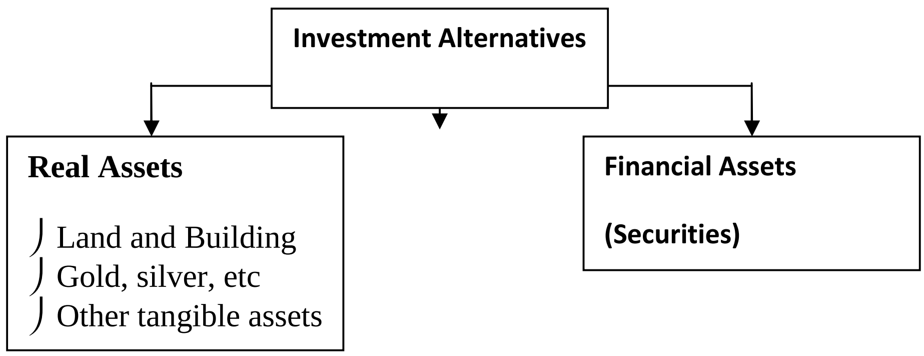
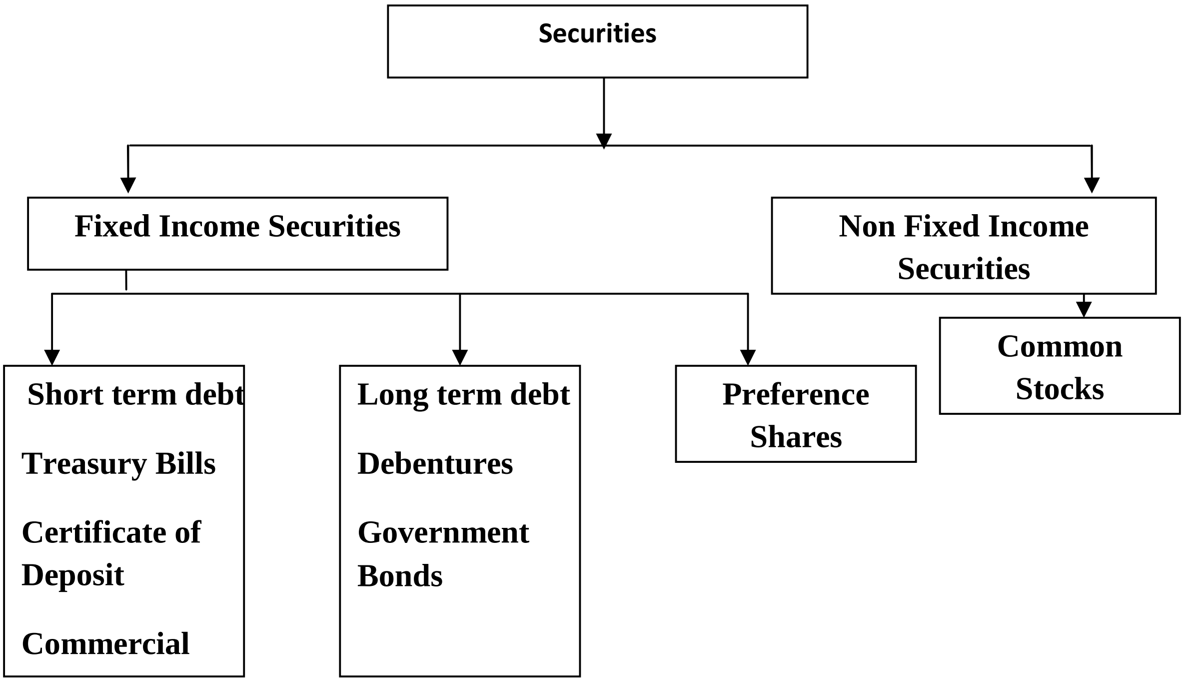


Figure 2.2

Types of Securities



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

2.9 Investors' Perception of Market in terms of Risk

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

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

- What make the investors to invest in the securities and how can the investment attitude be developed in their minds?
- What investors see before investing in the securities? How their level of awareness is determined and how can it be measured?

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

Every investor being a rational investor is found to perform security analysis knowingly or unknowingly, calculate the prospective earnings and estimate the returns before investing in securities. However, they may be ignorant of different risk factors associated to it and may set back on awareness level. Moreover, some investors match the value and price of the securities and take decision for trading accordingly.

2.10 Factors to be considered before Investing in Securities

While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decision. Stock investors who want to invest in the stock market do not invest directly in corporation. At first, they come in stock exchange market. They invest on the information base of prospectus of company and other public market and details, which are published by the company.

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

- Security Of Principal
- Liquidity
- Stability of Income
- Strength (Leverage)
- Rate of Inflation
- Cash Flows
- Mobility
- Limited Management Requirements

2.11 Earnings associated with Securities

Earnings are synonymous to return, reward for waiting and risk taking. These words may be used interchangeably. To make any decision on investment regarding securities, the kind and the nature of earnings that come from such investment plays a crucial role. In other words, earnings are the basis of selection of the securities for investors. The returns or earnings that come from investment in different kinds of securities are given different names according to the nature of the securities. As there are two kinds of securities namely debt securities and ownership securities, the incomes generate from them are also named as fixed and non-fixed income.

2.11.1 Dividend

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

Cash Dividend

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

Stock Dividend: (Bonus Shares)

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

2.11.2 Interest

Interest is defined as the cost of funds used in the business. It is paid to the lender of loans. In public companies, the debt-holders also called bond holders or debenture holders are paid in fixed amount as stated at the time of issue. It must be paid compulsorily irrespective of the profit or loss position of the company.

2.11.3 Capital Appreciation

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

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

2.12 Role of information in shaping the attitude of Investors on Securities

This is the age of information and technology. The information and technology are one of the most powerful weapons in this twenty first century. The firm having the proper management and information system can compete among the other firms in the industry and also have more opportunity. So the businesses now a day invest more funds in the information system.

The invention in the field of information and technology like: satellite networks, Internet and Intranet have made information easier for everybody anywhere and anytime. The rival companies can compete with one another on the basis of available information about the competitor's business strategy. Investment is done in the light of available information. The investor should be informed about the presence of investment alternative. The investor's should be informed about the growth potentially of business. The investor's should be provided with financial position of the company to make them invest.

While the investors must keep every information updated on every day and hour basis. Investors should invest wisely by getting all relevant and necessary information about the firm whose security they are holding. The buying holding or setting decisions are to be made on the basis of available information. Therefore there should be reliable information and proper analysis of information for rational decision.

There are two broad categories of information Internal and External. Internal information consists of data and events made publicly by firms concerning their operations. It mainly takes the form of interim and annual reports to the shareholders, and public and private statements of officers and managers of the firm. The principal information sources generated internally by a firm are its financial statements. The analysis does not course limit sample widely from many king of information. External source of information are those generated independently outside the company. These sources provide supplement to company generated information by overcoming some of its bias, such as public pronouncement by its officers. The external information source also provides certain kinds of information not found in these materials made available by companies themselves.

Information is not usually available to all parties in business in equal measures for example, the board of directors will know more about the future prospect of the business than the shareholders who have to rely on published information. This information asymmetry means that investors not only listen to the board's rhetoric and confident action. This signaling effect is most commonly seen in the dividend declaration and share dealing by the board. An increase in dividends signals that the company is expected to be able to sustain those levels of cash distribution in the future.

Information helps the investors that effect the best investment decision taking among the available. Information affects price of securities of a company. Any information about the economy, industry or political environment also affects the price of the security. The political climate will be directly reflected in security market. As managers of the company have control on the firm's specific information they should provide such information to investors as soon as possible. But negative information is to be avoided as it gives negative signaling to market.

2.13 Sources of Investment Risk

Every investment that we have certain risk as they are made under uncertainty even fixed income securities there are certain risks that are associated with the time value of money. The rupees we have now is worth more in value a rupee we have a year after so there are various in investment they are as follows:

2.13.1 Interest Rate Risk

The interest rate risk is defined as variability of return caused by changes in the market interest rate. The change in market interest rate can affect the value of bonds like when the market rate increases the value of bond decreases and vice versa.

2.13.2 Purchasing Power Risk

Purchasing power risk is caused by variability of return investors suffer because of inflation. As the inflation raises the amount of goods and services available with the money expected is decreased.

2.13.3 Bull-Bear Market Risk

When the market price of securities starts increase along with market index like NEPSE INDEX the securities prices starts to raise giving enough benefits to the holder and as it reaches maxim height looses prices and securities holder will loose their money.

2.13.4 Management Risk

The management of company can effect a lot in financial health of company as their decision can cause a price of stock rise and fall is a risk of management's error that shareholder's might have to bear. So it is hard to predict whether management is working for common welfare of shareholder's wealth maximization.

2.13.5 Default Risk

The default risk is that risk which is generated by change in financial integrity. When a company issued security it moves either further away from bankruptcy or closer to it, which is reflected in security market.

2.13.6 Liquidity Risk

The risk that caused by variability in return due to discount commission that has to be paid in order to liquidate the securities and the time taken to liquidate. The liquidate are those which can be liquidate in no time negligible discounts and commission.

2.13.7 Political Risk

Political risk tends to effect business operation in case of contracting activities done for environment protection and other controls. The political policy guides company's well-being or illness which can effect business operation and is reflected in security market.

2.13.8 Industry Risk

The industry is a group of business that operates in same environment, which are affected by same factor. e.g the tourism industry and all business in that industry are affected. The stage in business life cycle of industry plays a role for the health of company.

2.14 Rationality in Investment

A rational individual is one that makes choices based upon sound reason and logic,
one whose decisions follow the expected utility maxim. The expected utility maxim is a hypothesis in which an individual's preferences are calculated and compared in the face of uncertainty. A rational investor is expected to maximize his utility given his preferences as defined in the utility function. Markowitz, who assumed investors are rational, acknowledges that the rational person does not exist in reality, but that we can till use the theory of rational

behavior as a guide (Markowitz, 1959). An institution maybe more rational than an individual investor, but the problem is that the model is being used for the individual, irrational investor. What good is an efficient, optimal portfolio that assumes rationality for an investor who is irrational? Do investment tools that assume investor rationality do more harm to the long term success of the investor, because they do not account for the investor's inherent irrationality?

The expected utility theory has several axioms that must hold true for it to be valid, yet studies show that the axiom of independence is commonly violated. The axiom of independence states that a choice (preference) will hold independent of the possibility of another outcome. Allais (1997) performed tests to see if the axiom of independence was violated in a set of lotteries. In his experiment, participants were asked to choose among two lotteries, each representing different potential payouts and their respective probabilities. Then the participants were asked to choose among another set of lotteries with differing payouts and probabilities. Allais found that the participants were not able to evaluate the lotteries independently from each other – choices were influenced by the outcome of another lottery. The main findings, of what is now known as the "Allais Paradox", were that participants made inconsistent, irrational choices. These irrational decisions could be because the individual simply made an error in judgment, but others believe outside factors not accounted for in the utility function – such as hope, fear and suspense come into play (Markowitz, 1959). Recently there has been much study on the irrationality of the individual and what causes such behavior. Dan Ariely, a professor of Behavioral Economics at Duke University, has studied whether irrational behavior can be predicted. Many of his findings have been published in a single book, *Predictably Irrational* (Ariely, 2008). Mathematical models and algorithms, measure and forecast the absolute values of variables. In contrast, Ariely says people forecast the relationship between the value of a variable and a baseline value. This is because a person obtains utility, not from his current position, but from his position relative to something else

Rational Investors understand both the good and bad side of risk. They are wiling to take risk, but insist on being compensated with higher returns for doing so. They seek out investment classes that provide a high return to investor taking on moderate level of risk. They are learning investors. One of the scary things about investing is that it is impossible to know all that you need to know when you start. Much of what you learn you must learn from experience. Things obviously get better over time, for rational investors. It is anxious to know whether investors in general act rationally. The answer may well lead to an understanding of individual investor behavior.

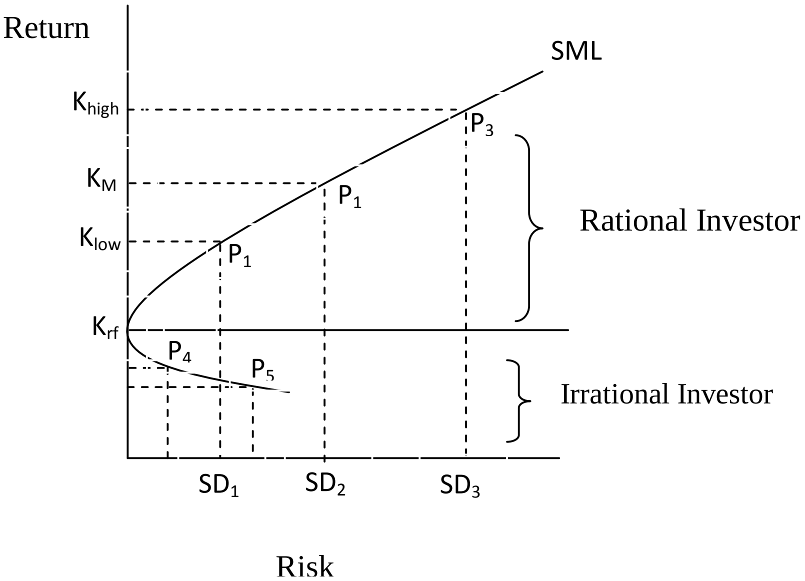
Underlying the growing interest in behavioral finance is the notion that investors are not always rational, but sometimes act irrationally or emotionally when faced with difficult decisions. Behavioral finance departs from classical financial theory by dropping the basic assumptions that investors are rational and substituting the notion that they act emotionally and therefore prone to make mistakes. One such common mistake is called "narrow framing"-looking at investments in isolation from their entire portfolio. Most financial advisors usually recognize clients prone to this problem during their initial meeting, and attempt to solve it by having the client provide a list their assets and allocation. How can advisors otherwise help design complete investment programs most likely to meet clients' financial goals? Another common mistake individual investors make is called the "disposition effect"-the reluctance of some investors to sell a stock that has lost money. They avoid taking losses in order to avoid confirmation of the fact that they made a mistake. A reverse consequence of the disposition effect is their tendency to take gains, thereby rewarding themselves for being right. Here again, the trained financial advisor can reduce or eliminate these tendencies by dispassionately recognizing that the value of an investment is based on its future, and not its past, prospects, and by being willing to sell an investment unlikely to recover and to hold investments yet to achieve their full potential. Financial advisors are interested in the lessons behavioral finance teaches because they strongly imply that individual investors need professional guidance to avoid the mistakes their natural tendencies will cause them to make. These mistakes are avoided when advisors follow a series of steps in designing investment programs, which typically include defining a client's financial goals, assessing their risk tolerance, doing a complete audit of their assets and allocation, estimating their current and future income, the number of working years left, their annual savings and the length of their retirement. Nevertheless, there are limits to what behavioral finance can do. Some proponents of behavioral finance argue that, if a plausible theory of investor irrationality can be found, it can be used to predict and control aberrant behavior and profitably exploit market inefficiencies arising from it. At market bottoms, some investors are observed to become overly risk averse, while rational investors search for undervalued investments. At market tops emotional investors may become "irrationally exuberant," while rational investors consider market values to be overextended and busy themselves taking profits.

Much of the enthusiasm for developing a behavioral theory of finance is based on the observation that extreme market movements occasionally deviate from "fair values," and that such deviations are the result of some investors, not all, making irrational choices. Recall that there are two sides to a trade; at times the buyer might be right, at others, the seller. If the causes of irrational behavior can be identified, it should be possible to anticipate and time extreme market moves. This view, however, oversimplifies a more complex process. By their very nature, quantitative models used to estimate the "fair value" of investments must simplify real-world processes. The usefulness of a model depends upon its simplicity-identifying the main factors that influence a phenomena while omitting those that are difficult, if not impossible, to predict in terms of their timing and magnitude of influence.

The rationality of investor can be figured out by the following figure.

Figure 2.3

Rational Investors



In the figure, K_{rf} is a risk free rate, means investor investing in riskless securities. K_M is the required rate of return, a portfolio consisting of all stocks, which is the market portfolio. It is also the required rate of return on an average i.e. beta of the stock is 1. Above the risk free rate as investors assume higher risk, the return on such securities is also high. Such investors are rational investors. Investor investing at point P_4 and P_5 gets less return less than risk free rate and assumes higher risk respectively.

2.15 Review of Related Studies

2.15.1 Review from Journals

The various international and national article and journals related with this topic have been reviewed in this section.

Usman Havat in his article "Rational is Stupid" states investors are neither rational nor irrational, they are normal investor. Investors should learn the science of investing to overcome cognitive errors to become a smart investor. He explained it with an example of giving a gift a rose costing $10 or a note of $10 to beloved.

Think about it in rational economic terms. What good is the rose anyway? It serves
no practical purpose, and she can't preserve it for long to enjoy its beauty. Slowly but surely, the rose will rot. But a $10 note is different. She can use the $10 to maximize her utility. You do not know her utility function, so leave the choice to her. She may buy a book or a frying pan or put it in her savings account.

If you prefer the $10 over the rose, you would be rational — but plain stupid! That's because you overlooked the expressive and emotional benefits of giving a rose. This is how Meir Statman, a well-known expert on behavioral finance, exposed the flaw in utilitarian rationality .Carrying the analogy of the $10 rose into investing, Statman explained that while economic rationality demands that investors only seek utilitarian benefits from investing, focusing solely on risk and return, investors often want expressive and emotional benefits as well.

When we invest in a hedge fund only accessible to high-net-worth individuals, we are not only seeking alpha but also making a statement that we are elite and not the average Joe who invests in ordinary mutual funds. Similarly, when we invest in funds that avoid the "sin stocks" — alcohol, tobacco, gambling — we are seeking the expressive and emotional benefit of not putting our money where our heart isn't. Sometimes, we repeatedly buy and sell stocks for the fun of trading, even if such trading loses us money, sacrificing utilitarian benefits for emotional and expressive benefits.

Statman emphasized that it is impossible to separate the utilitarian, expressive, and emotional benefits of investing, and when we ignore the expressive and emotional benefits, we lose useful insights into what investors really want.

Institutional investors may think expressive and emotional benefits are relevant for individual investors but irrelevant for professional investors. But, Statman argued, professional investors also invest for themselves and may be serving individual investors.

Statman argued that investors are not “rational” — the computer-like utility-maximizing machines that traditional economic theory assumes us to be — but “normal.” As normal investors, we are prone to cognitive errors. We may lack self-control, wrongly frame issues, only seek evidence that proves our ideas, have excessive loss aversion, divide our money into mental accounts, be overconfident in our abilities, or thoughtlessly follow others.

His key point was that investors should learn the science of investing — logic and empirical evidence — to overcome cognitive errors and make better investment decisions. He gave the example of Noble Prize-winner John Nash, as depicted in the movie, *A Beautiful Mind*, in which Nash remained unable to differentiate between reality and his hallucinations until he employed logic and empirical evidence.

Statman believes that because of the large and widespread losses across asset classes in 2008, some investors have lost faith in diversification, which is an integral part of the science of investing. Sharing findings from one of his research papers, Statman asserted that even if returns of assets across markets are increasingly going up and down together because of globalization, diversification will reduce both downside and upside as long as the correlation is not one — the science of investing holds true.

According to Statman, some who have lost faith in diversification are now trying to time the market, often by making subjective assessments of whether the price-to-earnings ratios of stocks are high or low. He argued that market timing may not be impossible but is very difficult, and he showed findings from his research that support this point.

Elaborating upon cognitive errors, he said that investors wrongly frame trading as a solitary jog in the park when it is really competitive running. He reminded investors that in financial markets, they are trading against the most well-informed and resourceful competitors; their chances of beating the market may only be as good as their chances of winning a 100 meters dash against Usain Bolt.

Professor Statman said that “good investment professionals are like good physicians,” they take care of their clients — not only of their wealth but also of their well being — through the science of investing. Like good physicians, these investment professionals “ask, listen, empathize, educate, prescribe, and treat.”

Statman’s final advice to investors: You are neither rational nor irrational but normal. Learn the science of investing to overcome your cognitive errors to become a smart investor. And when the occasion calls for you to give your beloved a rose, don’t be fooled by utilitarian rationality. Don’t give her a $10 note, give her a rose!

Ning Zhu in his article “The Local Bias of Individual Investors”investigates individual investors’ bias towards nearby companies. “Various measurements show that individual investors exhibit significant bias towards the companies that are close to their residences. Our sample individuals exhibit a stronger home bias than the mutual fund managers in Coval and Moskowitz (1999). Investors’ holding foreign securities exhibit significantly weaker local bias than those not holding foreign securities, suggesting that international home bias and domestic home bias is correlated. Unlike institutional investors’ choices, individual investors’ local bias is less related to advantageous information. Investors with stronger local bias do not outperform those with weaker local bias. Information such as accounting number has less impact on the individual investors’ local bias than on that of institutional investors. Instead, individual investors’ local bias is negatively related to the advertising intensity of companies. These findings cast doubts on the hypothesis that advantageous information drives individual investors’ local bias. Instead, they support that investors tend to invest in companies with which they are familiar even though such familiarity isn’t particularly helpful to their equity investment. Behavioral theory on decision heuristics and the mechanism of advertising can explain part of puzzle.

Evidence from investors’ response to earnings announcement over additional support to the behavioral hypotheses. Local investors cannot predict earning surprises better than remote investors, which contradict the advantageous information explanation. Rather, local investors are more responsive than remote investors to the same earnings surprises after earnings announcement. Investors' overreaction to information on local companies can, in part, explain their tendency to invest locally. Results in this study show that investor behavior varies significantly across investor classes, which motivates future research on the impact of investor clientele upon asset prices (Barberis, Shleifer and Wurgler, 2002). It is also important to examine whether investors respond directly to the same information under other circumstances and to incorporate such phenomena into future theoretical frameworks"(Zhu, 2002).

TuomoVuolteenaho, attempted to know what drives the firm level of stock return? He used a vector auto regressive model (VAR) to decompose an individual firm's stock return into two components: change in cash flow expectation (i.e. cash flow news) and change in discount rates (i.e. expected return news). From the research it was found that "The VAR yields three main results. First firm level stock returns are mainly driven by cash flow News. For a typical stock, the variance of cash flow news is more than twice than have expected return news. Second, stocks to expected returns and cash flows are positively correlated across firms, while cash flow news can largely be diversified away in aggregate portfolio" (vuolteenaho, 2002) .

In securities market, the feedback is often slow and noisy. There may even be a trade off between speed and clarity of feedback where by short term traders get quicker, but noisier, feedback, and long term traders receive a clearer feedback but must wait for it. This paper looks at what happen in financial market when people are confidence and concluded that overconfidence is costly to society. Overconfidence traders do not share risk optimally, they expand too many resources on information acquisition and they trade too much. These are dead weight losses. Overconfidence increases trading volume and market depth, but decreases the expected utility of overconfident traders. An overconfidence trader increases volatility, though overconfidence market makers may dampen it. Price taking traders, who are overconfidence about their ability to interpret when there, are many overconfident traders, market, and trend to under respect to the information of rational traders. Under- reacts to abstract, statistical and highly relevant information and overreacts to salient, but less relevant information. Like those who populate them, markets are predictable in their biases (Odean, 1998).

Jonathan B. bark, Richard C. Green and NaikVasant in “Optimal Investment Growth Options and Security Return” say “As a consequence of optimal investment choices, a firm’s assets and growth options change in Predictable ways. Using a dynamic model, we show that this imparts predictability to change in a firm’s systematic risk and its expected return. Simulations show that the model simultaneously re produces (a) the time series relation book to market ratio and assets return, (b) the cross sectional relation between book-to- market, market value and return, (c) contrarians effects at short horizons, (d) momentum effects at longer horizons and (e) the inverse relation between interest and market risk premium” (Berk, Richard and Vasant, 1999).

M. Angeles de Fructos and Caroline Manzano ‘Risk aversion, Transparency and market performance’, concluded that “using a model of market making with inventories based on Biais (1993), we find that investors obtain more favorable execution prices, and they hence invest more, when markets are fragmented. In our model, risk averse dealer use less aggressive price strategies in more transparent markets (centralized) because quote dissemination alleviates uncertainty about the prices quoted by other dealers and hence reduces the need to complete aggressively for other flow. Further, we show that the move toward greater transparency (centralization) may have determinable effects on liquidity and welfare” (Angles and Manzano, 2002).

“If a man loses his money in the stock market it is almost always because of his greed, stupidity or gullibility. It is certainly never the fault of the exchange, and it is very rarely the fault of his broker” (Palat, 1991). “These days the interest of investors is gradually fading away. Investors have been discouraged with the shares market running at a snail’s pace. There is no room for satisfaction for investors. Although the country has adopted liberal market polices to receive the economy, it has been applied into concrete actions in Nepalese context. Brokers have been reporting since long about from government. The government has been able to regulate the companies, and the corporate culture is also not being developed among companies, brokers observed” (Shaky, 1997).

A research was done by Radhe Shyam Pradhan in the topic “Stock market behavior in a small capita market: a case of Nepal”. “The overall study of his research suggests that profitability, liquidity, leverage, assets turnover and interest coverage are related to dividend payouts. The study is based on pooled cross sectional data of 17 enterprises whose stocks are listed in stock exchange center and traded in the stock market”(Pradhan,2003).

Another article written by Pradhan in the topic: The efficient market hypothesis and thebehavior of shares prices in Nepal. “The current market price of share in Nepal is useful to make buy and sell decision, to predict future average return, and to predict future prices. The main factor affecting share price as perceived by the respondents are dividends, retained earnings, bonus shares and right issue. The share prices have been found more volatile then expected dividends. Similarly, publicly available information is useful in identifying over or undervalued securities. Nepalese investors are not really indifferent towards makings or non makings of information public.” Management review” (Pradhan, 2004).

“The regulators should think of understanding significant measures for upgrading the quality and contents of disclosure standards that helps in promoting the capital market in the country. Efforts should be made for encouraging the listed companies to comply with legal provisions such as submitting the financial reports timely, conducting the annual general meeting timely, making access to price sensitive information in the prospectus, need for having good corporate governance and ensure compliance of the listing guidelines and securities market regulation” (Shrestha, 2005).

“Being a single stock exchange market, NEPSE must focus on how to bring in-house reform, to educate investors and regulate and supervise its own members. NEPSE should facilitate to strength the governance of the listed companies, to help enhance public awareness about opportunities and benefits from listing. To educate people on the role of capital market in the economy together with importance of long term saving and stock market for this, NEPSE can develop at least, a medium to long term plan on the concept of subsidiary/ join venture participation with educational institutes, newspaper, journals, radio, television etc. to motivate and educates people on capital market through audio and visual media can be effectively used for the success of stock market. Similarly it is the main responsibility of NEPSE to organize regular training, seminars, workshop, and interaction programs for its employee, brokers’ market makers, investors and listed companies on various issues like investment principle, governance ethical guidelines, code of conduct etc” (Paudel, 2005).

“These evidences of the study would question the efficiency of Nepal stock exchange; however they are not necessarily embarrassments. This may be also due to market imperfections. The index used for this study encompasses companies, which trade during that particular day from the period (February 1, 1995 to January 31, 2004). Such a small sample period may mislead the findings of the study. In addition the effects of Maoist insurgency lasting for nine years that caused politically uncertainty and lack of confidence among the investors should be undertaken not only to conform the results of the present study but also to investigate microstructure and operational procedure of Nepal stock exchange. Another fruitful area of research is to investigate whether reported anomalies are valid for individual shares or not. Further whether a trading strategy based on these “seasonality’s” is profitable out of transaction costs or not should also be investigated” (K.C. and Joshi, 2004).

ADB experts have seen many obstacles to the growth of the capital market. This includes low level of investor’s confidence, disclosure of poor and manipulated financial information, week enforcement of regulation, absence of instructional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical barriers (Tiwari, 1996:63). The current downtrend in share market is not so easy to recover unless strong regularly measures are not enforced. The honeymoon days of share market exist on more but there are still unlimited financial fortunes by sharp practices that went undetected during the period of share market boom among all, the regulation of share market to control on the unfair trade practice would be done of the strong measures to revive the share market in future. In order to curb the fraudulent practices and discourage the dissemination of misleading information in the current share market of Nepal, the regulating authorities must govern the activities in the share market. There should be immediate check on the unfair share trading practices. Wash sales should be discouraged by immediate action. Nepal Stock Exchange can from a watchdog team to investigate on the real existence of a share transaction. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as wit creates distortion in the price determined by the market forces. Such action helps in avoidant fiction name created by several different share brokers in share transaction and also to check on the creating an illusion of rising price. Moreover, the challenge for the regulating authority is to control on the hidden establishment of share market corners and pool by some market price manipulators. Surprise inspection and secret vigilance by a professional team (without making known who are it members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping or squeezing sellers. If found dishonest in share market dealings, action should be taken against such price manipulators by imposing heavy penalties and punishment depending upon the nature of offence.

At the same time, the concerned authority has to discourage the practice of churning by the brokers since it helps broker to generate sales commissions regardless of benefits of such transaction to the client. Moreover, it is a right time for the concerned authorities to develop transparent guidelines to have strict vigilance and control on misuse of insiders should be debarred from leaking price sensitive information by imposing heavy penalties and punishment for breach of legal provision. The revival of the share market requires minimum fulfillment of the responsibilities and accountabilities among company management to be shareholder focused. Time has come for company management to respond to shareholders expectation of return from their investment in shares of companies. Management should make it a habit to change attitude to think what is good for shareholders is good for company as a whole.

Now, the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refuting investor's allegations of the market manipulation and insider's trading of last February, discreetly claimed that the Nepalese stock market is in a nascent stage. And that, investment are made more on an impulse, rather than through market study and credit rating (Shrestha, 2002)

2.15.2 Review from Magazines

(Shrestha: 2007)[2]mentioned about investor's attitude and that their investment decision are not totally rational as it is assumed in the different theories. The behavioural aspects have an important role to play in deciding whether to buy or sale the stock. Some common examples of how an investor's behavioural aspect effects his investment decision are:

Investors avoid selling stocks that have gone down in order to avoid the pain and regret of having made a bad investment. This is because investors tend to experience sorrow and grief after having made an error in judgement.

This is a typical example of what is happening in the Nepalese stock market at present. During the time when stock markets are going down, investors expect the stocks to go down further. It is opposite in the boom time. Even if the stocks reached the new highs, investors would not sell hoping that the stock would continue to rise further. These sentiments tend to blind the rational thought process of that particular investor. While the investors are continuously trying to catch the pulse of the market, they typically put too much weight on recent experience and extrapolate recent trends that are at odds with long-run trends. They tend to become more optimistic when the market goes up and more pessimistic when the market goes down.

Investors have the habit of following the crowd and conventional wisdom to avoid the possibility of feeling regret in the event their decisions prove to be incorrect. Many investors find it easier to buy a popular stock and rationalize it even when it is going down. Buying a stock with a bad image is harder to rationalize if it goes down.

In addition, investors are generally overconfident. They move from the traditional value investing to growth investing and feel proud of owing the growth stocks. However, overconfidence shows no correlation with greater success. This overconfidence ultimately leads investors to overtrade with the belief that they can beat the market. Investors often see other's decisions as the result of indiscretion but they see their own choice as rational. Investors frequently trade on information they believe to be superior and relevant, but in fact it may not be so and that information may be already fully discounted by the market.

Investors generally lack the cognitive ability to properly measure risks and rewards. While making an investment, one who has even a slight advantage in recognizing risks and rewards will get certain advantage that will be amplified over the period.

(Shrestha: 2007)[3]on how efficient is the stock market, he has mentioned that the Nepalese stock market does not actually run on the basis of complete information. The investors still invest based on the whim and market information. Because of this inefficient market behaviour, the stock market is highly fluctuating. According to efficient market theory, stock price reflects all information contents to show proper consistency in price moments. Stock market efficiency is measured against three levels of information. First, it consists of a weak form of efficiency under which the basic assumption is that stock prices reflect all information contained in the past sequences of stock price and trading volume data. Our stock market is not efficient enough since all the listed companies do not make past information available to shareholders.

Then comes the semi strong form of market efficiency based on the assumption that stock prices reflect all the publicly available information about the companies. In this case, too, many listed companies do not produce annual reports or financial statements that are very crucial for investors to analyse and judge the performance of the companies. Out of 100 listed companies, only 40-70 companies produce annual report.

Lastly, a strong form of market efficiency exists if stock prices reflect all information that is known about a company, even that which is not available to the public. Private information often called inside information is made public to ensure rational and competitive behaviour of the stock market under strong form of market efficiency.

2.15.3 Review of Thesis

Sudip Upadhyaya (2004) has conducted a study entitled "*Investors' Preference and Financial Instruments"* with the objectives mentioned as below:

- To study the preferences of investors in the financial instruments.
- To assess investors' awareness regarding the investment decisions in selecting securities.
- To analyze the investment trend in the security market of Nepal, and
- To suggest some practical recommendations on the basis of the findings of the study.

He gave the following important remarks in regard to the investors' preferences from the analysis; it seems that the Nepalese investors' prefer common stocks when making investment decision. The common stock has the largest chunk of trading in the market. The main attraction of common stock is due to its return; dividend of the company. The stocks of banking sectors have the largest amount of trading in the market or the market capitalization of common stock of banking sectors is very high. Hence, the preference of investors is on common stock of banking sector.

The investors give the second priority to the government securities because the government securities are taken as risk less investment. The Nepalese investors least prefer the preferred stocks and debenture. It was found from the primary data that no attraction of investors towards debenture and preferred stock is due to not issuing preferred stock and debenture by the Nepalese companies frequently. The market capitalization of the securities shows that the

Nepalese security market is in development stage since the capitalization is in increasing trend.

The Nepalese investors do not seem aware in regarding investment in the security market. They don't analyze the risk and return before making any investment in any securities. They invest their money just by observing the market trend, which is very unscientific in Nepalese context because Nepalese security market is not in equilibrium.

Jamuna Upreti (2009) has conducted research entitling "Investor's Approach and Expectation on Earnings from financial Instruments in Nepal". The main objectives set in this research are mentioned below:

- To find out the investors trend of investment on securities.
- To find out the investor's approach towards securities.
- To find out the expectation followed by the investors while making decision on securities.
- To find out the earning desired by investors form securities.
- To find out the strength and weakness in investment on securities.
- To explain widely used financial instruments of Nepal.
- To study the primary issue in Nepalese financial markets.
- To analyze the preferences of the different investors of Nepal to know what type of instruments the investors prefer the most.

The main findings of this study were as follows:

This study tries to emphasize different components of the investors and financial instrument so that we can trace out the vital things, which will ultimately help the investors and to develop the financial instruments market of Nepal. On this ground, the study has tried to find many findings. The major findings from the secondary data analysis are as follows:

- The corporate securities consist of common stock, preference share, debenture and mutual fund/ unit scheme. Among these securities, most of the companies issue common stock and hence it has high volume of coverage in Nepalese market. Likewise, we can see debentures, preference share and mutual fund/unit scheme have the respective position in the Nepalese security market.
- The government securities consists of treasury bills, development bonds, national saving bond, public saving card and special bonds. Among these securities government issues heavy volume of treasury bills and hence it has high volume of coverage in Nepalese market.

Likewise, development bonds, national saving bonds, special bonds and public saving card have the respective position in the Nepalese market between the years of 2002 to 2008.

- Majority of finance companies were found listed more than other companies in Security market of Nepal. Likewise, Commercial banks, manufacturing & processing Insurance, Trading and Hotel sector were respectively listed in the security market of Nepal. Apart from these major findings from secondary data analysis, we have also various other findings on the analysis of primary data.
- Most of the investors have preferred the common stock for investment among various available financial instruments in Nepal. Government securities appeared as the second most preferred financial instrument after common stocks. The preferred stock and debentures were appeared as the least preferred financial instrument.
- Among the various sector most of the investor preferred Banking sector. After the banking they gave the priority to the finance company. This ultimately proves that Nepalese investors are interested to invest in financial sector.
- Profit/Return was found to be the most preference to get from their investment for all types of respondents. Few investors preferred marketability and social status as a
- Return from their investment. Some investors were interested to get profit/return, marketability and social status from their investment.
- It was found that majority of investor wanted to trade their investment in both primary and secondary market. Few investors wanted to trade through mutual fund.
- The majority of the respondents stated that the Nepalese investors are not satisfied with the return from their investment.
- It was found from the respondents responses that majority of investor are not aware regarding their investment in Nepalese security market.
- It was found out that major portion of the investors is influenced for investing insecurity is mainly for capital appreciation. Suggestion from relatives and friends and rumour as same factor are harmful to the investor. This factor also seen as one of influencing factor in decision making on investment.
- The majority of the respondents of the different groups felt that the Nepalese investors are not getting sufficient and timely information from the companies.
- It was found that investors' decision on financial investment is highly influenced by political situation; few investors agreed upon the statement that political situation does not influence the decision of investor.

- The reason behind main attraction of common share investment appeared capital gain. Dividend appeared as second factor of attraction. Some of investors preferred representation in Board as the attraction of common stock investment.
- With respect to the companies not preferring to issue debt and preferred stock, the majority of the respondents stated that certain and regular interest payment to investors was the main reason that the Nepalese companies did not prefer to issue debt and preference stock frequently.
- It was found out from the responses given by respondent that the main attraction of Nepalese investors towards the government securities is due to the risk free return and safety.
- It was also found out from the responses given by respondent that the Nepalese investor didn't like high risk. Most of investors are risk avoider.
- Officials of NEPSE and SEBON had knowledge of derivatives whereas most of investors had not knowledge about the financial derivatives like future, options and warrants etc. Therefore it can be said that knowledge of futures, options, warrants arelacking in Nepalese financial market.

Gyan Raj Upadhyaya (2009) made a research with the title “Investors Behavior in Nepalese Stock Market”. The main objectives of this research are mentioned below:

- To know the transaction system of Nepalese stock market at present.
- To examine whether the investors are fully aware or not in the share trading system.
- To analyze and evaluate the risk and return of common stock of selected companies.
- To give suggestion and recommendation to the concern person and office.

The major findings of this research were as follows;

The study was based mainly on primary data, collected by using questionnaire. In addition, secondary data have also been used to full fill the objectives of this research. Some of the major findings of this analysis from both primary and secondary data are summarized and presented as follows:

- Most of the investors are found investing for price appreciation than earning from dividend; some investors also invest for the increment of their social status.
- Most of the investors like to invest in banking sector. They believe that the share price of banking sector always rises. Finance and Insurance sector is their second priority. As not

performing well in the market they are less interested to invest in manufacturing, Trading and other sectors.

- Most of the investors think Net worth as an important factor affecting MPS than EPS, DPS and Company Goodwill. They also believe EPS as a main factor affecting stock return than MPS, Net worth and Company Goodwill.
- Investors give preference in fixed deposit and the real estate rather than securities. They feel more safe in these two alternative than that of securities. Although securities is more preferred alternative than the Bullion by the investors.
- Investors perceived as a successful company which declares bonus and right shares. The declaration of dividend is the next important measuring rod of company's performance by the investors.
- Before investing in primary market i.e. in IPO, investors consider "Sector of the investment" as a factor that drives them to the market. They consider "capital structure" of the company at last after the "founder and management" and "future plan".
- Before investing in securities of the secondary market, investors consider first that the security is from which sector. The future DPS which is the return of the investment is given last preference for consideration after MPS and the Goodwill of the company.
- Only 35 percent investors consider risk as manageable factor, 31.25 percent investors think risk as an unknown factor where as 30 percent think predictable and rest 3.75 percent think as a known factor of investment.
- Most of the investors do not want to take high risk. 55 percent investors prefer to take moderate risk with moderate return. 37.5 percent want high return with high risk and only 7.5 percent investor's want low return with low risk.
- Major portion of the investors i.e. 41.25 percent consult their friend before making investment. 26.25 percent investors consult brokers, 18.75 percent investors make their decision themselves and only 13.75 percent investors consult professionals for making their investment sound enough.
- Most of the investors' i.e. 45 percent are informed through newspaper. 28.75 percent investors are informed through brokers, 20 percent from their friends and rest 6.25 percent investors informed through electric media.
- Investors do not want to participate in AGM regularly. Only 45 percent investors participate regularly in AGM. 30 percent investors participate some times, 15 percent investors participate by proxy and rest 10 percent investors do not participate in AGM.

- Investors do not want to retain the stock if the trend of market price is increasing or decreasing. Most of the investors prefer to sell the stock if the trend of market price is increasing and or decreasing.
- Most of the investors think information printed in prospectus as more optimistic and false statement. Only 16.25 percent investors believe the information printed in prospectus as a true presentation.
- The existing rules and regulations of stock market is not satisfactory as per response of 46.25 percent investors. 32.50 percent investors think it is a satisfactory and 21.25 percent thinks as an adequate.
- About 45 percent investors perceived management attitudes towards them as poor. 38.75 percent investors perceived as satisfactory and only 16.25 percent have positive response to the management.
- Most of the investors want their more number of representations on board to protect their interest. They give second priority to regular flows of information whereas awareness program by government authorities and increased shareholders activism is on third and last priority given by them to secure their interest in stock market.
- Major portion of the investors are not satisfied with the current performance of stock market. 53.75 percent investor thinks the current performance of stock market as poor performance. 41.25 percent investors think it is a satisfactory whereas only 5 percent investors think the current performance as an excellent one.
- From the analysis of secondary data, the expected return of NABIL is found highest i.e. 58.39 percent among all securities. The expected return of HBL is lower among all sample companies and the expected return of market is found 16.60 percent.
- The measurement of total risk i.e. is highest in the stock of NABIL and it is also highest in the all sample companies hence it is more risky than others. The standard deviation of HBL is lower than all. The standard deviation of market is found 0.3230.
- The relative measurement of risk with return i.e. CV is 1.0492 of NIB which is maximum among all sample companies while 0.5872 of SCB is lower among all. The CV of market is higher i.e.1.94.

Investors fears on decrement of the stock price when it is in increasing trend, hence they want to sell the stocks and when there is decreasing trend of MPS of stocks, they predict market price further decrease and want to sell the stock. Most of the investors want to invest in moderate level of risk with moderate return. Investors thinking about risk, analyzing the investment before and their consultation habit with experts and professionals is not satisfactory. Investing without analyzing and taking expert's opinion may increase the risk.

A dissertation written by Ganesh Bahadur Himali (2009) with the title "Investors Rationality in Choosing Financial Instrument" has mentioned the objectives as follows:

- To examine the status of investors' preferences towards the financial instruments.
- To analyze influencing factors those attract investors to invest in particular security -or securities.
- To assess investors awareness regarding the investment decision in selecting securities.
- To explore the shortcomings of security-related organization as perceived by the investors.

The major findings of this study were as follows:

- Analysis of investor's preferences reveals that common stock is the security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively. Median values of common stock, preferred stock, debentures and government bonds are 1.07, 2.80, 3.06 and 1.56 respectively. As these median values stands for indicating the concentration of respondents, for common stock the more of respondents are centered to the 1 and 2 scales resulting into median of 1.07. Thus it can be regarded that the common stock is most preferred financial instruments among Nepalese investors.
- The main reason to prefer common stock is because it entrusts holders the rights to participate in earnings. Among the various features of common stock the most preferred feature is that it entails the right to participate in earnings. Next to this, marketability is the second feature of common stock in terms of the perceived importance of Nepalese investors. Likewise Bulk transaction, Power to exercise rights and participation in management are in third, fourth and fifth priority in the Nepalese investor's perception. Sense of ownership is in last to attract the motive of investor to purchase common stock.
- Analysis of attractiveness of industry sector show that for Nepalese investor's most attractive sector is banking sector, as the median value for this sector is 0.97. Thus the respondents are centered for the first ranking as opposed to other ranking. Finance sector is the next most attractive sector to banking sector for Nepalese investors. This finding supports the growing tendency of investment in this sector. The median value of insurance, hotel, trading, processing, and other sectors are 3.00, 3.44, 3.93, 3.89 and 6.90 respectively indicating the

consecutive priority of investors so far as their matter of investing in different industrial sector is concerned.

- Investor's objectives to invest imply the major psychological reason for investing in securities. These simply explain for what purpose investors tend to invest that is either it is to maximize return, to enhance their social status, or to minimize the possible risk. The findings of this analysis is that out of the given kind of objectives 'sufficient return' is the kind of investor's objectives for which they attach most in comparison with others.
- In this analysis investors seem to be less concern over social status and to be more concern over sufficient return and less risk so far as the matter of investing in securities is concerned.
- The analysis that has performed to find out reason for less or no use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provide wide variety in their kinds so investors are less inclined towards these securities. In this way the second thing investors agree upon is that these securities provide less return than it actually required compensating the risk inherent in these securities. The reason that these securities are illiquid and less marketable tends investors to have negative attitude towards these securities (i.e. Debentures and preferred stocks). Of course there is no provision for investors who does require adjustable return as per the market scenario. As a result they also agree that the securities in question provides stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Due to this very feature of these securities Nepalese investors do not want to invest in these types of securities (i.e. Debentures and preferred stocks). Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc.
- Given the option of different type of debt security, 39 respondents like such bond that is pledged against the firm's assets and it is technically called mortgaged bond. Likewise mortgage bond is the most favored bond followed by simple interest bond, floating rate bond and income bond. The result of the survey shows that out of the total respondents 39 (34.82 percent), 35(31.25 percent), 23(20.54 percent) and 15(13.39 percent) respondents are in favor of mortgage, simple interest, floating rate and income bond respectively. The chi-square test reveals that the difference observed between the institutional and individual investors in their views is significant and they put forward different views as to the type of bonds they like or dislike.

- Analysis of the factors determining investor's choice of security reveals that 'company's overall performance' receives first ranking as such this factor can be regarded as the most important factor determining their choice of security. Out of this given factors 'return pattern' is in the second position to determine the investor's choice of security as there are 22 respondents rating this option as second ranking. There are few respondents rating availability of security is the important factors determining the choice of security. The last ranking is received by 'rumors' and it is least important so far as the matter of affecting investor's choice of security is concerned. The median values of these factors are 2.41 and 3.70 respectively. The values are higher in comparison to this for other factors.
- The most important feature of government security to propel investors to purchase these is it is risk free. There are 78 respondents those rates this features in first ranking, this resulted into the median value 0.72 indicating that most of the respondents tend to rate this feature as most important. Next to this, investors favor this security for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk return space. Likewise as per the overall ranking based on median value stable return is in the third ranking as it's value is 3. Median value of 'protection against malpractices' and 'less legal formality' are 3.03 and 3.13 respectively indicating the less attractive features inherent in the government security.
- Out of the total respondents more institutional investors (i.e. 33.04 percent) perform risk and return analysis while investing in securities. Likewise investors who don't perform risk and return analysis are 31 while 62 respondent analyze risk and return before investment. Investors having no idea as to this are 19. The calculated value of $\chi2$ which is greater than table value at 0.05 level of significance and 3 d.f. indicates that the tendency of individual and institutional investors differ significantly to perform risk and return analysis while investing in securities. On the other way the differences observed between the individual and institutional investors is statistically significant giving the proof that they are not same so far as the matter of investing in securities is concerned.
- Out of the total respondents 87.50 percent set investment policy and remaining do not set investment policy. Likewise 68.75 of the total respondents analyze security before making investment decision while remaining 31.25 percent do not analyze security. Here is an interesting result that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Likewise number of respondents those revise and evaluate their portfolio are also minimum. Here out of the total

respondents 16.07 percent revise portfolio but next 31.25 percent do not and still another 52.68 percent of respondents even don't know about the reason of portfolio revision. The last step in investment process is portfolio performance evaluation. For this step too Nepalese investors seem alienated, as there are only 10.71 percent of respondents who evaluate performance of portfolio and other 47.32 percent do not evaluate the performance of portfolio, and balances don't know as to this.

- Analysis of general awareness of investors towards security market and its functioning shows that investors are less aware towards the general functioning of security market in the country. This result is so dismal as so few of the respondents are concern over the general information as to the security market and it's functioning.
- Most of the respondents who purchase security in secondary market have the complain that there are no timely delivery to dividends, bonus share, and right share likewise there are also a significant number of respondents those complain that no timely delivery of as to the price, financial statement and other vital information. Out of the total respondents one respondent has complain about the general meeting that is not held in time.
- The grievances of the investors who purchase share from primary market against issuer company also seems to be significant as 67 investors complains against issuer company in one or other area of function of issuer company. Most of the respondents complain as to the company's tendency to influence unduly to the investors through different type of source of information having their reach. And some of the respondents also dissatisfied with the process of allocating shares to the investors. Other 7 have complained that company does not provide necessary documents for detail perusal.
- There are 27 respondents out of the total of 112 respondents having grievances against Broker Company that account for 24.11 in percentage. Of which most of respondents feel that Broker Company does not provide necessary information as to the market scenario and obstructs investor's from being informed with the same. In their views this the most offensive act to not provide vital information as and when investors feel necessity of such information. Of the 27 respondents two have a same complain that the order is not executed in the timely manner and creates difficulties to search for alternative investment opportunities.
- Of the total respondents there are 39 respondents having complain against exchange center. The complaint is that the center stock exchange does not inform to market as to the price sensitive information and financial statements. The respondents further complain that the company used to provide information and financial statement in previous year in a web site

www.nepalstock..com and presently one cannot find the financial statements of listed company in the web site this has revealed their irresponsibility towards investors as per the investors' views. Further another five respondents complain that the company cannot make up to date information as to membership, listing of securities and transactions etc.

- The first thing that must be done to accelerate the present state of the Nepalese security market is to make conducive environment for the access of the securities services, institutional capacity and services not only in capital city are the must. Security services are bounded in the capital city only and this needs to be corrected by expanding the services in outskirts too that propels all the people in the country to participate in the investment activities that may result into the more developed security market.
- Next thing investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market. Still the next important and urgent action to be taken to develop security market is to make clear-cut arrangements for regulations concerning the involvement of Employees' Provident Fund, Citizens' Investment Trust, and Construction, extractive and IT sector and Mutual Fund in Security Market.
- Sufficient publicity as to the security market and its benefits to the investors and general public is also an important thing to upgrade the present state of Nepalese security market. But this is a least important action, as viewed by the respondents, in comparison to others mention above.

Another thesis conducted by Ram Krishna Prasad Thakur (2010) under the topic "Investors Consciousness in Nepalese Stock Market" has stated following objectives:

- To know the stock transaction system in Nepalese stock market at present.
- To examine whether the investors are fully aware or not in the share trading system.
- To analyze and evaluate the risk and return of common stock of selected companies.
- To give suggestion and recommendation to the concern person and office.
- To make suitable recommendation for the improvement of the legislations.
- To conduct primary survey on the opinion of investors of Nepalese stock market.
- To provide suggestion and recommendations on the basis of major findings of the study to interested outside parties such as investors, customers (depositor as well as loan customers), competitors, personnel of the banks, dealers and market makers.
- To analyze yearly risk and return of the sample commercial banks.
- To identify the correlation between return of each commercial banks.

- To determined the optimal portfolio, portfolio return, optimal weight and portfolio Risk.
- To determined stock price of the commercial banks.

The study was based mainly on primary data, collected by using questionnaire. In addition, secondary data have also been used to full fill the objectives of this research. Some of the major findings of this analysis from both primary and secondary data are summarized and presented as follows:

- Most of the investors are found investing for price appreciation than earning from dividend; some investors also invest for the increment of their social status.
- Most of the investors like to invest in banking sector. They believe that the share price of banking sector always rises. Finance and Insurance sector is their second priority. As not performing well in the market they are less interested to invest in manufacturing, Trading and other sectors.
- Most of the investors think Net worth as an important factor affecting MPS than EPS, DPS and Company Goodwill. They also believe EPS as a main factor affecting stock return than MPS, Net worth and Company Goodwill.
- Investors give prefers in fixed deposit and the real estate rather than securities. They feel more safe in these two alternative than that of securities. Although securities is more preferred alternative than the Bullion by the investors.
- Investors perceived as a successful company which declares bonus and right shares. The declaration of dividend is the next important measuring rod of company's performance by the investors.
- Before investing in primary market i.e. in IPO, investors consider "Sector of the investment" as a factor that drives them to the market. They consider "capital structure" of the company at last after the "founder and management" and "future plan".
- Before investing in securities of the secondary market, investors consider first that the security is from which sector. The future DPS which is the return of the investment is given last preference for consideration after MPS and the Goodwill of the company.
- Only 35 percent investors consider risk as manageable factor, 31.25 percent investors think risk as an unknown factor where as 30 percent think predictable and rest 3.75 percent think as a known factor of investment.

- Most of the investors do not want to take high risk. 55 percent investors prefer to take moderate risk with moderate return. 37.5 percent want high return with high risk and only 7.5 percent investor's want low return with low risk.
- Major portion of the investors i.e. 41.25 percent consult their friend before making investment. 26.25 percent investors consult brokers, 18.75 percent investors make their decision themselves and only 13.75 percent investors consult professionals for making their investment sound enough.
- Most of the investors' i.e. 45 percent are informed through newspaper. 28.75 percent investors are informed brokers, 20 percent from their friends and rest 6.25 percent investors informed through electric media.
- Investors do not want to participate in AGM regularly. Only 45 percent investors participate regularly in AGM. 30 percent investors participate some times, 15 percent investors participate by proxy and rest 10 percent investors do not participate in AGM.
- Investors do not want to retain the stock if the trend of market price is increasing or decreasing. Most of the investors prefer to sell the stock if the trend of market price is increasing and or decreasing.
- Most of the investors think information printed in prospectus as more optimistic and false statement. Only 16.25 percent investors believe the information printed in prospectus as a true presentation.
- The existing rules and regulations of stock market is not satisfactory as per response of 46.25 percent investors. 32.50 percent investors think it is a satisfactory and 21.25 percent thinks as an adequate.
- About 45 percent investors perceived management attitudes towards them as poor. 38.75 percent investors perceived as satisfactory and only 16.25 percent have positive response to the management.
- Most of the investors want their more number of representations on board to protect their interest. They give second priority to regular flows of information whereas awareness program by government authorities and increased shareholders activism is on third and last priority given by them to secure their interest in stock market.
- Major portion of the investors are not satisfied with the current performance of stock market. 53.75 percent investor thinks the current performance of stock market as poor performance. 41.25 percent investors think it is a satisfactory whereas only 5 percent investors think the current performance as an excellent one.

- From the analysis of secondary data, the expected return of BOKL is found highest i.e. 93.92 percent among all securities. The expected return of HBL is lower among all sample companies and the expected return of market is found 38 percent.
- The measurement of total risk i.e. is highest in the stock of NABIL and it is also highest in the all sample companies hence it is more risky than others. The standard deviation of HBL is lower than all. The standard deviation of market is found 24.90%.
- The relative measurement of risk with return i.e. CV is 92.73% of NIBL which is maximum among all sample companies while 66.81% of SCBL is lower among all. The CV of market is 65.52%..
- The four commercial bank stocks are under priced and one bank stock is over
  Priced among the five listed commercial banks i.e. investors need to buy these stocks. The NABIL bank stock is overpriced. So, the stockholder wants to sell these securities.
- The first hypothesis is based on the taste of average return of common stocks of listed companies are equal to the market return or not and it was found that if the level of significance is 5%, Null hypothesis is accepted. i.e. Average returns of listed commercial banks are equal to market return,
- The second hypothesis is based on the test the significance difference in average return of common stock of listed commercial banks and overall market portfolio and it was found that the Null hypothesis is accepted at 5% of level of significance i.e. there is no significance difference in average return of common stock of listed commercial banks and overall market portfolio.

Investor fears on decrement of the stock price when it is in increasing trend, hence they want to sell the stocks and when there is decreasing trend of MPS of stocks, they predict market price further decrease and want to sell the stock. Most of the investors want to invest in moderate level of risk with moderate return.

Investors thinking about risk, analyzing the investment before and their consultation habit with experts and professionals is not satisfactory. Investing without analyzing and taking expert's opinion may increase the risk.

Another thesis submitted by James Jay Mooreland II entitling (2011) "The Irrational Investor's Risk Profile" The purpose of this thesis is to identify the various factors that affect an individual investor's decisions and cause chronic underperformance. Much of the research to date has been with respect to optimization models, such as the Modern Portfolio Theory, that recommends a portfolio of securities that have the most favorable risk/reward tradeoff (portfolio efficiency). These optimizers are implemented after the investor's utility (risk preference) has been defined and input into the optimization model. The most common manner to define the risk preference of the investor is through a risk profile questionnaire. These questionnaires are promoted by financial institutions, both full service firms such as Merrill Lynch, and self-service firms such as Fidelity, to help the investor define his risk profile. Financial firms will usually recommend an allocation of securities based upon the calculated risk profile that it believes will provide the investor with the optimal allocation of securities given the risk preference. There have been many articles and books written to teach an individual how to invest and ultimately improve his investment returns for a given level of risk. The majority of the research with respect to constructing portfolios and improving investor performance has been dedicated to portfolio selection and management after the utility function (risk profile) is defined. This thesis takes a step back to examine whether the tools used to find the investor's risk profile are valid and result in accurate profiles. If the current risk profile questionnaire elicits an incorrect risk profile, then any optimization model, no matter how good it is, may not produce a portfolio of securities commensurate with the investor's true risk profile. It is imperative that the risk profile is accurately determined before we can move on to optimization and other investment techniques aimed to enhance investor performance. The thesis begins by reviewing published research and literature on current portfolio tools available to investors (i.e. portfolio optimizers) with their respective strengths and weaknesses. It will also review behavioral finance research with respect to biases that influence investors to make decisions contrary to their expected utility, as well as research that challenges the traditional methods of measuring an investor's risk tolerance. It will then lay out the framework for this study and explain what questions the study will attempt to answer along with the outcomes I anticipate. The studies will consist of a survey to gather information, and I will explain how that data was obtained and what methods were used to interpret the data. The results of the data will then be revealed along with their interpretation. Finally I will conclude by summarizing what was learned through this study and recommending ideas for implementation and future research.

The experiment conducted for this thesis provides evidence that investors have certain behavioral biases, and these biases may influence decisions they make with respect to their investments. As illustrated in the literature review, there are several studies and evidence that behavioral biases are found among the general population, and influence decisions that are deemed irrational by traditional finance theory. Despite the evidence of behavioral biases, the financial community continues to rely upon the traditional risk profile questionnaire, which was designed for rational individuals (such as institutional investors). The disconnect between behavior that is assumed and behavior that is observed poses a problem for investors and advisors who rely upon investment tools to construct a portfolio of securities. As demonstrated in the experiment, the traditional risk profile questionnaire not only fails to describe any biases present in the investor, in many cases it profiles an investor as "growth" when the investor is influenced by loss aversion. The inability of the current risk profile questionnaire to properly profile an investor's true risk tolerance is a contributing factor to why the average investor significantly underperforms their respective benchmark (Dalbar, 2010).

Behavioral biases have been studied for some time, and there have been several attempts to incorporate behavioral biases into the portfolio optimization problem as was described in the literature review. This is an important first step because even if the optimization program were perfected, it would still yield erroneous results if the stated risk profile was incorrect. It is recommended that the financial community acknowledge the extent that behavioral biases influence investors, and update their risk profile questionnaires to recognize the reality of this irrational behavior. There are several ways the risk profile questionnaire could be updated: i) keep the risk profile questionnaire as it is and compliment it with a short questionnaire reflecting the most common biases among investors ii) shorten the risk profile questionnaire (in my experiment one question had a 88% correlation to the ultimate risk profile) and include a few questions on behavioral biases iii) keep the risk profile questionnaires the same but furnish educational materials about behavioral biases and their influence on future decisions. It is unlikely the financial community will make any drastic changes in the short term. It is more likely firms would complement the current risk profile questionnaire with an optional investor profile that includes behavioral bias questions, and educates investors about their effects. There would be a cost to updating the risk profile questionnaire with behavioral questions, but it would result in a competitive advantage. Brokerage firms, especially self-service firms, are a commodity business. Self-service firms often promote free trades for new customers and inexpensive/free trades for clients with certain account values. Differentiation in a commodity business is a competitive advantage, but the question is who will be the first to make the move. As with any change, there is risk; but as with investments there is little reward without taking some risk. Incorporating behavioral biases into the investor profile may be easier through a full service firm with a financial advisor because of the human element. A financial advisor could choose to educate herself with respect to behavioral biases, and offer an expanded profile in addition to the firm-required traditional risk profile questionnaire. Investors who are willing to pay a fee to an advisor would likely prefer their advisor to provide advice based upon their actual risk preference rather than the profile dictated by a standard questionnaire that assumes the investor is an emotionless being who will always follow the expected utility maxim. It would be in the advisors best interest to spend extra time with each client to ensure the recommendations properly match the clients' true risk profile to promote a positive and lasting relationship. This would also be a competitive advantage for financial advisors. If a client is paying 1.00% advisory fees each year, would they not prefer to pay that money to an advisor who brings more to the table rather than less? There could be many advisors within the industry that would like to account for behavioral biases, but are unsure how to do it properly, or may be restricted from using any methods/forms not approved by the advisor's compliance department. It is important that full service financial firms, and their compliance departments, implement methods of risk assessments that include the ability for the advisor to accurately profile the complete risk tolerance of the client (including behavioral biases). At the time of this thesis, despite the plentiful research and evidence of behavioral biases, the majority of financial firms continue to rely upon risk questionnaires that have proven to elicit invalid ,inaccurate profiles of their clients.

A thesis prepared by group effort of Vincent Glode, Burton Hollifield, MarcinKacperczyk, and Shimon Kogan entitling "Is Investor Rationality Time Varying?" has also set the following objectives:

To examine whether past abnormal returns predict future abnormal returns. Further test whether fund investors would earn zero abnormal return by switching their wealth across different groups of funds. We further argue that rationality may be related to the type of investor: Individual/retail investors seem more likely to deviate from rationality than do institutional investors. To examine additional implications of this finding by analyzing the predictability pat-terns separately for retail and institutional funds. The time variation in the flow-performance sensitivity is mostly driven by time variation in the flow-performance sensitivity of funds offered to retail investors. And to test whether the differences in fund investor rationality have important consequences for the behavior of fund managers.

Using a rational equilibrium model of mutual funds as our benchmark, we document that the marginal investor in the mutual fund sector does not appear to be always rational. The rationality varies with market conditions: She appears more rational following periods of low market returns than periods of high market returns. A number of findings lead us to this conclusion. First, we observe a significant degree of performance persistence following periods of high market returns and no persistence following periods of low market returns. Second, we find a significant degree of cross-sectional predictability in abnormal returns. In particular, investing in a strategy that takes a long position in funds with high flows would have earned an abnormal return that is economically and statistically larger than a similar strategy using funds with low flows following periods of high market returns and the same abnormal return following periods of low market returns. Likewise, investing in a strategy that takes a long position in funds with high returns (raw or risk adjusted) would have earned an abnormal return that is economically and statistically larger than a similar strategy using funds with low returns following periods of high market returns and the same abnormal return following periods of low market returns. This predictability is mostly pronounced for investment horizons between three and twelve months and is robust to the inclusion of standard risk and style controls, as well as the time-series variation in factor loadings. Finally, we find that most of the predictability is coming from the short position, which suggests that the marginal investor's fund flows under react to information coming from bad fund performance after periods of high market returns. We interpret our results as evidence that the rationality of a marginal investor in mutual funds varies over time. Confirming the argument that irrational investors are more likely to be retail investors than institutional ones, we further show that the differential response in fund flows is largely confined to flows into retail funds rather than into institutional funds, suggesting that the observed differences in returns result from differences in the behavior of retail investors. Consistent with the equilibrium in which fund managers optimally adjust their incentives to the informational content of fund flows, we find that fund managers' investment strategies are more dispersed (unique) after periods of low market returns than after periods of high market returns. Overall, our results imply that the equity mutual fund industry is less informational efficient after high market returns than after low market returns exactly when industry size increases. This finding, in turn, has strong implications for the overall market efficiency debate.

2.16 Research Gap

There has been a number of thesis prepared earlier regarding securities and securities market, the most relevant one to this research being presented and reviewed as above. However, what distinguishes this thesis to the earlier researches is that this research has tried to go through an individual investors' in-depth view regarding the securities investment. It deals with returns that they expect from their investment etc., Though the earlier researches have shown that investor's awareness is very low to moderate regarding this sector, this research tries to do a micro analysis of behaviour, attitudes and awareness of an investor. The data has been collected through questionnaires and direct interviews and through mails as well with the respondents. Simple set of questionnaires have been prepared that is easy for everyone to understand like how often you check the share price, whether investment in stock market multiplies your money at a short time, what attracts you to invest, what do you prefer to invest; stock, debentures, bonds , government bonds etc. Previous researches were conducted on different aspects of stock market like the growth and size of the stock market, legal provisions, stock price behavior etc,. They were analyzed basically on the basis of secondary data analysis. Therefore, this study has tried to fulfil the gap and looks into the behavioural aspects of an individual investor regarding securities market.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Background

Research means to search or study about a phenomenon. Generally research is an effort to search new fact, knowledge and principle in scientific ways. Research is the process of a systematic in –depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So research methodology is a systematic way of conducting the research in an effective and practical so that it can explain how the research is done.

Therefore this chapter highlights the research methodology used for the study of "Investor's attitude towards securities and their anticipation of earnings". In this regard, this chapter explains not only of the research methods but also considers the logic behind the methods, which are used in the context of our research. This chapter consists of the research design, population, sampling procedure and sources and analysis of data.

3.2 Research Design

Research design is the conceptual structure within which research is conducted. In other words, a plan of study or blueprint for study is called research design or research strategy. It facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible.

Research design is a plan, structure and strategy to obtain the objectives of the study.
According to the Kerlinger (1998), "Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance".

This research is based mainly on primary data. Secondary data have also been used extensively in support of the study and its analysis. Hence, the historical and descriptive research design has been used to conduct the study of investor's behaviour and attitude towards securities market in context of Nepalese stock market. It deals with the behavioural aspect of investors on the basis of available information.

3.3 Population and Sample

The total variable for study is simply called population. The process of selecting the sample out of the population which would best represent the population is called sampling. Since this research is done on investor's attitude and their anticipation of earnings from the stock market, security brokers who act as middlemen in these transactions and individual investors both have been selected as samples. A total of 100 questionnaires were distributed among them to collect the data, where the middlemen's data is assumed to be representative of the individual investors whom he caters to.

3.4 Sources of Data

The main source of data for this study is the primary data that have been collected through questionnaires and personal interviews with the securities brokers and also individual investors. Besides the primary data, secondary data have been compiled from various other sources like Nepal Stock Exchange (NEPSE), Securities Exchange Board (SEBO), and Economic Survey published by Nepal Rastra Bank and World Bank. Besides annual report, various bulletins available and useful to the study are also taken into consideration.

3.4.1 Primary Data

The primary data are collected through questionnaire and personal interview of securities brokers and individual investors. Altogether 100 questionnaires were distributed to the respondents irrespective of their professions and nature of activities.

3.4.2 Secondary Data

The secondary source of data are the reports of NEPSE, annual report of the Security Board Nepal, different books from library, periodicals, newspaper cuttings, company's magazines etc. Guidelines and unpublished thesis, research work that directly related to the financial performance and stock market would form secondary data for the purpose of this study. Significant information are also collected from the internet and various websites likewww.nepalstock.com, www.nrb.org.np etc.,

3.5 Data Collection Technique

The research is based mainly on primary data. However, secondary data have also been used. Since the nature of these two data is different, the data collection procedure also varies. The primary data is collected through questionnaire, by direct interview with the respondents and through emails too. To collect the secondary data, published materials are viewed in various spots such as books by different authors, unpublished thesis reports, journals, internet web sites, library, AGM reports of listed companies, NEPSE, SEBON etc. The researcher has visited TU library for thesis preparation purpose as well.

3.6 Data Processing

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Data processing technique is one of the most important parts of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research study. The available information and data should be present in such a way, which can easily be understood by the general public. In this study, the data were collected through questionnaire and direct interview with the respondents. The answer thus gained are first tabulated and then presented through different diagrams. The computation has been done with the help of calculator and computer.

3.7 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of primary data with the help of different statistical diagrams and tools.

3.8 Presentation of Data

The data have been presented in different tables and graphs using statistical diagrams like bar diagrams, pie charts etc.

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

4.1Background

This chapter presents and analyses the data that have been collected. Presentation has been done through tables and diagrams so that the reader can understand the result at a glance. The first part of this presentation includes primary data and the secondary data have been presented in the second parts which are in relevance to this research. They together compliment the rationale of this research.

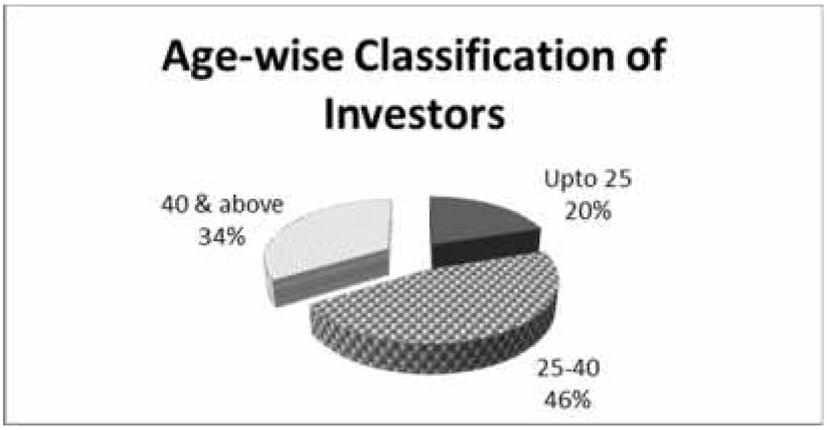
4.2 Presentation of Primary Data

4.2.1 Profile of Investors

This is the first part of presentation where the respondent's profiles have been presented based upon gender, marital status, age, income, academic qualification and status.

Figure 4.1

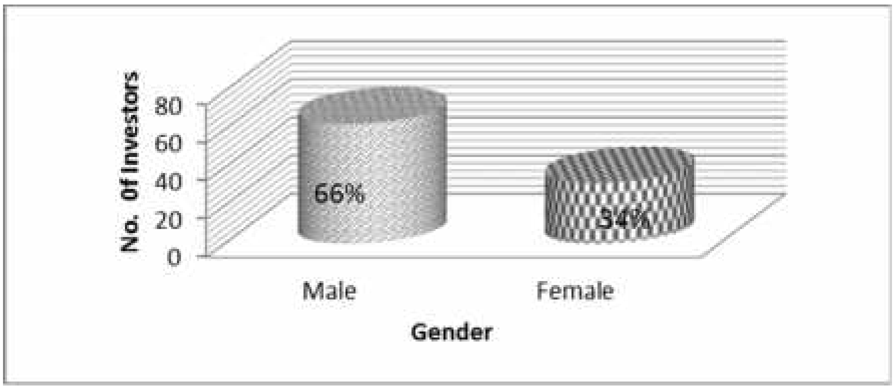
Age-wise Classification of Investors



In the figure 4.1, it is observed that age group of 25-40 covers 46% of total respondents and it is followed by 34% of age 40 & above and 20% of age group below 25. From the study, it is observed that age group of 25 -40 are more aware of investment. It is because they are aware of their career and have started to taking up their responsibilities of family. Therefore, they seek for extra income, and believe that financial market is the most feasible place to invest in for them. Through this study, it is observed that less number of investor's are age below 25 and above 40. The reason behind this may be either no income at all of if they have any income this is not sufficient to invest in security.

Figure 4.2

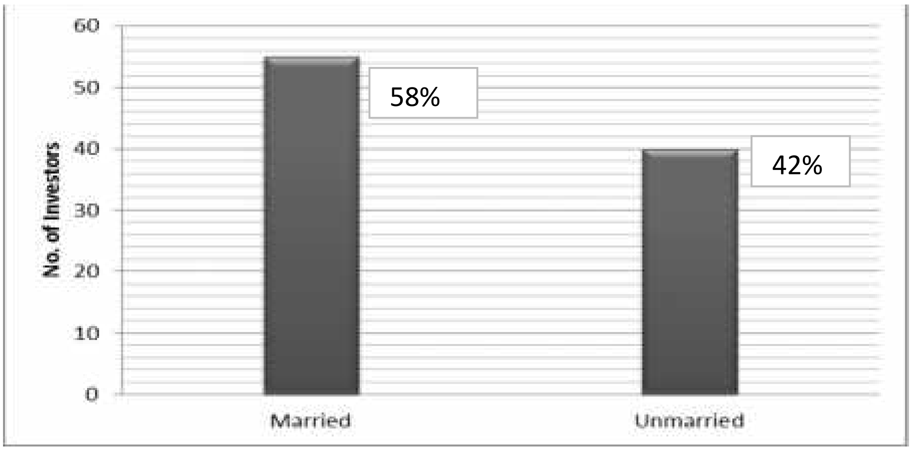
Gender-wise Classification of Investors



In figure 4.2, it is observed that number of females investing in financial securities is lower than male. The reasons may be lower literacy rate of women in our country, lack of knowledge about security and less involvement in it because of family responsibilities, not supportive spouses, in-laws etc.

Figure 4.3

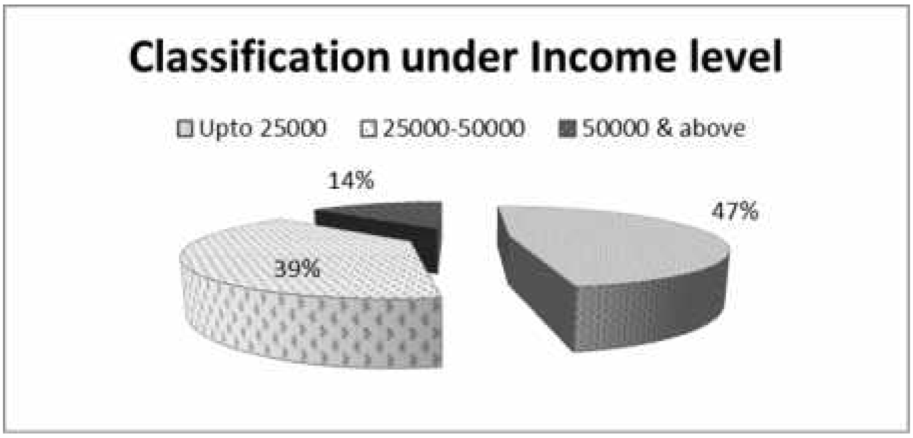
Marital Status of Investors



From figure 4.3, it is observed that married people are more active in investing in financial sectors than unmarried people. Among respondents 58% are married while 42% are unmarried or single. This may be due to their sense of responsibilities towards the future for which they want to invest today to be more secured financially in future.

Figure 4.4

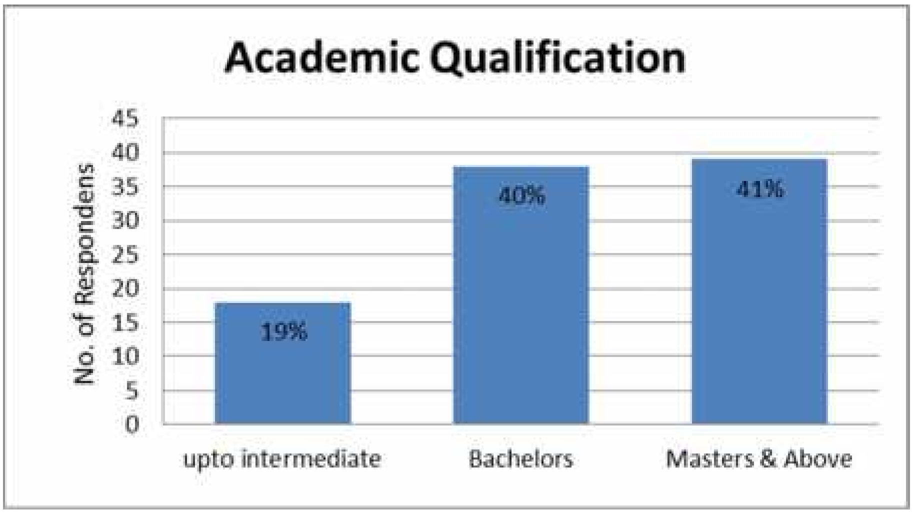
Classification under Income Level



In the above figure no. 4.4 it is observed that the income level of 14 % of total respondents have above Rs 50,000 and 39% of respondents fall below income level up to Rs 25,000 whereas 47% of the respondents have Rs 25,000 to 50,000. From the analysis, it is found that investors having between incomes from 25 thousand to 50 thousand are more interested in investing in securities.

Figure 4.5

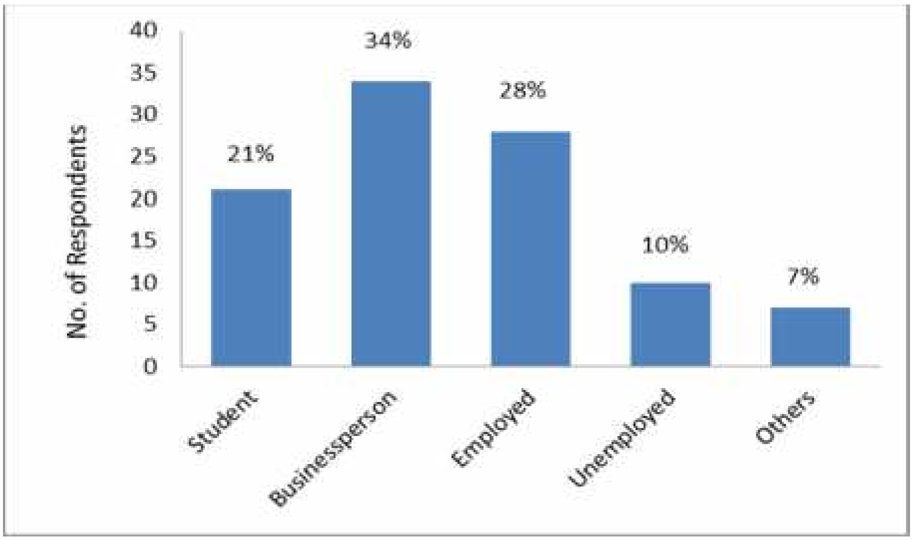
Academic Qualification



In the figure no. 4.5, it is observed that 41% of total respondents are from masters and above whereas 40% are from bachelor’s degree. Only 19% of investors are from intermediate level. It shows that qualified persons are more interested to invest in securities than less qualified person.

Figure 4.6

Professional Classification



In the figure no. 4.6, it is observed that 34% investors are from business class followed by employees 28%, students 21%, unemployed 10% and others 7% of them respectively. It is also observed that students who are doing bachelor's degree are interested in security investment. It shows that persons having less academic qualifications are less interested in security investment. It may be due to lack of knowledge about the security investment, on the other hand, unemployed persons who are dependent on family members are also less in number and less interested in security investment. It may be due to lack of income generating sources to them. Others include housewife and part time teacher.

4.2.2 Preference of Security Investment

A question was asked with the respondents, 'Do you prefer to invest in security?', the information provided by the respondents has been shown in Table 4.1.

Table 4.1

Preference in Security Investment

Preference of Security	No. of respondents	Percentage
Yes	81	85
No	14	15
Total	95	100

In the table no. 4.1 it is observed that 85% of respondents are interested to invest in security whereas 15% respondents are not interested in security investment.

Similarly, a question was asked to those respondents who have given positive answer, if yes, give reason behind investing in securities, the answers given by them have been presented in table 4.2

Table 4.2

Reason behind Security Investment

Reason behind security investment	No. of respondents	Percentage
Excess supply of money	18	22
Regular income	30	37
Investor possess risk enduring capability	21	26
Others	12	15
Total	81	100

In the table no. 4.2, it is observed that the main reason behind investing in security is its regular income. Among the respondents who have said yes to investment in security, 37% of them are interested in security investment due to its regular income whereas 26% of them are interested in security investment due to investors possess risk bearing capacity. 22% of them believe that due to excess supply of money in the market they invest in security. Similarly, 15% of them are attracted to invest in security due to other reasons, they are lack of safe investment sector, lack of knowledge on alternative investment opportunities and easily accessible in the market.

Similarly another question, if not give reason behind not investing in security has also been presented in table no. 4.3 as information provided by the respondents.

Table 4.3

Reason behind Not Investing in Security

Reason not investing in security	No. of Respondents	Percentage
Unavailability of money	4	29
lack of knowledge regarding securities	2	14
return on the securities in uncertain	7	50
others	1	7
Total	14	100

In the table no. 4.3, 50% of the investors who are not interested in security investment are risk avoider. They don't want to invest in security due to its uncertain return on the security. 29% of them don't invest due to unavailability of money with them. Similarly, due to lack of knowledge regarding the security investment, the investors are lack behind in security investment i.e. 14% of them don't want to invest due to lack of knowledge about security investment. Respondents saying others as the reason behind not investing in security cover 7% and others include earnings on such investment need to be waited for a year or more and return is not higher in such investment.

Another question was asked to the respondents regarding how could investors can be initiated for investment in security, the information provided by them is also shown in table no. 4.4

Table 4.4

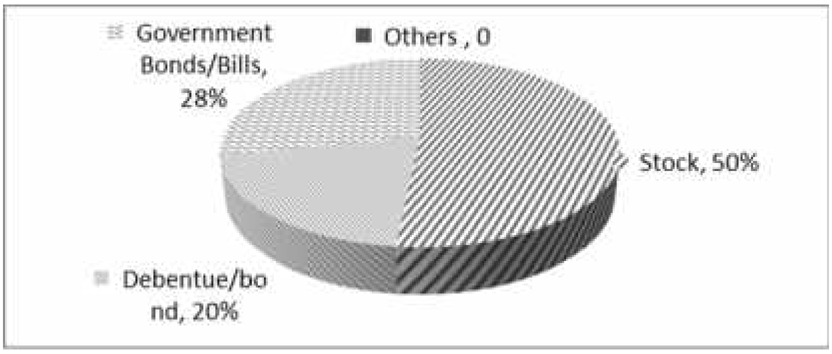
Initiation towards Security Investment

Initiation reasons	No. of Respondents	Percentage
Making security trade easily accessible	23	24
Spread knowledge on scope of investment in securities	27	28
Assurance of return on investment in securities	34	36
Others	11	12
Total	95	100

In the table no. 4.4, it is observed that, 36% of the respondents believe that only after assuring return on security investment, people will invest in security whereas 28% of them said that after spreading knowledge on scope of security investment to the investors only then they will invest in it. Similarly, to lure investor towards security investment 24% of respondents said that the trading of security in market should be easily accessible. Finally, 12% of them said other factors are to be considered to make investor initiation towards security investment. The other factors include financing by financial institutions towards security investment and providing employment opportunities.

Figure 4.7

Preference of Securities



In the figure 4.7, it is observed that most respondents intend to invest in stock only. 50% of the respondents want to invest in stock. After stock, 28% of them want to invest in government treasury bills and government bonds whereas 20% of them are interested in investment towards debenture and bonds. It shows that though the stock is riskier asset investors are more interested toward stock. Other financial instruments like option, warrants are not preferred security by the investors. It may be due to unavailability of such security in the market and lack of knowledge about these securities.

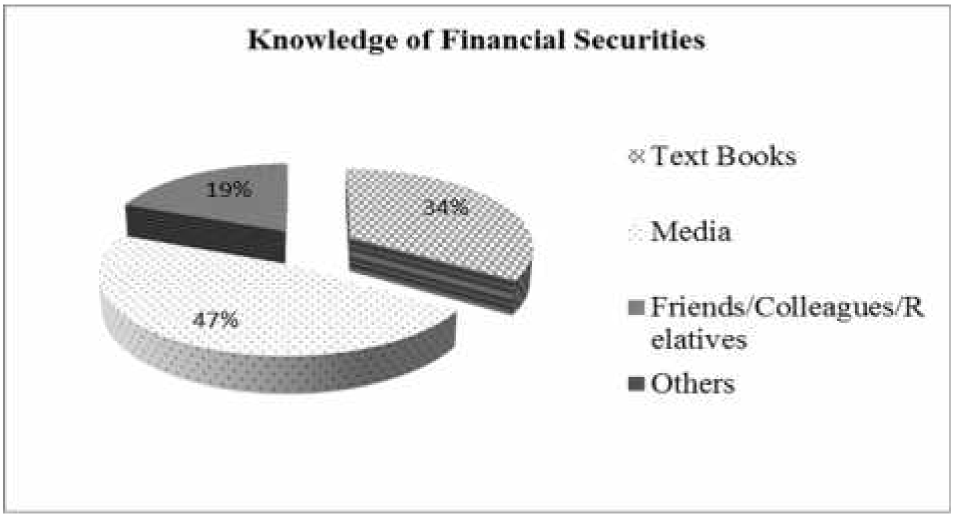
4.2.3 Sources of Information

This part presents the different sources of information regarding knowledge on securities, time frequency of checking stock prices and consultation with others before investment in security.

4.2.3.1 Knowledge of Financial Securities

Figure 4.8

Knowledge of Financial Securities



In figure no. 4.10, it is observed that maximum no. of investors came to know about financial market through media. It covers 47% of respondents who came to know about these securities through media like newspaper, T.V., internet, radio etc. whereas 34% of them came to know from their text books and the remaining 19% said that they knew about it from their friends, colleagues and relatives. It means that media plays important role in spreading knowledge regarding security investment. Other information source is not observed among the respondents.

4.2.3.2 Time Frequency of Checking Stock Price

Table 4.5

Checking Stock Price

Checking stock price	No. of respondents	Percentage
Yes	88	93
No	7	7
Total	95	100

A question was asked, 'Do you check the prices of the stock?' the information regarding this has been tabulated in table no. 4.5. It is observed that 93% of the respondents check the prices of stock whereas remaining 7% do not check the prices. It shows that many of investors have positive behavior regarding checking prices of stock.

Another question was asked regarding how often they check the prices of stock, the collected information has been presented in following table 4.6.

Table 4.6

Time Frequency of Checking Stock Price

Time frequency checking share price	No. of Respondents	Percentage
Daily	34	39
Weekly	18	20
Monthly	10	11
Quite Often	26	30
Total	88	100

In the table no. 4.6, it is observed that among respondents who check the stock prices, 39% of them check on daily basis whereas 30% of them check the prices the quite often on regular basis. Similarly, investors checking weekly and monthly basis are 16% and 10% respectively. From the study, it can be analyzed that most of investors check the prices of the stock which shows that investors who are interested in security investment have knowledge regarding the stock prices. It is better to know the daily fluctuations of the share prices before investment in the stock market.

A question regarding what should be done to initiate checking the price of stock was asked, the information collected has been presented in table no. 4.7

Table 4.7

Actions to be done to Initiate Checking Stock Price

Actions to be done to initiate checking stock price	No. of Respondents	Percentage
Make easily available the price of stock at any time, place through different medias	18	19
Make them aware about importance of stock price and its return.	28	29
To make secured investment decision	42	44
Others	7	7
Total	95	100

In the table no. 4.7, it is observed that, 44% of respondents said to make their investment more secured and safe, the investors should get knowledge regarding the stock prices. Similarly, 29% of them said to make the investors more aware about the importance of stock price and its return, they should know the price of stock. 19% of them said that the price of stock should be available easily at any time, place through different media. Finally, 7% of the respondents include other factors like: should be made course studies and provide trainings regarding this.

4.2.3.3 Consultation before Investment

Investors are being invested through consultation with other individuals at the present which is positive sign towards security investment. Some investors are even investing with self-decision understanding the market situations and market rumors. A question was asked to the respondents whether they consult with other individuals like security brokers, friends, relatives and professionals before investment in security. The information has been presented in table no. 4.8

Table 4.8

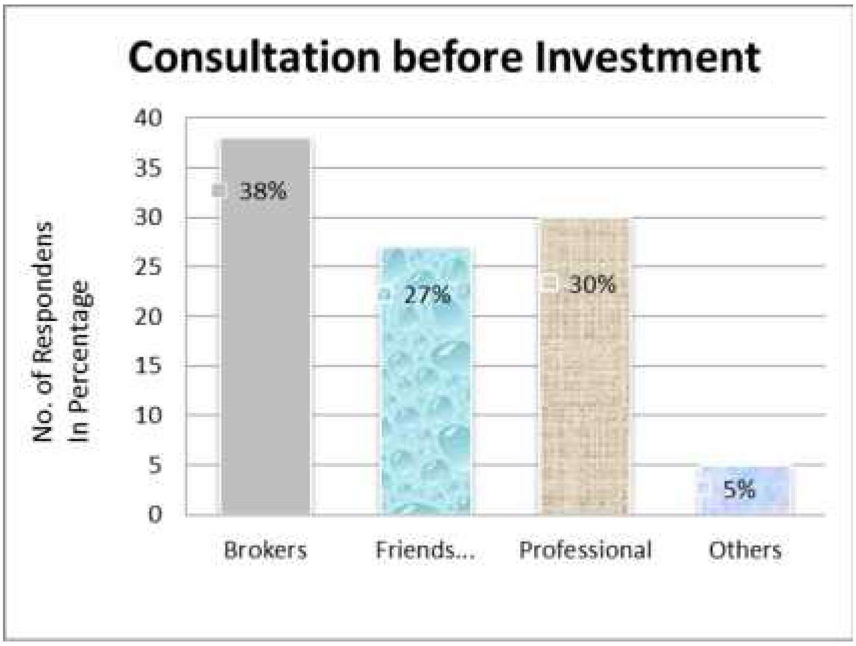
Consultation

Consultation	No. of Respondents	Percentage
Yes	80	84
No	15	16
Total	95	100

In table no. 4.8, it is observed that 84% of the respondents consult before investment in the securities either with security brokers, friends, professionals and relatives. Remaining 14% makes self-decision while investing. Investors try to be rational to minimize risks by taking suggestions from brokers, friends, colleagues and relatives before investment in security. Investors who don't consult probably use their self-discretion and invest in the security.

Figure 4.9

Consultation before Investment



In the figure 4.9, it is observed that, 38% of respondents consult with broker which is good indicator in overall investment procedure whereas 30% of them consult with the professional for security investment. 27% of them consult with friends, colleagues and relatives and only 5% consult with teachers who are normally students. It means that investors are more conscious regarding their investment towards security.

4.2.4 Return

Return is the most important part of investment. Investment is made for return or earnings. Most respondents prefer return on their investment. A question was asked if return is the main purpose of your investment, the information gathered has been presented in table no. 4.9.

Table 4.9

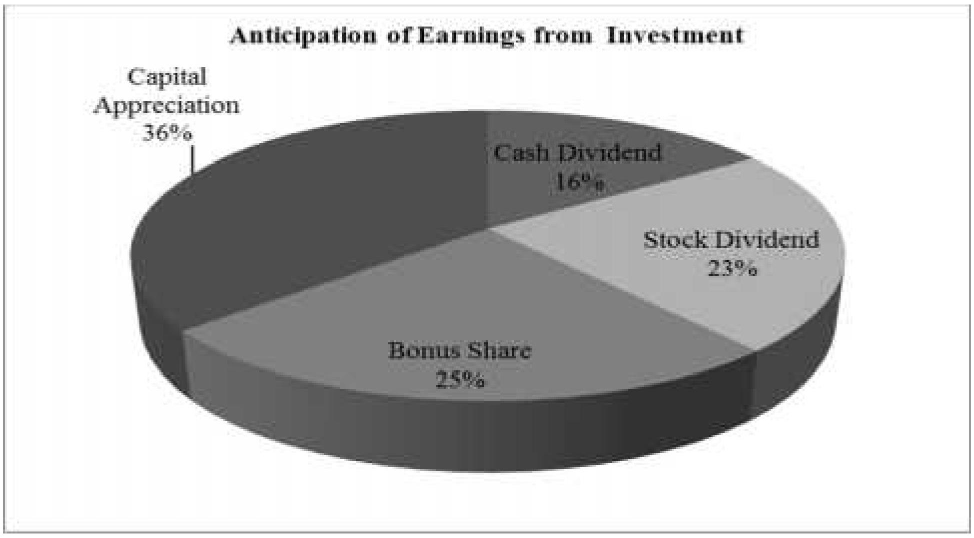
Preference of Return

Preference of return	No. of Respondents	Percentage
Yes	83	87
No	12	13
Total	95	95

In the table 4.9, it is observed that 87% of total respondents prefer return on their investment whereas remaining 13% either participation in management and control power or the others. The returns may be cash dividend, stock dividend, and bonus share and capital appreciation. It is shown in the following figure.

Figure 4.10

Earnings Anticipated from Investment



In the figure 4.10, it is observed that 36% of return preferred respondents want capital appreciation as part of earnings in securities whereas 25% of them prefer bonus share. The figure further analyses that 23% prefer stock dividend and 16% prefer cash dividend. This shows that it doesn't matter if the company fails to pay the cash dividend but the price of the security of the company should have augmented so that they may reap a gain of capital appreciation.

Another question was asked to the investors that if return is not their prime objective what might be they prefer, the information gathered regarding this question is presented in table 4.10

Table 4.10

Objectives other than Return

Objectives other than Return	No. of Respondents	Percentage
Participation in Management	29	31
Power to get decision making	34	36
To get ownership	32	33
Other	-	-
Total	95	100

In the table no. 4.10, it is observed that 36% of respondents will have decision making power as an objective of security investment other than return. 33% of them will invest in security to get ownership while 31% of them will have objective of participation in management.

4.2.5 Judgmental Factor

A question was asked; 'Do you make any studies/ pre-analysis of the company before investment in stock?' the answer collected has been presented in table 4.11

Table 4.11

Pre-analysis of Company

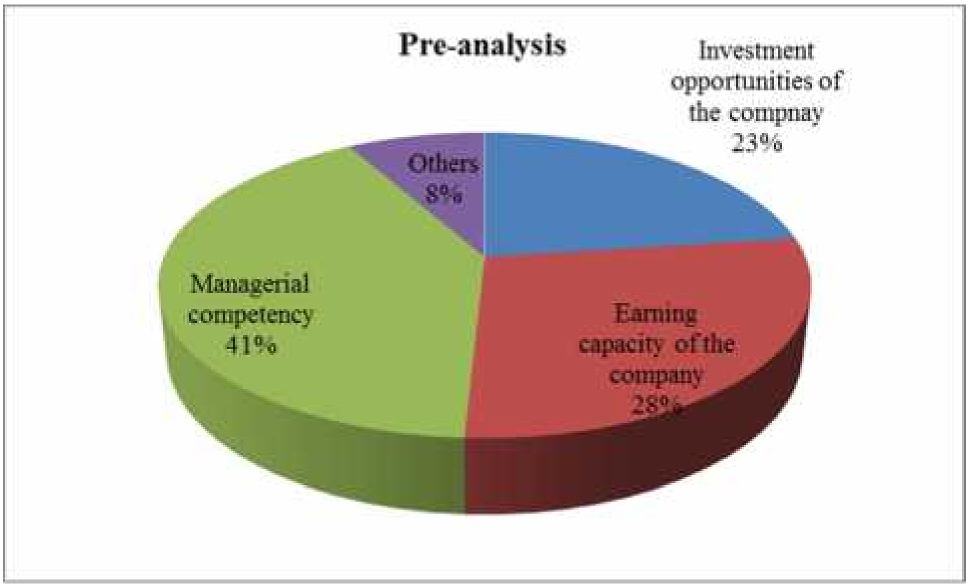
Studies/ Pre-analysis of Company	No. of Respondents	Percentage
Yes	61	64
No	34	36
Total	95	100

In the table 4.11, it is observed that 64% of investors make pre analysis before investment in security of the particular company. Rest 36% of them makes investment without any analysis. They invest just with market rumor and their personal discretion and just follow their friends, colleagues and relatives.

Another question was asked to those who make analysis of the company before investment, 'How do you judge the investment in securities of the company will be fruitful?' The information collected of this question is presented in the figure 4.11

Figure 4.11

Pre-analysis of Company



In the figure 4.11, it is observed that most investors believe on managerial competency before investing in the company. 41% of respondents, who do studies before investment, invest on the basis of managerial competencies of the company whereas 28% invest on the basis of earning capacity of the company. The figure further analyses that 23% of them look their investment opportunities whereas 8% seek other factors like market situation, NEPSE data of the company etc. This shows that most investors think qualitative features of the company are more important than the quantitative factors. If qualitative features are performed well, easily the quantitative features can be obtained.

Another question was added, ‘What may be consequence if analysis/ study is not made before investment in securities?’ The information collected has been presented in table no. 4.12

Table 4.12

Consequence of Not making Analysis/ Study

Consequences	No. of Respondents	Percentage
Decrease in market value of stock	22	23
Low return investment than market rate of return	39	41
Insolvency of the company	34	36
Other	-	-
Total	95	100

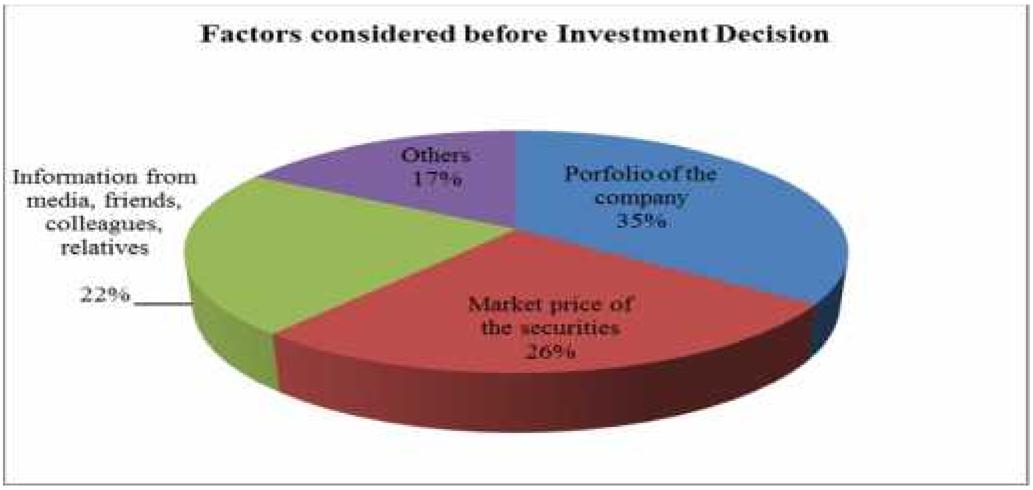
In the table 4.12, it is observed that 41% of respondents said that there might be low return investment than market rate of return whereas 36% of them said that the company even might go for insolvency. 23% of them said there would be decrease in market value of share if not analysis is not conducted before investment.

4.2.6 Factors Considered for Investment Decision

For investment, right decision at right time is most important one. Before investment various factors are to be considered. A question was asked, 'What factor do you consider while making investment decision?' The information collected has been presented in figure 4.12

Figure 4.12

Factors considered before Investment Decision



In the figure 4.12, it is observed that 35% of total respondents analyses the company's portfolio. It means investor checks out company's past record, management of the company and its reputation. Among the respondents, 26% of them check out the market price of the share. Similarly, most important factor information from media, friends, colleagues and relatives covers 22% of them. Finally, 17% consider the factor like political situations, economic condition of the country and market rumour.

4.2.7 Investment Process

The investment process describes how an investor makes decisions about what securities to invest in, how extensive these investments should be, and when they should be made. The following table and figure show how rational are the investors and their decision.

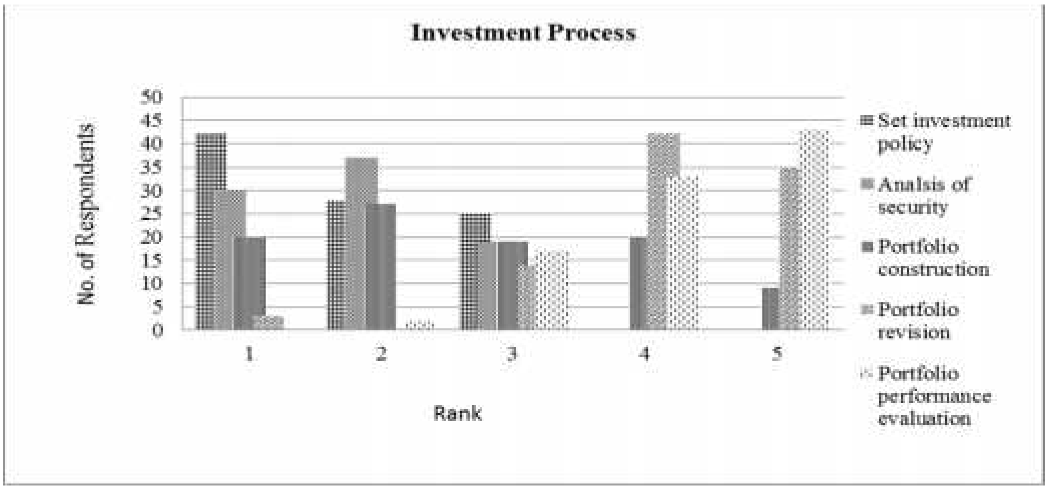
Table 4.13

Investment Process

Investment Process	**1**	**2**	**3**	**4**	**5**	**Total**
Set investment policy	42	28	25			95
Analysis of security	30	37	19			86
Portfolio construction	20	27	19	20	9	95
Portfolio revision	3		14	42	35	94
Portfolio performance evaluation		2	17	33	43	95
Total	95	94	94	95	87	

Figure 4.13

Investment Process



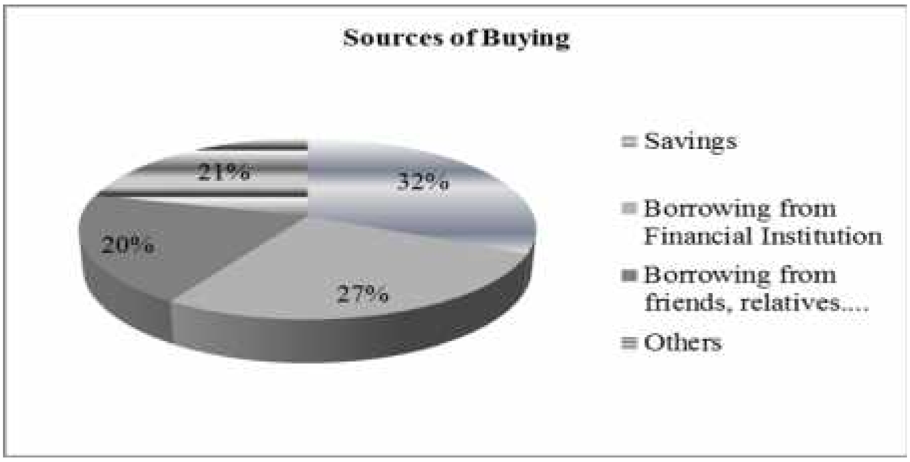
In the table 4.13 and figure 4.13, it is observed that most of the investors firstly set their investment policy to achieve their objectives and determine their amount of their investible wealth. Secondly, the analysis of security i.e. technical and fundamental analysis is done by the investors. They analyze the intrinsic value and price patterns movement of the security. Though portfolio construction normally, not used by individual investors, some investors have given it second priority. Similarly, the portfolio revision and portfolio performance evaluation has been given fourth and fifth rank respectively. From this, it shows that most investors are aware about the investment process and seem rational.

4.2.8 Others

4.2.8.1 Sources of Buying

Figure 4.14

Sources of Buying



In the figure 4.14, it is observed that 32% of investors use their cash from savings to purchase the securities. It is also observed through the study that 27% of them borrow the money from financial institutions, which are interest bearing funds. Whereas 20% of them borrow money from relatives; friends and colleagues which may or may not be interest bearing while 21% of them also use the funds from their family income and ancestor's property.

4.2.8.2 Risk Minimization

A question was asked, 'How do you minimize risk in security investment?' Regarding this, the collected information has been presented in the table no. 4.14

Table 4.14

Risk Minimization

Risk Minimization	No. of Respondents	Percentage
Portfolio Investment	54	57
Understanding Market Condition	41	43
Total	95	100

In the table 4.14, it is observed that 57% of investors minimize the risk by portfolio investment i.e. diversifying the securities whereas 43% of them minimize the risk by understanding market price and intrinsic value of share. It means most investor invest in security of different companies to minimize the risk than trading of stock.

4.3 Analysis and Presentation of Secondary Data

4.3.1 Group-wise Description of Listed Companies

A total of 225 companies from different sectors were listed in NEPSE during F/Y 2010/11. It has been increased to 230 till the end of November 2013.During this period many companies have been merged as per the need of the companies by following the policy of Nepal Rastra Bank. Permission for opening of banks and financial institutions however has been executed with little research on requirement. The result came out in few years. Majorities of bank and financial institution are city centered and are having cut throat competition. The activities like opening of branches at rural setting, developing entrepreneurs and thereby increase employment opportunities, productivity level and earning of the country did not occur as expected. Activities on lending result shows increased lending in consumption sector which influenced luxury imports and environment pollutions. NRB realized the situation and international donors helping Nepal to improve its economy suggested for the merging of bank and financial institutions to make few but strong institutions. Some of the merged companies are:

a. Global Bank, IME Finance & Lord Buddha Finance company merged together and is in operation as **Global IME bank**
b. Machapuchchre Bank and Standard Finance merged to establish a better equity based **Machapuchchre Bank**
c. Kasthamandap Development Bank and Sikhar Finance merged and operating as **Kasthamandap Development Bank**
d. HimchuliBikash bank and Birgunj Finance merged and became **H & B Development bank.**
e. Business Development bank and Universal Finance merged and branded as **Universal Business Development Bank and others.**

Among the listed companies, development banks occupied 38%, the highest among all whereas finance companies rank in second with 27%. Though commercial banks are the most popular and highly traded securities, they accounted for 13% only among the listed companies. Similarly, insurance companies accounts only 10% among the listed companies and manufacturing and processing accounts to 8% whereas hotels, trading, hydro power and others remain least among the listed companies. It is shown in figure 4.15.

Figure 4.15

Group-wise Description of Listed Companies

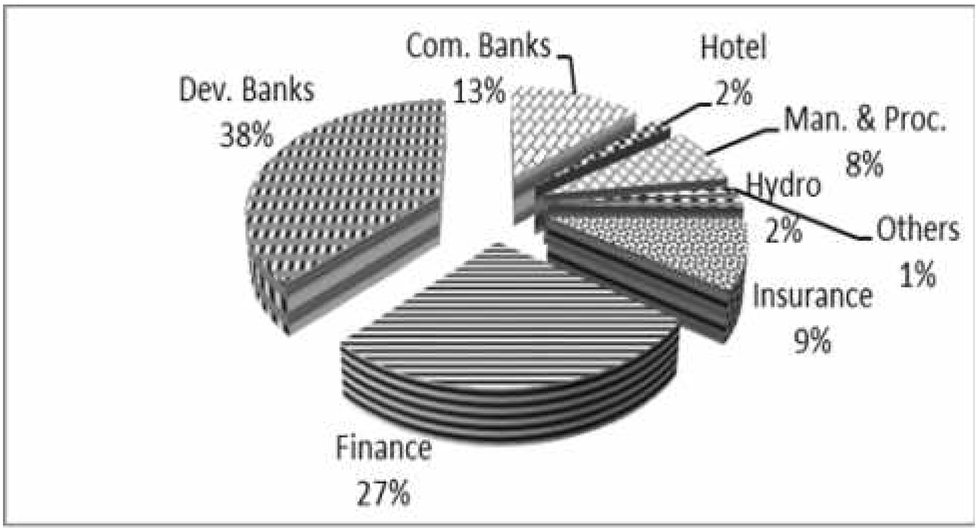


Table 4.15

Group-wise Description of Listed Companies

S.N.	Sector	No. of Listed Companies	Percentage
1.	Commercial Banks	30	13
2.	Development Banks	87	38
3.	Finance Companies	63	27
4.	Insurance Companies	22	9
5.	Hotels	4	2
6.	Manufacturing & Processing	18	8
7.	Trading	4	1.76
8.	Hydro Power	4	1.76

9.	Others	2	0.88
Total		**230**	**100**

Source: www.nepalstock.com, till end of November 2013.

4.3.2 Analysis of Turnover

4.3.2.1 Monthly Traded Amount in 2011/12

Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market, the greater is the stock market liquidity. The monthly traded amount for the year 2011/12 has been presented in table

Table 4.16

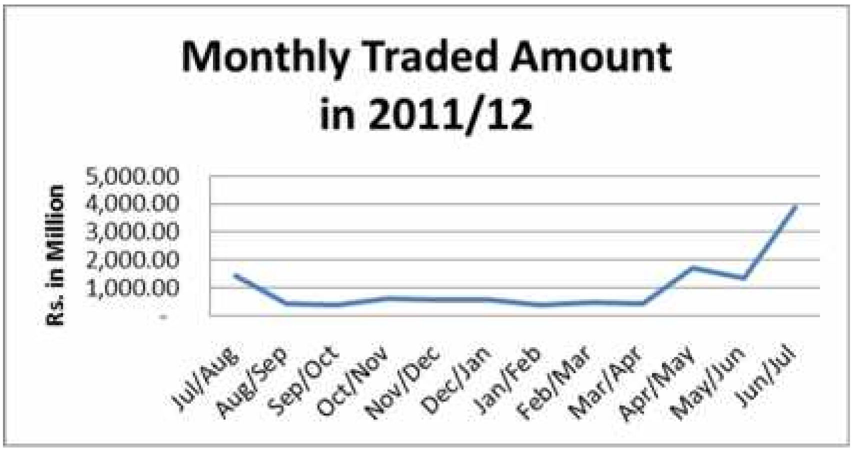
Monthly Traded Amount in 2011/12

S.N.	Month	Amount Traded (in million/Rs)
1.	July/August	1,420.02
2.	August/September	432.15
3.	September/October	358.98
4.	October/November	603.16
5.	November/December	586.91
6.	December/January	562.23
7.	January/February	365.29
8.	February/March	457.83
9.	March/April	430.55
10.	April/May	1,714.87
11.	May/June	1,332.80
12.	June/July	3,872.82

Source: Annual report of NEPSE

Figure 4.16

Monthly Traded Amount in 2011/12



In the table no. 4.16 and figure 4.16, it is observed that the monthly traded amount has been fluctuating during the year. It seems that from August 2011 to April 2012 the difference between the traded amounts is not quite high. After onwards, it increases hugely to Rs. 1,714. 87 million in April/May 2012. However, it declines in next month and again catches the huge trade amount at the end of the fiscal year. It may be due to increase in liquidity position in market at that period and expectation of political stability due to announcement of constituent assembly second. The other reason may be decreasing interest rate during the period.

4.3.2.2 Sector-wise Traded Amount

Table 4.17

Sector-wise Traded Amount in 2011/12

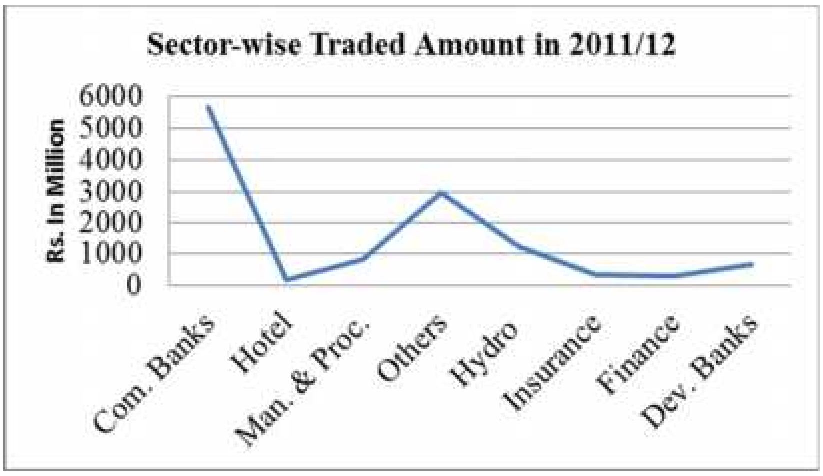
Sectors	Amount 'In Million'
Commercial Banks	5,656.16
Hotel	185.43
Man.& Proc.	811.27
Other	2,976.82
Hydro	1,243.39
Insurance	3,34.29
Finance	279.87

Dev. Banks	650.38
Total	**12,137.61**

Source: Annual Report of NEPSE

Figure 4.17

Sector-wise Traded Amount in 2011/12



In the table no. 4.17 and figure 4.17, it is observed that investors are trading more securities of commercial banks in 2011/12. It amounts Rs 5,656.16 million which is followed by trading the securities of others (Nepal Doorsanchar Company). Thirdly, the investors prefer to invest in securities of hydro power projects. After that, they prefer to invest in manufacturing & processing, development banks, insurance companies, finance companies and hotel respectively. This shows that, investment in commercial banks is safer and secured investment option for investors. The another reason may be its return for long term to the investors.

4.3.3 Listing and De-listing

The number of listed companies has been increased yearly in stock market. It was 176 listed companies for the F/Y2009/10 which is increased by 17.61% in the year 2010/11. Similarly, at the beginning of December 2013, the listed companies accounts to 230.Many banks and financial institutions have been merged such as Global Bank Ltd, IME and Lord Buddha Finance merged and form Global IME Bank Ltd.

Table 4.18

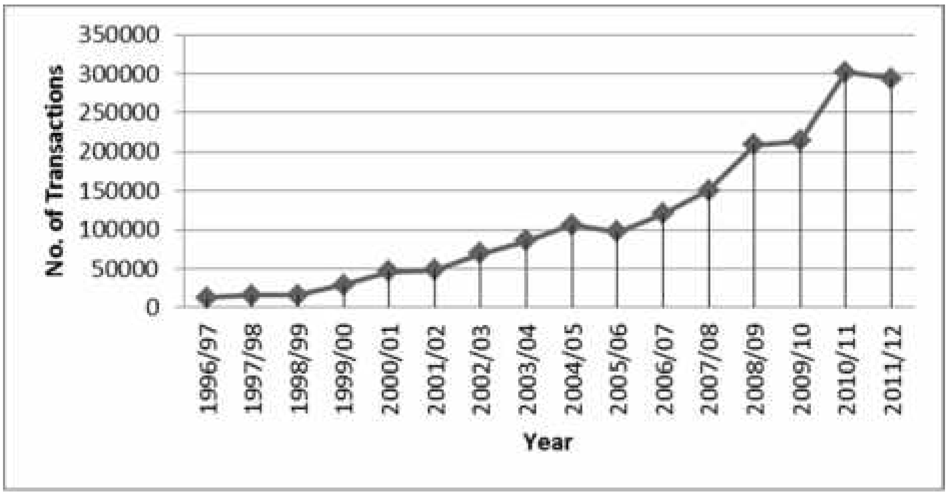
Number of Transactions and Listed Securities in NEPSE

Fiscal Year	No. of Transaction	% of Growth	No. of Listed Securities	% of Growth
1996/97	12,428	-	85,193	-
1997/98	15,483	24.58	90,107	5.77
1998/99	15,814	2.14	105,632	17.23
1999/00	29,136	84.24	114,057	7.98
2000/01	46,095	58.21	124,971	9.57
2001/02	48,028	4.19	134,150	7.34
2002/03	69,163	44.01	159,958	19.24
2003/04	85,533	23.67	161,141	0.74
2004/05	106,246	24.22	194,673	20.81
2005/06	97,374	-8.35	226,540	16.37
2006/07	120,510	23.76	243,504	7.49
2007/08	150,800	25.13	321,131	31.88
2008/09	209,091	38.65	637,868	98.63
2009/10	213,733	2.22	826,046	29.50
2010/11	302,364	41.47	1,033,674	25.14
2011/12	293,489	-2.94	1,140,081	10.29

Source: Annual Report NEPSE

Figure4.18

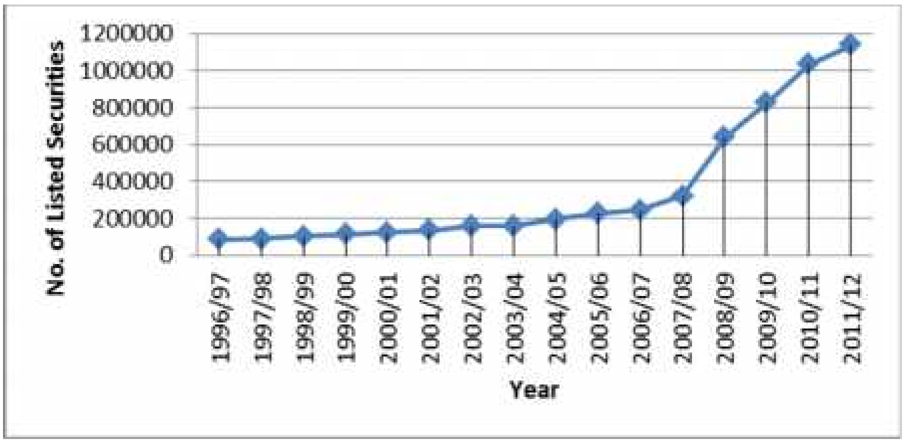
No. of Transactions in 2011/12



In the table no. 4.18 and figure 4.18, it is observed that the number of transaction is in it increasing order. It has been increased yearly basis. The number of transactions has been decreased only in the F/Y 2005/06 and in 2011/12. It was decreased by 8.35% and 2.94%r respectively. The significant growth rate can be traced in the year 1999/00 by 84.24 percent as compared to the growth rate of 2.14 of 1998/99. The growth rate of number of transaction in 2008/09 was 38.65%. Only few transactions were made in 2009/10 as it rose up only by 2.22%. But again other remarkable transactions were done in F/Y 2010/11 as it rose up by 41.47 percent compared to previous fiscal year. This shows that the transactions made are increasing day by day. It may be due to expectation of political stability, economic growth rate, and positive attitude of investors towards security. The other reason may be cash availability in the market due to decrease in the interest rate of financial institutions.

Figure 4.19

No. of Listed Securities



In the figure 4.19, it is observed that, the no. of listed securities till the fiscal year 2011/12 has been in increasing trend. The security listed till the end of fiscal year 2011/12 has been highest ever till the study period. It may be due to expectation of good political scenario as the Constituent Assembly first has been conducted. It may be expectation of economic growth rate in the country and higher liquidity position in the market.

4.3.4 NEPSE Index

Market index is used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Each day's index X } \frac{\text{Each day's total market value}}{\text{Base day's total market value}} \mid 100$$

$$P_{01} \text{ X } \frac{P_1 \mid Q_1}{P_0 \mid Q_0} \mid 100$$

Where,

P_{01} = NEPSE Price Index

P_0 = Base Market Price

P_1 = Today's Stock Price

Q_0 = Base Listed Shares

Q_1 = Listed Shares (i.e. no. of Shares outstanding)

Table 4.19

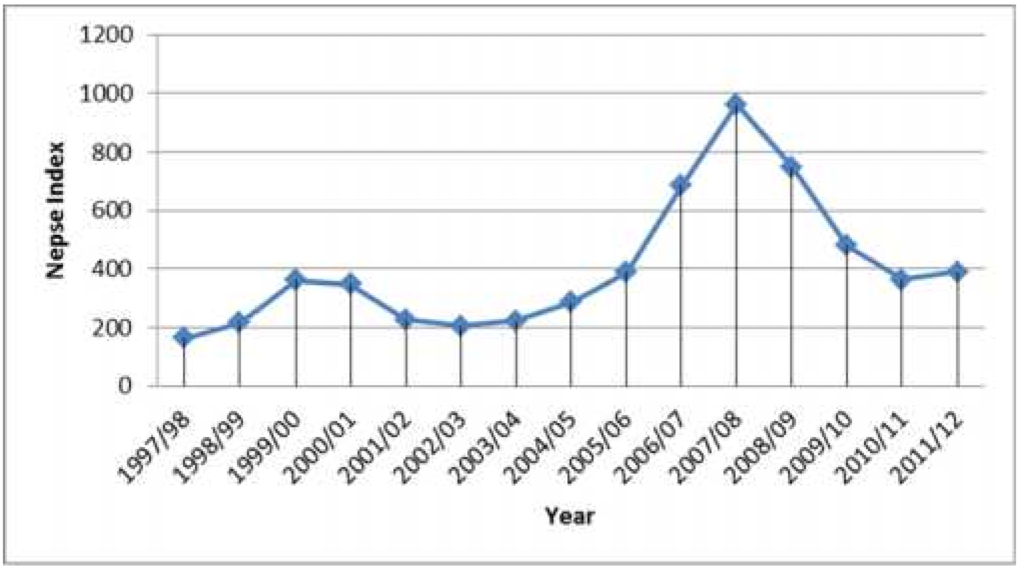
Yearly NEPSE Index

Year	NEPSE Index	% Change in Index
1997/98	163.35	-
1998/99	216.92	33
1999/00	360.70	66
2000/01	348.43	-3
2001/02	227.54	-35
2002/03	204.86	-10
2003/04	222.04	8
2004/05	286.67	29
2005/06	386.83	35
2006/07	683.95	77
2007/08	963.36	41
2008/09	749.10	-22
2009/10	477.73	-36
2010/11	362.85	-24
2011/12	389.74	7

Source: Annual Report Sebon

Figure 4.20

Yearly NEPSE Index



In the table no. 4.19 and figure 4.20, it is observed that the Nepse index is fluctuating every year. The least index is 163.35 in the fiscal year 1997/98. The maximum value of Nepse index reaches only upto 963.36 in the year 2007/2008 which is increased by 41% than previous year. Similarly, in the year 2006/2007, it is increased by 77% which is good sign to the market. It is due to expectation of the stable political condition. The Constituent Assembly poll first has been conducted during the 2007/2008. So the Nepse index has also been in the peak ever. Due to instable political situation afterwards, the index couldn't able to catch its pace of growth as before. Similarly, after conducting election on Constituent Assembly poll second in the year 2013/14, again the index value is rising as before which depicts that expectation of political stability will obviously increase the value of securities. Similarly, the economic growth rate and investors positive attitude towards security also affect the NEPSE index value.

4.3.5 Market Capitalization

The Central Banks' directives to increase capital base of banks and financial institutions have major impact on market value of listed shares. Most of the companies opted to issue bonus and right share to increase their capital base. It created buying pressure on market as investor attracted by the offering of bonus shares and right share.

Table 4.20

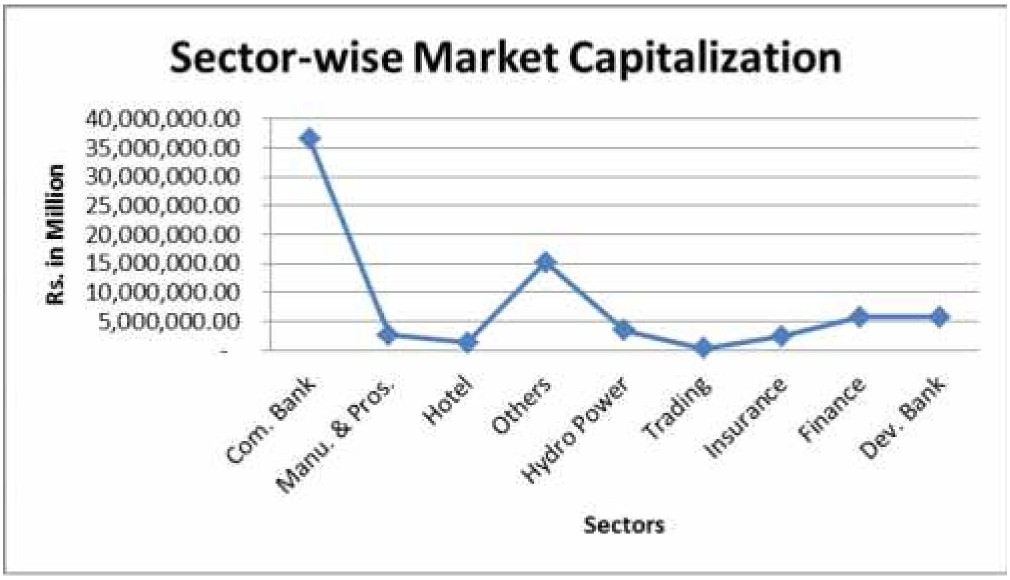
Sector-wise Market Capitalization

Sectors	**Amount 'in Million'**
Com. Bank	36,429,456.05
Manu. & Proc.	2,631,781.60
Hotel	1,292,201.70
Others	15,174,074.18
Hydro Power	3,406,832.84
Trading	301,792.30
Insurance	2,395,070.47
Finance	5,780,492.86
Development Bank	5,785,172.12
Total	**73,196,874.11**

Source: Annual Report NEPSE

Figure 4.21

Sector-wise Market Capitalization



In the table no. 4.20 and figure 4.21, it is observed that market capitalization of the commercial bank group touched 36,430 billion rupees for F/Y 2011/12 which is 50% of total market capitalization. Similarly, the Nepal Doorsanchar company's market capitalization seems to be higher i.e. 21% including some nominal portion of Nepal Film Development Company. Then it is followed by development banks and finance companies i.e. both accounts only 8% each of the total market capitalization. The market capitalization is dominated by commercial banks. The total equity valued company reaches to 73,197 billion amount in the market. The hydro power company covers 5% whereas manufacturing and processing accounts only 4% of the total market capitalization. Then it is followed by insurance companies, hotels and trading units. The increase in market capitalization of the commercial bank may be due to trustworthiness of its business that it never goes on loss and may be the investor believes that it provides certain return annually.

4.4 Major Findings

The major findings of this research have been presented in the following points:

- Most of investors are aware about the financial securities and capable of enduring risk for sake of return as most investors seek to invest in common stock rather than other financial securities available in the Nepalese market.
- Return on investment is the main factor that attracts investor to invest, whereas power to get decision making and ownership of the company are another important factors for attraction.
- Majority of investors consider long term gain from security investment due to availability of cash in the market and lack of secured alternative investment options.
- Many of investors minimize the risk by diversifying the securities as they prefer long term gain from security investment.
- Some of the investors invest on the basis of market rumour whereas larger portion of investors knowingly or unknowingly follow the investment process and higher number of investors check out the portfolio of the company like its management, its reputation in the market, its past performance.
- Number of listed securities, its traded amount of commercial banks and process of merging two or more financial institutions are in increasing trend and political situation also affects the decision making strategy of investors toward security investment.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Financial markets and institutions are the keys to the development of any economy, whether developed or developing. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by financial institutions. These institutions enable financing for investments. An alternative method of intermediation is through equity financing. This is only possible through the development of capital markets. Capital market deals with securities such as stocks and bonds and is associated with financial resource mobilization on a long term basis. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth among smaller investors. The history of capital market is not so old in case of Nepal. It is on its initial stage of development. The first public issue of shares was made by Biratnager Jute Mills Ltd, in the year 1937. It was the first sign of development in the securities market of Nepal. Primary and secondary market both have been increasing in terms of capital raised and transaction volume in recent years.

Bank and Financial Institutions are most lucrative sector for business. It is profitable business for long run. Hence each and every its number is increasing rapidly. Till the end of F/Y 2011/12, 216 companies were listed in NEPSE which is increased by 4.35% than previous fiscal year. It reached to 230 companies listed till the date of beginning of December 2013. Similarly, the number of listed shares has also been increased than previous years. It counts to 1,140,081 units thousands of shares in fiscal year 2011/12 which is increased by 10.29% than previous fiscal year 2010/11. As increased in the listed shares in NEPSE, obviously, the market capitalization also increases. The market capitalization was Rs. 323,484.34 million in the fiscal year 2010/11and capitalized to Rs. 368,262.13 million in the fiscal year 2011/12 which is increased by 13.84%. In reverse, the number of transactions made during the year has been decreased by 2.94% in the fiscal year 2011/12. This shows that there is higher liquidity position in the market and investors are forced to invest in security investment due to shortage of other secured investment alternatives.

There is no wide dispersion in the demographic characteristics of investors. From the research 46% of investors are aged from 25-40 and 34% are of aged group from 40 and above. Among the sample investors 66% are male whereas remaining 34% are female. From this figure, we can conclude that male is more dominant in security investment. Mostly the investors who invest in security purchase they use their funds from their savings. About 27% of investors even borrow the fund from financial institutions to invest in securities. The married population (58%) is higher that of single (42%). It is concluded that business persons are larger in number that employed person in security investment. About 34% of the investors are businessperson and about 28% are employed one. More than 80% of investors have their bachelor and above qualification who are involved in security investment.

Majority of investors invest in securities for regular income. Some investors hesitate to invest in securities due to uncertain return on security investment. They can be motivated through making them aware about security investment and its benefits. Majority of investors know about the security market through media and they also depend upon media reports as well. Investors develop the behavior of consultation with security brokers, professional and friends before investment in securities. Some are found to make self-decision while investing in securities. They even check prices of stock and do market analysis before investment which is positive attitude towards security investment. Even some of the investors invest in securities just on the basis of market rumor and whims. From the study, it is found out that most investors are risk seeker as investment in common stock itself is a risky asset. They even minimize the risk by diversification to securities i.e. portfolio investment. Some investors trade the securities to minimize the risks.

As we know that the Nepalese capital market is dominated by common stock, many investors, while personally interviewing, did not know that there are other financial instruments too other than common stock. However, though, some few commercial banks and government entities have introduced corporate bonds and government bonds and as up to now, there’s a large public participation in it. Similarly, few commercial banks like Siddhartha Bank Ltd, Nepal Investment Bank, Nepal SBI bank and Laxmi Bank have issued debentures. In today’s context, the shares of commercial banks are the ones that are traded in maximum. Commercial banks have been doing very well and this sector has shown tremendous growth and profitability in the recent years. Therefore, investors are found to be highly attracted to the shares and debentures of commercial banks.

Majority of investors seek long run return on the investment. They prefer long run gain than short run at present. 36% of the respondents said that they prefer capital appreciation. 25% said they prefer bonus shares, 23% prefer stock dividend whereas only 16% prefer cash dividend. This shows that most investors are gaining knowledge on security investment and there are attracted towards it. Similarly, it is found out that 64% of respondents make analysis/studies about the financial institutions and check their market prices, its management team and its goodwill before investment in such company's security.

NRB develops policies regarding banks and financial institutions (BFIs) to merge and make strong financial institutions. Issuance of license without any planning to open BFIs couldn't meet the expectation of the country like increment of employment opportunities, increase in productivity level and earning of the country. Hence World Bank and IMF guided the Nepal Rastra Bank (NRB) to reduce the numbers of financial institution. They suggested making few but stronger institutions than many weak institutions.

5.2 Conclusion

Nepalese capital market is at a critical stage of transformation. The number of corporations raising capital from the primary market is increasing year after year. Similarly, the market capitalization, number of companies listed, number of securities listed and annual turnover of secondary market are also increasing remarkably. All these facts are the sign of good prospect for capital market development in Nepal. Market is increasing year after year. More and more individual investors are attracted towards the security market. This shows that securities market has been able to attract household savings to some extent. But the alternatives available to them for investment are limited to common stocks, few preference shares, limited number of corporate debentures and recently introduced government bonds. Derivative securities such as rights, options, warrants and convertibles and futures are not available for them to make investment. So, the investment alternatives for individual investors are very limited in variety and number too.

Security market is dominated by middle aged investors. The market is male dominated and most of the investors invest their extra income (saving) in the securities. A majority of investors were found having academic qualification masters and above and most of them were business persons as well as professionals than self-employed people. Students usually those doing their bachelor and above level studies also seem to be investing in the securities.

Investor's major objective behind security is capital gain in long rather specifically the short gain. For such objective, they put most of their funds in capital appreciation securities. They emphasize rate of return as the most important element in investment followed by their objective and risk of investment. Tax rate on income does not seem to make much difference in their investment activities. They do not have any investment strategy and consider it as the least important element. For analyzing the securities, most of them use combination of fundamental and technical approaches. There are such investors also who even believe in the opinion of family, friends and relatives for reaching investment decision. Investors prefer to make investment in the stocks of more than one corporation in order to create a portfolio. They use their personal standards or pre-determined rate to evaluate the performance to their investment. They also use rate of return of family, friends and relatives for the purpose.

Investors have high expectations from security investment. They take help from friends, professionals, security brokerage firms to take consultancy services regarding their investment decision as they themselves are not properly aware of. They even acquire their needed information through such financial intermediaries. They consult with others and even on market rumor they invest in the securities. The investors at present feel that, it is necessary to check out the prices of the stock and need to study market and companies overall performance.

Investors have positive attitude towards security investment. They take it as profitable activity. They enjoy investing in common stock and are interested to increase its number. They are very optimistic and reveal that to make money one should be prepared to take substantial risk. Insider trading is prevalent in the market and such traders are making good money. The regulations of SEBON are not enough to protect the small investors. They are providing grounds for manipulators and speculators in the market. Individual investors believe that they are more crucial for market development than the institutional investors. And they perceive that by trading the securities regularly, one can fare better financially than holding them for the long run. So, they frequently trade securities.

Most of the investors prefer to invest in the banking sector. They do not like to invest in other sector because of their lack of sufficient knowledge. Most of the investors are buying shares of banking sectors only and making portfolios from the same sector. But investing in the same shares of same industry cannot reduce risk as they correlate positively.

5.3 Recommendations

Most of the investors prefer to invest in security of the company. It is mainly due to the regular income and they have risk enduring capability as well. Even though, few numbers of investors don't prefer to invest. For such investors, they should be convinced with assurance of certain return. They should be informed about knowledge on scope of investment in securities and make them aware about securities to the investors.

Nepalese security market is dominated by common stock. Few commercial banks have issued debentures and bonds. The investors should be given knowledge about the other financial securities and uplift the economic condition of the country. Others financial securities should be introduced and made easily available to the investors, so that, they can easily invest on it. Investors should be convinced on other financial securities except stock. Options, warrants should also be introduced in Nepalese capital market. Investment in common stock may not be preferable for those who want to make risk less investment. For such investors, securities like corporate bonds, preference shares and especially government bonds are preferable. Due to low interest rate, institutional investors invest in such securities and hold them for the long time. This reduces the transaction of such securities and is not available for individual investors. Similarly, different tax rate on interest income for institution and individual also reduces the transaction of such securities.

Investors should not invest in the securities carelessly. They should consider various factors affecting the value of share and return on their investment, so that their investment is safe. Before making any decision regarding investment it is better to conduct analysis of market, company's overall performance and other factors. Consultation with other individuals like security brokers, friends, professionals, teachers, relatives is must.

Generally, investors are investing in securities for their regular return. So the company's overall performance should be good to make them motivated towards investment. Every investor's objective is not only to earn return but also interested to get decision making power. Some investors prefer ownership while some are interested in participation in management.

The government should play important role in making aware about the scope and benefit of security investment and its affect on economic condition of the country. It should lunch different programs to initiate investment in security to all people like students, unemployed and housewives.

Necessary provisions should be made to increase the participation of women and labour class of people in the security investment. Similarly, the concept of regional security market should be brought to increase the participation of investors all over the country. For this purpose, a suitable motivational and informative training should be designed.

Manipulation and speculation, specially done by big investors and groups exploit small and uninformed investors. To avoid such undesirable phenomenon in the market, market makers should be made effective. SEBON should create favorable environment for the market makers and the regulations governing them should be made liberal and clear so that such undesirable practices will be reduced. Investors should be aware about the rules and regulation and the function of stock exchange and capital market to protect them from being exploited. The rules and regulation should be timely updated and its implementation should be effective.

Investor should analyze the financial performance of the banks, its current position and future plans before investing in its securities. This is one game where self-knowledge, superior forecasting ability, and should understanding about the information can give a winning edge to the investor.

Investors should invest by making portfolio of different sectors to minimize risk and maximize return. Portfolio should be constructed on negatively correlated assets to reduce significant level of risk. Market professionalism should be developed. Research on emerging issues on capital market should be conducted. Programs should be lunched to educate investors. There should be effective contribution of public companies on investor's awareness program.

Investing is how a normal person can get rich slow. It is one of the few ways available to an average fellow, but because it takes hard work, discipline and time, not many people sign up for it. If you really care about your finances and your long term prosperity it is always a good time to start investing. It is a long road, but a profitable one.

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APPENDICES

QUESTIONNAIRES

I hereby request you to fill up the questionnaire designed for my proposed survey. Your precious views and opinions would be helpful for facilitating the research entitled **" A Study on Individual Investors Rationality towards Securities"**. The views expressed by you here in the questionnaire will be the research purpose only and kept confidential.

Name of respondent:…………………………………………….**Address:**……………………………
…………….

Contact No.:…………………………………….

1. **Investor's Profile**

Gender	Marital Status	Type	Age Group	Income	Acadamic Qualification	Status
Male ☐ Female☐	Married☐ Unmarried☐	Professional ☐ Amateur ☐	Upto25 ☐ 25-40 ☐ 40 or above☐	Upto25,000☐ 25,000-50,000☐ 50,000 or above ☐	Upto Intermediate ☐ Bachelors ☐ Master or above ☐	Student ☐ Businessperson ☐ Employed ☐ Unemployed ☐ Others (Please specify)☐ …………………………

2. Do you prefer to invest in securities?
   a. Yes
   b. b. No
3. If yes give the reason behind investing in securities?
   a. Excess supply of money
   b. Regular income
   c. Investor possess risk enduring capability
   d. Others (please specify).........................
4. If not give reason behind this?
   a. Unavailability of money
   b. Lack of knowledge regarding securities
   c. Return on the securities is uncertain
   d. Others (please specify)......................

5. How could you initiate investor for investment in securities.
   a. Making aware about securities to the investor
   b. Spread knowledge on scope of investment in securities
   c. Assurance of return on investment in securities
   d. Others (please specify).......................
6. Which of following securities do you like to invest in?
   a. Stock
   b. Debenture/Bond
   c. Government Bond/Bills
   d. Others (please specify).............
7. How did you come to know about financial securities?
   a. Text Books
   b. Media (Newspaper, T.V., Radio, Internet etc)
   c. Through friends, colleagues and relatives
   d. Others (please specify)..........................
8. Do you consult or self-decide before investment in securities?
   a. Yes, I do consult
   b. No, I do self-decision
9. If so, whom do you consult for investment?
   a. Brokers
   b. Friends, Colleagues, relatives
   c. Professional
   d. Others (please specify)....................
10. Do you check the prices of stock?
    a. Yes
    b. No
11. How often do you check the prices of stock?
    a. Daily
    b. Weekly
    c. Monthly
    d. Quite often

12. What should be done to initiate checking prices of stock to those who don't check the price of stock?
    a. Make easily available the price of stock at any time, place through different media.
    b. Make them aware about importance of stock price and its return.
    c. To make secured and safe investment decision.
    d. Others (Please specify)………………………….
13. Do you make any studies of the company before investment in the stock?
    a. Yes
    b. No
14. If yes how do you judge the investment in securities of the company is fruitful?
    a. Investment opportunities of the company
    b. Earning capacity of the company
    c. Managerial competency
    d. Others (please specify)............................
15. What may be consequences if analysis/study is not made before investment in securities?
    a. Decrease in market of value
    b. Low return investment than market rate of return.
    c. Insolvency of the company
    d. Others (please specify)............................
16. Is return/earning is the main purpose for investment in securities?
    a. Yes
    b. No
17. If yes what do you prefer from your security investment as an earning?
    a. Cash Dividend
    b. Stock Dividend
    c. Bonus Share
    d. Capital Appreciation
18. If return is not your prime objective in investment of securities, what do you prefer?
    a. Participation in management
    b. Power to get decision making
    c. To get ownership
    d. Others (please specify)...........................
19. What factor do you consider while making investment decision?

a. Portfolio of company issuing the securities i.e. its reputation in the market, past record, management of the company etc.

b. Market price of the securities

c. Information from media, friends, colleagues, relatives

d. Others (please specify)............................

20. How do you minimize the risk in the securities?

a. By diversifying securities (portfolio investment)

b. By understanding market condition (right time to purchase and sell the securities)

21. What is the source of your buying?

a. Saving

b. Borrowings from financial institutions

c. Borrowings from friends, colleagues

d. Others (please specify)...............................

22. Following are the general investment process. Which process or processes do you follow while investing?

a. Set investment policy

b. Analysis security

c. Portfolio construction

d. Portfolio revision

e. Portfolio performance evaluation.