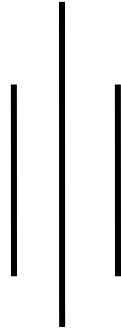
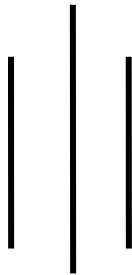


A study on investor's opportunities of capital market in Nepal



Submitted by
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A Thesis Submitted To:
Office of the Dean
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*In partial fulfillment of the requirements for the
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Kathmandu, Nepal
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VIVA- VOCE SHEET

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Investors and financial instruments are the very important and crucial part of capital market. Development of security market in the present global scenario requires opportunities of the current market operation system and policies so that the transparency and credibility of the market can be maintained.

The general objective of conducting this research is to study the behavior pattern, preferences, investing trend and opportunities of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. All efforts have been made to make this authentic and have tried to show this thesis easy and systematic as far as possible.

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Researcher

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ABBREVIATION

| | | |
|---------|---|----------------------------------|
| C | : | Column |
| CDM | : | Central Department of Management |
| d.f | : | Degrees of freedom |
| E | : | Expected frequency |
| et.al | : | and others |
| FRN | : | Floating Rate Note |
| i.e. | : | That is |
| NEPSE | : | Nepal stock exchange |
| NRB | : | Nepal Rastra Bank |
| O | : | Observed frequency |
| SEBON | : | Security board of Nepal |
| T-bill | : | Treasury bills |
| Viz. | : | Namely |
| NEPSE | : | Nepal Stock Exchange |
| NRB | : | Nepal Rastra Bank |
| Pref. | : | Preferred stock |
| SEBO/N: | | Securities Board Nepal |
| T.U | : | Tribhuvan University |
| AGM | : | Annual General Meeting |
| SEC | : | Security Exchange Centre |
| IPS | : | Investment Policy Statement |
| BS | : | Bonus Shares |
| CA | : | Capital Appreciation |
| CD | : | Cash Dividend |
| CS | : | Common stocks |
| Int. | : | Interest |
| IPO | : | Initial Public Offerings |
| F/Y | : | Fiscal Year |

CHAPTER-I

INTRODUCTION

1.1 Background of study:

Capital market is the backbone of any country's economy. It facilitates conversion of savings to investments. Capital market can be classified as primary and secondary markets. The fresh issue of securities takes place in primary market and trading among investors takes place in secondary market. Primary market is also known as new issues market. Equity investors first enter capital market through investment in primary market. In Nepal, common investors participating in the equity primary market is massive. The objective of economic activity in any country is to promote the well-being and the standard of living of people, it depends upon the distribution of income in terms of goods and services in the economy. Nepal needs strong capital markets to fund its economic growth, particularly as traditional financing channels are under global stress. The seminar will highlight the importance of deep, efficient and liquid capital markets as funding solutions for Nepal's economic growth as well as the development of social welfare nets. It will also assess the impact of the global financial regulatory reform agenda on Asia's capital market development and financial systems. For the growth process in the economy, production plays a vital role. Production of output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials; plant, and machinery etc., Human inputs are like labor and enterprise. Financial inputs are in the kind capital, cash, credit etc., the proper co-ordination between these inputs; it promotes the growth process in the economy and promotes the well-being and standard

of living in the country. In Nepal generally all capital market investment avenues are perceived to be risky by the investors. But the younger generation investors are willing to invest in capital market instruments. Even though the knowledge to the investors in the Derivative segment is not adequate, they tend to take decisions with the help of the brokers or through their friends and who were trying to invest in this market. This study was undertaken to find out the awareness levels of various capital market instruments and also to find out their risk preferences in various segments.

Nepal is one of the least developed countries characterized by high population growth rate, low per capita income and low rate of capital formation as well as limited resources in the world. Therefore, Nepal like other developing countries has been facing the problem of accelerating the pace of economic development.

Capital formation and its proper utilization are two important aspect of economic development of a country. "Economic development demands transformation of saving into the actual investment. And, it is the financial institutions that transfer funds from surplus spending units to deficit units" (Nepal Rastra Bank, 1996:43). Economic development is supported by financial infrastructure of the country.

The evolution of the organized financial sector in Nepal has a short history compared to that in other developing South Asian countries. The financial structure which reflects the relative position of the financial system in comparison to the non-financial system has a bearing not only on the propensity to save and inducement to invest but also on the conduct of monetary policy for the financial institution and instruments serve as the channel of the central bank is conducting monetary policy.

Financial instruments refers to the stock, bond, debenture and other financial assets those

represents the right of the holder to receive future prospective benefits under the terms and conditions provided in the instrument(s). Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buy and sell orders those flow from investors' demand and supply preferences determine the price of securities in the security market. Since securities market is the major component of capital market, it is the need of today to address the investor's preferences as to the financial assets those are transacted in such markets.

Financial market facilitates the transaction of financial assets like deposits, loan, bonds, securities, stocks, cheques, bills etc. Financial market refers to all the activities of financial institutions those transact on financial assets and liabilities. Further, financial market is defined as place where fund supplier and fund borrowers are brought together with the help of financial intermediaries directly or indirectly. These intermediaries channel nation's savings into most productive uses. Lenders or suppliers of funds exchange money for other financial assets that tend to provide a better future return. The net effect such a transaction is that they buy a claim against some one's money holding at some future date. In fact, they create loanable funds in the financial market (Hemming and Pigott, 1975). Financial market is functional perspective is a rational system of collecting savings and allocating them efficiently to the ultimate users for investment in productive assets or current consumption (Kidwell and Peterson: 1981, Mishkin: 1992, Baye and Jansen: 1996, Mayo: 2002) consent that financial market is the arrangement that helps to allocate resources efficiently.

Financial market can be better understood with a full-fledged knowledge on their various types and categories. The lines of demarcation are not clear-cut in practice. Even then, for the purpose

of simplification, financial market is classified as Capital market, Money market, Primary market, Secondary market and Loan and security market etc. Capital market is an important part of financial market. The market in which long term financial instruments, such as equities and bonds, are raised and traded is capital market. Capital market securities include such marketable debt securities with long term financial instruments, such as equities and bonds, are raised and traded in capital market. It also includes such marketable debt securities with maturities of a year or more and equity securities. Most of associated markets come under the scope of capital market. In fact, capital market deals with longer term and relatively riskier securities. All those who needed longer-term funds depend on capital market. Likewise, business and industries issue shares and other securities to raise funds from capital market. In the context of our own country, capital market is slowly growing as well as improving. Growth of capital market has made it possible for the public limited companies to raise the long term

Capital by issuing shares and other industrial bonds to the investing public. Whatever may be the classification, financial instruments is the main medium through which each of the market discussed above deals.

1.2 Focus of the study

Securities market cannot remain aloof what kind of securities are dealt in securities market. Speaking another way, securities market and its status are determined by the securities that are transacted in the securities market. On the other way the depth and breadth of financial instruments are highly dominated by investor's preferences. Due to this very reason, this study attempts to identify the factors that influence investors while making investment decision so far as the matter of investing in financial instruments is concerned. To which securities investors give more priority, what the reasons are those mainly attract the investors to invest in a particular

security, why they prefer one security over other(s) etc. are the issues to be addressed here in the study. Further, this study also strives to address whether or not the Nepalese investors are compensated rightly as per the risk they bear.

1.3 Statement of Problem

Investors are said to be the backbone of economic development. Therefore the investors should be encouraged to make investments in security markets by creating congenial investment environment. Government and concerned parties concerned to the financial field can create such environment. However they must know the preferences of investors. Knowing investor's preferences alternative is very complex and crucial task. But such study helps to identify how far the investors are aware regarding the investment decision. Following are the issues that the study is going to address:

The study is mainly concerned with following issues:

- 1 What is the current situation of primary market in Nepalese capital market?
- 2 What are the major problems occurred in the Capital market?

 Does the numbers of issue managers and merchant bankers are sufficient in Nepalese Primary market?
- 3 Are the Government policies and regulators playing the vital role in Nepalese capital
- 4 Are there is any possibilities of growing capital in future.
- 6 What is the status of investor's preferences regarding investment in different

 Industrial sectors?
- 7 For what purpose Nepalese investors tend to invest?
- 8 What are the influencing factors that attract investors to invest in one or other?

1.4 Objectives of the study

In Nepal, it is said that stock market is slowly developing according to needs of the economy although they are not sophisticated as in the market of 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 investors' preferences towards the financial instruments they can invest in. The specific objectives of this study can be outlined as follows:

The other objectives of the study are as follows:

1. To analyze the current situation of capital market in Nepalese context.
2. To explain the problems faced in the capital market.
3. To analyze the primary market according to the types of securities and sector wise issued.
4. To Examine Portfolio management of the capital market.
5. To examine the status of investors' preferences towards the financial instruments.
6. To suggest people on various aspects about capital market.

1.5 Significance of the study

This research is very useful to all the parties like security businesspersons, market makers, brokers, companies and investors etc. who are directly or indirectly involved in the stock Market because it provides the guidelines to the stock market and potential investors to make investment decisions. Issuer company may also take the advantage of the study by examining the investors' psychology towards the investment in different financial instruments. The investors are the

sovereigns of security market so their needs and desires must be identified so that they can rightly be rewarded for the sacrifice from their part. Academicians, research scholars, students and policy makers may be benefited from this study as it tends to give some practical insights that can be very useful to turn the theoretical knowledge into practical field.

It also might shed light to the investors on where to invest. They might be able to identify the correct investment from all the investment opportunities in front of them.

1.6 Limitations of study

This study is subject to some constraints. Some of the unavoidable hindrances that come in this study are as follows:

1. This research is based on primary data as well as secondary sources of data.
2. The reality of the study depends on secondary data, books, financial statement and report of the security board of Nepal (SEBON) and Nepal Stock Exchange and Mercantile Exchange for commodity market and selected company's annual reports, company's web site and other publications. The study covers the information of only few fiscal years data.
3. There may be so many financial instruments but equity shares, preference shares, debentures, government bond and commodity market as well as commodity market are considered in this study.
4. The study covers past and present state of the stock market and investors in Nepal. Hence it does not make any projections about its future.
5. The study will confine only to Listed Companies of Nepal Stock Exchange and its members.
6. The study is confined to the brokering service and stock price movements of listed companies in NEPSE.

8. Foreign information and rules affecting the share market is ignored.
9. Studies and reference were also extremely limited in the prospective of Nepalese stock market.
10. The non-availability of various references and resources also act as constraints.

1.7 Organization of the study

This research has been organized in five chapters as below:

Chapter I: Introduction: The first chapter deals with introduction. This includes background, focus of the study, statement of problem, objectives of the study, significance of the study, limitation of the study.

Chapter II: Review of Literature: Second chapter presents review of available literature. It includes review from book, reports, journal, previous thesis etc.

Chapter III: Research Methodology: Third chapter incorporates the research methodology used in the study, which includes research design, sources of data population and samples, methods of data collection and analysis etc.

Chapter IV: Presentation and Analysis of Data: The fourth chapter deals with data collected from different sources. Based on the data analysis, analysis of investors' preferences will be made using statistical and non-statistical tools. This chapter also includes major findings.

Chapter V: Summary, Conclusion and Recommendation: The fifth chapter includes summary, conclusion and offers suggestions for further improvement.

CHAPTER-II

REVIEW OF LITERATURE

In this chapter, the basic literatures related to the research topic are reviewed. It includes Prior theories and review of the empirical evidences of previous studies. The first section of this chapter contains a brief description of the theories of the investment, and risk and return. It includes the technical analysis, fundamental analysis and efficient market theories. The second section provides reviews on empirical experience of previous studies.

2.1 Conceptual Framework

2.1.1 Investment

An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk; it requires a current sacrifice of money for a future uncertain benefit (Francis, 1999). Investment is a subject of growing importance. Investors in general have to be careful in making best use of their funds. Taking the example of our own country, many investors face serious losses due to irrational investment behavior. But rational investors make investigation before investment and they can gain more from capital market. Investment here can be conceptualized to employing savings in securities to generate future income. In capital market perspective, investment is making transactions in shares and debentures through the use of brokers since they facilitate trading in the stock exchange. But this may not be investment to an economist. An economist uses the term investment to have addition to nation's physical stock of capital like establishing new factories installing new machineries and addition to inventory. Since buying shares and debentures do not add to an addition to the

stock of physical assets it does not constitute investment to an economist. An entrepreneur thinks upon investment as profit generating vehicle. In this regard, investment is equated to the entrepreneurs' shelf –employment of funds in his business. As for instance, many entrepreneurs employ their capital in doing business. In financial institution's perspective, investment is the channelization of collected saving from savers by way of credit and loans to those who need for meeting their varying needs and purposes. To the government investment involves the resource mobilizing process in the various productive sectors of the economy. Looking still in other way, investment implies the process of channeling investor's public funds in various securities issued by the government, companies, financial institutions, industries and many other undertakings through the intermediary network. In our country, many public limited companies have been successful enough to raise capital from capital market by issuing financial securities with higher commitment of returns to investing public. From the above discussion, it is clear that the term investment is a word of many meanings having different implications to different people and institutions. After all, investment means employing money to generate more money in future. It is the sacrifice of current consumption of savings for future income available for consumption. Return is the primary motive of investment, but it always entails some degree of risk. Buying common stocks, bonds of company, depositing money into bank account, buying a piece of land, gold or silver are examples of investment as all of them involve trade-off between risk and return.

2.1.1.1 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 ending

money to a business. They are the people who look forward to making money over a long period of time in the stock market. In fact, investors invest some portion or all of their savings in lucrative opportunities in an anticipation of making more return in future periods.

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

Investors Classification:

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

Institutional Investors:

The institutional Investors are investor 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 and 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).

2.1.2 Investment process

Investment process involves how an investor should make decisions about what marketable securities to invest in, how extensive the investment should be, and when the investment should be made. A five-step procedure for making these decisions is the basis of the investment process:

2.1.2.1 Investment policy

The first step, setting investment policy, involves determining the investor's objectives and the amount of his or her investable wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an Investor to say that his or her objectives to attempt to "make a lot of money". What is appropriate is for an investor to state that his or her objective is to attempt to make a lot of money while recognizing that there is some chance that large losses may be incurred. Investment objectives should be stated in terms of both risk and return, therefore. This step in the investment process concludes with the identification of potential categories of financial assets to be included in the portfolio. This identification will be based on, the investment objectives, investable wealth and tax status of the investor. For example, usually it does not make sense for individual investors to buy preferred stock or for tax-exempt investors to investing tax-exempt securities. Investment policy is the milestone of the investment process. Without it, investors have no appropriate context in which to make investment decisions. Unfortunately, however, investment policy often receives the least attention from investors. Similarly, it may change during a span of time.

2.1.2.2 Security Analysis

The second step in the investment process is performing security analysis. It involves examining several individual securities within the broad categories of financial assets previously identified. One reason to examine securities is to identify those that seem miss priced. There are various approaches to security analysis. However, most of these approaches fall into one of two classifications. The first classification is technical analysis; analysts who use this approach to security analysis are called technicians, or technical analysts. The second classification is

fundamental analysis; those who use it are known as fundamentalists, or fundamental analysis, in discussing these two approaches to security analysis, the focus will be first on common stocks and then on other types of financial assets. In simplest form, technical analysis involves the study of stock market prices in an attempt to predict future price movements. Price are examined to identify recurring trends or patterns in price movements. Then more recent stock prices are analyzed to identify emerging trends or patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. By identifying an emerging trends or pattern, the analysts hope to predict accurately future price movements for a particular stock. On the other side, fundamental analysis begins with the assertion that the true (or intrinsic) value of any financial assets equals the present value of all cash flows, the owner of the assets expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts the cash flows to their equivalent present value using an appropriate discount rate. More specially, the analysts attempt to estimate the discount rate and to forecast the dividends a particular stock will provide in the future; this process is equivalent to forecasting the firm's earning per share and payout ratios.

2.1.2.3 Investors' Opinion on 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.

2.1.2.4 The Investment Environment:

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

To begin the investment environment, investment at first should be clearly defined. A distinction is often made between investment and savings. Savings is defined as foregone

consumption; investment is restricted to “real” investment of the sort that increases national output in the future. Now, it is useful to make a distinction between real and financial investments. Real investments generally involve some kind of tangible asset, such as land, machinery, or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds. But the focus is on the various ways the resources come from to pay for the land and the construction of the apartments. The investors’ motive of buying the securities offered in the primary market is to trade those securities subsequently in the secondary market thereby making a profit. Although transactions in the secondary market do not generate for issuers, the fact that such a market exists makes the securities more attractive and thus facilitates real investment. Investors would pay less for new shares of common stock if there were no ways to subsequently sell them quickly and inexpensively.

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

2.1.2.5 Portfolio construction

The third step in the investment process, portfolio construction, involves identifying specific assets in which to invest and determining how much to invest each one. The issues of selectivity, timing, and diversification need to be addressed by the investor. Selectivity, also known as micro forecasting, refers to security analysis and focuses on forecasting price movements of individual securities. Timing, also known as macro forecasting, involves forecasting price movements of common stocks in general relative to fixed income securities, such as corporate bonds and treasury bills. Diversification, as mentioned earlier, involves constructing the investor’s portfolio

in such a manner that risk is minimized, subject to certain restrictions. Portfolio construction further should be rational and even qualitative analysis is must.

2.1.2.6 Portfolio Revision

The fourth step in the investment process, portfolio revision; concern the periodic repetition of the previous three steps. Over the time the investor may change his or her investment objectives, which, in turn, would make the currently held portfolio more optimal than previously held. The investor may create a new portfolio by selling certain securities and by purchasing others another motivation for revising a portfolio would be if the prices of securities changed- some securities that initially were not attractive may become attractive and others those were attractive at a time may no longer be so. The investor may want to add the former to his or her portfolio and eliminate the latter. Such decisions depend on, among other things, transaction costs incurred in making changes and the magnitude if the perceived improvement in the investment outlook for the revised portfolio.

2.1.2.7 Portfolio Performance Evaluation

The fifth step in the investment process, portfolio performance evaluation, involves determining periodically how the portfolio is performing in terms of the return earned and also the risk experienced by the investor, thus, appropriate measures of return and risk as well as relevant standards (or benchmarks) are needed. Different index, experience curve, and utility measurement can help in this regard.

2.1.3 Types of Investors

There are various types of investors in the market mainly categorized into two parts:

Individual Investors:

Individual owns a portfolio of securities and becomes investor and the average individual investors in securities are a part-timer, with neither the ability nor the time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing. Individuals have an opportunity cost in obtaining investment information, such as reading, publication, tracking stocks prices, and building files on securities. These opportunities cost is the time and resources foregone that could have been used in other endeavors. It is not possible to depend on the earnings generated from securities investment. Mostly in Nepal, investors (individual) take it as one of the probable sources of passive income. It is because the securities market development is still in infancy and the formation of portfolio, its analysis and selection on the basis of performance is irrelevant and almost impossible. So the individual investors take it as only as a part-time investment.

Institutional Investors in Nepal:

Institutional investors are those who collect the fund for wide range of source and invest their capital in the security market. The institutional investors have dominated the security market and they have large capital to invest. 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:

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

2.1.4 Financial Instruments

Securities means shares, stock, debenture etc. 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 Government and it includes the securities issued under full guarantee of the Government or securities as prescribed by government by a notification publishes in the Nepal Gazette or receipts relating to deposits of securities as well as rights and interest relating to securities. Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buy and sell orders that flow from investor's demand and supply preferences determine the price of securities in deficit and surplus units of society. The common stock, preferred stock, debentures and government securities and mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stocks are traded through NEPSE. Government securities are also important securities, which are issued by government through Nepal Rastra Bank. The major financial instruments in Nepal are:

- Common stock
- Debt
- Preferred stock
- Government Securities

- **Common stock**

Common stock represents an ownership position. The holders of common stock are the owner of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligation have been paid; but they also run the risk of receiving nothing if earning are insufficient to cover the obligations. Common stockholders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare dividends. Capital gain arises from advancement in the market price of the common stock, which is generally associated with a growth in per share earnings. Because earnings often do not grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as, in the timing of these investment decisions, for common stock has no maturity date at which a fixed value will be realized. When a company needs capital for expansion, it sells shares its stocks to the public. Most companies issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable (Fisher, 2002). The common stockholders of a corporation are its residual owners; their claim to income and assets comes after creditors and preferred stockholder have been paid in full. As a result, stock holder's return on investment is less certain than the

return to a lender or to a preferred stockholder is not bounded on the upside as are returns to the others (Prasanna, 1994).

Advantages of holding common stock are as follows:

1. Common stock provides ownership of the firm.
2. It provides control power.
3. Purchase of common stock gives the following rights to stockholders:

- Voting right
- Participation in general meeting
- Right getting information
- electing as a board of director
- Participation in the profit and loss of the company
- Transferring shares
- Proxy representation

The disadvantages of holding common stock are as follows:

1. It is more risky than other securities
2. The rights may not be exercised in his or her best interest as individual investor represents very small proportion of total shares.

• **Debt**

The holders of a company's long-term debt, of course, are creditors. Generally, they cannot exercise control over the company and do not have a voice in management. If the debts contract, then these holders may be able to exert some influence on the direction of the company. Holders of long-term debt do not participate in the residual earnings of the company; instead, their return is fixed. Their debt instrument has a specific maturity, whereas a share of common or preferred

stock does not in liquidation, the claim of debt holder is before that of preferred and common stockholders. Depending on the nature of the debt instrument, however, there may be difference in the claim among the various creditors of a company (Vane Horne, 2000).

I) Debenture

The term debenture usually applies to the unsecured bonds of a corporation. Investor looks to the earning power of the corporation. Because these general credit bonds are not secured by specific property. In the event of liquidation the holder becomes a general creditor. Although the bonds are unsecured, debenture holders are protected by the restrictions imposed in the indenture, particularly the negative pledge clause, which precludes the corporation from pledging its assets to other creditors (Vane Horne, 2000).

II) Subordinate debentures

Subordinated debentures represent debt that ranks behind debt senior to these debentures with respect to the claim on assets. In the event of liquidation, subordinated debenture holders usually receive settlement only if all senior creditors are paid the full amount owed them. These holders still would rank ahead of preferred stockholders in the event of liquidation. The existence of subordinated debentures may work to the advantage of senior holders, because senior holders are able to assume the claims of the subordinated debenture holders (Vane Horne, 2000)

III) Mortgage Bonds

A mortgage bond issue is secured by a lien on specific assets of the corporation-usually fixed assets. The specific property securing the bonds is described in detail in the mortgage, which is the legal document giving the bondholder a lien on the property. As with other secure lending

arrangements, the market value of the collateral shows the market value of the bond issue by a reasonable margin of safety (Vane Horne, 2000).

IV) Income Bonds

Income bonds provide that interest must be paid only when the earnings of the firms are sufficient to meet the interest obligations. The principal, however, must be paid when due. Thus the interest itself is not a fixed charge. Income bonds, historically, have been issued because a firm has been in financial difficulties and its history suggests that it may be unable to meet a substantial level of fixed charges in the future. More generally, however, income bonds simply provide flexibility to the firm in the event that earnings do not cover the amount of interest that would otherwise have to be paid. Income bonds are like preferred stock in that the firm will not be default if current payments on the obligations are not made. They have an additional advantage over preferred stock in that the interest is a deductible expense for corporate income tax computations, while the dividends on preferred stock are not. The main characteristic and distinct advantage of the income bond is that interest is payable only if the company achieves earnings. Since earnings calculations are subject to differing interpretations, the indenture of the income bonds carefully define income and expenses.

When inflation forces interest rates to high levels, borrowers are reluctant to commit themselves to long-term debt. Yield curves are typically inverted at such times, with short-term interest rates than long-term. One factor is that borrowers would rather pay a premium for short-term funds then lock themselves into high long-term rates for two or three decades. Two risks are faced by those who defer long-term borrowing in hope that interest rates will soon fall. First, there is no assurance that rates will not rise even higher and remain unexpectedly high levels for an

indefinite period. If long-term rates rise to 15 percent, for example, debt that looked expensive at 12.3 percent will seem like a bargain to a borrower who passed it up in the hope of waiting out the rates of crisis. Second, the short-term money may simply become unavailable. The floating-rate note (FRN) was developed to decrease the risks of interest rate volatility at high levels. In an FRN, the coupon rate varies at a given percentage above prevailing short-or long-term treasury debt yields. The FRN rate is typically either fixed or guaranteed to exceed a stated minimum for an initial period and then adjusted at specified intervals to movements in the treasury rates. FRNs were first issued in the United States by Citicorp in 1974. The rate was set at a minimum of 9.7 percent for ten months and then adjusted semiannually to 1 percent above the current three month Treasury bill rate. Other firms followed Citicorp's lead. These early issues carried rates based on T-bill yields, and most allowed investors to "put" the FRN to the issuer at face value after a given date. Initial rates on the notes were well below the going rate on such short-term borrowing as commercial paper. In July 1974, the rate on three-month prime commercial paper was 11.9, while Treasury bills of comparable maturity were yielding 7.6 percent. Because interest rates were generally expected to decline, borrowers hoped that FRNs would also cost less over the life of the notes than fixed-rate long-term debt (Weston and Copeland, 1990).

VI) Equipment Trust Certificates

Although equipment trusts financing is a form of lease financing. The certificates themselves represent an intermediate to long-term fixed income investment. This method of financing is used by railroads to finance the acquisition of rolling stock (Vane Horne, 2000).

VII) Equity-Linked Debt

Sometimes the investors in the debt instruments of a company are given an option on common stock. With debt warrants, the debt holder has an option to purchase the common stock of the company and he or she continues to hold the instrument more attractive. A convertible bond is one that may be exchanged, at the option of the holder, into a certain numbers of shares of common stock of the corporation. The number of shares into which bond is convertible, is specified in the bond indenture, and these shares remain unissued until actual conversion (Vane Horne, 2000). Purchasing of debt provides the followings advantages and disadvantages to debt holders:

From the viewpoint of long-term debt holders, debt is less risky than preferred or common stock, has limited advantages in regard to income, and is weak in regard to control. To elaborate: 1. In the area of risk, debt is favorable (relative to preferred or common stock) because it gives the holder priority both in earnings and in liquidation. Debt also has a definite maturity and is protected by the covenants of the indenture. 2. In the area of income, the bondholder has a fixed return, except in the case of income bonds or floating rate notes. Interest payments are not contingent on the company's level of earnings or current market rates of interest. However, debt does not participate in any superior earnings of the company, and gains are limited in magnitude. Bondholders actually suffer during inflationary periods. A 20-year, 6 -percent bond pay \$ 60 of interest each year. Under inflation, the purchasing power of this \$60 is eroded, causing a loss in real value to the bondholder. Frequently, long term debt callable. If bonds are called, the investor receives funds that must be reinvested to be kept active. 3. In the area of control, the bondholder usually does not have the right to vote. However, if the bonds go into default, then bondholders, in effect, take control of the company (Weston and Copeland, 1992).

• Preferred Stock

Preferred stocks have fixed dividend and right of acquiring principal before common stock at the time of liquidation. “Preferred Stock is said to be a “Hybrid” security because it has features of both common stock and bonds. Preferred stocks are preferred with respect to assets and dividends. In the event of liquidation, preferred stockholders have a claim on available assets before the common-stockholders. Furthermore, preferred stockholders get their stated dividend before common stockholders can receive and dividends (Vane Horene, 2000). Preferred stock provides the following advantages to the investor (Weston and Copeland, 1992):

1. It provides reasonably steady income.
2. Preferred stockholders have a preference over common stockholders in liquidation; numerous examples can be cited where the preference position of holders of preferred stock saved them from losses incurred by holders of common stock.
3. Many corporations (for example, insurance companies) like to hold preferred stock as investment because 70 or 80 percent of the dividends received on these share is not taxable.

Preferred stock also has some disadvantages to investors:

1. Although the holders of preferred stock bear a substantial portion of ownership risk, their returns are limited.
2. Price fluctuations in preferred stock may be greater than those in bonds; yet, yields on bonds are sometimes higher than those on preferred stock.
3. The stockholders have no legally enforceable right to dividends.
4. Accrued dividend arrearages are seldom settled in cash comparable to the amount of the obligation that has been incurred.

• **Government Securities**

Government issues various types of securities to fulfill and undertake the development works under the deficit budget and raises scattered funds from public. These securities are assumed to be less riskily as compared with external debt. Government issues securities internally and externally, the main source of internal debt is government bonds.

NRB has been actively issuing various government securities in the country. It is one of the most important issuance of the government to maintain the deficit budgetary system of Nepal. The Government Securities, which are issued by NRB, are described in brief below.

1. Treasury Bills

It is the short-term government bond. It is issued to fulfill deficit budgetary system in Nepal. It normally matures in 91 days while some securities mature in 365 days. It is issued to collect scattered funds and to mobilize it in productive sector and conduct fiscal and monetary policies. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

2. Development Bonds

NRB has been issuing these bonds in the market. It is a long-term government bond. It has normally 5 years maturity period. The security holders can use it as collateral if they need money immediately. Institutional and individual investors purchase it. It has fixed and minimum interest percentage. The securities holder normally obtains 90 percent amount of total value if he keeps them on collateral. The income from these bonds is taxable.

3. National Saving Bonds

It is a long –term government bond. It has normally 5 years maturity period. Individuals, organization and financial institution purchase this bond expect commercial banks. In this bond, interest is paid semi-annual basis. It can be purchased as a promissory note. Principal is refunded after its maturity period. It has fixed interest rate, which can be sold easily from one person to another in the market. It can be used as collateral as in the case of Development Bonds.

4. Citizen saving certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate which is paid semi-annual basis. It cannot be used as collateral. Individual and institutional purchase can buy this bond. It is a taxable bond.

5. Special Bonds

This type of bond is issued on special occasions when government falls short of funds. The government can issue special bonds to those parties to whom government has to make payment. The holder can use it as collateral.

2.1.5 Market Risk and Return

Capital market are said to be efficient when security prices fully reflect all available information. In such a market, security prices adjust very rapidly to be new information. The risk of a portfolio depends not only on the standard deviation of the individual securities comprising the portfolio but also on the correlation of possible returns. For a two-security portfolio, an opportunity set line describes the risk return trade off for various combinations. The

diversification effect sometime causes the opportunities set line to bend back ward, with the minimum variance portfolio having a lower standard deviation than that of the least risky security. The capital asset pricing model allows us to draw certain implication about expected return of specific security. The key assumptions in the model are perfect capital markets exist and that investors have homogeneous expectations. In this context, the relevant risk of security is its undiversifiable risk. This risk is described by the slope of the characteristic line, here security returns in excessive of the risk free rate are related to excess return for market portfolio, known also as beta, it is used as measure of the systematic risk of a security. The total risk of a security can be divided into unsystematic and systematic components. Systematic risk is risk that cannot be diversified away, for it affects all securities in the market. Unsystematic risk is unique particular security and can be eliminated with efficient diversification.

2.1.6 Sources of Investment Risk

Every investment involves uncertainties that make future investment returns risky. Here are some of the sources of uncertainty that contribute to investment risk (Francis, 1999).

- **Political Risks**

Political risk arises from the exploitation of a political weak group for the benefit of a politically strong group, with the effects of various to improve their relative position increasing the variability of return from the effected asset regardless of whether the charges that causes political risk are sought by political or by economic interests, the resulting variability of returns is called political risk if is accomplished through legislative, judicial for administrative branches of the government. Political risk can be international as well as domestic.

• **Industry Risk**

Industry risk is that apportion of an investments total variability of return caused by events that affect the products and firm that make up an industry. The stage of the industry's life cycle, international tariffs and or quotas on the products produced by an industry related taxes, industry wise labor union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. As a result of these commonalities, the prices of the securities issued by competing firms tend to rise and fall together. The above-mentioned uncertainties are the major sources of investment risk. Moreover, there might be numerous minor sources of investment risk. The just discussed major sources are of additive nature, which adds up to total risk i.e. variance.

2.1.7 Tradeoff Between Risk and Return

Risk is complicated subject and needs to be properly analyzed. The relationship between risk and return is described by investor perception about risk and their demand for compensation. No investor will like to invest in risky assets unless he is assured of adequate compensation for the assumption of risk. Therefore, it is the investors required risk premiums that establish a link between risk and return. In a market dominated by rational investor, higher risk will command by rational premiums and the trade off between the two assumes a linear relationship between risk and risk premium.

2.1.8 Utility and indifference curve

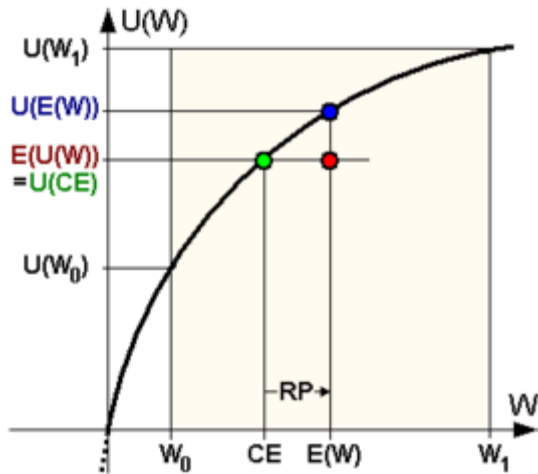
The term utility means the comparative satisfaction that an individual or investor derives from economic activity such as work, consumption or investment. In investment, the implication of

utility is the ability or quality of a security investment to satisfy an investor. A security is demanded, as it possesses utility. This means that higher the utility the greater would be demand for the security. It is a subjective or psychological entity. Attitude of an investor toward the product can be understood or explained with the help of utility. Hence, utility concept is helpful to understand the investor behavior and thereby demand for a security in the market. When an investor invests a security, he or she derives satisfaction or benefits. This benefit or satisfaction is called utility in economics. Therefore, utility is a psychological entity that is why it cannot be measured directly and accurately (Shrestha and Bhandari, 2003).

The exact relationship between utility and wealth is called the investor's utility of wealth function. Under the assumption of nonsatiation, all investors prefer more wealth to less wealth. Every extra dollar of wealth enhances an investor's preference for more wealth to less wealth. Every extra dollar of wealth enhances an investor's utility. But by how much? A common assumption is that investors experience diminishing marginal utility of wealth. Each extra dollar of wealth always provides positive additional utility, but the added utility produced by extra dollar becomes successively smaller. Figure 2.1

illustrates the utility of wealth function of an investor. Higher levels of wealth (read off the horizontal axis) produce higher levels of utility (read off the vertical axis). The assumption of nonsatiation requires that the utility of wealth function is always positively sloped no matter what the level of wealth. However, this utility of wealth function is concave (it is bowed downward). As wealth increased, the corresponding increase in utility becomes smaller. That is, marginal utility diminishes. An investor with diminishing marginal utility is necessarily risk averse. This risk averse investor is unwilling to accept a fair bet. The utility of wealth function explains that preference (Alexander, Sharpe and Bailey, 2007).

Figure 1 Investor's utility of wealth function



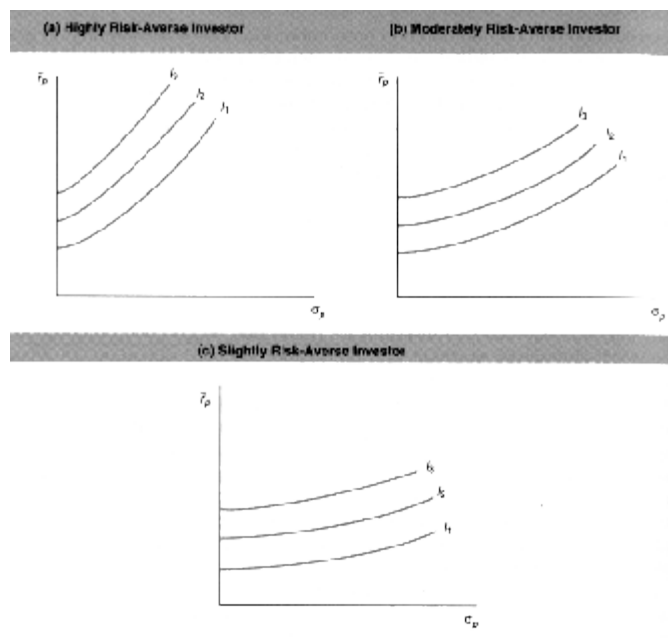
Indifference curve represents a set of risk and expected return combinations that provide an investor with the same amount of utility. The investor is indifferent about the risk expected return combinations on the same indifference curve. Because indifference curves indicate an investor's preferences for risk and expected return, they can be drawn on a two dimensional figure where the horizontal axis indicates risk as measured by standard deviation and the vertical axis indicate reward as measured by expected return.

Following figure shows several indifference curves a hypothetical risk-averse investor might possess. Each curved line indicates one indifference curve for the investor and represents all combinations of portfolios that provide the investor with a given level of expected utility. For example, the investor with the indifference curves in figure would find portfolios A and B (the same two portfolios in the figure) equally desirable, even though they have different expected returns and standard deviation, because they both lie on the same indifference curve, I2. Portfolio B has a higher standard deviation (20%) than portfolio A (10%) and is therefore less desirable on

that dimension. However, exactly offsetting this loss in desirability is the gain in desirability provided by the higher expected return of B (12%) relative to A (8%)

Figure: 2 Indifference curves for a risk-averse investor

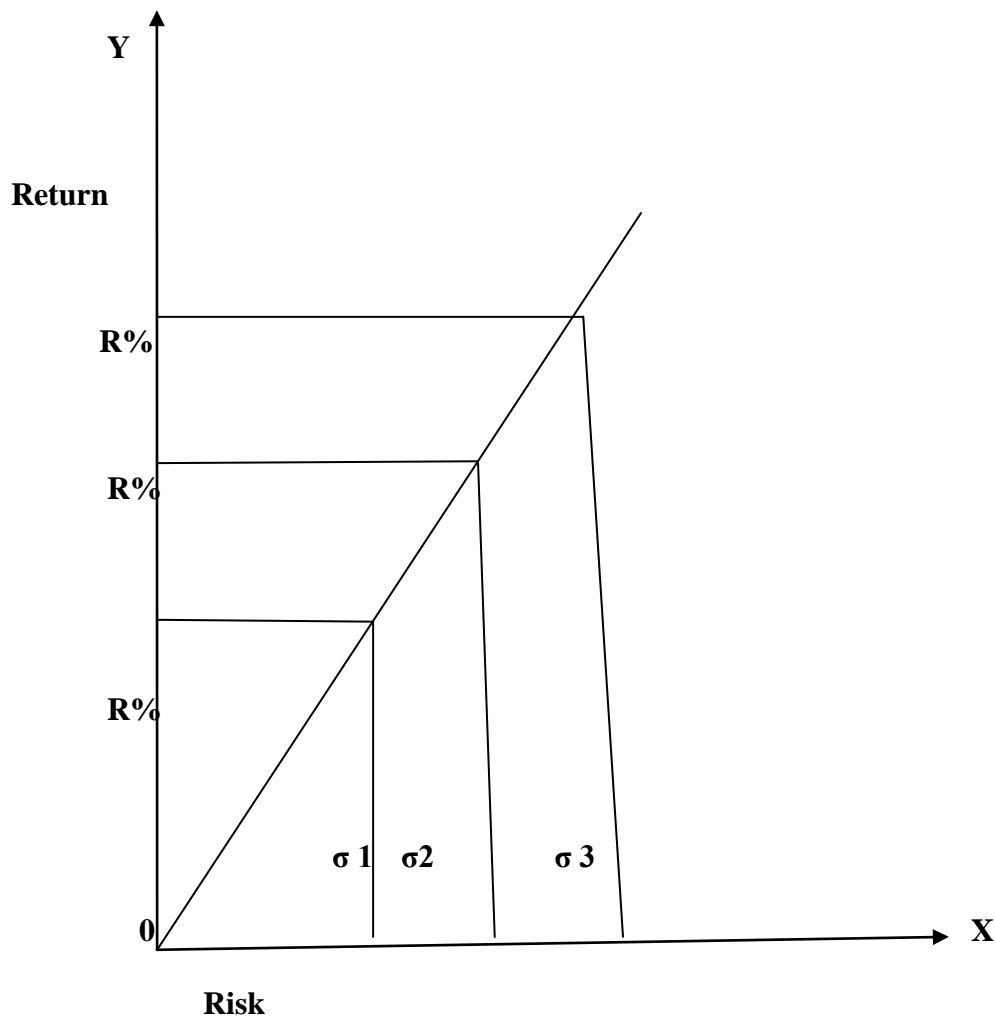
Figure:



2.1.9 The Positive Trade-Off between Risk and Return

An investment manager can usually attain more return by selecting dominant assets that involve risk. While it is not true that a riskier asset will pay higher average rate of return, it is usually true. The reason is that investors are risk averse. As a result, high-risk assets must offer investors high returns to induce them to make the riskier investments.

Figure 3: Positive trade off between risk and return



The figure 2.3 represents a higher risk premium. For taking risk $\sigma 1$, the expected return is R_1 when an investor assumes risk $\sigma 2$, the return must be R_2 increasing the return (risk premium) by $R_2 - R_1$ for assuming more risk: $\sigma_2 - \sigma_1$. The assumption of linear relationship states that the risk premium must increase or decrease in proportion to a change in level of risk. It also indicates higher the risk higher the return and vice versa (Prasanna, 1994).

2.1.10 Factor to be Considered While Making Investment in Financial Assets

Investor should consider various factors before selecting securities such as good future prospects, risk factor, reliable management of the company, beneficial company, higher growth company etc. The investors who invest in the securities should compare the price and value of share. The rules and regulation alone cannot protect the investor's preferences. The investors should know about the securities and companies' performances. Normally the following factors should be considered in investment decision:

- **Risk of securities**
- **Liquidity**
- **Availability and Accessibility**
- **Investment portfolio**
- **Stability of income and Cash flow**
- **Strength**
- **Mobility**
- **Cash flow**

The investors are to be informed about the following before making investment in the Initial public Offerings (IPO):

- The investor should take the necessary information company's such as promoters, Size of company, company's environment, Board of Director, and forecasted statements (Performa Balance Sheet) etc. from the Prospectus, Article of Association, Memorandum of association of concerned company.

- To study the public announcement, the company should communicate through National daily newspaper before 7 to 15 days the opening of the issue of shares. The investors are required to be informed on the followings before investment in the share in the secondary market.
- Keep the information of companies; return to shareholders the form of cash dividend, bonus share etc. and timely information about the company's earning per share, price earning ratio, future plan and growth of the company.
- Analyze the information notified to the investors in the notice board of SEBON and NEPSE about the companies.
- Study the articles related to the trading of shares and economic matters published in the different newspapers and magazines.
- Study the trading statements and financial analysis of listed companies published by NEPSE.
- Study annual reports and other information published by SEBON.

Like wise other specific matters to be considered while trading with securities are as follows:

2.1.11 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.

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.

Interest:

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

Capital Appreciation:

It is the vital and the most counting part in the investment of securities. This concept is true and valid in case of common stocks only. However, it may also be happened in case of some debentures and preference shares. As defined earlier, it is the capital gain realized from selling a stock for more than its Purchase Price. Both these methods of analysis of securities can be deduced and included under the term quantitative analysis. When a securities analyst focuses on a corporation's financial data in order to project potential future performance, the process is known as quantitative analysis. This methodology involves looking at profit and loss statements, sales and earnings histories, and the statistical state of the economy rather than at more subjective matters such as management experience, employee attitudes, and brand recognition. While some people feel that quantitative analysis by itself gives an incomplete picture of a company's prospects, advocates tend to believe that numbers tell the whole story. To obtain the different types of profit, investors must adopt simple analytical concept of investing.

Mostly, there are two types of analysis.

Fundamental and Technical Analysis

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

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

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

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

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

B. Technical Analysis:

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

Technical theory involves study of the past volume and price data of the stock in order to predict future price fluctuations. This approach studies various graphs and charts of the past share price and deduce from the analysis about the future price movement of seeking to interpret-past pattern

on the assumption that history tends to repeat itself (Kean, 1983). Main assumptions of the technical theory are as follows (Levy, 1966):

- Price is determined by the interaction of demand and supply.
- Demands and supplies are governed by various factors, both rational and irrational
- Series of price content trends that persist for appreciable length of time.
- The change in trend caused by shifts in demand and supply are detectible in the analysis of past price and volume data, and
- The patterns tend to repeat it self.
- Technical analysis trend, which they believe to repeat in the future and recommended for the timely holding and disposing mechanism which is profitable or that recommended for short-term speculation based in its forecast of profitable patterns.
- The technicians usually attempts to predict short-term price movements and thus makes recommendations concerning the time of purchase and sales of either specific stocks or groups of stocks (Alexander, Sharpe and Bailey, 1990).

Definition of 'Bull Market'

A financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market, but can be applied to anything that is traded, such as bonds, currencies and commodities.

Explains 'Bull Market'

Bull markets are characterized by optimism, investor confidence and expectations that strong results will continue. It's difficult to predict consistently when the trends in the market will

change. Part of the difficulty is that psychological effects and speculation may sometimes play a large role in the markets.

The use of "bull" and "bear" to describe markets comes from the way the animals attack their opponents. A bull thrusts its horns up into the air while a bear swipes its paws down. These actions are metaphors for the movement of a market. If the trend is up, it's a bull market. If the trend is down, it's a bear market.

Definition of 'Bear Market'

A market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining. As investors anticipate losses in a bear market and selling continues, pessimism only grows. Although figures can vary, for many, a downturn of 20\% or more in multiple broad market indexes, such as the Dow Jones Industrial Average (DJIA) or Standard & Poor's 500 Index (S&P 500), over at least a two-month period, is considered an entry into a bear market.

Explains 'Bear Market'

A bear market should not be confused with a correction, which is a short-term trend that has a duration of less than two months. While corrections are often a great place for a value investor to find an entry point, bear markets rarely provide great entry points, as timing the bottom is very difficult to do. Fighting back can be extremely dangerous because it is quite difficult for an investor to make stellar gains during a bear market unless he or she is a short seller.

Importance of Information:

Investment in security is well guided by the constant flow of information. The security issuing company should be well in good financial position to make security a good one. The securities are not just bought because it is attractive or sold by attractive company. The reasons of analysis of information are as follows:

- ◆ To get information about company's performance, it's sales, profit and its products.
- ◆ To know about the performance of the company in compare to another company in same industry.
- ◆ To have information about the state of business life cycle of whole industry in which the company operates.
- ◆ To have necessary information about government policy on legislation likely to be passed, or taxation to be imposed or any promotional or controlling activities of government which affect the corporate health and market price of securities.
- ◆ To have knowledge of consumer behavior and life style spending pattern to see the demand and supply of money in market. For e.g.: during Dashin General setting of securities is increased to have enough cash for festive occasion and supply of security of securities increase and price declines.

In developing countries like ours, investors do not properly understand the risks and return of investing in stock market. This leads to increase the saving into bank deposit rather than direct investment in shares by individual investor. In order to make informed decisions investors must have access to accurate and timely information. Investment in the absence of proper information and ability for analysing the securities leads to investment, which is done in black. The

investment becomes a gambling or a game of chance if the securities turned good and investor gained and vice versa.

Investors put their money in share expecting reasonable return to earn from it. Such returns in the form of both dividend appreciation and capital appreciation should be reasonable enough to attract them. Dividend as a prime motivator is worthy enough to attract the investors to make the investment decision if provided enough and regularly. But the dividend and calculation is not so easy to analyse. Black epitomizes the lack of consensus by stating the harder one look at the dividend picture and more it seems like a puzzle, with pieces that don't fit together [Black, 1976].

Source of Information:

As information is based for investing it is clear that information is vital. The investors both institutional and individual are to be alert about all relevant information of issuing company. They should have daily update of information for buy hold and sell decision.

Large flow of information is available to invest from companies that specialize in providing investment in information and advice. Investor can subscribe these services or they can read at least some of at free of charge at library at office of their selected broker. Although some of these services offer both information and invest advice. Investor can assess financial information and form a variety of investment information services such as, continues flow of report on a daily weekly and monthly as well as semi annually basis [Charles , 1988:90].

According to Palat Raghu (1991):

The usual sources of information can be as follows:

- The media

- Insider
- Stock broker
- Tip from colleagues, friends and acquaintances
- Professional investment consultant
- The annual report of the company

A.The media:

Media includes all written, oral and audiovisual media that are available in country. The media in Nepal have been developing a lot during past decades. We can't find many newspaper and even business magazines, which provide a special column or pages on market watch. The television channels have been broadcasting separate business news programmed and even radio and F.M stations are also including a market watch these days.

The source of information's from media is as follows:

Published Sources:

1. Annual report of NEPSE/SEBON
2. National daily newspapers.
3. Companies AGM reports/financial statements
4. Monthly business magazines like business age, the boss
5. Financial weekly highlights in weekly papers
6. Economic survey
7. Journal of economy and finance
8. Journal published by central bank and others.
9. Published of stock analyst
10. Book/booklets

11. Television Channels: Like NTV, Kantipur, Image, Sagarmatha, Himalayan Television, Mountain, Avenues, News 24, etc.

Radio and F.M Stations.

B. Insiders:

Insiders are persons who are aware of news that that would shortly cause the price of the share to rise or fall. If one acts on insiders information and purchase or sell share (depending on the news) he can make a fortune and this is often, done. Insider is any person who is or was connected with the company with the company or is deemed to have connected with the company and who is reasonably expected to have access by virtue of such connection unpublished price sensitive information in respect of securities of company or who has received or has access to such unpublished price sensitive information. Insider information is usually known as only a few- the director and senior's officials. Many may guess but only a few actually know if the information is accurate. Insider can be divided into two categories. These are as follows:

I). Primary insider:

The primary insider has direct access to obtain the unpublished price sensitive information. Any person to obtain information as direct connection of the indoor management.

II). Secondary Insider:

Secondary insider means that who has obtained the price sensitive information due to the relation which close relatives include family persons and other relatives of the family. They will flow the information that is not given to public.

C. Stock Broker:

Stockbrokers are registered members of formal stock exchange like NEPSE. They are the only medium for trading securities. The securities are bought and sold through the hand broker. Stockbrokers are also a valuable source of information as they are in touch with the performance of the companies to news on the economy and the industry at all times. Most investors do seek their advice and base their decision on investment on the suggestion made by their brokers. There are also people and investors who have thought the brokers positively because of their favourable impression and good business handling and advice. There are different types of brokers in the markets; those are full time brokers and active brokers, skilled brokers and unskilled brokers in the markets; those are full time brokers and active brokers, skilled brokers and unskilled brokers available. A few words of warning are given as below:

The information provided by a broker may also be based on rumour and tips which may be untrue.

The forecasting of market price given by brokers is generally based on technical i.e. based on historical performance trend projection etc. They rarely make fundamental or value analysis.

Stockbroker can exploit seller as well as buyer to do their selling and buying because no matter if the market goes up or down the broker will have commission on sales and buys as well.

D. Tip's from colleagues' friend and acquaintances:

Nepalese market can be declared as a rumour sensitive market whenever there are little bit problems in political environment the prices generally rise among daily consumable goods. We people by the nature driven by rumour and suggestions more than we usually make a research. Investor though varies references they believe much so we take these groups as our source of investment tip.

E. Professional investment consultants:

These are experts who can guide us regarding buying and selling of stocks. They suggest as about right security and right times for trading. They help in use in portfolio management and their suggestion and guidance can be expensive as well.

F. Annual Report:

The annual report of security issuing companies can be of great help, as they will show their financial start and growths potentiality. The annual report will help us for valuation of the stocks. While the annual report of security Board, NEPSE will help us to get idea about the trend and market move to forecast future trend in market.

2.1.12 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:

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] 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.

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 loses prices and securities holder will loose their money.

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 raise 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 maximisation.

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 insecurity market.

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.

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.

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.

1. Order specification

Investors are required to give written purchase and sale order to broker in the format as prescribed by the Stock Exchange. The form for the order can be received from Broker Company.

2. Subject Matter to Be Revealed Along With Order and the Time That the Order Remains Outstanding

The name, type, number and price of the security must be described in the order specification. Likewise the time that the order will remain outstanding should also be described and in case such time is not specified the order will be assumed to remain outstanding for 15 days from the time such order is placed.

3. To receive certification of the order given to the broker company

After giving order to the broker company, the certificate should be taken from the concerned broker that identifies the broker to whom the order is placed.

4. To receive the information of the execution of the order

Broker Company must execute the order in the trading floor of stock exchange within the stipulated time. The information of such transaction must be forwarded to the investor in the time when the transaction takes place or in the day following the date of transaction.

5. To give security or purchase price

While investor receives the information of execution of his or her order from Broker Company the investor, within the five transaction days, requires paying purchase price if the order is to purchase security. If the order is to sell then he must submit the security and the certificate given by the seller of the security.

6. Provision regarding Buying or Selling of One Security In A Day in the Different Prices:

Security of a company can be transacted in different prices in the same day.

7. Transaction Risk

Investor must be careful as to the possibility that the security may not be received in time. Such risk may arise due to the negligence of the Broker Company. If the broker company does not settle the transaction of the security within one-month investor should contact with stock exchange explaining such case.

8. My Word My Bond

Since security transaction is based on “my word my bond” the investor must forward related documents to the concerned parties. The risk that arises due to non-submission of the documents should be born by the concerned parties.

9. Right to Receive Information

Investor can take details of the buying or selling price of the security, commission of broker, amount he or she is entitled to receive etc. from the stock exchange. Investor should report to stock exchange in time for the problems he or she faces in course of dealing with Broker Company. The problems will be solved by the stock exchange if the problems are in the jurisdiction of the exchange.

2.2 Theories to Explain Stock Price

There are two approaches to explain share price fluctuations. Market efficiency is the basis for the both approaches. Conventional approach has considered that market is inefficient, which includes technical analysis theory and fundamental analysis of theory. Contrary approach was argued the market is efficient under which there are forms of efficient market hypothesis. “Prior to the development of the efficient market theory, investors were generally divided into two groups: fundamentalists and technician” (Reilly, 1986). Based on incorporation of various types of information set with speed and accuracy in pricing stock there are three forms of efficient market theories such as weakly efficient market or Random walk, semi-strongly efficient and strongly efficient market theory.

2.2.1 Technical Analysis Theory

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

2.2.2 Fundamental Analysis Theory

Fundamental Analysis theory claims that at any point of time an individual stock has an intrinsic value, which is equal to present value of future cash flows from security discounted at appropriate risk, adjusted discount rate. “The value of common stock is simply the present value of all future income which the owner of share will receive” (Francis, 1986) And the actual price should reflect the intrinsic value of the stock i.e. good anticipation of cash flows and capitalization rates corresponding to future time period. But in practice first, it is not known in advance what a stock’s income will be in the future period, and second, it is not clear what the appropriate discount rate should for a particular stock. So fundamentalists attempt to reach best

estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of business opportunities.

Since in world of uncertainty, the anticipation, of values cannot be known exactly, there will be disagreement on the option about the estimation among the market participations. Then actual prices fluctuate closely around the economic values of share, because too far than true value is profitable for the participants and they do not miss to exploit the situation. Over the time, with continuous generation of new information related to company's coming prospect, the instructive value of changes. As a result, price stocks just to intrinsic value. The actual of securities therefore is considered to be function of a set of anticipation. Price changes as anticipation changes which in turn change as a result of new information (Bhalla, 1983). Whenever the stocks are priced over or under the true value of stock, the recommendation of sales or purchases is called for "after extensive analysis, the investors derive an estimate of the 'intrinsic' value of security, which is then compared to its market price. If the 'value' exceeds the market price, the security should be acquired and vice versa. (Reilly, 1986) following this rule they believe, above-average return can be attained, given that market is inefficient in pricing the share. The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas fundamental analysis theory recommends for the selection of appropriate stocks. Another approach to describe share price behavior has supposed that the market is efficient in pricing the share. The

Detail explanation of efficient market theory is followed in the following section.

2.2.3 Efficient Market Theories

Market efficiency may be defined in the context of number of areas for instance organizational efficiency, investment efficiency and so on. The word “efficiency” as applied to securities market has unfortunately been used to represent a variety of logically distinct concept. In particular, it may mean as follows (Rubin stein, 1979): Exchange efficiency (b) Production efficiency (c) Information efficiency

However, in this study it is concerned only with informational efficiency pricing of stocks efficient market theory contends that in free and perfect competitive market, stock price always reflects all available information and adjust instantaneously every influx of new information. In an efficient markets, security prices “fully reflect” available information (Fama, 1977).

About the assumptions of the efficient market theory, Fame asserts that first it is easy to determine sufficient conditions for the capital market efficiency. For example, consider a market which (I) there is no transaction costs in trading securities (II) all information are cost Less available to all market participants, and (III) all agree on the implications of current information for the current prices and distribution of future prices of each security. In such a market the current price of a security obviously “fully reflects” all available information. Similarly according to Rubinstein “ In a perfect and competitive economy composed of rational individual with homogeneous beliefs about future prices, by any meaningful definition present security prices must fully reflect all available information about future prices (Fama, 1975).

The subject to market efficiency has been much concerned area of the study for the academicians and researchers in recent times. An initial and very important premise for the efficient market is that there are large numbers of knowledgeable and profit maximizing independent buyers and

sellers as such new information is generated randomly and investors adjust the information rapidly (Reilly, 1986).

An efficient market since is concerned with the pricing mechanism of securities market, it has two dimension of price adjustment one is the type of information reacting to and another is the speed and quality of security to the information. As any random infusion of information instantaneously and correctly adjusted in prices there will be no subsequent dependencies or lags that are profitable. Pricing not only should be instantaneous but also should discount accuracy of information so that the prices fluctuate closing around its intrinsic value. So Kean has rightly pointed out, “It would be clearly and odd interpretation of efficiency if a doubling in the price of share were regarded as an efficient reaction if a doubling in the price of share were regarded as an efficient reaction to a new information, simply because the movement was instantaneous, if the information in fact warranted a substantial reduction in the price (Kean, 1983). Agreeing with the view of Kean, Francis and Taylor noted “Market efficiency refers to the ability of financial assets to quickly adjust and reflect all the information that is relevant to value in its price” (Francis and Taylor, 1986).

The efficient market theory being extreme hypothesis i.e. prices fully reflected all the information, cannot be tested in the empirical data in its precise form. However, postulating pricing mechanism with the types of information jet being impounded in the stock market. It can be done. There are three form of market hypothesis depending upon types of information jet being impounded in the stock market. It can be done. There are three form of market hypothesis depending upon types of information set impounded into the prices. If the pricing in the stock market has absorbed, all the information will be available in the stock market. If is considered as weakly efficient and participation of the technical analysis approach in the market becomes

futile. In this market past information has already been discounted in price, so excess profit cannot be derived from the investment strategy based on past information. If current prices of the stocks reflect all the publicly available information i.e. past price and volume data and all the published accounting information, the market is semi-strongly efficient. In that market, even fundamental analysis of the published accounting information has no value, because it could have been discounted by participants accurately and instantaneously when it is disclosed. When stock prices fully reflected all the relevant information i.e. published and unpublished that have impact on the future prices, the strongly efficient market Hypothesis is held. In this market, insider information cannot beat the market because no single participant has monopolistic access to that kind of information.

These three levels of efficiency described above are not indifferent to each other but they are serially higher in degree of market efficiency. If the market is semi-strongly efficient, it must be efficient in the weak sense also because the past price data is one form of published information, which must have been important for the price. If the market is not efficient in weak sense, past price information could be used to predict the future prices to exploit abnormal profit. It implies that information contained in past price has not been reflected fully into the current prices. Similarly, for the market to be strongly efficient it must also be efficient at the semi-strong and weak levels, otherwise prices are not reflecting all relevant information. These literatures are the brief description about the theories of stock market prices. These literatures are the brief description about the theories of stock market prices. In the following section, detail explanation of weakly efficient market or random walk theory will be explained, testing of which the prime objective of this study is so that it makes clear about the study traced in the succeeding chapter. Following factors are included in efficient market theory:

2.2.4 Theory of weakly Efficient Market or Random Walk Hypothesis (RWH)

The weak form of efficient market hypothesis (EMH) states that current prices fully reflect in information contained in the historical price movements according to Kean, The market is efficient in the weak sense if share prices fully reflect the information implied by all prior price movements. Price movements in effects are totally independent of previous movements implying the absence of any price patterns with prophetic significance (Kean, 1983). So, the past prices have no meaningful information to predict future course of price fluctuations, which can be used to earn above average return. The movements of future prices are independent from previous prices or the series of price changes are random phenomenon. Actually, the weak form of EMH is referred to as random walk theory of share price behavior.” Weak form efficient market hypothesis is popularly known as the random walk theory.” (Fischer and Pardon,1995). Random walk theory implies the future path of price level of a security is no more predictable than the path of a series of cumulated random numbers. The series of price margins has no memory, that is past can't be used to predict the future in any meaningful way. It means that current size and direction of price changes is independent and unbiased outcome of previous price changes. The random walk models in pristine form in two main hypothesis states that (i) successive price change is independent and (ii) The rice changes conform some probability distribution (Fama, 1965). Statistically independence means the probability of distribution (Fama, 1965). Statistically independence means the probability of distribution for the price change during the time period 't' is independent from the sequence of price changes during previous time periods. Mathematically,

$$\Pr(x_t) = \Pr(x_{t-1}, x_{t-2}, \dots) = \Pr(x_t = x)$$

In above equation, the term on the left side of equation is the conditional probability that price change during the time will take the value x , conditional on the knowledge, the previous price changes too the values x_{t-1} , x_{t-2} etc. But the term on the right of the equality is the unconditional probability that the price change during t will take the value x . The expression means the distribution of an independent random variable are identical (Gupta, 1981). Out of two hypothesis of random walk theory, independence of successive price changes is strong and most important one to make theory valid. The second one is price change conforms to some probability distribution but its shape or form of distribution need not be specified i.e. any distribution is consistent with theory as long as it correctly characterized the process generating the price changes (Fama, 1965). However, the parameter of the distribution should be stationary but not so strongly imposed if independence hypothesis is hold true. However, still the form of distribution if price changes are important from investment decision, academic and research point of view (Gupta, 1981).

Proponents of random walk recognize that in general, perfect independence assumption doesn't exist in real world. So, they argue that for practical purposes small degree of dependence does not isolate random walk hypothesis as long as it cannot be used to forecast future to earn more than average market return. Random walk model is valid as long as knowledge of the past behavior of the series of price changes cannot be used to increase expected gains (Fama, 1965). For practical purposes, independence hypothesis is accepted as long as the degree of dependence considered in the series of price changes is not sufficient to forecast the future from the historical price movements in a way it makes higher profit than they would be under the naïve buy-and-hold policy. Actually market mechanism establishes the existence of random walk theory that the successive price changes to be independent. The stock market poses steady inflow information

that influences the set of anticipation of the individuals. There are some information that have whole market wide impact such as change in monetary and fiscal policy on security prices and information have an effect on industry wide impact such as change in governments tax policy on specific industry. There is information such as announcement of earnings and dividend that affect price of the particular security. The change in the set of anticipation resulted from either of the above information is unique to each individual and may be caused by psychological and other factors, which impinge them to bid on prices of the securities in the market. There are other groups of participants who estimate the intrinsic value of individual securities from the received information. As Fama advocates, “the existence of intrinsic value for individual securities is not consistent with random walk hypothesis” (Fama, 1965). The intrinsic value of given securities depends on earning prospects of the company which in turn are related to economic political, industrial and company specific factors. At many point of time, there exist implicitly an intrinsic value of each share but in the world of uncertainty the intrinsic value are not known exactly. Therefore, there can be disagreement among the participants about the estimated intrinsic value of the shares and actual price differ from its intrinsic values. Over the time, the intrinsic value itself change, as new information appears that affects the prospects of company. New information may be about deregulation in the quota system on the efficiency licensing, a change in management, success in research and development and tariff imposed on the raw materials etc. it steady inflow of various types of information (i.e. pessimistic, optimistic and so on) arise independently across the time and it participants do not show dependent tendency about intrinsic value, the subsequent prices in stocks will be independent. However, in the real world, these conditions always do not hold true. True may be dependencies in the reaction of participants toward the estimation of new intrinsic value or whimsical tendency. For exchange certain

individuals or institution's action on new anticipation of value may induce many other people. This behavior leads to deviate the anticipation value for below and above from the true values which result unhindered dependencies in subsequent price changes. In this situation, we can assumed that there exists many sophisticated traders of two types: (1) traders having much better capacity to predict the appearance of new information and estimation of its effects on intrinsic values than others, generally named superior intrinsic-value analysis, (2) trader having much better skill at doing statistical analysis of price behavior named technical analysis. The sophisticated traders can recognize the situation where the price of stock is beginning to run up or down from its intrinsic value because of inappropriately under or over discounting of information and its adjustment in the securities prices. This situation provides them incentive for speculation in the market because the price is expected to move eventually to its intrinsic value. Thus, the existence of profit maximization strategy of these sophisticated traders lead to neutralize the dependence in the price changes and the price changes follow to independence of successive price change. Of course in the uncertain world, sophisticated traders cannot always estimate intrinsic value exactly and their efforts towards erasing the dependencies may not be sufficient. In this case sophisticated chartists can reinforce the neutralizing mechanism, because as long as there are important dependencies they can easily discern the 'trends' and 'patterns' and initiate value maximization strategy over the time the infusion of the new Information n in the market may move dependently which will tend to create dependence in the successive price changes of the security. For example, optimistic information tends to follow more often by optimistic information and pessimistic news tends to be more often followed by pessimistic news than good news. In this case also, the sophisticated traders eventually learn that it is profitable for them to estimate price changes of current new information and subsequent dependence of the

same information. And through their active speculation dependence in price series and establish independence assumption of the random walk theory of stock market price behavior.

These theories in one or another way will help to investor to analyze stock price and to make investment decisions, not only in secondary market but also in primary market.

2.3 Right of a Company's Shareholders as an Investor:

Being shareholder the investors not just an investment. He gets some rights, which are as follows:

- ◆ To get certificate of share holding on allotment in due time.
- ◆ To receive copy of annual report containing balance sheet, profit and loss a/c and other financial report including auditor's report.
- ◆ To receive a invitation for attaining Annual General Meeting.
- ◆ To receive cash and stock dividend in due time once they are approved by the Annual General Meeting.
- ◆ To apply to company law board to call the Annual General Meeting in case of any dissatisfaction but majority have to be maintained.
- ◆ To receive copy of minute of AGM after commencement of AGM.
- ◆ To apply for the winding up of the company and to receive the refusal proceeds.

The right of the shareholders are ground as collective and specific right as follows:

A] Collective Right:

- ◆ Right to approve/disapprove books of account.
- ◆ Right to give suggestions to the management.
- ◆ Right to appoint auditor.

- ◆ Right to approve the change in memorandum and article of association.
- ◆ Right to approve or reject the proposal submitted.
- ◆ Right to gather other shareholder to support and appose management.

B] Specific Right:

- ◆ Right to seek book of account.
- ◆ Right to see shareholders list.
- ◆ Right to participate in AGM.
- ◆ Right to put his/her comment regarding management activity.
- ◆ Right to rate for the election of representatives.
- ◆ Right to get major decision made by management.
- ◆ Right to get major decision made by the management.
- ◆ Right to get price sensitive information.
- ◆ Right to trade/speculate.
- ◆ Right to trade/speculate.
- ◆ Right to get market benefits.
- ◆ Right to get dividend.
- ◆ Right to get residual amount at the time of liquidation.

2.4 Review of Journals and Articles

R.R Garside (1983) in his project report described, at one level, capital market are simple enough. The primary market is, where companies raise capital by issuing securities, basically either shares or bonds. The secondary market is where those same securities are traded those definitions are simple and there is nothing very complex about the mechanisms for issuing,

trading or setting. Sometime the term capital market is extended to covers long-term bank loans to companies. But at another level, the capital markets are more complex because when they function properly they are the very hubs of a free market economy. In them, all economic currents and forces meet and interact.

A healthy capital market is democratic and egalitarian. It shows no respect for class or caste. It does not acknowledge hierarchy. When the price of share price falls, it falls for all those who hold it. Financial analysis may have doctorate in math but some of the best traders of equities, and futures and options have been near a university. A study critically examined the situation of common stock investors and the situation has not improved till now. Though the size of the shareholders population in Nepal has been growing constantly the government seems to have not taken any initiative in formulating the separate act, which protects the shareholder's rights. Thus the need of separate act regarding the protection of shareholders right is questioned.

Company and other acts relating to financial and industrial sector have provisioned rights of the shareholders as:

1. Voting right
2. Participation in general meeting
3. Right getting information
4. Electing as a board of director
5. Participation in the profit and loss of company
6. Transferring shares
7. Proxy representation

The collective rights of the shareholders are:

1. Amend the internal bylaws

2. Authorize the sales of assets
3. Enter into mergers
4. Change amount of authorize capital

Some public limited companies have floated the shares to the general public without having shareholders representation in the board. There are many such companies, which conduct the annual general meetings just to fulfill their desire and do not consider the voice of the majority of the shareholders similarly management involvement and government intervention in the board election have brought a greater setback in the voting rights of the shareholder (Shrestha, Vol. 7). 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, weak enforcement of regulation, absence of institutional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical barriers (Tiwari, Vol. 3). 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 it creates distortion in the price determined by the market forces. Such action helps in avoiding the 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 its 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 habit to change attitude to think what is good for shareholders is good for company as a whole. Immediate measures lies in giving attention to shareholder's grievance like timely conduction of annual general meeting, improving the quality, standard and coverage of reporting, developing minimum return on investment strategy and index. In order the downtrend in share market, various reformative

measures are urgently necessary to curb on unfair share market practices through the development of comprehensive and transparent stock exchange guidelines by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and shareholders by improving the quality of timely reporting and providing the expected return to win the losing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protect their rights. All these will help in the revival of share market to make it more active by attracting the investing public (Thapa, Vol.2).

Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investor's dealer by increasing investor interest in it. Security market experience both boom and bust soon after the beginning of securities trading through broker's members in the stock exchange floor. Through the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained. There is an urgent need for proficient development of a market standard and information dissemination system focusing mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, security Board has a great responsibility as to reviewing and developing regulatory standards to make them a relevant with the need of issuers, investors along with promoting efficient capital formation (Sharma, Vol.3). Rating the institutions on the basis of price earning ratio or dividend has traditionally done investment in share. Hardly do investors compare current assets with current liabilities or take a look at the debt equity ratio. Unless investors begin analyzing the intricate financial details of corporate institutions before

making investment decision, the market cannot develop smoothly. Share investment has traditionally been guided by the investor's returns. Most earnings of investor here have been in the form dividends rather than capital gains, though high dividend are often seen, in corporate finance theory as a wasteful use of scarce capital. With the commercial bank becoming the only potential investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their prices boomed.

Now, the latest slumps 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, Vol.9).

Share trading scandal formed the headline of major dailies of Nepal of few days ago. The news was that some of the staffs of Nepal Merchant Banking and Finance Ltd. (NMB), the share registrar of Standard Chartered Bank Nepal Ltd were involved in unauthorized sale of investors not present in the country. They were also alleged of cheating such shareholders of their dividend. As a share registrar, the company's duties were to update the shareholder's information, distribute the benefits provided by the client company to the latter's shareholders and to verify the signature of the shareholder at the time of ownership transfer of shares. But the staff forged the signatures of the company's shareholders so as to sell their shares without the knowledge of the shareholders and to claim themselves the dividend allotted to such shareholders. When the media reported this scandal, NMB blamed on of its staffs and registered

a forgery case in the District Police Office, Kathmandu. The accused is learnt to be in the police custody. As stated in the news, though some other staffs also were involved in this scandal, NMB has registered the case against only one of its staff. Another of the NMB staff accused in this scandal is reported to have escaped out of the country. If such types of scandals, whether they are reported by the media or not, are repeated frequently and no attempts are made to rectify the flaws in the system and to punish the guilty, there is no doubt that sooner or later the capital market will lose the investors. A close study of this case brings the deficiencies of our market to the forefront. The major deficiencies are obviously lack of professionalism among the market participants and lack of interest in compliance. The issuer company cannot escape from its responsibility simply blaming the registrar. It must satisfy those investors whose share has been stolen. The share registrars are found to be careless and a question can be raised on their professionalism and honesty. The stockbroker has also made a mistake by executing the share trading without identifying the client and thus violating the codes of conduct for stockbrokers issued by Securities Board of Nepal (SEBON), the regulator of the capital market in Nepal. As the code clearly states that the brokers must identify their clients, such scandal could have been avoided had the broker complied with the code. Also the regulators are equally responsible as they are not effectively monitoring the activities of securities businesspersons and taking legal action against their non-compliance under the prevailing rules and regulation. As the capital market of Nepal is still in the infant stage, the regulatory system established to systematize and regularize the securities trading still has deficiencies. This leaves scope for anyone to take unfair benefit from the market at the cost of ordinary investors. Not only the investors are found to be irrational and concerned with short-term gains, in this scenario, we cannot expect perfect behavior from all the market participants. The major problems seen in the system are duality and

ambiguities in the regulations, inadequate legal provision to control the market, lack of adequate market infrastructure, and lack of clear demarcation of duties of the regulators, poor compliance and lack of clear legal provision for taking action to address the noncompliance cases.

In its annual report for the fiscal year 2001/02, SEBON states that it has made some attempts to address the issues through issuance of guidelines, directives and disclosure formats to the market participants, codes of conduct for the stock brokers etc. It has also prepared a draft for the new securities exchange act, which was presented to the Ministry of Finance in 1998 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBON has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government it should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to make others comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this cannot be repeated (Sharma, Vol. 3).

Investment in the capital market now has become very uncertain, sending the investors in search of avenues of more certain returns. The equity investments is considered riskier than investment in bond, preferred stock etc. The secondary market is not performing well. Various measures of stock market developments indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy.

Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value traded ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they do not have

options to it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank dominated (K.C., Vol.1). Investors need to be aware of the relationship of financial variables, which helps them to predict future price and earning and come with effective investment decision. In this regard a study reveals that earnings yield and cash flow yield have significant impact on dividend yield. Earning yield and cash flow yield have significant impact on book to market value whereas, size has negative impact in dividend yield. In the case of earning yield and cash flow yield, cash flow yield has been found to be more informative than earning yield.

Capital gain yield is positively influenced by earning yield and size, whereas, the same is negatively influence by book to market value and cash flow yield. Book to market value has been found to be statistically strong in predicting capital gain yield. Similarly, total yield is positively determined by earning yield and size, whereas the same is negatively determined by book to market value and cash flow yield. Book to market value has been found to be more informative than other variable (Pradhan and Balamaki, Vol. 1).

On the other hand investors must be careful while examining company's financial disclosures, as it is possible that while offering their securities to the public the IPO companies overstate their accounting figures to unjustly influence the investment decisions of investors.

2.5 Review of Previous Thesis

Bharat Prasad Bhatta (1997) has also conducted research on the topic *Dynamics of Stock Market in Nepal*. The objectives of the research were as follows:

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare sectoral financial status of the stock in Nepalese stock market.

- To analyze the market share prices of the Nepalese stock market.
- To find out the impact of the secondary on primary market and vice versa.

He has conducted in his research as follows:

The stock market and economic activities move in the similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market therefore can be regarded as a heart of economy. The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of manufacturing sector is the backbone of an economy, which in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector doesn't have a good performance in Nepalese economy. Almost all firms in this sector have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the mobilization to finance the productive enterprises in Nepalese economy.

Nabaraj Adhikari (1999) has also conducted a research on *Corporate Dividend practice in Nepal*.

The main objectives of the study were as follows:

- To explain whether companies paying larger dividends have a good financial position or not, whether the companies with higher payouts have an improved or not.
- Whether the companies with higher yield having an improved financial ratio or not.
- Whether the difference between dividends and stock prices, dividend payout affect the share prices of finance and non-finance sectors differently or not.
- The motives or paying cash and stock dividends whether dividend is a residual decision or not.
- If there are any types of company's announcements of earnings on market price of a share.
- Whether legal restriction on share repurchases should continue to prevail or not.
- Kind of dividend policy should be followed by Nepalese enterprises.

The major findings of the study were as follows:

Stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends. Stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks smaller dividends are also more variables as compared to stocks paying higher dividends.

When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends. Positive difference is observed between the ratio of dividend per share to book value per share also have higher turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable that of stocks paying smaller dividends.

When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks smaller dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks smaller dividends are also more variables as compared to stocks paying higher dividends. When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends. Positive difference is observed between the ratio of dividend per share to book value per share also have turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable that of stocks paying smaller dividends.

There is also a positive difference between the ratio of dividend per share to book value per share and interest coverage. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. A positive difference is found between payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paid out. The position of current ratio of stocks paying larger dividends is also more variable as

compared to stocks paying lower dividends. Where as a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand, there is a positive difference between dividend payouts and earnings before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends. There is a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand there is positive difference between dividend payouts and earnings before tax to total assets and net worth is more variable for stock paying higher dividends.

The difference between dividend payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts have higher turnover ratios. However, turnover ratios of stocks paying larger dividend are more variable. Positive difference is also observed between dividend payouts and interest coverage. When studied the difference between dividend per share to market price per share ratio and liquidity ratio, the study revealed that the stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity positions of stocks paying larger dividends are also more variable as compared to stocks paying lower dividends.

Surya Chandra Shrestha (1999) has conducted research on *Stock Price Behavior in Nepal*, this study aims to examine the efficiency of the stock market in Nepal.

The specific objectives of this study are as follows:

- To examine the serial correlation of the successive daily price changes of the individual stocks.
- To determine whether the sequence of price changes is consistent with changes of the series of random number of expected under the independent Bernoulli process.
- To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.

- To provide feedback policy input towards institutional development of efficient market.

The main findings of this study were as follows:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange Ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in way that the speculation through technical analysis can make higher expected profit than they would be under naïve buy- and- hold policy (i.e. average market return).

Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the naïve investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes.

Tekendra Bhattraï (2000) conducted a study entitled *Risk and Return Analysis of Listed Manufacturing Companies in Nepal*.

The main objective of this study is to identify whether the risk of companies can be eliminated through diversification or not. The main findings of this study are:

Nepalese companies do not compensate investor rightly through return for the amount of risk they assumed. The investor should purchase under price stock like stock of Bottlers Nepal Ltd. But should sell overprice stock like that of Arun Vanaspati Udyog and Jyoti Spinning Mills. Investors should be careful about the systematic risk of the common stock instead of total risk as measured by the standard deviation.

Laxmi Pokharel (2000) submitted the thesis entitled *Legal Provision to the Protection of Investors Under the Nepalese Law and an Analytical and Critical Study*. The following points were taken as the objectives of study.

- To identify the investors and focus on the investing process
- To make comparative study of Nepalese legal provisions in investors protection.
- To analyze the trend of implementation of those legal provisions in regard to investors protection.

The study was based on doctrinal approach and as well as non doctrinal as needed to obtain information based on survey method. Most of the information had been taken from secondary sources of data. Mainly the study was based on doctrinal approach and as well as non doctrinal as needed to obtain information based on survey method. Most of the information had been taken from secondary sources of data. Mainly the study was undertaken as the descriptive and diagnostic in its theoretical point of information. He had mainly focused to analyze the trend of implementation of Nepalese legal provisions with regards to investors protection and to find out the legal strengths and weakness of executive bodies with regards to investors protection.

In this study, pokharel found that Nepal had drafted various laws to protect the interest of investors on the scattered forms—acts, regulation and byelaws. But there was still an absence of particular and separate legislation for the protection of investors. Likewise, Nepalese investors

were not governed under the corporate norms and values due to lack of proper knowledge of their right. They could be victimized but they did not complain at concerned authority.

He further added the main ground of investors deceiving are insiders trading mal-motion on the prospectus, wrong financial statement of company, wrong auditing reports, wrong performance details, and public information. Besides these, various grievances like wrong details on underwriting and listing the share, delay on return of money, delay on distribution of bonus shares, dispatching proper information to shareholders or potential investors, misusing the application money are the main deceiving groups of investors in Nepalese context.

Rajendra Aryal (2002) has conducted a research on *The General Behavior of Stock Market Price*.

The specific objectives of the study were as follows:

- To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
- To examine whether the successive price change of stocks market are independent to each other or not.

The main findings of the study were as follows:

Mainly the assumption of independence as predicted by random walk model of security (speculative) price behavior is not found consistent. Thus, the model of such kind has been refuted at least for Nepal loon context as a first approximation even on a rough way for early days of stock market operation. Here this rejection of hypothesis makes clear that this knowledge of past now becomes useful in predicting the future movements of stock market prices, than investors, on the floor or exchange for securities can make higher expected profits in the future based solely on those historical price series under certain systematic trading scheme (i.e. Market average return) of the general market for securities. Therefore, anomaly of weak form tests of

efficient market hypothesis has an important implication bearing interpreting behavior of security price variations in the past and in performing further research in this field. If broadly speaking the implications with respect to conclusions derived by the study are of two natures statistical and economic.

Statistically, the characteristic feature of stock market movement with respect to distribution of price change implies that the general shape in platykurtic character has been demonstrated previously, due to higher values of standard deviations for individual price changes. Higher standard deviations are results of frequent large price fluctuation.

According to this device of measuring risk, individual stock and aggregate market can be interpreted as highly risky opportunity for investment. The economic reason for higher values of standard deviation implies that the inherent instability of market, change in economic environment. Government actions, companies' developments that cause abrupt price changes, ultimately the value of standard deviations for individuals price changes has been higher consequently platykurtic character of distribution observed i.e. too few relative frequencies are contained near to mean of the price changes in the central bell and all the relative frequencies are concentrated within higher limits of standard deviations form the mean of the price changes.

Sudip Upadhyaya (2004) has conducted a study similar to the present one entitled

Investors' Preference and Financial Instruments putting the objective of study as:

- 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 gives 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 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 that from the primary data, no attraction of investors is the main reasons of the Nepalese companies for not preferring to issue debenture and preferred stock 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. The investors are feeling the existing rules and regulations regarding sufficient and timely information from the companies where they have invested their money.

Another study conducted by Chandika Oli (2006) entitled *Stock Market Behavior in Nepal* gives some important insight into the Nepalese stock market. Main objective of this study are:

- To identify the trend and development of stock market and economic growth.
- To assess the relationship of stock market indicators with different macro economic indicators.

- To recognize the affect of factors of macro environment (cultural and political) upon stock market with the degree and significance.

Mainly findings of this study were as follows:

Since the ratio of market capitalization to GDP very low for the periods, stock market size is not yet sufficient to show its impact on nation's economy. On the other, trend of turnover ratio and value of share traded to GDP ratio show that stock market in Nepal is very small relative to its economy, and stock market in Nepal is yet to make its presence felt in the national economy.

Nepalese stock market is highly dominated by the largest companies in terms of turnover, as the concentration ratio is very high. Stock volatility as measured by twelve month rolling standard deviation and stock volatility ratio give the basis to conclude the inability of Nepalese stock market to handle risk relatively to volume of stock in Nepal. It is interesting to note that none of these indicators viz. capitalization ratio to volatility ratio reveals a consistent trend, indicating that the development of stock market in Nepal lacks a definite direction and is not guided by clear cut policies and action, due to low volume of shares traded and wide fluctuations, the stock market in Nepal has been highly illiquid and volatile. Scrutiny of difference of NEPSE due to industrial sectors reveals that NEPSE index due to industrial sectors are significantly differ each other. This further confirms the conclusion that Nepalese stock market is highly concentrated to one or group of the industrial sector(s). It is the banking sector at which the market is highly concentrated.

Run test indicates cyclical variation in stock prices over the 12-year periods. It is, perhaps, due to the inconsistent price movement in Nepalese stock market. Observing the pattern of variation the price for closing date of coming year may happen to be positive if the same trend continues. The analysis of run test further confirms the results that there are wider fluctuations of average stock

price in stock market. Nepalese stock market cannot handle large volume of tracings with less price swings. As there are very weak positive relationship is observed in Nepalese stock market between volatility and value of shares traded.

Numbers of listed companies have been found to have greater impact upon NEPSE index than value of stock traded and number of stock traded. However NEPSE index is also positively influenced by number of stock traded and value of stock traded. NEPSE index remains unaffected by the advent of cultural event like Dashain. However it is affected by the political events as the results of two different political events suggested so. On the other way NEPSE index carries the political information but fails to carry the cultural information. On the basis of findings she recommends the following:

Turnover ratio, value traded ratio to volatility and concentration indicates the illiquidity and high risk in equity investment. To correct this problem acquisition and dissemination of information relating to stock market component is a must. The country should initiate the policies to reduce cost of mobilization of savings and to facilitate the investments as there is positive impact of total savings on NEPSE index Investors should be provided with wider variety of securities to meet their risk return preferences so that, unlike in present situation majority of the nation's population participate actively in buying and selling of securities that causes the stock market to be developed and nation's economy, in turn, will be spur.

2.6 Research Gap

Efficient Securities market is not only the output of interaction of institutions involved and mechanism of process of trading securities, however it is also the thing that is influenced by the investment habit, psychology and awareness of investors. Investor's behavior changes with the passage of time. So, does their preferences and priorities. This study examines the current trend of investor's perception and attitude about the market and provides fresh findings and recommendations. In this connection, this study contributes something new toward the securities market that is not sought yet by surveying the psychology and awareness of investors investing in various types of securities. This sort of study of identifying investor's perception and awareness is a new and challenging in itself but is also an opportunity to learn and identify investors from their innermost. In previous studies and researches are limited to macro subjects of the economy and nation. Obviously, their findings and conclusions does not include, perhaps the most important one, psychological aspects of the investors. Investment itself is also psychological and behavioral activity. It has wider influence in the world of investment than any other factors. So, this study, in true sense, fills the gap of ignorance with knowledge for the seekers. More specific studies as to the investors' attitudes and perception in the security market related field, for example in the field of policies and operational issues, is necessary opening up the new and challenging research avenues for researchers.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantities and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings;

There are various sequential steps that is adopted by the researcher in studying a research problem with a specific objective is called the research methodology. In other words research methodology can be described as the methods and procedures that are applied in the entire subject of the study. It helps the researcher to solve the research problem systematically. It is the scientific way of doing the research work. It helps the researcher not only to know the techniques and methods of the research but also know its methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the research techniques, but they also need to know which of these methods or techniques are relevant and which are not, and what would they mean and indicate and why.

This chapter presents all the necessary steps to be followed throughout this research work in order to achieve and accomplish the objective of the study. This chapter presents outline of the nature and sources of data, sample selection & classification of variables, techniques and steps adopted

in interpreting and analyzing the data. It also focuses on how to collect required data, what is the population and sample, and what techniques to be adopted to analyze and interpret etc.

3.1 Research Design

In order to make any type of research, a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adapted to brokering service and stocks price movement of listed companies in the NEPSE.

Current research applies analytical and descriptive techniques to evaluate and analyze the investor's preferences toward financial instruments. Therefore, current research is both analytical and descriptive. It is analytical in the sense that it uses different analytical tools to analyze the investor's preferences toward financial instruments similarly it is descriptive in the sense that it clarifies different aspects of investor's preferences toward financial instruments. As per the nature of the research primary data have been extensively used.

3.2 Source of Data and Collection Procedure

- Mainly needed primary data and information are gathered through questionnaire. Direct interview and mail questionnaire method of collection data are employed to collect primary data. Needed secondary data that support the study have been collected through the various published and unpublished sources.

3.2.1 Secondary data collection:

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

3.2.2 Primary data collection:

On this part of data collection, both structured/unstructured questionnaire methods have been used. The related individuals – existing and potential investors – were given the schedule of questionnaires to fill in through direct personal visit. Primary data were acquired using questionnaires and personal interviews from investors, brokers and staffs of NEPSE and SEBON. However, the individuals had been selected on a random basis. As far as possible, efforts are organized to minimize or avoid biasness and technical errors. Also, the related experts had been consulted frequently. In the course, direct e-mail or telephone enquiries had also been used. Moreover, NEPSE and SEBON Nepal were visited frequently. Thus, I would like to assure that most of the data are of primary in nature regarding the subject matter as per the requirement of this thesis. Some inferences and generalizations have been made in the course of preparation of report as demanded by the situation. For the purpose of organization of data, some modifications have also been levied without manipulating the core intention of the respondents.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Background:

The general objective of conducting this research is to study the behavior pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. This chapter deals with the critical analysis and detailed interpretation of collected data. Most of the data are presented in a tabular form with appropriate figures where necessary. In addition, proper statistical test for inference is also carried out. Besides, the present chapter also explains the various findings of the study resulted from data analysis. Presentation and analysis of data is an important stage of the research study. The presentation is the basis of organization and classification of data for analysis. Research as a media; interpret the data and after completing their collection. It is still in raw form such as questionnaires, form and into note cards. It is necessary to change the data as requirements. The easy method of presenting the data is to examine it in chart. Graph, table and so on. Before arranging the data in table, it is essential to arrange and record the raw data. The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis.

4.2 Interpretation of Data (closed-end type questions):

The table above depicts that 17.5 % of the total sampled investors were found to consult the related firms and financial experts before investing in the security of any kind. They were found to extract information, take suggestions, depend upon others analysis and analyze themselves the better securities to invest in and made investment accordingly as suggested by such experts and consulting firms. Their decisions are guided by such firms and agencies. In our context, the broker companies are acting as the financial consultants. 55% of the investors neither consult financial experts and firms nor do they perform self-study with the proper financial indicators and ratios while making investment decisions. Their decisions on investment can be said as adhoc based on rumors and whims. For those investors, friends and relatives are the major sources of information in the market.

Besides these, there are also investors comprising 25% of the total who make decisions on their own through self-study and self inspection of the past performances of the securities. They are the rational investors most of whom belong to the student of management or business persons. They are well acquainted with the parameters of financial analysis.

Among the total investors, only very few are the frequent visitors of the NEPSE and are informed of the activities, listings and delisting regularly. As per table 3, 22.5% of the total investors are the frequent visitors of NEPSE. They are actively engaged on trading and investment of securities. 45% of the total investors almost never visit NEPSE and are not informed of the activities and listings frequently and timely. Once they invest in the securities, they wait for the higher and consistent cash dividends as their earnings regardless of augmentation in the price. Their category belongs to part time investment. 32.5% of the investors visit NEPSE occasionally and show little interest in the activities and listings of the securities.

They also take the security as part time investment. One-third of the investors belong to this category. They have little time to study, analyze and trade the securities frequently.

The table no. 3 portrays that 22 out of 40 investors are risk averse in nature. None of the investors want to bear risk without any windfall gain. Everywhere in the part of the security investment, they seek risk. However, the table clearly delineates that 15 out of 40 are risk seekers. And the rest 4 out of the 40 sampled investors are indifference to risk. The risk seekers are ready to tolerate risk in an anticipation of positive higher returns. They are willing to take higher risks in an anticipation of higher returns.

Table: 1

Preferences of Securities of the individual investors

| Types of securities investor | No of people % of | investors | Comment |
|-------------------------------------|--------------------------|------------------|--------------------------------------|
| Treasury Bill | None | - | Individuals are not allowed |
| Common Stocks only | 38 | 95 | Highly preferred and known to public |
| Preference Shares only | None | - | Almost non-existence/uninformed |
| Debentures only | None | - | Prospective market |
| Common Stocks and debentures | 2 | 5 | Debenture market is not developed |
| Other govt. securities | NA | - | Not available |

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

Out of the 40 respondents, almost 95% of them were found to be invested only in common stocks, especially from commercial banks. 1 out of 40 sampled individuals was found to invest in the preference shares, debentures and common stocks. Beside, these sample persons, I had asked personally to some other people visiting the NEPSE. They answered that they didn't know anything about this mechanism and thus came there to learn at first and then invest if they found reliable. Moreover, they replied that they were ignorant to the procedures of investment in NEPSE and were indifferent to securities of any sector till that period.

Table no: 2

Desired form of earnings from securities invested

| S. N. | Types of earnings | No of investors | Comment |
|--------------|--|------------------------|----------------------|
| 1 | Regular fixed income/interest | 2 | Less Preferred |
| 2 | Regular cash Dividend only | 5 | Moderately preferred |
| 3 | Both Cash dividend and bonus shares | 10 | Highly Preferred |
| 4 | Both Cash dividend and Capital appreciation | 8 | Moderately preferred |
| 5 | Cash Dividend, bonus shares and capital appreciation | 12 | Highly Preferred |
| 6 | Bonus Shares only | 1 | Less Preferred |
| 7 | Bonus Shares and Capital Appreciation | 2 | Less Preferred |
| | Total | 40 | |

The table no 3 clearly depicts that all investors like to receive the earnings in the form of capital appreciation. It is an implied term while investing in securities, especially common stocks. Most of the respondents belong to the middle class families, however some are also from lower and some are from higher middle class level. As all the investors invest in common stocks, earnings associated with common stocks in various forms are found in major part to be preferred by the investors.

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

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

Again, the table no. portrays that most of the investors of the securities prefer cash dividend and capital appreciation than any other forms of earnings. As the number of investors in the debt securities is low, it can be regarded that they don't like to earn a fixed income investing a fixed portion. They can bear risk in anticipation for higher unlimited future earnings and likely changes in the price of the security, especially stocks.

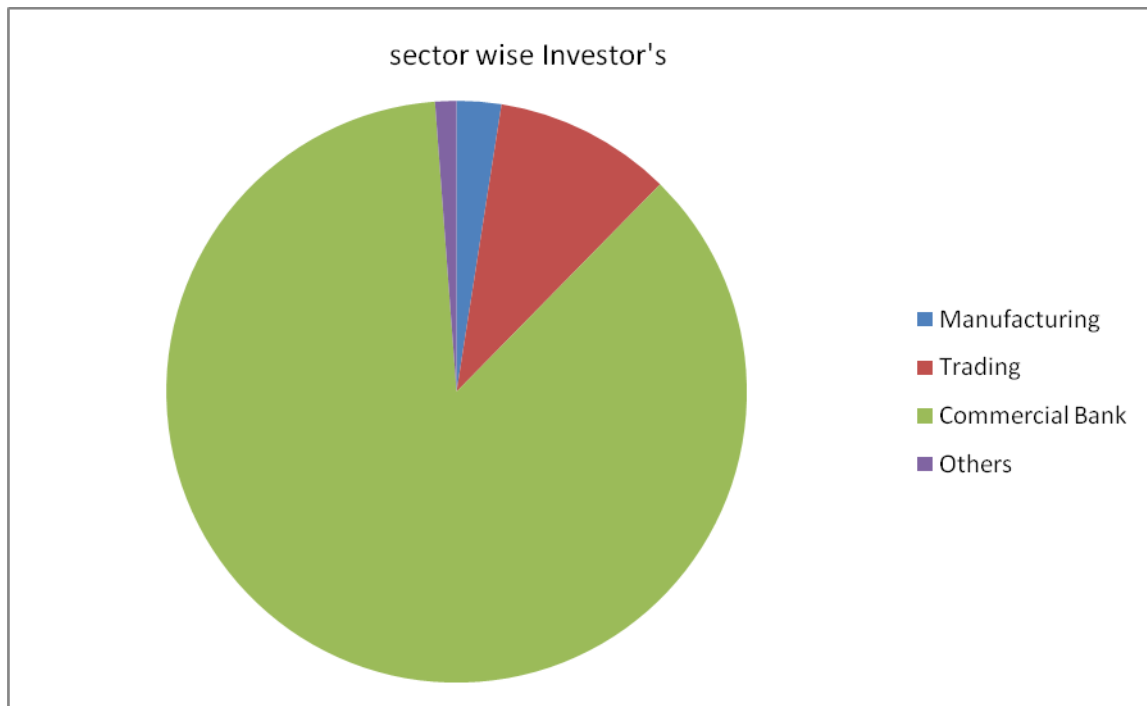
Table: 3

Sector-wise preference of securities by investors

| Sector of shares | No of investors | Comment |
|------------------|-----------------|---------------------|
| Manufacturing | 1 | Very less preferred |
| Trading | NA | Not preferred |
| Commercial Banks | 35 | Highly preferred |
| Hotels | NA | Not preferred |
| Others | 4 | Less preferred |

* Others include the shares from finance companies, insurance companies, etc.

Figure: 4



The table no 4 clearly depicts that 87.5% of the investors have invested and are desirable to invest only in the shares from commercial banking sector. The investors feel protected and assured to invest in the shares of commercial banks. In other words, 87.5% of the investors were found to invest solely in the shares of commercial banks. 10% of the investors were found to invest in the other sectors shares. Other sectors include shares of finance companies, insurance companies, development banks, etc. Only 2.5% of the total investors invested in the shares of manufacturing companies. However, these investors made investment in these sectors in the past days. Today, they are trying their best to sell the securities they own. In this way, only the securities from commercial banking sector, selected finance and insurance companies, etc and a few from manufacturing and trading sectors are preferred by the investors to make investment. In case of primary offerings, the investors only prefer to invest in the shares of A graded commercial banks and finance companies. The investors who still own the securities of other sectors beyond A graded categories have shown pessimistic attitude and they are desirable to sell them and purchase the shares of commercial banks and finance companies instead. The data revealed above clearly depicts that the securities from commercial banking sectors are preferred by the recent and prospective investors. Investors feel safeguard and protected while buying this sector shares. They don't hesitate to invest in the primary offerings of commercial banks. This is because the commercial banks have a very high level of credibility in the market as compared to the performance of other sectors.

Table no: 4

Detection of the level of earnings anticipated by the investors

| Level of earnings Anticipated | No of investors | % of investors |
|--------------------------------------|------------------------|-----------------------|
| 5-10% | - | 0 |
| 10-15% | 5 | 12.5 |
| 15-20% | 10 | 25 |
| 20-25% | 18 | 45 |
| 25% and above | 7 | 17.5 |
| Total | 40 | 100 |

% of investor's preference of securities of various Sectors

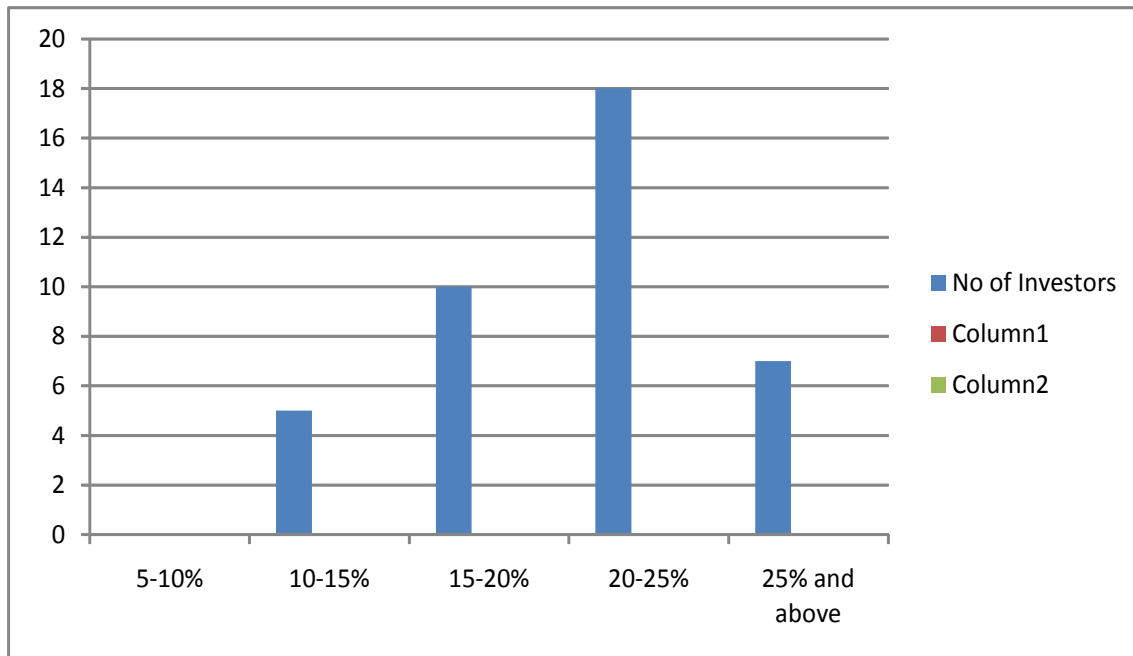


Figure:5

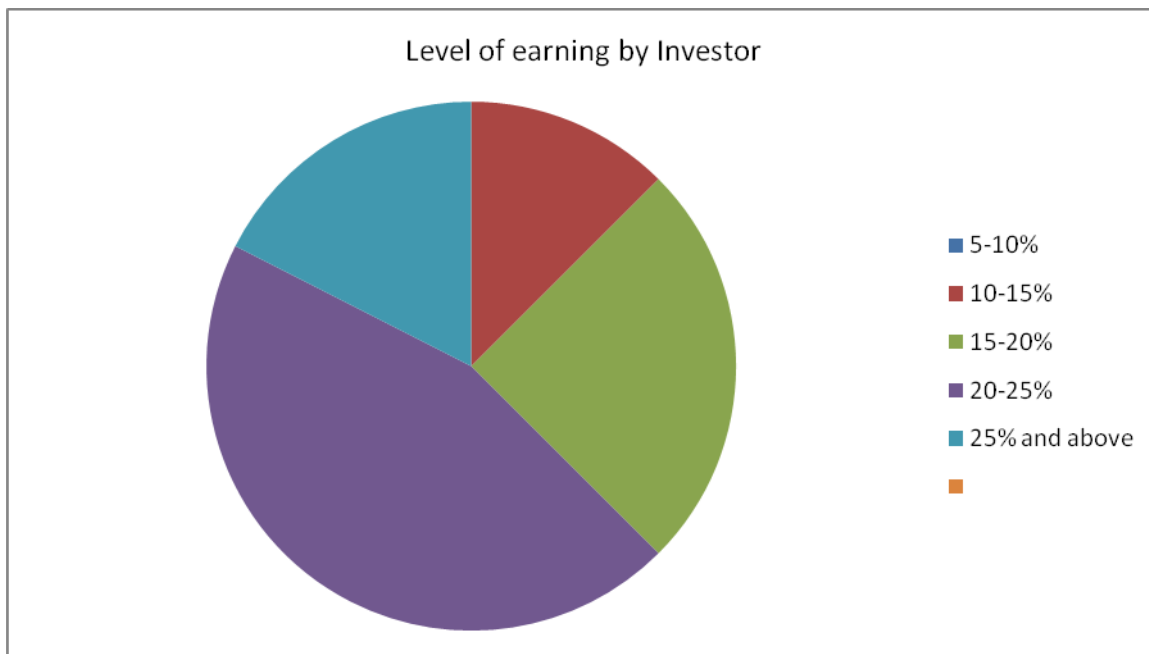


Figure: 6

It is the nature of beings to anticipate higher returns without limit from what they have invested.

However, in the sense of rational judgment and decision in the expectation of earnings, the mostlikely anticipation of the stockholders' level of earnings ranges between 20 – 25 %.

The data presented in the table no 4 delineates that none of the investors want to receive the cash dividend below 10 % as return from common stocks. If it doesn't be so they prefer stock dividend instead of cash. Also it doesn't seem any matter if the company retains all of their earnings for its own use such as expansion, refunding, etc. But it does matter to them the increase in the value of capital they invested

No of investors – initially. Almost of the investors of common stocks don't hesitate to receive cash dividend. However, some of the investors don't like to receive cash but like to receive bonus shares. All of the investors (100 %) desire capital appreciation and they responded that it is the implied expectation while investing because this is the factor which is useful in secondary trading of securities.

Table no: 5

Community wise participation of investors

| Caste | Investor | Percentage |
|-----------------|-----------------|-------------------|
| Newar | 16 | 40% |
| Brahmans | 12 | 30% |
| Chhetris | 12 | 30% |
| Others | - | - |
| Total | 40 | 100% |

Others include Chhetris, and other minority communities. The table no: 7 obviously depicts that 40% of the total investors belong to Newar community. Investors from Brahman community comprise 30% of the total investors. Similarly, Chhetris participation is same proportion investment in securities investment which is confined to 30% and the other castes from minority groups are almost non-existent in this sector. This depicts the sample. On the basis of above table, it can be generalized that Newars are forward in business and have better knowledge of the prospective benefit from securities investment.

Table no: 6

Investors classification by occupation

| Occupation | No of Investor | Percentage Investors (%) |
|------------|----------------|-----------------------------|
| Business | 13 | 32.5% |
| Student | 7 | 17.5% |
| Service | 14 | 35% |
| Others | 6 | 15% |
| Total | 40 | 100% |

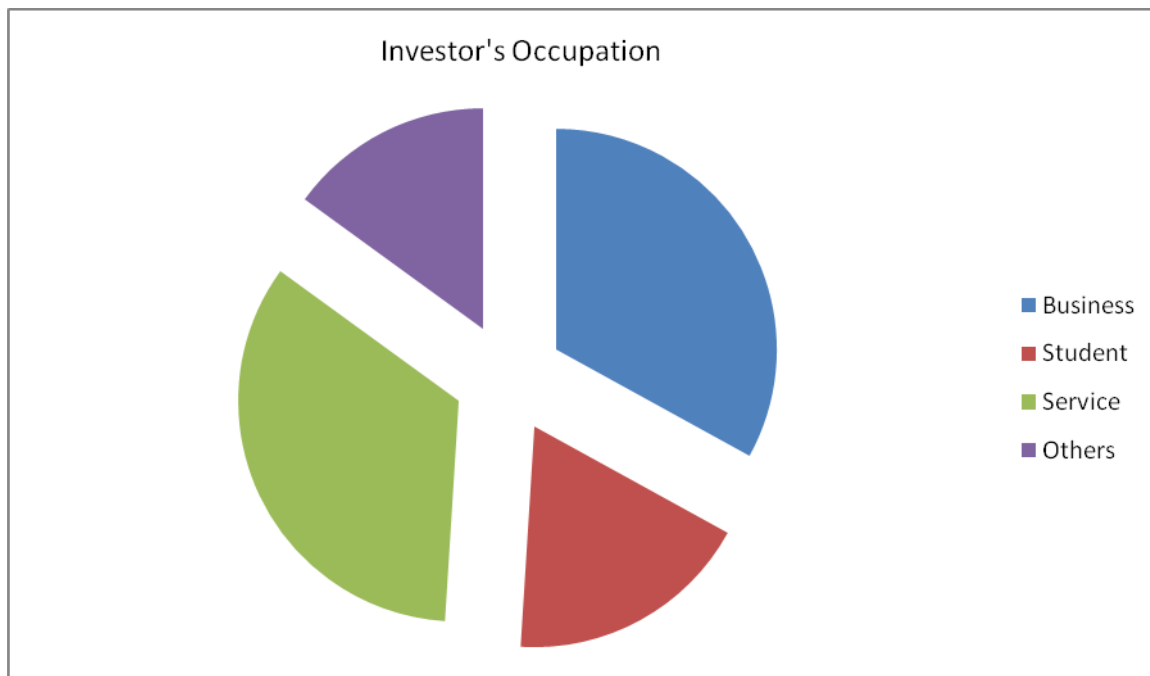


Figure: 7

Pie chart revealing percentage of investors on the basis of their occupation

The classification as depicted in the table no 6 purports to categorize the investors and the test of the knowledge of the different class structure by occupation about security investment. About one third of the total individual investors are from business sector. However, in the course of interaction, it was found that people who did not have any particular work or regular profession also claimed their profession as business. And the regular visitors of NEPSE are from this sector. The full time investors who take security investment as their major profession are also from this sector. But there are very few people who make security investment and trading as their major profession. Most of the investors are part timers. It is clearly seemed that only some privileged castes and the people from business sector are quite familiar to the benefits of security investment than others. The participation of the investors from service sector is the highest of all. This shows the data. Out of the sampled investors, about 18% are students and most of them

belong to management faculty. The students from other faculties have rare participation as compared to that of management. The investors from other sectors – households and sundry – comprise of 15% of the total individual investors. They don't know anything about securities – how these are issued, why to invest in securities, etc. Individual investors share in the capital market is quite low both in volume and value.

4 out of 40 investors related securities investment to gambling, 16 respondents related it to grand Speculation and 2 didn't answer it, 14 were indifference to the term speculation and investment, and the rest 4 gave the desired answer. The last ones are the rational investors who differentiate between speculation and investment, seeking aside the gambling. In addition, they answered that security investment can be a wise speculation but cannot be the gambling.

Classification of listed companies

As per the provision of “ Securities Listing Byelaws, 1996”, the listed companies that have earned profit for the last three consecutive years, book value higher than paid up value, submitted their financial statements of NEPSE within six months of the expiry of fiscal year, paid up capital at least Rs 20 million, and has at least 1000 shareholders can be categorized in group 'A' and remaining of the listed companies can be caterogorised in group 'B'. In the fiscal year 2010/2011, NEPSE categorized 117 companies into group A comprosing 22 commercial banks, 28 development banks, 48 financial companies, 14 insurance companies, 1 hotel , 1 manufacturing and processing companies and three other companies. The detail of the companies in group 'A' is presented in table 20.

Table 7**Commercial Banks**

| S.N | Name of the companies | S.N | Name of the companies |
|-----|-----------------------------------|-----|--|
| 1. | Nabil Bank Ltd. | 2 | Nepal Investment Bank Ltd. |
| 3. | Standard Chartered Bank Nepal Ltd | 4 | Himalayan Bank Ltd |
| 5. | Nepal SBI Bank Ltd | 6 | Everest Bank Ltd |
| 7 | Bank of Kathmandu Ltd. | 8 | Nepal Industrial and commercial Bank Ltd |
| 9 | Machha Puchhre Bank Ltd | 10 | Laxmi Bank Ltd |
| 11 | Kumari Bank Ltd | 12 | Siddhartha Bank Ltd. |
| 13 | Agriculture Development Bank | 14 | NMB Bank Ltd |
| 15 | Kist Bank Ltd | 16 | Bank of Asia Ltd |
| 17 | Citizens Bank Internationl Ltd | 18 | Global IME Bank Ltd |
| 19 | Lumbini Bank Ltd | 20 | Nepal Bangaldesh Bank Ltd |
| 21 | Nepal Credit& Commerce Bank Ltd | 22 | Prime Commercial Bank Ltd |
| 23 | Sanima Bank Ltd | 24 | Civil Bank Ltd |

Table 8 Development Banks

| | | | |
|----|--|----|-------------------------------------|
| 1 | Nirdhan Uthan Bank Ltd. | 2 | Chhimek Bikas Bank Ltd |
| 3 | Business Universal Development Bank Ltd. | 4 | Siddhartha Development Bank Ltd. |
| 5 | Bhrikutee Development Bank Ltd | 6 | Sahayogi Bikas Bank Ltd. |
| 7 | Ace Development Bank Ltd. | 8 | Infrastructure development Bank Ltd |
| 9 | Gandaki Developmernt Bank Ltd | 10 | Vibor Bikas Bank Ltd |
| 11 | Deprosc Laghubitta Bikas Bank Ltd | 12 | Swabalamban Bikas Bank Ltd |
| 13 | Bright Development Bank Ltd | 14 | Public Development Bank Ltd |
| 15 | Excel development Bank Ltd | 16 | Tribeni Bikas Bank Ltd |
| 17 | Purbanchal Gramin Bikas Bank Ltd | 18 | Mahakali Bikas Bank Ltd |
| 19 | Malika Bikas Bank Ltd | 20 | Subechha bikas Bank Ltd |
| 21 | Clean Energy Development Bank Ltd | 22 | Kasthamandap Development Bank Ltd |
| 23 | Miteri Development Bank Ltd | 24 | NDEP Development Bank ltd |
| 25 | Nerudehh Laghubitta Bikas Bank Ltd | 26 | Shewa Bikas Bank Ltd |
| 27 | Manakamana Development Bank Ltd | 28 | Pathibhara Bikas Bank Ltd |
| 29 | Western Development Bank | 30 | International Development Bank |

| | | | |
|----|-------------------------------------|----|--|
| 31 | H and B Development Bank | 32 | Alipine Development Bank Ltd |
| 33 | Kankai Development | 34 | Garima Bikas Bank Ltd |
| 35 | Alpine Development Bank Ltd | 36 | Kankai Bikas Bank Ltd |
| 37 | Jyoti Bikas Bank Ltd | 38 | Bishwa Bikash Bank Ltd |
| 39 | Gaurishshankar Development Bank Ltd | 40 | Axis Development Bank Ltd |
| 41 | Diyalo Bikas Bank Ltd | 42 | Purnima Bikash Bank Ltd |
| 43 | Professional Bikas Bank Ltd | 44 | Araniko Development Bank Ltd |
| 45 | Country Development bank ltd | 46 | Tinau Development Bank Ltd |
| 47 | Corporate Development Bank Ltd | 48 | Shine Development Bank Ltd |
| 49 | Kailash Bikas Bank Ltd | 50 | Supreme development Bank Ltd |
| 51 | Bhargav Bikas Bank Ltd | 52 | First Micro finance development Bank Ltd |
| 53 | Metro Development Bank Ltd | 54 | NIDC development Bank Ltd |
| 55 | Innovative Development bank Ltd | | |

Table-9 Finance Companies

| | | | |
|----|--------------------------------|----|--------------------------------|
| 1 | Nepal Finance Co.Ltd | 2 | NIDC Capital Markets Ltd |
| 3 | Api Finance Co. Ltd | 4 | Synergy Finance Ltd |
| 5 | Reliance Company Ltd | 6 | Kathmandu Finance Ltd. |
| 7 | Peoples Finance Ltd. | 8 | Yeti Finance Ltd |
| 9 | Nepal Awas Bikas Bitta Co. Ltd | 10 | Narayani National Finance Ltd. |
| 11 | Navadurga Finance Co. Ltd. | 12 | Unique Finance Ltd. |

| | | | |
|----|--|----|--|
| 13 | Mahalaxmi Finance Ltd. | 14 | ICFC Finance Ltd. |
| 15 | Goodwill Fin.Company Ltd. | 16 | OM Finance Co.Ltd. |
| 17 | Lumbini Finance and leasing Ltd. | 18 | Siddhartha Finance Ltd. |
| 19 | Srijana Finance Co. Ltd. | 20 | United Finance Ltd. |
| 21 | International Leasing and Finance Co. Ltd. | 22 | Shree Investment and Finance Co. Ltd. |
| 23 | Central Finance Co. Ltd. | 24 | Janaki Finance Co. |
| 25 | Everest Finance Co. Ltd | 26 | Zenith Finance Ltd. |
| 27 | Seti Finance Ltd. | 28 | Shuva laxmi Finanancel ltd |
| 29 | Civil Merchant Bitiya Sanstha Ltd | 30 | Progressive finance Ltd. |
| 31 | Narayani National Finance Co. Ltd | 32 | Hama Merchant & Finance Co. Ltd |
| 33 | Royal Merchant Banking & Finance Ltd | 34 | Prudential Finance Ltd. |
| 35 | Lalitpur Finance Ltd | 36 | Guheswori Merchant Banking & Finance Ltd |
| 37 | Emproil Finance Ltd. | 38 | Sagarmath Merrchant Banking & Finace Ltd |
| 39 | Reliable Finance Ltd | 40 | Kaski Finance Ltd |
| 41 | Nepal Express Finance Ltd | 42 | Fewa finance Co. Ltd |
| 43 | Prabhu Finance Company Ltd | | |

Table- 10 Insurance Companies

| | | | |
|----|-------------------------------------|----|----------------------------------|
| 1 | Lumbini General Insurance Co. ltd | 2 | National Life Insurance Co. Ltd |
| 3 | Himalayan General Insurance Co. Ltd | 4 | Fluer Himalayan ltd |
| 5 | Everest Insurance Co. Ltd | 6 | Premier insurance Co. Ltd |
| 7 | Siddhartha insurance Co. Ltd | 8 | United Insurance Co. (Nepal) Ltd |
| 9 | Sagarmatha Insurance Co. Ltd | 10 | Nepal Life Insurance Co. Ltd |
| 11 | Sikhar Insurance Co. Ltd | 12 | Asian Life Insurance Co.ltd |
| 13 | Neco insurance co. Ltd | 14 | Nepal Insurance Co. Ltd |
| 15 | Prime life Insurance Co. Ltd | 16 | Prudential Insurance co. Ltd |
| 17 | Guras Life Insurance co. ltd | 18 | Surya Life Insurance Co. Ltd |

Table-11 Hotel

| | | | |
|---|-------------------|---|------------------------------|
| 1 | Soaltee Hotel Ltd | 2 | Taragaon Regency Hotel's Ltd |
|---|-------------------|---|------------------------------|

Table-12 Manufacturing Company

| | | | |
|---|----------------------------|---|-----------------------------|
| 1 | Unilever Nepal Ltd | 2 | Bottlers Nepal Ltd (Balaju) |
| 3 | Bottlers Nepal ltd (Terai) | 4 | Himalayan Distillery Ltd |

Table -13 Other Companies

| | | | |
|---|--------------------------------|---|---------------------------|
| 1 | Chilime Hydropower co. Ltd | 2 | Nepal Doorsanchar co. Ltd |
| 3 | Arun Valley Hydropower Co. Ltd | 4 | Butwal Power Co. Ltd |

Paid up Value of Listed Securities

The Total Paid up value of the listed securities by the end of the fiscal year 2010/11 reached to Rs. 100238.85 million which was Rs 79356.73 million in the fiscal year 2009/10. The total paid-up value of the listed securities by the end of the fiscal year 2010/11 is presented in table

Table-14

Paid-up Value (Rs in Million)

| S.N | Sector | Paid up value | Percent |
|-----|------------------------------------|---------------|---------|
| 1 | Commercial Bank | 41806.19 | 41.71 |
| 2 | Development Bank | 16864.69 | 16.82 |
| 3 | Finance Company | 15301.08 | 15.26 |
| 4 | Insurance Company | 3585.29 | 3.58 |
| 5 | Hotel | 1615.15 | 1.61 |
| 6 | Manufacturing & processing company | 2539.74 | 2.53 |
| 7 | Trading Company | 83.42 | 0.08 |
| 8 | Other Company | 18443.29 | 18.40 |
| | Total | 100238.85 | 100.00 |

Turnover

The total amount of securities traded in the fiscal year 2010/11 is Rs 6665.18 million, 43.75% less where it was Rs 11851.11 million in the fiscal year 2009/10. The detail of sector wise turnover is presented in table

Table -15**Annual Turnover (Rs in millions)**

| S.N | Sector | Amount | Percent |
|-----|---------------------------------------|---------|---------|
| 1 | Commercial Bank | 3431.82 | 51.49 |
| 2 | Development Bank | 813.24 | 12.20 |
| 3 | Finance Company | 630.70 | 9.46 |
| 4 | Insurance Company | 377.15 | 5.66 |
| 5 | Hotel | 151.92 | 2.28 |
| 6 | Manufacturing & Processing Company | 363.06 | 5.45 |
| 7 | Trading Company | 27.53 | 0.41 |
| 8 | Other Company | 869.76 | 13.05 |
| | Total | 6665.18 | 100.00 |

Market Capitalization

By the end of the fiscal year 2010/11, the market capitalisation of the listed securities reached to Rs. 323484.34 million while it was Rs. 376871.37 million in the fiscal year 2009/10. The market capitalization of the fiscal year 2010/11 was 14.16% less compared to last year market capitalization. By the end of fiscal year 2010/11, the percentage contribution of market capitalization on nominal GDP is estimated to be 24.04. The market capitalization in the fiscal year 2009/10 is presented in table below.

Table-16

| S.N | Sector | Market Capitalization | Percent |
|-----|---------------------------------------|-----------------------|---------|
| 1 | Commercial Bank | 111938.05 | 46.35 |
| 2 | Development Bank | 13210.54 | 5.47 |
| 3 | Finance Company | 13756.06 | 5.70 |
| 4 | Insurance Company | 9937.18 | 4.12 |
| 5 | Hotel | 3040.64 | 1.26 |
| 6 | Manufacturing & Processing Company | 9577.84 | 3.97 |
| 7 | Trading Company | 1380.74 | 0.57 |
| 8 | Hydropower Company | 13550.98 | 5.61 |
| 9 | Citizen Investment Trust | 339.50 | 0.14 |
| 10 | Preference Share | 1914.00 | 0.79 |
| 11 | Other Company | 62868.42 | 26.03 |
| | Total | 323484.34 | 100.00 |

Nepse Index

By the end of the fiscal year 2010/11, Nepse Index of the listed securities(Price Index) stood to be 362.85 points, which is 24.04 percent less than that of the last fiscal year's end index of 477.73 points. The highest index during the fiscal year 2010/11 was recorded at 468.53 points on july 18, 2010 and lowest index was 292.31 points on june 15, 2011.

Table-17

Securities markets indicator for the last three years is presented in table 9 (Rs in million)

| Market Indicator | Fiscal Year | | |
|--|-------------|-----------|----------|
| | 2008/09 | 2009/10 | 2010/11 |
| Number of public issue | 64 | 61 | 47 |
| Amount of public issue | 16828.50 | 10822.41 | 6754.03 |
| Number of listed Companies | 159 | 176 | 207 |
| Paid of value of listed securities | 61140.0 | 79356 | 100238 |
| Number of listed securities (000) | 637868 | 821746 | 1030674 |
| Turnover | 21681.14 | 11851.11 | 6665.33 |
| Market Day | 234 | 225 | 231 |
| Number of traded companies | 170 | 198 | 222 |
| Number of traded shares(000) | 30547.16 | 26231.35 | 26240.39 |
| Number of transactions | 209091 | 213733 | 302364 |
| Market capitalization | 512939.07 | 376871.37 | 323484 |
| % of turnover on market capitalization | 4.22 | 3.14 | 2.06 |

4.3 Analysis and Presentation of Open-end Questionnaires

Investors' opinion on investing in primary offerings and in secondary market:

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

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

Attitudes on investing in securities: (Is it same as speculation or gambling?)

- Regarding the answer to this question, respondents have given mixed feeling about it. Out of the 40 respondents, only 37 responded to it. Some investors have been found taking the security investment very lightly. They are unaware of risk and return, price formation mechanism, and capital appreciation. For such kinds of investors, the term speculation and investment is indifferent to each other. While few are found relating it to gambling also. Only few investors have good knowledge on the difference among these three. And these terms differ from each other on the basis of quality and quantity of the extracted information, and the duration of investment.

Criteria of investment and the factors that they take into consideration before or while investing in the securities:

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

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

In addition to the factors the investors take into consideration while selecting the security and making investment on it, some investors have been found to observe, predict and analyze the political situation also. This is because political risk has become the major risk factor today that is very hard to predict. Some investors are ready to bear higher amount of risk and uncertainties if they found probability of getting higher returns. 38 out of 40 investors reported that they observe and analyze the financial picture of the company which they are going to invest in. 35 respondents reported to have observe the historical trend of the company's performance. 34 out of the sampled 40 investors have revealed that they study a series of the price behavior from the past to present. Only 8 investors have been found to be familiar with the term portfolio and Some are found to be acting very wisely and therefore they can be considered as the rational investors. 10 out of 40 sampled persons have knowledge on both the methods of analyzing security fundamentally as well as technically. They include 4 management students and 6 from business sector. 30 sampled investors also do perform analysis on their part but they are ignorance of the term technical and fundamental analysis. However, all investors thoroughly analyze, observe, and judge the performances of the company either by themselves or through the help of others

before investing. Investors generally look at goodwill and management of the company issuing such security. The criteria of selection of security, preference, and the factors the individuals take into consideration varies from investor to investor. However, the most common points can be enumerated as follows:

Company's prospect of growth

Goodwill and management of the company

Promoters of the company

Company's five year forecast

Security analysis

NEPSE Index

Portfolio formation

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

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

Problems faced by investors regarding securities investment and trading:

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

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

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

70% of the respondents wrote that most of the companies listed in the secondary market listings are not trustworthy. One has to be suspicious and careful while investing in the securities of the companies opened for the first time to public as there is always a fear of getting untrue picture and manipulated information in the form of projected financial statements and performances. Consideration of the other internal factors of the organization such as internal management, promoters, goodwill of the issuing company also need to be done while making investing decisions. In concluding words, some companies were found to reveal unrealistic pictures in their projected statements. In fact, these are the problems due to inefficiency and inability of regulatory bodies as they are responsible to monitor the activities of the companies. Hence, these factors cause difficulty in trading.

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

Yet another problem experienced by most of the investors is uncertainty of returns. Viewed from the investors' point of view, there is too much risk of getting uncertain returns and the fall in the price of the securities.

Investors' interest and reasons behind preference of securities over real assets and the

Purposes of their investment:

(This question was not included in the list of the questionnaires given to the respondents. But it had been informally asked to the investors at the time of filling such questionnaires. The answer to this question was as follows :)

- The main reason behind preference of securities investments over real assets investments are that the former one is good source of passive income and higher return; it requires low amount of

capital to invest in financial assets. In addition, investors' hesitate to deposit their funds in the banks as banks nowadays are paying very lower rate of interest. Investors in Nepal don't have specific objective behind investing in securities. They simply go on investing with the rumors and whims in the market. In Nepal it is not possible to take securities investment as the prime job.

They invest without gaining much information and knowledge. The extent of their knowledge for analysis was found to be confined to the rate of dividends paid by the companies and the price of the securities in the past periods. Individual investors in Nepal neither have much time nor have sufficient knowledge and resources to study and invest in the securities. Most of them took it as only a part time job, which could be a good source of passive income if the situations turned out favorable.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary:

Nepal is one of the poorest countries in the world. The purchasing power of people measured through per capita income of existing US \$ 269 is too low for living. That is why savings are also low which is essential for capital formation. So shortage of capital required for big entrepreneurial activities has always been a problem. Thus, lack of capital required for development is one of the major problems in our country. In this situation, the role of capital market is optimistic. Capital market provides the large amounts of long term funds required for organizations. There is existence of wide gap between rich and bourgeois. Thus, the effort of government has always been oriented in redistribution of wealth from the haves to the have-nots. Also the government has always tried to diversify the agricultural dominated economy towards export oriented and industrial based one. All the activities of private and government sectors including NGOs, INGOs are oriented to enhancing the living standard and income of the people in many ways.

Due to geopolitical situation of the country, many people are living in the dark shadow of the illiteracy and poverty. Most of the people in Nepal are ignorant to the securities investment. The history of security investment is not an age old tradition in Nepal. The history of security market in Nepal dates back to 1936 AD with the issue of the shares of common stock by Biratnagar Jute Mills for the first time. A year later, debentures were also issued. At that time, only few people and institutions were involved in the investment. Besides, corporate securities, government also

issue securities to the investors through Nepal Rastra Bank. But institutional sectors only are allowed to invest in such securities such as Treasury bills and government development bonds. However, individual investors can also participate in the investment of government bonds.

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

In view of the growing investment preferences of securities in Nepal by investors, an organized exchange secondary market for securities was opened as Securities Marketing Center in 1976. It was converted into Securities Exchange Center later. And in 1994 it was renamed as Nepal Stock Exchange as only the secondary market for securities issued by corporations. Today, securities of 207 companies are listed including common stocks and debentures and are opened to the public for trading. Among those listed securities, 196 comprise of common stocks and the rest comprise of debentures and bonds. Moreover 118 companies are grouped as Grade A companies on the basis of volume and value of their daily records of transactions.

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

For this study purpose, primary data have been used in mainstream as per the requirement of this thesis. Secondary data have also been collected for literature reviewing. For primary data

collection, responses were collected from 40 investors through direct questionnaires and the responses were collected. For this, convenient sampling method has been implied.

Out of the total sampled investors/respondents, 95% are found to invest in the common stocks only and the rest 5% are found to invest in the debentures and preference shares along with common stocks. Thus, securities mean only the common stocks for most of the investors in Nepal. Among the available stocks of different sectors, 87.5% of the investors are found to invest in the common stocks of commercial banks and 10% in selected finance and insurance companies. Potential investment in the shares of manufacturing companies is almost non-existent.

Investors invest in the primary market securities because they anticipate selling it at a higher price than the price which they were bought. Another factor for investment in common stocks is due to expectation of higher returns in the form of cash dividends, possibility of getting capital gain and additional shares as bonus. On the part of form of earnings from common stocks, all investors are fond of reaping benefits of capital appreciation. Majority of them also prefer regular cash dividends.

But there are also investors who like to receive capital appreciation and bonus shares instead of getting cash in the form of dividend. 45% of the investors anticipate a return ranging between 20-25% in liquid cash. 17.5% want to receive more than 25% return from their investment. None of the investors want to receive less than 10% from their investment committed. That's why fixed income securities are not becoming popular among the investors.

Only few investors have time to visit NEPSE and actively engage in trading of securities. Most of the investors visit the stock exchange occasionally,

Among the sampled investors, 40% are from Newar community, 30% are Brahman, and 30% are Chhetris. These are the social classes which are forward in every sector of the country. Other investors from minority and lower castes are backward even in this sector.

Businessmen and service holders comprise of 32.5% and 35% of the total individual investors. Students' participation, especially from management faculty, in the trading and investing of securities is also quite appreciable.

Among the sampled investors, 85% are not satisfied with the working procedures and regulations of the concerned bodies. They feel threatened and are uncertain of the performances of the companies in which shares they have invested in. They have been facing many problems in trading and investment of the desired securities as there is only one secondary market for such trading of securities. The companies are not found reliable.

In fact, the term securities investment, gambling and speculation are three different terms. They differ with each other clearly on the basis of the availability, intake and usage of the information. Gambling is an adhoc decision made quickly without acquiring any information and gaining any knowledge. Here the result comes out spontaneously in a few seconds to hours to a day. It is the riskiest of all. Speculation is an investment with a very short-holding period in an anticipation of making quick profit. Under speculation, investors scan the information through various methods and analyze the securities before investment but the investment period ranges from a few days to few months. Speculation has also greater risk than in investment made by a rational investor. And investment is done for a long period of time, where holding period is at least one year. All the information regarding securities are gathered, sorted and analyzed. In this part, trends of securities performance are studied, prices are estimated, and invested accordingly for a period of

at least one year. Here the investor is normally not willing to take high risk and expects moderate rate of return.

5.2 Conclusion:

Based on the analysis of the data, it can be concluded that the existence of the other securities besides common stocks is almost non-existent. It is because common stocks are quite familiar and popular among the investors from the investment point of view in the market. It is easy to trade in the secondary market. Also in common stocks, the stocks from commercial banking sector are more popular. However, only a few companies have gathered strength to issue debentures and preference shares. Most of the individual investors hesitate to invest in the debentures issued by the companies because of its non-flexibility in its earnings. Very few people like to receive constant lower returns. This is also the same reason for less popularity of preference shares among investors. The prime sources of information for all the investors interested in securities transaction are newspapers and NTV. For the regular visitors of NEPSE and professionals, stockbrokers are the main source of information. Besides, rumors and friends and relatives are also the major sources of information for some. Still there is lacking sufficient and genuine information for trading of securities.

Based on our analysis we can conclude that most of the investors are risk averse. But the investors reveal three types of attitudes towards risk. Some believe in the notion 'no risk no gain', they are the risk seekers. Some are indifference to risk; they bear it if it comes in the course of business and don't go after taking risk. The third ones like to avoid risk. They don't want to bear risk. They can be satisfied with the lower returns than bearing more risk.

On the study of the community wise classification of investors, it can be concluded that Newars

have dominance in the business sector and securities investment too. But the Brahmans and Chhetris participation is also high. Investors from backward societies and minority groups are backward too even in terms of securities investment.

On the part of return, investors always want to receive higher return without limit. All investors prefer capital appreciation in their securities. Nevertheless, cash dividend and bonus shares are also found to be anticipated.

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

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

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

Expectations about future, various factors such as political trend, economic condition, etc have a direct role in the formation of price. Moreover, it is reflected in the form of demand and supply of share. Earnings capacity and projection of share, goodwill and management of the corporation

are reflected directly in the demand for shares. If these are good demand will be high. As demand is high the market price will be high. At higher prices, the stockholders are willing to supply (sell) more. Thus it can be concluded that the market price of a share depends upon demand and supply of shares.

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

Information plays a key role in the investment. In concluding words, investment is the function of the quality and quantity of the available information.

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

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

5.3 Recommendations:

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

1. Individual investors' participation in the securities should be encouraged. Investors need to be given necessary education, trainings and provided different skills on securities investment. They should be made aware of the investment opportunities; benefits attached with the securities and rational investment processes.
2. There should be unambiguous rules and clear-cut policies regarding securities investment. The rules and procedures need to be simplified further on behalf of the individual investors.
3. Effective monitoring and controlling should be ensured in regards to securities issuance, listings and performance rating. SEBON's activities need to be active in regards to the proper implementation of the rules and regulations.

4. There should be correct and timely flow of qualitative information to the investors.
5. The companies are suggested to issue common stocks with correct prices and with reliable and standard projected performances on behalf of the public investors to fulfill their requirement of the long-term capital. However, bonds and preference shares might also be issued proportionately.
6. Various researches, findings and studies on individual investors need to be conducted both by the companies and concerned bodies to identify the expectations, preferences and problems of the investors in securities investment.
7. Consulting firms and financial consultants should be opened for guiding the potential as well as existing investors. Stockbrokers need to play more active role in regards to these matters

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www.nepalstock.com

www.oilngold.com

www.marketwatch.com

www.wallstreet.com

www.sebon.gov.np

ANNEX-I

Current Stock Price 2014

| Companies | Tran. | Max. | Min. | Close | Volume | Amount | Last Close | Net Ch |
|--|-------|-------|-------|-------|--------|------------|------------|--------|
| Ace Development Bank Ltd. | 1 | 232 | 232 | 232 | 1518 | 352,176 | 228 | 4▲ |
| Agriculture Development Bank | 71 | 510 | 493 | 506 | 12477 | 6,285,058 | 500 | 6▲ |
| Alliance Insurance Co. Ltd. | 16 | 671 | 622 | 671 | 5008 | 3,235,856 | 610 | 61*▲ |
| Alpine Development Bank Ltd | 8 | 159 | 157 | 159 | 140 | 22,000 | 154 | 5▲ |
| Apex Development Bank Limited. | 26 | 142 | 139 | 142 | 5459 | 767,822 | 140 | 2▲ |
| Araniko Development Bank | 9 | 148 | 144 | 147 | 1430 | 210,770 | 146 | 1▲ |
| Arun Valley Hydropower Dev. Co. Ltd. | 26 | 503 | 476 | 484 | 5087 | 2,491,129 | 495 | -11▼ |
| Asian Life Insurance Company Ltd. | 64 | 894 | 843 | 860 | 26462 | 22,856,981 | 860 | 0◀▶ |
| Bank of Kathmandu | 41 | 593 | 583 | 588 | 10184 | 5,985,299 | 589 | -1▼ |
| Bishal Bazar Co. Ltd. | 1 | 1,930 | 1,930 | 1,930 | 306 | 590,580 | 1,893 | 37▲ |
| Bishwa Bikash Bank Ltd. | 5 | 229 | 229 | 229 | 293 | 67,097 | 225 | 4▲ |
| Business Universal Development Bank Ltd. | 5 | 168 | 165 | 165 | 1770 | 293,548 | 162 | 3▲ |
| Butwal Power Co. Ltd. | 4 | 980 | 955 | 980 | 284 | 275,582 | 963 | 17▲ |
| Chhimek Laghubitta Bikas Bank Ltd. | 3 | 905 | 890 | 905 | 1349 | 1,215,086 | 906 | -1▼ |
| Chilime Hydro power Co. | 90 | 1,603 | 1,530 | 1,600 | 11275 | 17,870,955 | 1,559 | 41▲ |

| | | | | | | | | |
|--|----|-------|-------|-------|--------|------------|-------|-----------|
| Citizen Investment Trust | 12 | 3,474 | 3,222 | 3,474 | 845 | 2,852,228 | 3,159 | 315* ▲ |
| Citizens Bank International Limited | 49 | 490 | 468 | 476 | 15897 | 7,571,904 | 476 | 0◀▶ |
| City Development Bank Ltd. | 21 | 388 | 353 | 375 | 1060 | 395,426 | 360 | 15▲ |
| Clean Energy Development Bank Ltd. | 8 | 280 | 275 | 276 | 2768 | 768,752 | 275 | 1▲ |
| Corporate Development Bank | 14 | 132 | 128 | 132 | 740 | 95,420 | 130 | 2▲ |
| Country Development Bank | 24 | 128 | 124 | 128 | 800 | 100,880 | 126 | 2▲ |
| Diprox Laghubitta Bikas Bank Ltd. | 3 | 1,029 | 1,009 | 1,029 | 261 | 266,469 | 990 | 39▲ |
| Everest Bank Ltd | 20 | 2,180 | 2,100 | 2,130 | 2619 | 5,590,728 | 2,106 | 24▲ |
| Everest Finance Ltd. | 1 | 130 | 130 | 130 | 68 | 8,840 | 128 | 2▲ |
| First Microfinance Development Bank Ltd. | 7 | 567 | 517 | 567 | 2403 | 1,314,231 | 520 | 47▲ |
| Garima Bikas Bank Ltd | 7 | 288 | 275 | 288 | 430 | 119,800 | 278 | 10▲ |
| Gaurishankar Development Bank Ltd. | 7 | 149 | 141 | 143 | 77 | 11,099 | 152 | -9▼ |
| Grand Bank Limited Promoter Share | 1 | 112 | 112 | 112 | 199800 | 22,377,600 | 111 | 1▲ |
| Grand Bank Nepal Ltd. | 18 | 308 | 298 | 300 | 5960 | 1,804,890 | 301 | -1▼ |
| Gurans Life Insurance Company Limited | 87 | 496 | 460 | 478 | 29992 | 14,611,612 | 451 | 27▲ |
| H & B Development Bank Ltd. | 2 | 70 | 70 | 70 | 1000 | 70,000 | 71 | -1▼ |
| Hama Merchant & Finance Ltd | 11 | 114 | 108 | 112 | 1180 | 131,540 | 106 | 6▲ |
| Himalayan Bank Ltd. | 24 | 945 | 905 | 910 | 5133 | 4,714,962 | 912 | -2▼ |

| | | | | | | | | |
|---|----|-----|-----|-----|-------|-----------|-----|-----------|
| Himalayan Gen.Insu. Co.Ltd. | 19 | 483 | 437 | 475 | 5818 | 2,694,224 | 445 | 30▲ |
| ICFC Finance Ltd. | 2 | 222 | 220 | 222 | 1544 | 340,768 | 219 | 3▲ |
| Infrastructure Development Bank | 19 | 118 | 113 | 118 | 967 | 110,218 | 115 | 3▲ |
| Innovative Development Bank Ltd. | 1 | 127 | 127 | 127 | 2073 | 263,271 | 125 | 2▲ |
| International Development Bank Ltd. | 10 | 128 | 124 | 126 | 2798 | 353,874 | 122 | 4▲ |
| International Leasing & Fin. Co. | 4 | 240 | 236 | 237 | 2695 | 644,945 | 240 | -3▼ |
| Janaki Finance Ltd. | 2 | 245 | 245 | 245 | 200 | 49,000 | 249 | -4▼ |
| Janata Bank Nepal Limited. | 27 | 302 | 296 | 297 | 7523 | 2,245,930 | 297 | 0◀▶ |
| Jyoti Bikash Bank Ltd. | 10 | 144 | 141 | 141 | 1940 | 275,670 | 142 | -1▼ |
| KIST Bank Ltd. | 22 | 238 | 230 | 235 | 14475 | 3,375,485 | 233 | 2▲ |
| Kabeli Bikas Bank Ltd | 6 | 278 | 258 | 278 | 65 | 17,570 | 253 | 25* ▲ |
| Kailash Bikas Bank Ltd. | 2 | 302 | 300 | 300 | 1215 | 365,930 | 300 | 0◀▶ |
| Kalika Micro Credit Development Bank Limited. | 5 | 691 | 660 | 691 | 65 | 44,105 | 629 | 62* ▲ |
| Kamana Bikash Bank Ltd | 4 | 253 | 245 | 253 | 420 | 104,660 | 249 | 4▲ |
| Kanchan Development Bank Ltd. | 5 | 180 | 171 | 174 | 2014 | 345,306 | 201 | -27* ▼ |
| Kaski Finance Limited | 1 | 162 | 162 | 162 | 103 | 16,686 | 164 | -2▼ |
| Kasthamandap Development Bank Ltd. | 4 | 103 | 101 | 103 | 882 | 90,141 | 103 | 0◀▶ |
| Kumari Bank Ltd | 37 | 559 | 531 | 547 | 13269 | 7,192,731 | 530 | 17▲ |

| | | | | | | | | |
|---|----|-------|-------|-------|-------|------------|-------|------|
| Laxmi Bank Limited | 19 | 510 | 498 | 508 | 9139 | 4,599,661 | 505 | 3▲ |
| Life Insurance Co. Nepal | 8 | 2,810 | 2,703 | 2,810 | 1121 | 3,070,865 | 2,650 | 160▲ |
| Lumbini Finance Ltd. | 10 | 218 | 210 | 218 | 1389 | 298,544 | 206 | 12▲ |
| Lumbini General Insurance | 7 | 434 | 402 | 434 | 971 | 414,126 | 395 | 39*▲ |
| Machhapuchchhre Bank Ltd. | 34 | 489 | 462 | 480 | 14937 | 7,103,585 | 468 | 12▲ |
| Mahakali Bikas Bank Ltd. | 2 | 224 | 220 | 224 | 30 | 6,640 | 216 | 8▲ |
| Mega Bank Nepal Ltd. | 69 | 446 | 431 | 440 | 3510 | 1,545,589 | 439 | 1▲ |
| Metro Development Bank Ltd. | 3 | 343 | 343 | 343 | 93 | 31,899 | 337 | 6▲ |
| Miteri Dev. Bank | 2 | 377 | 370 | 377 | 172 | 64,340 | 370 | 7▲ |
| Muktinath Bikas Bank Ltd | 1 | 540 | 540 | 540 | 80 | 43,200 | 550 | -10▼ |
| NIC Asia Bank Limited. | 39 | 811 | 800 | 804 | 4581 | 3,687,966 | 795 | 9▲ |
| NIDC Capital Markets Ltd. | 6 | 138 | 136 | 136 | 807 | 110,740 | 138 | -2▼ |
| NLG Insurance Company Ltd. | 3 | 766 | 765 | 765 | 420 | 321,570 | 751 | 14▲ |
| NMB Bank Limited | 13 | 405 | 400 | 404 | 4351 | 1,751,081 | 398 | 6▲ |
| Nabil Balanced Fund-1 | 17 | 12 | 12 | 12 | 41126 | 493,362 | 12 | 0◀▶ |
| Nabil Bank Limited Promoter Share | 5 | 1,305 | 1,290 | 1,305 | 1309 | 1,701,360 | 1,290 | 15▲ |
| Nabil Bank Ltd. | 6 | 2,140 | 2,098 | 2,098 | 466 | 986,512 | 2,105 | -7▼ |
| National Life Insu.Co.Ltd. | 46 | 2,560 | 2,375 | 2,440 | 10043 | 24,966,546 | 2,329 | 111▲ |
| Nepal Bank Limited | 24 | 350 | 332 | 335 | 16161 | 5,478,361 | 341 | -6▼ |
| Nepal Credit & Com. Bank | 44 | 427 | 414 | 422 | 18894 | 7,946,439 | 414 | 8▲ |

| | | | | | | | | |
|---|----|-------|-------|-------|-------|------------|-------|------|
| Nepal Doorsanchar Company Ltd. | 12 | 676 | 660 | 675 | 8985 | 6,012,650 | 673 | 2▲ |
| Nepal Insurance Co.Ltd. | 26 | 924 | 856 | 906 | 7873 | 7,195,644 | 840 | 66▲ |
| Nepal Investment Bank Ltd. | 57 | 956 | 931 | 953 | 11788 | 11,161,955 | 938 | 15▲ |
| Nepal Life Insurance Co. Ltd. | 31 | 4,570 | 4,360 | 4,527 | 10674 | 47,779,174 | 4,381 | 146▲ |
| Nepal SBI Bank Limited | 19 | 1,048 | 1,025 | 1,030 | 2349 | 2,434,887 | 1,035 | -5▼ |
| Nerude Laghubita Bikas Bank Limited | 4 | 1,200 | 1,196 | 1,200 | 510 | 611,168 | 1,220 | -20▼ |
| Nilgiri Bikas Bank Ltd. | 4 | 204 | 200 | 204 | 86 | 17,347 | 200 | 4▲ |
| Nirdhan Utthan Bank Ltd. | 2 | 1,020 | 1,006 | 1,020 | 126 | 128,044 | 1,000 | 20▲ |
| Oriental Hotel Ltd. | 20 | 510 | 500 | 505 | 3000 | 1,512,820 | 500 | 5▲ |
| Pacific Development Bank Ltd. | 9 | 352 | 326 | 352 | 1827 | 618,422 | 320 | 32*▲ |
| Pokhara Finance Ltd. | 1 | 189 | 189 | 189 | 20 | 3,780 | 186 | 3▲ |
| Prabhu Bikas Bank Ltd. | 1 | 260 | 260 | 260 | 200 | 52,000 | 255 | 5▲ |
| Prime Commercial Bank Ltd. | 38 | 525 | 505 | 510 | 6062 | 3,088,997 | 499 | 11▲ |
| Prime Life Insurance Company Ltd. | 53 | 762 | 697 | 724 | 10908 | 8,054,879 | 740 | -16▼ |
| Professional Diyalo Bikas Bank Ltd. | 16 | 122 | 119 | 122 | 330 | 39,600 | 117 | 5▲ |
| Prudential Insurance Co. | 24 | 423 | 366 | 423 | 7035 | 2,897,005 | 385 | 38*▲ |
| Public Development Bank Ltd. | 11 | 129 | 120 | 129 | 830 | 106,490 | 118 | 11▲ |
| Purnima Bikas Bank Ltd | 2 | 228 | 224 | 224 | 500 | 113,200 | 231 | -7▼ |
| Rising Development | 14 | 209 | 197 | 209 | 5267 | 1,080,830 | 194 | 15▲ |

| | | | | | | | | | |
|--|-----|-------|-------|-------|-------|-----------|-------|------|--|
| Bank Ltd. | | | | | | | | | |
| Rural Microfinance Development Center Ltd. | 43 | 894 | 830 | 861 | 2040 | 1,773,688 | 855 | 6▲ | |
| Sagarmatha Insurance Co.Ltd | 12 | 1,371 | 1,282 | 1,305 | 2120 | 2,821,693 | 1,319 | -14▼ | |
| Sagarmatha Merchant Banking & Finance Limited. | 7 | 160 | 156 | 156 | 477 | 75,687 | 156 | 0◀▶ | |
| Sahayogi Bikas Bank Ltd. | 7 | 591 | 580 | 590 | 943 | 551,850 | 574 | 16▲ | |
| Sana Kisan Bikas bank Limited. | 25 | 1,255 | 1,150 | 1,200 | 2559 | 3,115,974 | 1,147 | 53▲ | |
| Sanima Bank Ltd. | 20 | 510 | 490 | 498 | 9625 | 4,817,748 | 500 | -2▼ | |
| Sanima Mai Hydropower Ltd. | 300 | 530 | 514 | 530 | 9012 | 4,688,680 | 515 | 15▲ | |
| Seti Finance Ltd. | 2 | 142 | 142 | 142 | 40 | 5,680 | 142 | 0◀▶ | |
| Sewa Bikas Bank Limited | 16 | 260 | 240 | 244 | 7766 | 1,895,760 | 265 | -21▼ | |
| Shikhar Insurance Limited | 12 | 1,224 | 1,167 | 1,200 | 2984 | 3,583,160 | 1,145 | 55▲ | |
| Shine Resunga Development Bank Limited. | 15 | 418 | 395 | 410 | 1506 | 616,814 | 395 | 15▲ | |
| Shree Investment Finance Co. Ltd | 1 | 499 | 499 | 499 | 50 | 24,950 | 496 | 3▲ | |
| Siddhartha Bank Limited | 19 | 604 | 575 | 590 | 11158 | 6,535,721 | 588 | 2▲ | |
| Siddhartha Development Bank | 11 | 149 | 138 | 149 | 2775 | 409,325 | 136 | 13*▲ | |
| Siddhartha Insurance Limited | 12 | 554 | 514 | 554 | 8877 | 4,698,718 | 504 | 50*▲ | |
| Siddhartha Investment Growth Scheme-1 | 2 | 13 | 13 | 13 | 12000 | 155,900 | 13 | 0◀▶ | |
| Sindhu Bikash Bank | 1 | 124 | 124 | 124 | 350 | 43,400 | 126 | -2▼ | |

Ltd.

| | | | | | | | | |
|---|----|-------|-------|-------|-------|-----------|-------|------|
| Soaltee Hotel Ltd. | 7 | 432 | 424 | 425 | 3797 | 1,628,356 | 432 | -7▼ |
| Standard Chartered Bank Ltd. | 8 | 1,950 | 1,912 | 1,925 | 661 | 1,277,185 | 1,951 | -26▼ |
| Subhechha Bikas Bank Limited | 1 | 184 | 184 | 184 | 42 | 7,728 | 186 | -2▼ |
| Sunrise Bank Ltd. | 31 | 463 | 455 | 460 | 3514 | 1,614,042 | 454 | 6▲ |
| Supreme Development Bank Limited. | 7 | 115 | 111 | 115 | 1673 | 190,403 | 115 | 0◀▶ |
| Surya Life Insurance Company Ltd. | 66 | 527 | 489 | 517 | 13471 | 6,894,122 | 480 | 37▲ |
| Swabalamban Bikash Bank Ltd. | 23 | 1,202 | 1,114 | 1,154 | 1412 | 1,686,950 | 1,093 | 61▲ |
| Swarojgar Laghubitta Bikas Bank Limited | 3 | 1,230 | 1,206 | 1,230 | 30 | 36,650 | 1,183 | 47▲ |
| Taragaon Regency Hotel | 15 | 260 | 255 | 255 | 860 | 219,850 | 262 | -7▼ |
| Tinau Development Bank Ltd | 15 | 188 | 174 | 188 | 277 | 50,299 | 171 | 17*▲ |
| Tourism Development Bank Ltd. | 9 | 171 | 163 | 171 | 14350 | 2,359,743 | 166 | 5▲ |
| Unique Finance Ltd. | 14 | 141 | 137 | 141 | 160 | 22,260 | 139 | 2▲ |
| United Insurance Co.(Nepal)Ltd. | 21 | 634 | 588 | 634 | 7233 | 4,566,521 | 577 | 57*▲ |
| Vibor Bikash Bank | 6 | 112 | 111 | 111 | 1070 | 119,170 | 112 | -1▼ |
| Western Development Bank Ltd. | 13 | 234 | 227 | 234 | 2510 | 578,928 | 227 | 7▲ |
| Zenith Finance Ltd. | 5 | 190 | 186 | 187 | 150 | 27,996 | 184 | 3▲ |

Investors' Opinion on Securities and Their Anticipation of Earnings
Questionnaire for sample survey

Dear respondents,

The questions hereunder are forwarded to you for your valuable information required in connection to my research study on “**Investors' Opinion on Securities and Their Anticipation of Earnings**”. I assure you that your views and responses acquired under this questionnaire will be kept confidential and used for the study purpose only. Therefore, you are requested to feel easy in responding the queries. Your cooperation in this matter is highly appreciated.

Thank you!

Researcher

A. Investor's Profile:

Investor:

Telephone :

Address:

Date of Investment :

Occupation:

Age/Gender:

B. Investor Behavioural Analysis

1. What kind of securities do you prefer to invest in?

(a) Common Stocks

(c) Debentures

(b) Preference Shares

(d) Government Securities

2. Are you regularly informed of the companies listed in NEPSE?

(a) Yes

(b) No

(c) Little bit

3. What are your relevant sources of information for securities investment and selling?

(a) Friends

(b) Relatives

(c) Stock Brokers

(d) Whims and Rumours

(e)Other Media

Please specify

4. Do you find that the concerned regulatory authorities frequently monitor the performance of the companies?

5. What is your opinion about investing in primary offerings and secondary securities in terms of risk?

6. Out of shares listed, what sector of securities is lucrative for investment?

(a)Manufacturing

(c) Commercial Banks

(b)Trading

(d) Hotels

7. What kind of return do you expect and like to get from the investment you made in securities available in Nepal?

(a) Regular fixed income/interest

(c) Bonus Shares

(b) Cash Dividend

(d) Capital appreciation

8. If you don't mind please mention the level of earnings you anticipate from securities, especially from Common stocks?

(a)5-10%

(c)15-20%

(b)10-15%

(d)20-25%

(e)25% and above

9. Are the returns projected in the companies' prospectus and the actual earnings you have been receiving matching well?

10. What do you think of investing in securities? Do you take it as same as speculation or gambling? What is your opinion on it?

(a)Yes

(b)No

11. What kinds of problems have you been facing regarding securities investment? Where do the problems arise while investing or selling securities?

12. Do you consult some experts (related consultants) before investing?

13. Please kindly mention your criteria of investment and the factors you take into consideration while investing on securities?

Thank you very much for your kind help and cooperation