

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a Himalayan, landlocked, secular, Federal Democratic Republic lying between the People's Republic of China in its north and the Republic of India in its South, east and west. Now, in the twenty – first century it is a "yam between two economically fertile soils. Nepal is a "small" country when compared with the size of its neighbors China and India, but is one of the forty largest countries of the world. In terms of its geography, elevation changes drastically in a short span due to its unique and varying physiographic regions, that includes high Himalayas, high mountains, middle mountains, Siwalik and the Terai. Nepal is indeed very rich in bio- diversity and socio- cultural diversity due to its unique and varying physiographic regions and scores of indigenous peoples. Nepal is indeed poor as indicated by indicators of development. The World Bank has categorized Nepal as one of the 12 poor countries of the world since the publication of the **World Development Reports** in the early eighties. According to the **World Development Report 2008**, Nepal belongs to Low Income Countries (LIC). Gross National Income (GNI) is US \$ 290, life expectancy at birth of female is 63 years and of male is 62 years, adult literacy rate of people 15 and above is 49%, population below poverty line is 41.8 (The World Bank 2008). Furthermore, in terms of international poverty line, the report reveals that population below \$1 a day is 24.1% and below \$ 2 a day is 68.5 %. According to the **Human Development Report** (HDR) of 2007 / 2008, Nepal Human Development Index (HDI) rank is 142, HDI value of 2005 is 0.534, Gender Empowerment Measure Rank (GEM) is 86, and Gender Empowerment Measure (GEM) values is 0.351

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 financial market consists of the money market and capital market. The capital market brings together the fund of lenders and borrowers in an organized market, thus, fulfilling the gap of lack of resources. Capital market, which deals with securities are associated with financial resource mobilization on a long term basis. In the securities market, various securities instruments such as common stock, preferred stock, debenture, bonds etc are traded.

The securities market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and Industry in the country. It assists the capital formation and economic growth in the country. But, the Nepalese security market is still in growing stage. Keeping this in view, the government has introduced the liberalization policy with the dawn of democracy for the economic and financial development of the country. There is a provision that at least 15 to 20% of the shares should be provided to the small investors. In developing countries like Nepal, the undeveloped capital market is still prevailing in the economy. The Nepalese securities market still could not take its height. The further improvement of this market is very crucial. It helps in accumulating even small savings for development activities of the economy, otherwise, which would have been spent in unproductive areas. But it is true that there is no presence even of organized money market in rural areas, which covers almost 90% of the total area of the country. Thus, securities market is only confined to the very limited urban areas of Nepal.

In Nepal, the major constituent of the securities market is the shares of Commercial banks and behavior of price of commercial banks influences the Nepal Stock Exchange (NEPSE) Index.

"Securities" refer to a claim received prospective future benefits under certain condition. Securities are financial assets that pieces of paper representing an indirect claim to real assets held by someone else. Those pieces of paper represent common stock, preferred stock, convertibles, bond, warrants, options etc. It may be transferred to another investor and with it, will go all rights and condition.

Under the Enhanced Structural Adjustment facility with the first amendment of the 'Security Exchange Act' in 1992 A.D. the government initiated the policy to reform capital market with amendment in the Act. The Security Board of Nepal was established to regulate and develop the transaction of securities. Likewise, Nepal Stock Exchange (NEPSE), as the successor or Securities Exchange Center was established to facilitate the transaction of the stocks in its floor through its member intermediaries such as brokers, security dealers and market makers. NEPSE started its organized open – cut- cry system in its floor on 13th Jan, 1994.

There are many parties involve in the transaction of securities in the securities market. Investors are one of the main parties among them from whom the Corporation acquires the funds. Investment process is concerned with how an investor should proceed in making decisions about what marketable securities, to invest in, how extensive these instruments should be made (Winfield & Curry, 1985:1). Investors are those people who invest their savings in the securities to take the risk and return. They may be individuals, institutions, and other organizations. The investors get capital appreciation as well as dividend appreciation from investing in the stocks. There is only one Securities Market in Nepal, which is NEPSE. So, investors play vital role in the development of capital market. Investors are the key to the success of securities market.

Investors have autonomy over the selection. They can select any of the alternatives, prevailing in the investment environment, on their own discretion. The investor's decision is always guided by their own preferences over the investment. But the rational investor always makes the preferences after analyzing various aspects of the investment instruments, Therefore, investment rationality in securities market is crucial to the investor and it requires a specific investment decision process, analysis of securities, making appropriate investment strategies as well as construction of efficient portfolio etc. (Pandit, 2004:3). Rational investment should always ensure two aspects; first, the money should be available back when it is needed; second, the invested money should grow because a rupee's in hand today is greater than a rupee's value tomorrow in a world of inflation. Investment Rationality is concerned with the increment of investor's wealth (Cheney and Moses, 1999:13-14).

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

are the things they consider while making investment and what are the securities in which they prefer to invest.

1.2 Statement of the Problem

Investors in Nepal have found investing in securities relating it to gambling and speculation. However, it is different from speculation and gambling. Rather, it is the process of rational decision making. There is required the adequate number of organized investors to analyze the information regarding the performance of the companies in the stock market in Nepal. According to Lord, Ross and Lepper, in Securities marketing analysts and investors generate information for trading through means such as , interviewing management, verifying rumors and analyzing financial statements that can be executed with varying degrees of skill. If as investor overestimates his/ her ability to generate information or to identify the significance of existing data that others neglect. S/he underestimates the forecast error. Traders could instead be over confident about the way they interpret information rather than about the information in self. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation. Choices of securities for investors is extremely limited and confined to a few securities to construct and evaluate efficient portfolio. Due to utopia and over expectation of getting rich overnight, people (middle class) hesitate to invest in securities at first. Also most of the securities investors seems to behave irrationally. Instead, they invest in without proper analysis and judgment of the risk and return leading their decision to adhocism. There is presence of information gap, misguided attitude, and suspicious authenticity of the financial statements published by the institutions. Guided by these, the investors are seemed selecting the securities without proper guidance and analysis. As a result, they may incur losses or reap profits beyond their expectations which are abnormal cases of investment.

Investors need to make the technical and fundamental analysis while making investment in stock. The technical analysis theory of share price behavior is base on past market information. On the assumption that history tends to repeat itself, it is believed that knowledge of past patterns of share prices will help to predict future prices under similar

circumstances. It involves the study of past market behavior with reference to various financial and economic variables to forecast the future. The individual investor's investment policy is found to be buy- hold and pray strategy.

Investors believe it is difficult to make money chasing the hottest trend, and investors often do the opposite of the fashionable trend. There are limited numbers of securities to construct portfolios, and investors lack organization responsible for analyzing the securities technically as well as fundamentally. Despite of the problem inherent, investors are attracted to securities investment, especially on stocks and government securities. The current problems of securities markets are stated as follows:-

-) What is the behavior of investors toward securities?
-) Are the investors making rational decisions regarding their investment in securities?
-) What do the investor's prefer to invest in?
-) How the investors make their investment, do they make their decision on the basis of whim, rumor and institution or consider other factors?
-) Whether the investors are aware of the securities market or not. Do they know about the investment procedure and analyze the factors affecting the investment decisions?:
-) What are the prospects and challenges of security involvement in Nepal from the investor's viewpoint?

1.3 Objectives of the Study

The general objective of conducting this research is to study the behavior pattern, preferences and investing trend of people in regards to securities and analyse the prospective benefits to the Nepalese investors as well as prospective issuer. This study is also trying to evaluate the investor's awareness in the securities market in Nepal.

The specific objectives of this study are as follows:-

- ❖ To study investor's behavior towards securities
- ❖ To analyze whether investors are adequately aware or not in the share trading
- ❖ To study investor's participation and preferences of securities

- ❖ To reveal the anticipation and level of earnings desired by the investors from securities

1.4 Significance of the Study

Securities market plays vital role in the economic development of the countries. The investment in securities affects the whole economic development of the nation. The investors are very significant assets of the security market. 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. Thus , this study is important because this study will provide some informations about the present level of investors awareness in the security market in Nepal.

The prime motive of securities market is to uplift the economy form stagnation to develop the financial and industrial sectors through the effective mobilization of the funds. The acquisition of funds by different companies of different sector depends on the investment decision and flow of investors in particular sector. It is seen that the majority of the Nepalese stock investors are attracted towards the shares of financial and banking sector except some manufacturing and others. When any company (specially banks and financial institutions) issues share through primary market, large number of applicant apply for owner's certificate.

Since investors are regarded as the master of their own decision, it is the duty of corporate official and stock market intermediaries to accelerate favorably to accumulate the needed fund by eliminating the bad signs and signals of the weaker sector of the economy. So, this study tries to find out the different influential factors of investor's decisions and to recommend the necessary activities to be carried out to enhance the rationality of the investors by creating the awareness among them for the fair transaction of the securities and to highlight the growing importance of this particular topic for the acquisition of the required fund for different corporate sectors. On the basis of study of investment trend, behavioral analysis and investor's earning preference, we can infer certain core ideas on investor's attitude towards securities. Moreover' this topic aims to

inculcate in the investor's mind for conduction of fair securities transaction through proper analysis of risk and return and comparison of price with value. This study may bring the investors acquaintances on various terms related to securities, make them aware on their investment, and provide lot of informations to all the parties who are involved in the securities market of Nepal.

1.5 Limitations of the Study

This study is subject to some constraints. Some of the limitations of this study has been incorporated as under:-

-) This research is mainly based on the primary data. However, secondary data will also be employed as per the necessity to support the study.
-) The reality of the study fully depends on the questionnaires, which are dully filled by the respondents.
-) Most of the data will be on common stock investors and NEPSE has become the prime study area.
-) Only individual investors have been considered, and the sample size is also quiet low due to several constraints.
-) Since this is a descriptive research where the behavior of investors will be studied, So, qualitative technique has been of more use . Thus, the statistical tool is limited.

1.6 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, statement of problem, objectives of the study, significance of the study and limitations 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

LITERATURE REVIEW

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

2.1 Conceptual Framework

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

2.1.1 Investment

Fund used to get additional income is called investment. It is done to increase the value of property or to get extra income. The essential of doing investment is to wait time to get something returns from it. In this sense, investment is using fund at present to get additional return in the future. It involves receiving resources for future without any consumption in present. It involves long term commitment waiting for a reward.

"Investment may be defined as the purchase by an individual or institutional investor of financial or real asset that produces a return proportional to the risk assumed over future investment." - F. Amling

"An investment is a commitment of funds made in the expectation of some positive rate of return . If a investor is properly undertaken, the return will be commensurate with the risk investor assumes." – Donale E Fisher and Ronald J. Jordan

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 can be made in two kinds of assets vis-à-vis real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors in broadest sense. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc.

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.

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

where there is very little probability of getting higher returns. If the situation and the market turn favorable, only then capital gain can be realized. There is also a great problem of liquidity of such assets. However, investing in financial assets is possible with a lower amount of capital, little effort to analyze and make decisions and have higher liquidity.

2.1.2 Investment Planning

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

Investment planning helps investor to plan his/ her forthcoming investment by cutting down on the amount of uncertainty involved in investment. Investment planning also helps the investors in channelizing their funds in the right direction.

2.1.3 Investment Decisions

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

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

2.1.4 Investors and their types

Investors are anyone who makes the investment in the securities, They are the people at organizations who look forward to making money over a long period of time in the stock market. They invest all or some of their saving in an anticipation of making more return in future period.

There are various types of investors. We can broadly classify them into two types : Institutional Investors and Individual Investors.

a. Institutional Investors

The institutional investors are those who collect fund from wide sources and invest their capital in security market. Institutional investors may be institution or organization. The institutional investors have dominated the security market as they have large capital available to invest in. The institutional investors seek to derive the necessary information from stock recommendations, earning forecast, written reports and overall performances when taking investment decision. The security market has been a good place to invest for the institutional investors as it gives an opportunity to institutions to make capital work or decrease non performing assets.

" To ensure sustained price and market the policy level author should encourage institutional buyer" said stock broker and general secretary, broker association of Nepal, Prameshwor Malla.

Institutional Investors are also called the puller 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. The major institutional investors existing in Nepal are:

-) NIDC Capital Market
-) Nepal Share Market

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

b. Individual Investors

A person who invests in securities is called individual investor. They are part timer, a majority of who do not possess ability and time to evaluate a large and often complex flow of information. Individuals have opportunity cost obtaining investment information, such as reading publication, tracking stock price, and building files on securities. These opportunities cost is the time and resources forgone that could have been used in other endeavors (Jones, 1988:36)

Although, we have very few well known successful investors in Nepal , we can get very good examples of successful investors in other countries. Some international icons in this field are Warren Buffet, John Temple Ton, Peter Lynch etc.

2.1.5 Types of Investment

A particular investor normally determines the investment types after having formulated the investment decision, which is termed as capital budgeting in financial lexicon. With the proliferation of financial markets there are more options for investment types.

According to the financial terminology investment means the following:

-) Purchasing Securities in Money or Capital Markets
-) Buying Monetary or Paper Financial Assets in Money or Capital Markets
-) Investing in Liquid Assets like Gold, Real Estate and Collectibles

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

Investments are often made through the intermediaries who use money taken from individuals to invest. Consequently the individuals are regarded as having claims on the

particular intermediary. It is common practice for the particular intermediaries to have separate legal procedures of their own. Following are some intermediaries:

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

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

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

Mentioned below are various types of investments:

-) Capital Investment
-) Financial Market investment
-) Stock Investment
-) Share Market Investment
-) Land Investment
-) Retirement Investment
-) Real Estate Investment
-) Gold Investment
-) Portfolio Investment
-) Business Investment
-) Equity Investment
-) Capital Investment

Capital Investment

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

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

The basic idea behind any investment is to increase the assets of a particular business unit, be it an individual or a company, has. Any form of capital investment helps the particular investor to increase both the rate and amount of his output.

As per the capital investment plans the companies spend primarily on buying new plants or equipments that may be related to their field of work. Nowadays, the number of investors willing to opt for the medium of capital investment is on the rise.

The phenomenon of working capital is relevant in the context of capital investment as well as determining a company's operational status. The efficacy of operations of a company is normally inversely proportional to the building up of working capital. Methods like Net Present Value and Internal Rate of Return are employed when the proposals for venture capital investments are judged.

Financial Market Investment

As per financial market investment, traders are provided with the opportunity to deal in financial securities, commodities and other freely interchangeable goods at affordable rates of transaction. The prices of these are reflective of effective market speculation.

It has been observed that there has been noticeable evolution of the various financial markets that have been proliferating as well. These markets are making the best of efforts in order to enhance the factor of liquidity. The different financial markets that are available at the present time are:

-) Real Estate Market
-) Bond Market
-) Commodities Market
-) Stock or Equities Market
-) Spot or Cash Market
-) Forex Market
-) Over-the-counter Market

There is existence of general as well as specialized financial markets in today's world. The general markets are the ones where a diverse group of commodities are traded, whereas the specialized markets are those, which are specialized in dealing only one kind of commodity or good.

The financial markets of today bring the buyers with different interests in the same platform. This process enables them to locate the prospective buyers and enhances the efficacy of the market operations as a whole.

The term market economy is important in the context of financial market investment. A market economy is primarily one where the entire economic system has a certain degree of reliance on the transactions carried out between the traders and buyers.

Market economy is different from other forms of economy like command economy or non-market economy. A basic example of non-market economy is gift economy.

The main participants of the process of financial market investment are as follows:

-) Investors
-) Institutional Investors
-) Speculators

The following facilities are available with investments in financial markets:

-) Matching Seekers of Capital to its Possessors
-) Raising of Capital in the Capital Markets
-) International Trade in the Currency Markets
-) Transferring the Risk in the Derivatives Markets

Stock Investment

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

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

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

Every country with a stock exchange has some regulations formed by bodies at the National and State level. These rules and regulations govern the various activities carried

out in stock markets. These laws have to be adhered to by all the market participants while executing the transactions.

It is also important for the investors and the traders of the stock market to pay the relevant taxes on income as well as dealings that have been instituted by the various legislative bodies. There are some expenses, which are actually additional costs. The categories in this section are:

-) Electricity Consumption Expenses
-) Opportunity Cost of Money and Time
-) Internet Service Provider Expenses
-) Currency Risk
-) Data and News Agency Services Expenses
-) Financial Risk

There are some tested ways of achieving success in stock market investments. Some of those are listed below:

-) Trading in a Bear Market
-) Determining the cut-loss point before entering the trade
-) Capital preservation
-) Following the trends of the stock market
-) Trading mechanically
-) Taking care of losses

Share Market Investment

A share market is a place where shares are purchased and sold. It consists of both primary and secondary markets. Share market investment is an important activity that is carried out in all share markets. Investment in share market requires acquiring of an option, which is precisely the right of buying and selling a share as a holder. The right to buy is called the call option while the right to sell is known as put option. When the buyer buys an option, he needs to pay an option premium.

For share market investment one simply has to buy a put option if he expects a price rise and a call option when a fall in price is expected. These two options are available for commodities and stocks. The swap, on the other hand, is available for currency rate exchanges.

A value of a derivative is dependent on the value of an underlying asset. The various classifications of a derivative relevant to share market investment are as follows:

-) Swap
-) Futures Contract
-) Forward Contract
-) Option Contract

The forward contract involves an agreement between two parties facilitating the purchase of a product at a price determined in the present at a later date. The profit motive of both the buyer and seller are satisfied by this mutual agreement and the uncertainties and risks of price fluctuations in the future are aborted. A future contract is different from a forward contract in the sense that the former requires the presence of a third party and the commitment for trade is simply notional.

Before a share is chosen for investment, a technical analysis of the share is done. The price and volume of a share over a period of time are tracked and then a business plan is chalked out. A fundamental analysis involves a close study of the company and its performance overtime that is associated with the share. The fundamental analysis is more important for the share market investor.

The price levels of a traded share are as follows:

Opening Price: This is the price at which the market opens. In other words, it is the price of the first transaction.

Closing Price: This is the price at the time of closing of the market or the price of the last trade.

Intra-Day High: This denotes the maximum price at which the share was traded in the day.

Intra-Day Low: This is the minimum price got in the day for a share.

Land as Investment

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

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

- The value of land is influenced only by its surrounding and not the entire real estate situation
- In order to sell land, a realtor is not needed
- The real estate cycles in the housing market do not affect the land investors
- Even if the purchased land is not put to major uses and left idle, it still ensures a good return on investments.

Investing in residential lands can be a profitable proposition. The availability of facilities such as schools, hospitals and road access are very important. It is true that investment in lands may not produce immediate profits, but one is sure to gain in the long run.

An important question that remains is how to buy land. The purpose for buying land and the budget allocation need to be chalked out first. The easy availability of necessary amenities is also of utmost importance.

Retirement Investment Planning

Retirement investment planning ensures financial security in the post retirement period. The retirement benefits prove to be of great use for the aged. A considerable amount of money should be invested in retirement investment schemes. Money must not be withdrawn indiscriminately from the retirement plans. Active monitoring of various retirement investments must be carried out regularly. Investment in social securities and stocks is another channel of retirement investment.

One needs to develop the habit of saving early in life so as to accumulate enough money for good retirement investment policies. A sound investment strategy can contain an amount of risk but it does enhance the average annual returns on investment. Investment in short-term government bonds and government treasury bills is a good option as well.

Investment in stocks can also be an option. But a major risk is the volatility of returns on the stocks. Investors should allow themselves at least 5 to 10 years before retirement if they want to look at it as a serious retirement investment option. One must be disciplined and focused if one has to receive maximum profits from investment in this option.

Bonds and T-bills do not lose their value and hence they can be safe investment options. Income accrued from bond interests are taxable. However, the benefit from these investment plans, which are not tax sheltered, is that, with a little amount of prudence, the investors can get a considerable amount of post tax income.

Annuity is another viable option. This insurance product ensures a fixed amount of money on investment until the expiry of the annuity contract. The insurance benefits that are received from this include death benefits and assurance of investment returns to the beneficiaries. The rates of interest here are high. It also ensures protection of income throughout the life.

Investments can also be done in mutual funds after retirement. The long-term financial goals can be well satisfied from them. The procedure of investment in mutual funds is quite simple and a mutual fund account should be opened first to carry out the entire process. Such investments are very cost effective as well.

Real Estate Investment

Real estate investment has been a major form of investment since the 1970s. It is a major form of capital budgeting and is a very lucrative option for investing one's valuable money. Real estate can broadly be defined as immovable property. Land and things attached to it in permanence like buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land. The advantages of real estate investment are as follows:

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

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

Some facts that need to be remembered while investing in real estate are as follows:

-) One must know how and where to find a right seller
-) Accurate analysis of every real estate investment deal made by the investor must be made
-) At the time of closure of real estate investment deals, one must negotiate with expertise
-) A perfect knowledge of all the risks and benefits of the trade is an essential.

The common terms of real estate investment such as cash sales, short sales, lease options, wrap mortgages need to be thoroughly understood.

The real estate investment companies provide good opportunities to real estate investors. They represent both sellers and buyers. Individual investors can benefit the most from the services of these companies. These companies deal with government agencies, vendors, investors, consultants and brokers.

Gold Investment

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

The benefits of gold investment are as follows:

-) Gold is a popular form of saving
-) Gold is indestructible
-) Gold is also used in ayurvedic medicines to cure many ailments
-) Gold is a major requirement in the ornament industry

-) The malleability and ductility of gold makes it very useful. Gold is a good conductor of electricity and liquid gold can be used to make magnificent microscopic circuits
-) Gold can be transported easily
-) Gold is the universal standard against which the value of any object can be assessed
-) It retains as well as appreciates in value

Gold investors prefer to buy gold in its cheapest forms such as sovereigns and bars. Gold bars are the cheapest while, gold sovereigns, because of their smaller size, are worth paying an extra premium for. The serious investors should avoid gold coins since they are much more expensive.

Gold investors prefer to buy gold when its price is low. Gold investors try to avoid a situation where the gold prices continue to rise. Situations where the prices reach the bottom limit are also not preferred for investment in gold. The percentage over each option of gold type and not the price needs to be compared. This is because price fluctuates overtime.

Portfolio Investment

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

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

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

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

The portfolio investment is a part of the capital account on the balance of payments statistics while the balance of payment or BOP measures the amount of payments that flow from one single country to all other countries. In order to summarize the international economic transactions of a specific country over a specified period of time, usually one financial year, the balance of payment index is counted. Apart from the financial capital investments and financial transfers, the BOP is calculated from the quantity of country's exports and import of goods and services also. In other words, the BOP typically reflects the payments and liabilities to the foreign countries termed as debits and also the obligations and payments received from the foreign countries termed as credits.

The developing countries use the portfolio investment as a growing tool in the economy and take some measures to encourage the use of portfolio investment. While going for liberalization and economic reforms in order to bring about the substantial and rapid economic growth, the government takes up some policies and instruments. The portfolio investment is one of the most famous financial instruments that are taken up by government to enhance the economic growth. The foreign direct investments are also encouraged by the developing countries while going for the economic reforms.

Business Investment

Business investment can give the investors a chance to invest in different kinds of business. The business investment can be a good option for the investors to manage their portfolio.

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

The real estate investment is one kind of business investment where the money is used to purchase property where the sole purpose of the investment is to hold or lease the property for income where an element of capital risk is always involved. The real estate investment can be either residential real estate investment or commercial real estate investment.

The business finance on the other hand refers to the business finance loan, which is one of the easiest ways to avail funds for the business. While the business world is going through a cutthroat competition, having a financial support seems to be important to grow the business. Both in order to start a new business or expanding the existing business, the finance is the most important aspect for any entrepreneur.

There are a number of finance companies that are specialized in offering business financing or business finance loan in easy terms. The entrepreneurs can go for the suitable business loan program in order to start a new business or expand the existing business. The entrepreneurs need to check the business loan market loan well before going for the loan and cross check the rate asked by different finance companies. Now with the advent of Internet era having information about the financial market has become easier and people can go through the different sites and portals maintained by the lending agencies while going for a business loan program.

The business finance loan companies generally grant the loans to the borrowing companies for the purpose like purchasing machinery and plants, buying buildings and offices, for working capital requirements and for other business expenses.

Equity Investment

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

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

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

Mutual Funds and Segregated Funds

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

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

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

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

2.1.6 Investors' Opinion towards Risk

Risk is defined as the possibility of suffering some form of loss or damage. It is the chance of unfavourable event.

“Risk is defined as the variability of possible returns around the expected return of an investment”.

Risk and return are inseparable from each other. When we expect more return on what we have invested, there will certainly be more risk and uncertainty to meet that anticipation.

Viewed in another way, the securities that have more risk and uncertainty of getting the expected return demand higher rate of return to compensate the risk associated with it.

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

2.1.7 Investment Strategy

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

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

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

Before planning a strategy for investment, one needs to be sure about the aim of his or her investment. One needs to decide about the desired returns and more importantly the amount of risk that he or she can bear. These factors are going to decide the suitable medium of investment for the investor.

The investment medium may be anything, the investment portfolio of the investor should be diversified. Investing in one single medium may increase the amount of risk. In multi-investment, the risks related to one medium are covered through another one.

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

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

Long Position & Short Position

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

2.1.8 Investment Environment

The investment environment encompasses the kinds of marketable securities that exist and the place and the process of buying and selling. The investment process is concerned with how an investor should proceed in making decisions about what marketable

securities to invest in, how extensive the investments should be, and when the investments should be made.

To begin the investment environment, at first investment should be clearly defined.

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

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

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

2.1.9 Review on basic terms associated with Investment

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

"Securities" means shares, stocks, bonds, debentures, debenture stocks issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable

certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government or securities as prescribed by Nepal Government by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities.

2.1.10 Securities Markets

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

2.1.11 Financial Intermediaries

Financial Intermediaries may refer to an institution or a person who act as the middleman and perform financial intermediation between two parties. It is typically an institution that facilitated the channeling of funds between lenders and borrowers indirectly.

Financial intermediaries like financial advisor or brokers indirectly helps bring the borrowers and lenders together by providing their consultancy , advising and other services.

2.1.12 Investment Alternatives available in Nepal

In the market, a wide range of investment alternatives are available to an individual investor. Traditionally, there were limited investment alternatives like, common stock, preferred stock and bond as financial assets. But with the increase in financial market, concept and principles , a lot of other financial alternatives have mushroomed. Other financial assets that serve as investment alternatives are convertibles, warrants, rights, commodity futures, financial futures, options etc.

Real assets are other types if investment alternatives. Real assets, for example, include real estate, precious metals, collectibles (diamond, stamp etc). Nepal's capital market is

too small to provide various investment alternatives. Common stocks and government securities are popular alternatives but bond and preferred stocks can rarely be found. Other Investment alternatives like options, rights, futures, convertibles, warrants are not in practice yet.

-) Common Stock
-) Treasury Bills
-) Certificate of deposit
-) Banker's acceptance
-) Government Securities
-) Corporate bonds
-) Preferred stocks

Common Stocks

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

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

There is an organization – SEBO/Nepal – solely responsible for advising HMG on the issues related to capital market and protecting investors' interest, monitoring and supervising securities.

Treasury Bills

Treasury bills are short-term securities issued by the government which has a maturity period of maximum 91 or 182 or 364 days. They are normally issued on denominations

of '000' and are sold on discount basis. In Nepal, it has been issued only by the Nepal Rastra Bank on behalf of Nepal Government. It is issued to fulfill deficit budgetary system in Nepal through which scattered funds are collected and mobilized in productive sector. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

Certificate of Deposit

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

Banker's Acceptance

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

Government Securities

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

Corporate Bond

Corporate bonds (also termed as debentures interchangeably) are long-term debt securities issued by corporations. They are riskier than government and municipal bonds

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

Corporate bond has not been popular investment alternative in Nepal. There are only two outstanding bonds (debenture) listed in Nepal Stock Exchange. One is Rs. 100, 8.5% 100,000 debentures of Himalayan Bank Ltd and the other is 19%. However, a number of other organizations are planning to issue bonds. Kumari Bank Limited has recently introduced its corporate bond.

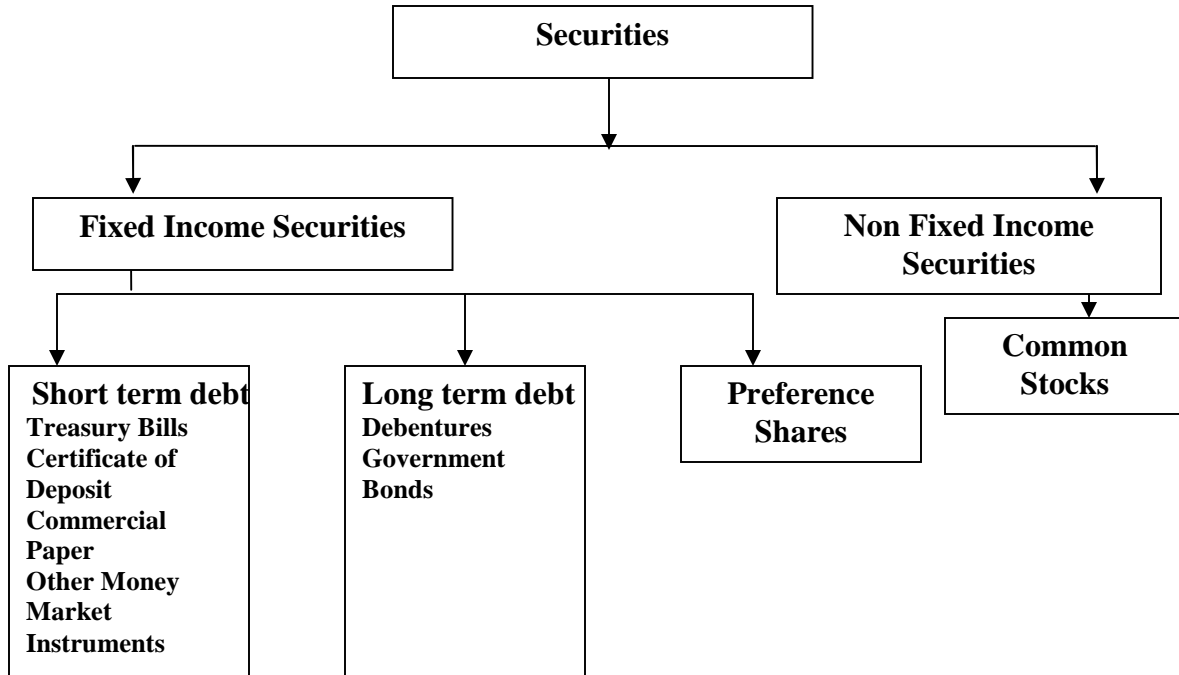
Preferred Stock

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

Likewise other long-term securities, it is traded in organized exchanges as well as over-the-counter market. Preference Share of Everest Bank Limited is listed in NEPSE.

Figure 2.1

TYPES OF SECURITIES



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

2.1.13 Investors' Perception of Market in terms of Risk

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

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

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

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

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

2.1.14 Factors to be considered before Investing in Securities

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

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

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

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

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

2.1.15 Earnings associated with Securities

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

2.1.15.1 Dividend

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

Cash Dividend

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

Stock Dividend: (Bonus Shares)

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

2.1.15.2 Interest

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

2.1.15.3 Capital Appreciation

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

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

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

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

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

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

There are two broad categories of information Internal and External. Internal information consists of data and events made publicly by firms concerning their operations. It mainly takes the form of interim and annual reports to the shareholders, and public and private statements of officers and managers of the firm. The principal information sources generated internally by a firm are its financial statements. The analysis does not course limit sample widely from many kind of information.

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

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

The market can only absorb and process the information offered to it. Indeed, information hoarding may even be interpreted adversely, if information about company performance and future prospects is jealously guarded. We should not be surprised if the valuation even of quoted companies appears somewhat haphazard.

Information helps the investors that effect the best investment decision taking among the available. Information affects price of securities of a company. Any information about the economy, industry or political environment also affects the price of the security. The political climate will be directly reflected in security market. As managers of the

company have control on the firm's specific information they should provide such information to investors as soon as possible. But negative information is to be avoided as it gives negative signalling to market.

2.1.16.1 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 companies' performance, it's sales, profit and its products.
-) To know about the performance of the company in comparison 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 its securities.
-) To have knowledge of consumer behaviour and life style spending pattern to see the demand and supply of money in market. For e.g.: during Dashain 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 analyzing 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 analyze. 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.

2. 1.16.2 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

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

2. 1.16.2 .1 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.

2. 1.16.2 .2 Insiders

Insiders are persons who are aware of news that that would shortly cause the price of the share soar 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 known if the information is accurate. Insider can be divided into two categories. These are as follows:

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 are primary insiders.

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.

2. 1.16.2 .3 Stock Broker

Stockbrokers are registered member 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 have also 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 advise. 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 is provided by 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 makes 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.

2. 1.16.2 .4 Tips' from colleagues' Friend and Acquaintances

Nepalese market can be declared as a rumour sensitive market whenever there are little bit problem in political environment the prices generally rises among daily consumable goods. We people are by nature driven by rumour and suggestions more than making an analysis and research of the situation.

2. 1.16.2 .5 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.

2. 1.16.2 .6 Annual Report

The annual report of security issuing companies can be of great help, as they 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.

2.1.17 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 a follows:

2.1.17.1 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.

2.1.17.2 Purchasing Power Risk

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

2.1.17.3 Bull-Bear Market Risk

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

2.1.17.4 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.

2.1.17.5 Default Risk

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

2.1.17.6 Liquidity Risk

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

2.1.17.7 Political Risk

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

2.1.17.8 Industry Risk

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

2.1.18 Review of Related Studies

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

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

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

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

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

In addition, investors are generally overconfident. They move from the traditional value investing to growth investing and feel proud of owing the growth stocks. However, overconfidence shows no correlation with greater success. This overconfidence ultimately leads investors to overtrade with the belief that they can beat the market.

Investors often see other's decisions as the result of indiscretion but they see their own choice as rational. Investors frequently trade on information they believe to be superior and relevant, but in fact it may not be so and that information may be already fully discounted by the market.

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

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

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

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

A substantial literature in cognitive psychology establishes that people are usually overconfident and specially, that they are confident about the precision of their knowledge. Psychologists also find that people systematically overweight some type of information and overweight others. The effect of overconfident depends on how information is distributed in a market and on who is overconfident. Trading volume

increases when price takers, insiders of the market makers are overconfident. This is the most robust effect of overconfidence overconfident traders can cause market to under-react to the information of rational traders leading to positive serially correlated returns. A view of the psychology literature on inference finds that people systematically underweight abstract, statistical and highly relevant information and overweight salient, anecdotal and extreme information. This may shed some light on why market overreact in some circumstance, such as Initial Public Offering (IPOs) under-react such as earning announcement, dividend initiations and omissions and brokerage recommendations.

Baral (2006) opined that the individual, who keeps interest to invest in stock, must adopt some important basic principles of buying & selling commonly. The initial step when buying stocks is to decide what company to buy stock in. You can only buy or invest in stock in any publicly held company, which means that the public can control the company. Fortunately, most of the larger companies, listed in share market are publicly held, and you can buy shares from those companies. When selecting a company to invest in, you should make sure they are in a strong industry, and make sure the company is storing & growing or progressing day by day. This would make it a good stock to invest in, although finding a newer company that is growing rapidly might get you more profits quicker. Principally, there are three types of profit as follows:

Dividend: the periodic payments made by the company out of the profits in cash.

Bonus: the issued certificates instead of the cash payment.

Capital Appreciation: The capital gain realized from selling a stock for more than its Purchase Price.

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

- Fundamental Analysis
- Technical Analysis

Fundamental Analysis: Fundamental analysis is one method, in which one studies the company's existing management/board/ executive, balance sheet, the income statement,

the statement of sources and uses of funds, fixed assets and situation in the market. It is based on mathematical calculation on publicly available accounting figures. Fundamental analysis is good for long-term. It will help to identify companies that represent good value.

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 effectiveness of a company's business operation (EPS) and the market's current assessment of the company's worth in relation to its earnings (PE Ratio).

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

Technical Analysis

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

Subedi (1995)concerned with identifying individual investor's awareness about securities market. It focused on whether the investors followed the systematic techniques of risk and return analysis while trading the securities, what information they relied on, whether they made rational calculative decision or are their decisions based on whims and rumours. His study concluded that investors awareness in Nepal is very low. They are lacking awareness on listed companies, operation and potential role of securities market, techniques of financial analysis, and risks and rewards of holding those securities. In addition, he also concluded that investors have very little knowledge of the trading procedures and price formation mechanism in NEPSE. Also the quality of information available to investors and the investors' rationality in regards to securities investment is quite low. His thesis covered 11 companies and considered 72 investors. This research was conducted in measuring the awareness level of investors but it did not go into the attitudes and behavior of investors.

Bhatta (1997) study aims to find out the followings:

-) To analyze the trend of the Nepalese stock market.
-) To diagnose and compare sectorial 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.

The focus of his study were 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 investable 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, a majority of industries in the manufacturing sector doesn't have a good performance record in Nepalese economy.

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.

His study is concerned with trend and scenario of stock market in Nepal. It shows a comparative study of financial status of different sectors like the financial sector, manufacturing etc., It does not consider individual investors and their point of view. Rather, it is more generalised and deals on the stock market and its different dimensions. Shrestha (1999) 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 behaviour 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.

Pokharel (2000) had considered following points in the objectives of study:

-) To make comparative study of Nepalese legal provisions in investors protection.
-) To analyze the 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 undertaken as the descriptive and diagnostic in its theoretical point of information.

He had mainly focused to analyze the prevailing 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 being deceived are because of the insiders trading, presenting 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.

His research, though is conducted regarding the investors in Nepal, it looks from legal view point. It is focussed on the legal provisions regarding investment procedures and mechanisms for investors. It considers whether the companies follow all legal formalities while issuing their shares or not etc., So, we can only find legal perspectives in regard to investors from this thesis.

Aryal (2002) had considered the following objectives in his study:

-) 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:

Assumption of independence as predicted by random walk model of security (speculative) price behaviour is not found consistent. Thus, the model of such kind has been refuted at least for Nepalese 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, irregularity 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.

Upadhyaya (2004) objective of the study are as follows:

-) 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.

His study was concerned with investors preferences on different financial securities available, analyzing investment trend on security market and assessing investors awareness regarding investment decisions in selecting securities. It just considers few dimensions about the investors and do not go into a deeper level study about the investors and their point of view.

Oli(2006) focussed on the following points:

-) 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.

Major 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 week 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.

2.1.19 Research Gap

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

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Background

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

Therefore this chapter highlights the research methodology used for the study of “**Behavioral Analysis of Individual Investors towards Securities**”. In this regard, this chapter explains not only of the research methods but also considers the logic behind the methods, which are used in the context of our research. This chapter consists of the research design, population, sampling procedure and sources and analysis of data.

3.2 Research Design

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

3.3 Population and Sample

The total variable for study is simply called population. The process of selecting the sample out of the population which would best represent the population is called sampling. Since this research is done on behavior of individual investor’s towards

securities ,individual investors have been selected as samples. A total of 100 questionnaires were distributed among them to collect the data.

3.4 Sources of Data

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

3.4.1 Primary Data

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

3.4.2 Secondary Data

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

3.5 Data Collection Technique

The research is based mainly on primary data. However, secondary data have also been used. Since the nature of these two data is different, the data collection procedure also varies. The primary data is collected through questionnaire and by direct interview with the respondents. To collect the secondary data, published materials are viewed in various spots such as books by different authors, unpublished thesis reports, journals, internet

web sites, library, NEPSE, SEBON etc. To collect these secondary data, the researcher visited campus library of SDC and TU central library.

3.6 Data Processing

Data processing technique is one of the most important part of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research study. The available information and data should be present in such a way, which can be easily understood by the general public. In this study, the data were collected through questionnaire and direct interview with the respondents. The answer thus gained are first tabulated and then presented through different diagrams. The computation has been done with the help of calculator and computer.

3.7 Analysis of Data

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

3.8 Presentation of Data

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Background

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

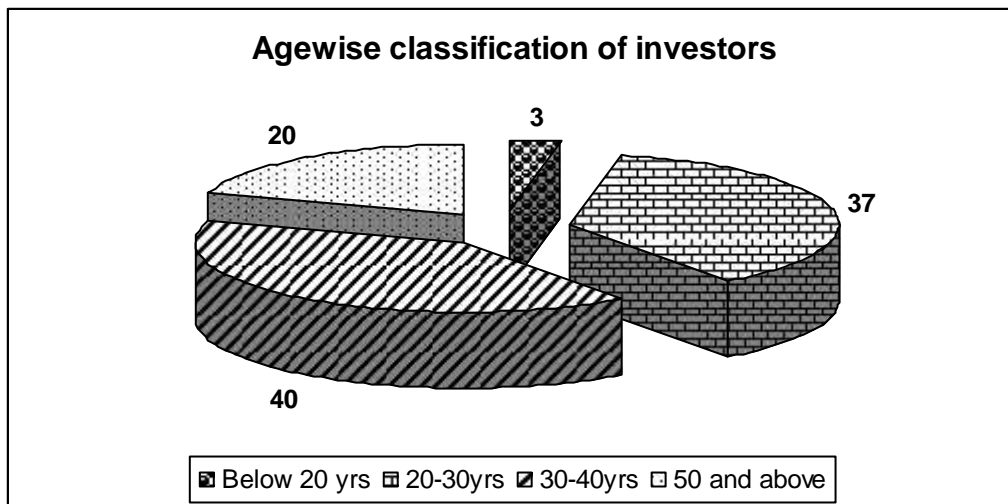
4.2 Presentation of Primary Data

4.2.1 Investors' Profile

In this part, respondent's profiles have been presented based upon age, sex, marital status, profession and academic qualification.

Figure 4.1

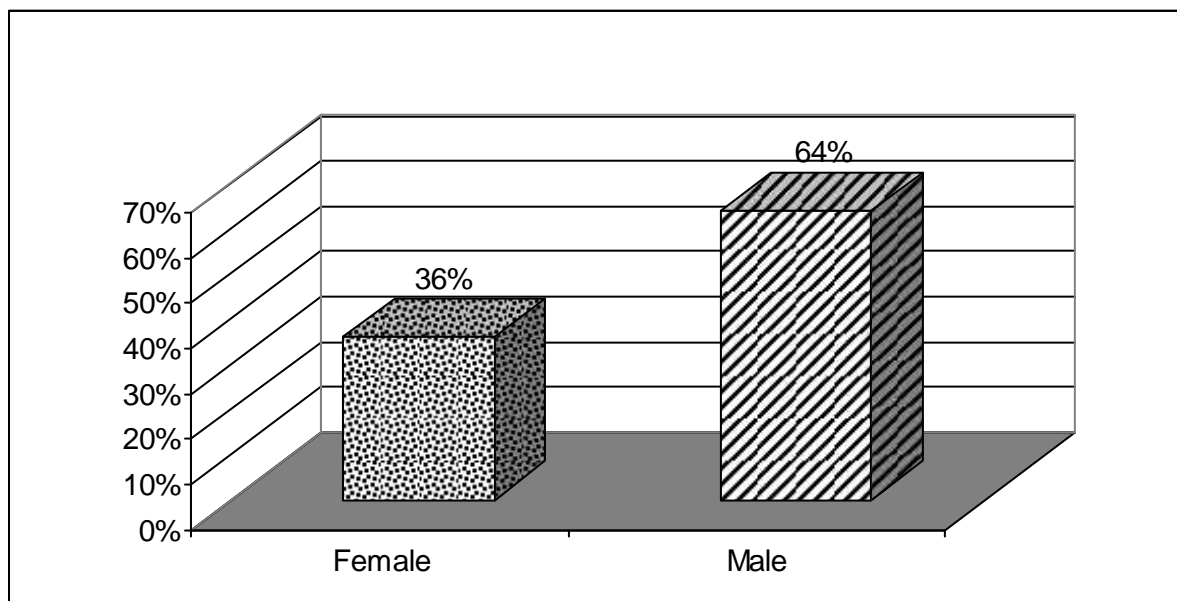
Age Wise Classification of Investors



From figure 4.1, we can find out that the maximum number of respondents belongs to the age group 30-40 years which is followed by 20- 30 years. People belonging to age group

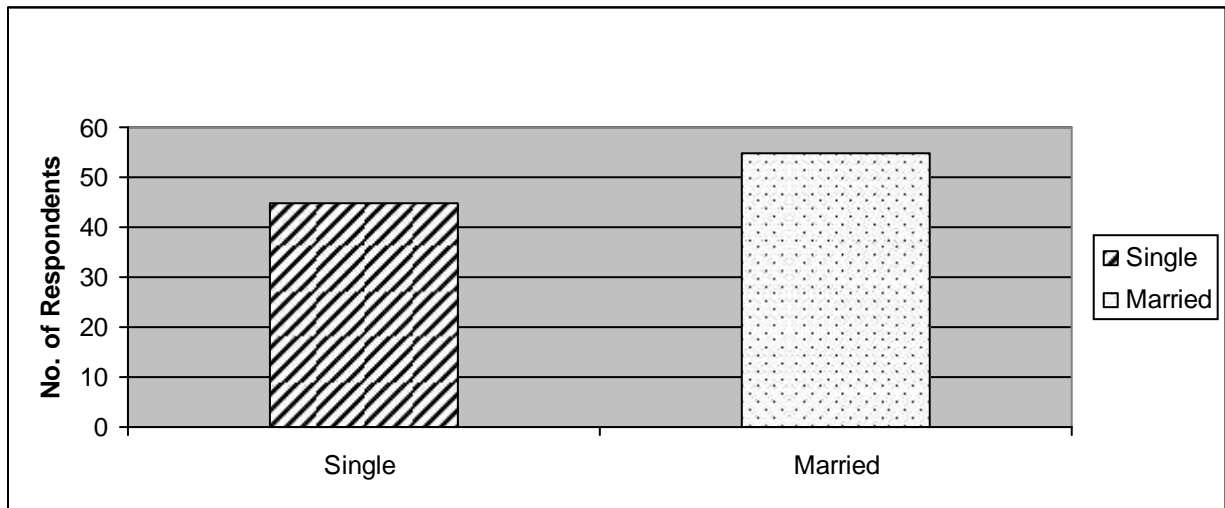
50 and above are quite lower while that of below 20 years are almost negligible. This is because people in general, after reaching age 30 becomes more mature, are career oriented and have started taking up family responsibilities. Therefore, in terms of financial strength too, people tend to find new and better ways to earn more and extra money and financial markets are the most feasible place to invest in. Twenties is the time when people finish their studies and start their career. So, the no of investors with the age of 20-30 years are comparatively lower than that of 30-40 yrs. People above 50 are not so much interested in all the shares and debentures thing and are less inclined to this sector. Investors are generally not below 20 years as they are less aware at that age and also not in a position to make rational decision. Even if there are any, they have invested in whim or have been made to invest by their families and relatives who are aware about it.

Figure 4.2
Gender Wise Classification of Investors



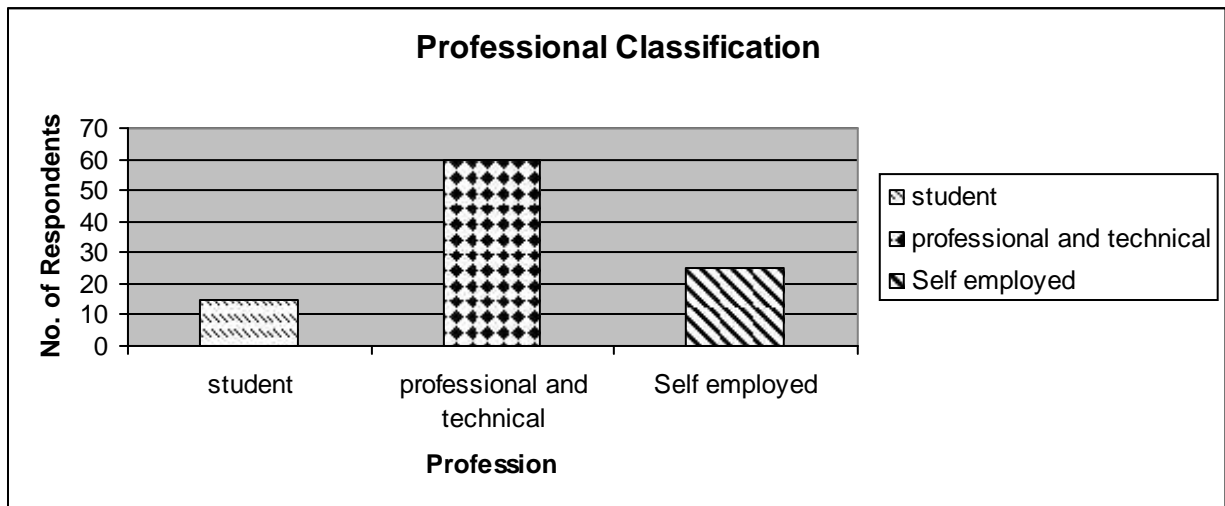
The number of females investing in financial securities is lower than male as shown in fig 4.2 above. There are a number of reasons for this. Firstly, it is lower literacy rate of women in our country and even among the fewer percentage of educated women, many are not aware about this sector. Also it is seen that even those who are knowledgeable about investment do not involve in it because of family responsibilities, not supportive spouses, in-laws etc.

Figure 4.3
Marital Status of Investors



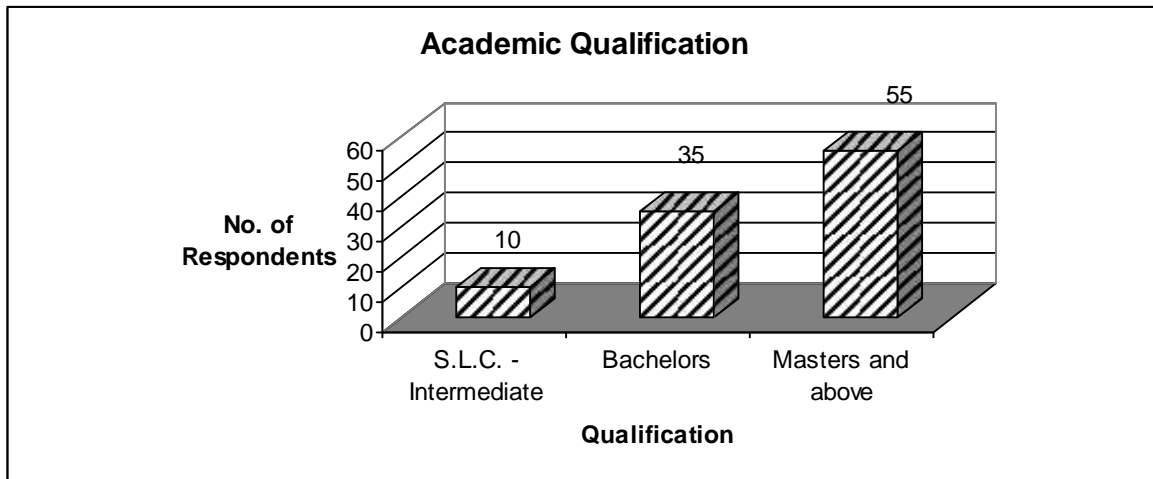
From fig 4.3, we can find out that married people are more active in investing in financial sectors than single people. This may be because of their responsibilities towards their family that they need to be more secured financially.

Figure 4.4
Professional classification



Large number of investors are found to be those who are in their respective professions. The self employed people are lower in number and students number the least among the ones investing in shares and bonds.

Figure 4.5
Academic Qualification



From fig 4.5, we can see that a larger population among the ones surveyed in this research have their academic qualification Masters and above. There are also people who have their bachelors degree and are investing but are lower in number. People below intermediate level are least in number .

4.2.2 Sources of Information

This part presents the different sources of information that the investors rely upon while making investment decision .

Figure 4.6
Sources of Information

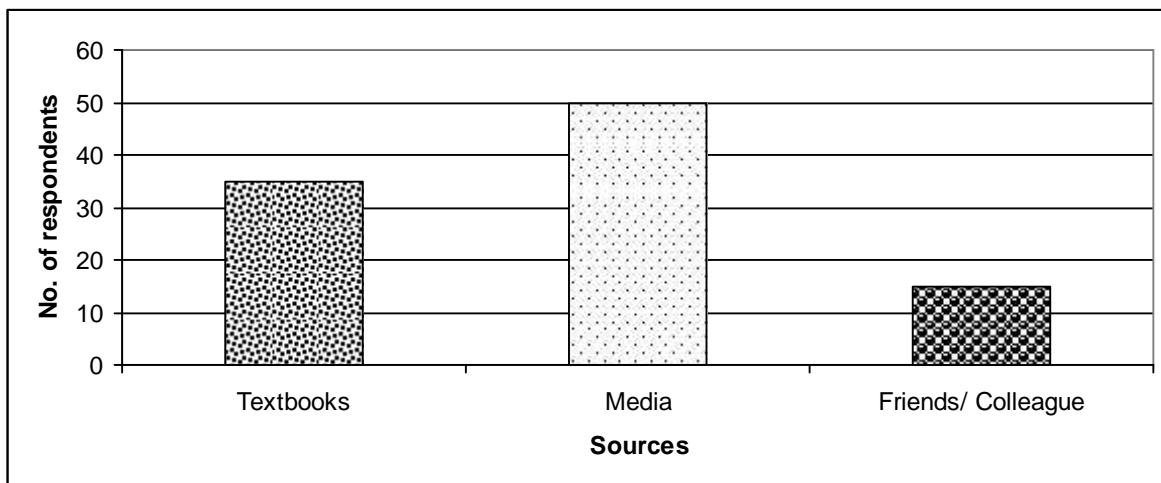
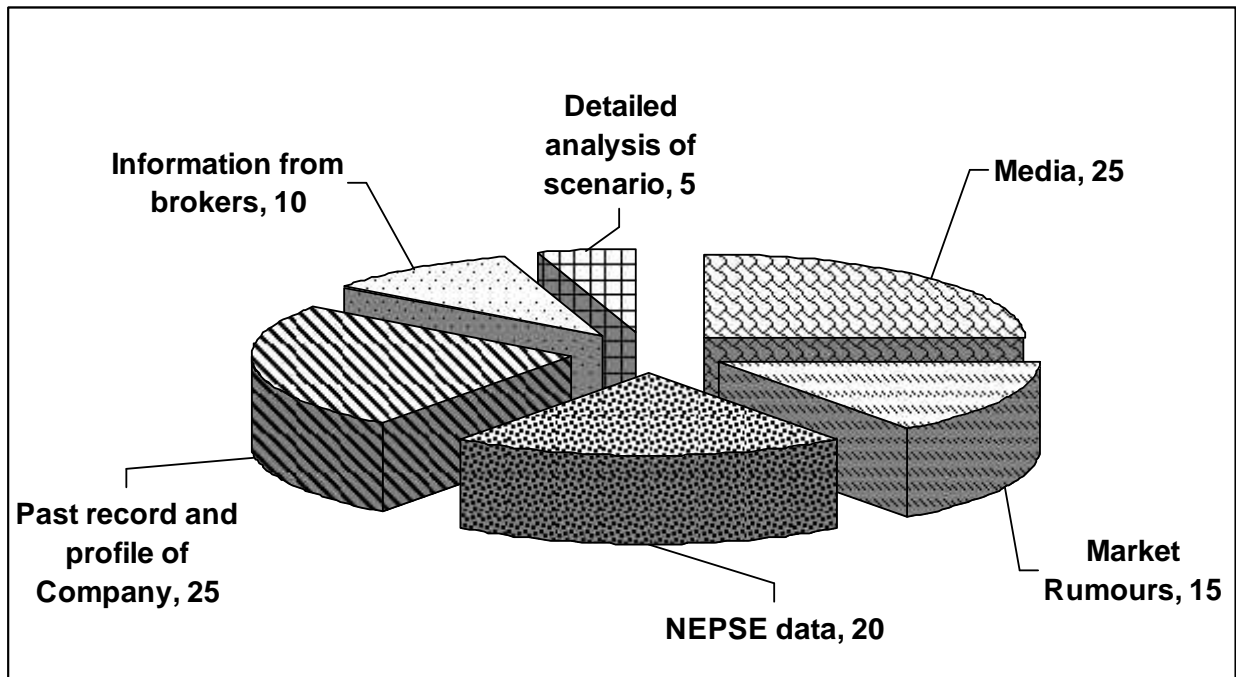


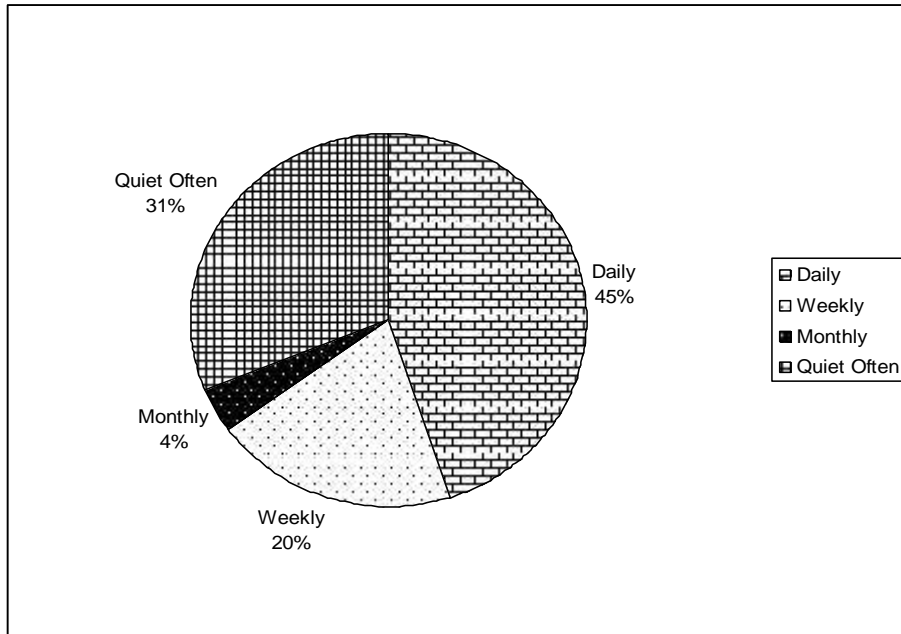
Fig 4.6 shows that maximum no. of investors came to know about financial market through the media. 35 percent said they came to know from their text books and the remaining 15 percent said that they knew about it from their friends, colleagues and relatives.

Figure 4.7
Information relied upon while Making Investment Decision



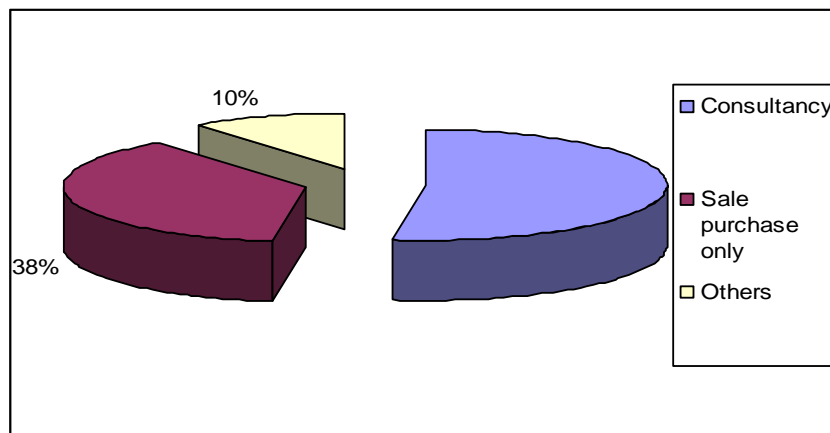
At the time of making investment decision, a higher number of investors rely upon the media reports and the past record of that company, its profile and market rating. Then after, NEPSE data is also referred. However, we can see that very few investors do a detailed analysis and calculation while investing. They are just following what the media is saying and what the rumors are rather than analyzing the situation themselves.

Figure 4.8
Time frequency of Checking Share Price



It is interesting to find out that a large number of investors check their share price daily to know the daily fluctuations. This shows that investors are being actively involved in these transactions.

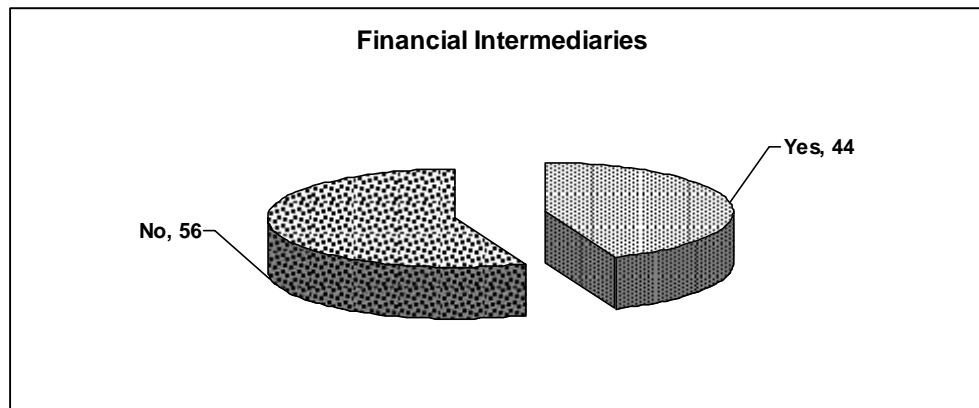
Figure 4.9
Services Taken from Security Brokers



With increasing number of securities brokers and other such institutions providing service in this sector, a lot of investors find it wise to consult their brokers while investing. Since they are experts in the sector, investors take consultancy services from the security brokers. Also they are used for sale purchase and other administrative works.

Figure 4.10

Are there enough Financial Intermediaries in Nepal



To this question, 56 percent of respondents said that there are not enough financial intermediaries in Nepal and 44 percent of them said there are as per market requirement.

4.2.3 Preferential listing of Securities

Table 4.1

Listing of securities on the basis of their sector wise preference

Sectors/Priority	1	2	3	4	5	6	No of respondents
Commercial Banks	53	9	6		5		73
Public Undertaking			11	25	17	5	58
Dev Banks	8	32	6	7	5		58
Hydro Projects	10	5	24	7	5		51
Manufacturing Units		6	5	18	26		55
Others					5	36	41

Figure 4.11

Listing of Securities on the basis of their sector wise preference

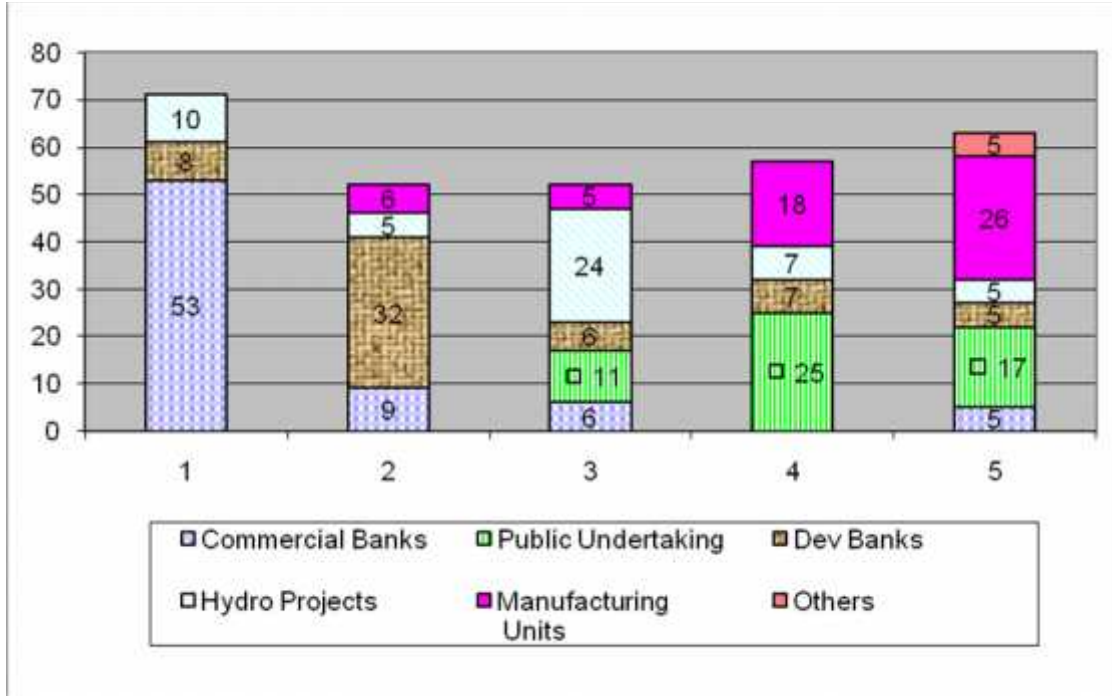


Figure 4.11 shows that a relatively larger number of respondents rank commercial banks as their first priority while investing in shares and debentures. They feel protected and assured to invest in the shares of commercial banks. This is because the commercial banks have a very high level of credibility in the market as compared to the performance of other sectors. After commercial banks, they prefer development banks. Since banking sector, specially the commercial banks are contributing a lot in today’s financial market and are on the verge of development, their share prices are comparatively higher than other sectors. Also the chances of company winding up are very low in banking sector. This may be the reason that people are attracted to this sector and are willing to buy shares or debentures of commercial and development banks. Besides banks, finance companies and insurance companies are also preferred by investors. Hydro Power projects are also in priority list after the financial sector followed by public undertakings and manufacturing units.

Table 4.2

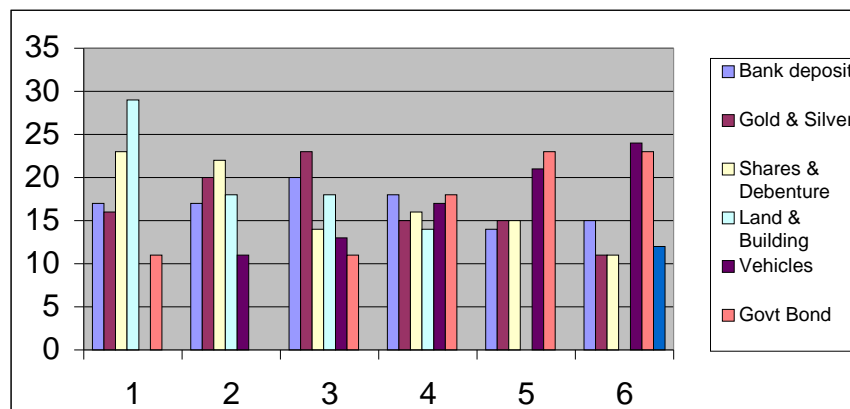
Listing of securities on the basis of their popularity among Investors

Types of Securities/ Ranking	1	2	3	4	5	6	7	No of respondents
Common Stock	43	15		12		11	11	92
Preference Stock	18	15	18	22	12	12		97
Debentures		16	24	16	21	16		93
Government Bonds	11		15	16	25	15		82
Right Shares	17	24	12	11	12	12	12	100

Among the different types of securities for investment, the respondents have ranked common stock to be the most popular one. We can say that in Nepalese market, common stock is the only financial instrument that is traded though other securities like preference shares and debentures are gradually being introduced. Companies have also issued common stock only to raise their capital. Therefore people are less aware on other forms of securities. Very few companies have issued preference shares and debentures. While personally interviewing some respondents, many of them were found considering only common stock as the securities. They did not know that there are other kinds of securities too like preference shares, right shares, treasury bills etc., Right shares, Debentures, preference shares, bonds, treasury and other securities come in ascending order.

Figure 4.12

Listing of investment options on the basis of their Priority



When given an investment option, investors choose land and building in their first priority list. With rapidly increasing population migrating in major cities in Nepal and people requiring a house of their own, real estate business in Nepal have peaked up and so is the desire to invest in this sector. The price of land and building is appreciating day by day and given today's situation, the investor would multiply his earnings in very short time. The second priority goes to shares and debentures as seen in fig 4.12 above. As there is growing attraction towards this sector day by day, many people have started investing in this sector. Shares and debentures is followed by gold and silver which is a very good investment in still many Nepalese households which is depicted in this research. Whenever people have some savings, they buy gold and silver. Bank deposits which are rather considered as savings than investment comes in fourth priority then after followed by government bonds and vehicles.

4.2.4 Others

Table 4.3
Factors Determining Investment Decision

Factors determining investment decision	1	2	3	4	5	No of respondents
Return	37	21	13			71
Share Availability		23	27	19		69
Rumours	12	13	17	31	16	89
Company's overall performance	26	22	18	12		78
Others (please specify)			12	13	31	56

While asked the respondents on which of the factors listed above do you think determine the investment decision, a majority of them said that return is the most important factor that they look after a security before investing in it. Similarly, company's overall performance is also given first ranking as another major factor. 12 of the respondents even considered rumours to be one of the major factors while making investment decision.

Table 4.4

Earnings anticipated from Investment in Securities

Returns preferred from investment	No of respondents
Dividend	22
Capital appreciation	44
Bonus/Right shares	34

Figure 4.13

Earnings Anticipated from Investment

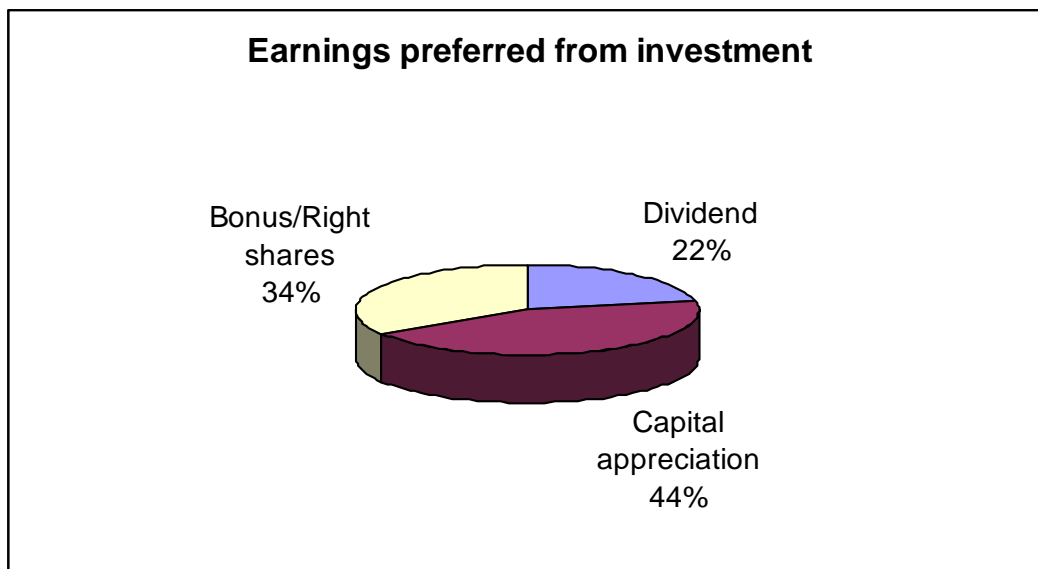
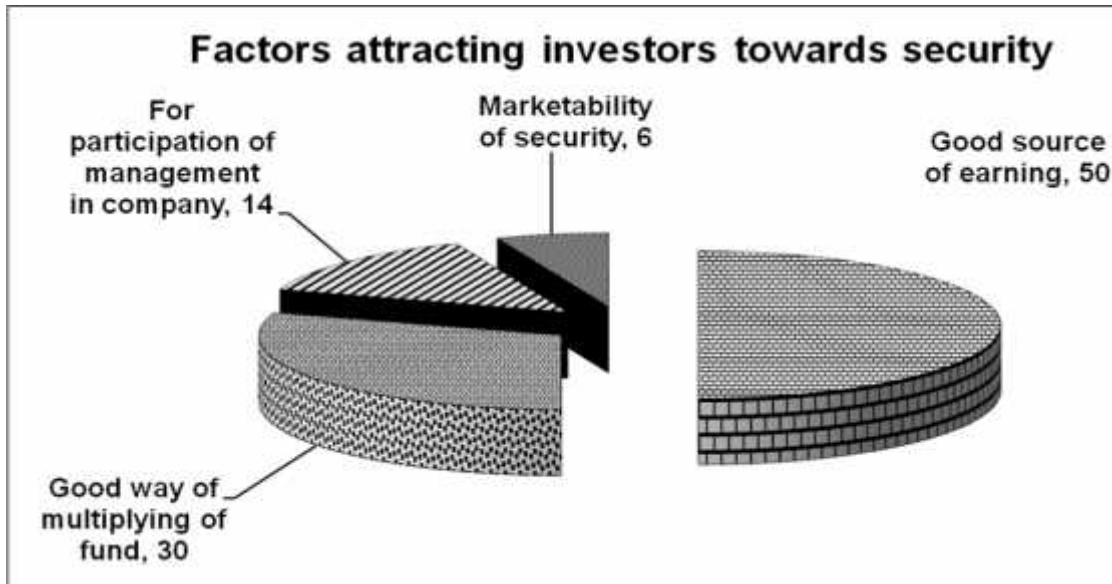


Table 4.4 and fig 4.13 shows that 44% of investors prefer capital appreciation as part of earnings from investment in securities. It is an implied term while investing in securities, specially common stocks. Only 22% investors prefer cash dividend in their earnings. This shows that it does not matter 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. 34% of respondents also prefer bonus and right shares as it increases their equity.

Figure 4.14

Factors Attracting Investors towards Securities



From fig 4.14, we can depict that out of the respondents surveyed in this research, 50 % of them considered investment in securities as a good and quick way of multiplying funds at a short period. Also while interviewing a part of the respondents, they preferred investing their savings in securities investment rather than keeping the fund dormant as bank deposits which would only act as a saving. 30 % considered it as a good source of earning for future. 14% of investors considered investing in shares for taking part in management of the company whereas 6% invest for marketability.

4.3 Analysis and Presentation of Open-end Questionnaires

4.3.1 General trend followed by investors while buying and Selling Shares

Out of the sampled respondents, 48 percent of them said that they buy securities at the time of initial public offering. Since the capital appreciation, depending upon the performance of the company, yields a reasonably high return. However, this case is valid only in case of companies with good performance, goodwill, potentiality of growth and other similar factors. For example, when there's a IPO of a newly established commercial bank, there will be a large number of investors willing to invest because they don't

hesitate to invest in commercial banks as in today's context, they are the ones which are showing good performance. However, if there's a IPO from a newly established company, there will be less number of investors interested in this. This is because they doubt upon the sustainability, growth, return and overall performance of this new company despite the fact that it has got all the state-of-the art technology, uses the best quality raw material has skilled manpower and a good management. 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. While selling securities, 77% said that they sell it when the price is high. So, the investors check the share price daily and whenever they see their share price going at its peak, there's a rush to sell.

4.3.2 Attitudes on Investing in Securities (Is it same as Speculation or Gambling?)

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

4.3.3 Types of investors and the criteria adopted by them while Investing in Securities

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 high class investors.

In addition to other factors, the investors also observe, predict and analyze the political situation of the country. 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 find probability of getting higher returns. 40% of respondents reported that they observe and analyse the financial health of the company which they are going to invest in. 35% reported to have observe the historical trend of the company's performance. 34% respondents have revealed that they study a series of the price behaviour from the past to present. Only 17% investors have been found to be familiar with the term portfolio.

Some are found to be acting very wisely and therefore they can be considered as the rational investors. 30% of sampled investors also do perform analysis on their part but they are ignorant 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

The study found that people extract information, analyze in their best ways and then only invest on that. But the real difference lies on the knowledge of various analysing 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.

4.3.4 Problems faced by Investors Regarding Securities Investment and Trading

This question was included in the list of the questionnaires given to the respondents. Along with that, it had been informally asked to the investors at the time of filling such questionnaires. The answer to this question was as follows :

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 and adequate information, projected data manipulation, trading procedure and other ambiguous rules that exist 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 have found to incur a heavy loss in an anticipation of getting higher returns due to manipulated projected statements 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. 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 included in A grade companies. Thus, it had become problem for them to sell the security at the time of extreme need.

70% of the respondents said 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. 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 a systematic 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.

4.3.5 Investors' Interest and Reasons behind Preference of Securities over real Assets and the Purposes of their Investment

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 rumours 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 favourable. According to the investors, speculation is possible from securities and not from investment in real assets.

4.4 Presentation of Secondary Data

4.4.1 Group-wise Description of Listed Companies

The number of listed companies in the FY 2007/08 reached 148 with the listing of 13 new companies. However, the no. of listed companies at the end of fiscal year came down to 142 with the delisting of five companies and merger of two. Among the listed companies, finance companies occupied 38.73%, the highest among all. Though commercial banks are the most popular and highly traded securities, they accounted for 11.97% only among the listed companies.

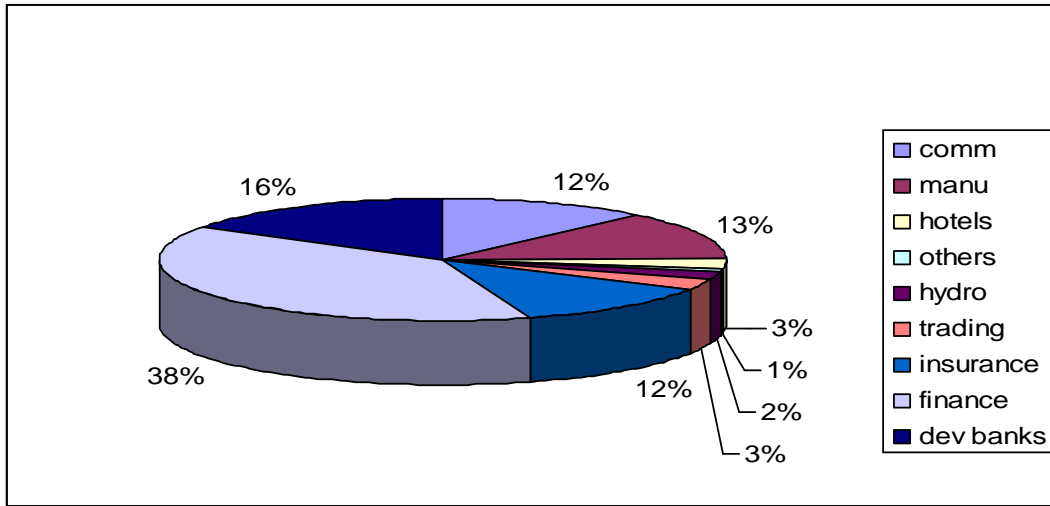
Table 4.5
Group-wise description of Listed Companies

S.N.	Sector	No. of Listed Companies (Group-wise)	Percentage
1.	Commercial Banks	17	11.97
2.	Development Banks	23	16.20
3.	Finance Companies	55	38.73
4.	Insurance Companies	17	11.97
5.	Hotels	4	2.82
6.	Manufacturing and Processing	18	12.68
7.	Trading	4	2.82
8.	Hydro Power	3	2.11
8.	Others	1	0.70
Total		142	100

Source: Annual Report NEPSE 2007/08

Figure 4.15

Group-wise description of Listed Companies



4.4.2 Yearly Volume of Traded Stocks and NEPSE Index

Table 4.6

Yearly Volume of Traded Stocks and NEPSE

Year	No of companies	No of transactions (Share units) 000'	Market Capitalization	Total Traded Turnover (Volume) 000'	Turnover Value in Rs. (Million)	Yearly NEPSE Index 000'
1996/97	95	12428	12698	9443.28	416.19	176.34
1997/98	101	15483	14289	1195.1	202.61	163.35
1998/99	107	15814	23508	4788	1500	216.92
1999/00	110	29136	43123.33	7674	1157	360.70
2000/01	115	46095	46349.4	4987	2344.20	348.43
2001/02	96	42028	34704	5791	1540.60	227.54
2002/03	108	69163	35240.40	2427.89	575.99	204.86
2003/04	114	85533	41424.77	6468.18	2144.27	222.04
2004/05	125	106246	61365.89	18433.55	4507.68	286.27
2005/06	135	97374	96813.74	12221.93	3451.43	386.83
2006/07	141	120510	186301.30	18147.25	8360.1	683.04
2007/08	142	150800	366247.6	28599.8	22820.8	963.36

Source: Trading Report NEPSE 2007/08

Table 4.6 shows that the yearly volume and values of traded stocks are fluctuating. However, there is a sharp rise in the volume of traded stocks in fiscal year 2007/08. The major reason for the sharp rise in the trading volume in fiscal year 2007/08 may be attributed to heavy transaction of banking sectors. We can see the increases in NEPSE Index in the fiscal year 2007/08 by 280.32 points.

4.4.3 Analysis of Turnover

Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market size, the greater is the stock market liquidity.

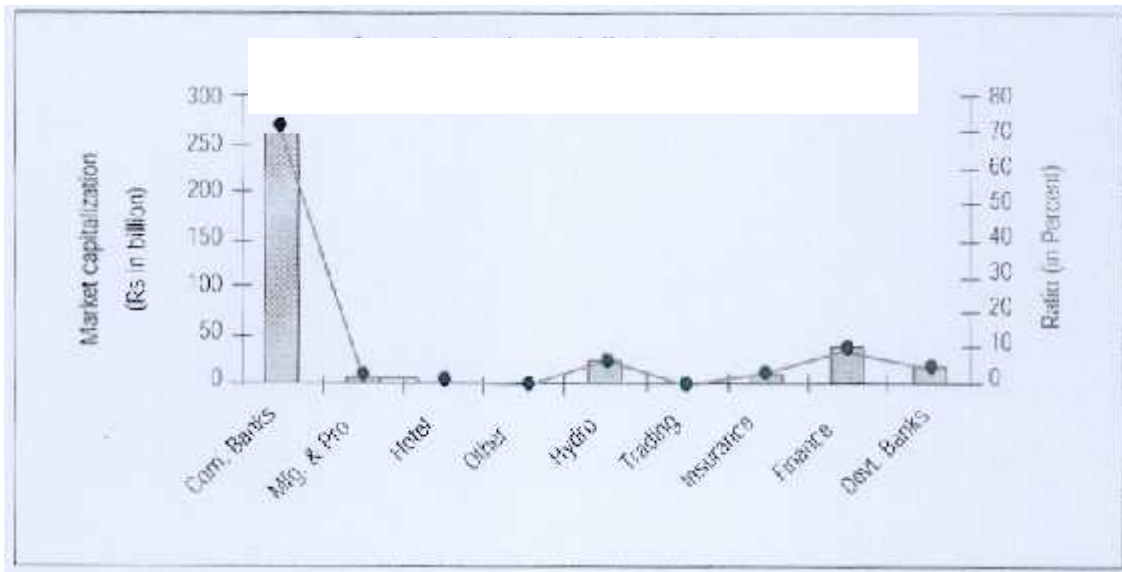
Table 4.7
Monthly Turnover in 2007/08

S.N.	Month	Amount Traded (in million/Rs)
1.	August	1717.60
2.	September	1441.60
3.	October	2024.40
4.	November	921.00
5.	December	2732.40
6.	January	3030.80
7.	February	1181.90
8.	March	1876.40
9.	April	918.30
10.	May	1519.30
11.	June	2178.50
12.	July	2497.80

Source: Annual Report of SEBON

In the fiscal year 2007/08, the turnover increased by 172.98 percent to be 142 Rs.22,820.8 million as compared to turnover of Rs. 8, 360.1 million in the fiscal year 2006/07.

Figure 4.16
Sector wise Turnover and Growth Rate



In the total turnover, the commercial banking group's overall domination continued as before because of better performance. Almost all commercial banks posted profit in the review period in which the turnover of the commercial banking sector was Rs. 5.56 billions which is 66.54 percent of total turnover in the fiscal year 2006/07. The hydropower group came second on the basis of annual turnover. In the same way, finance companies occupied 10 percent and development banks 9 percent. But, the contributions of the manufacturing and processing group, other group, trading group and hotel group was insignificant as these groups contributed less than one percent in total turnover.

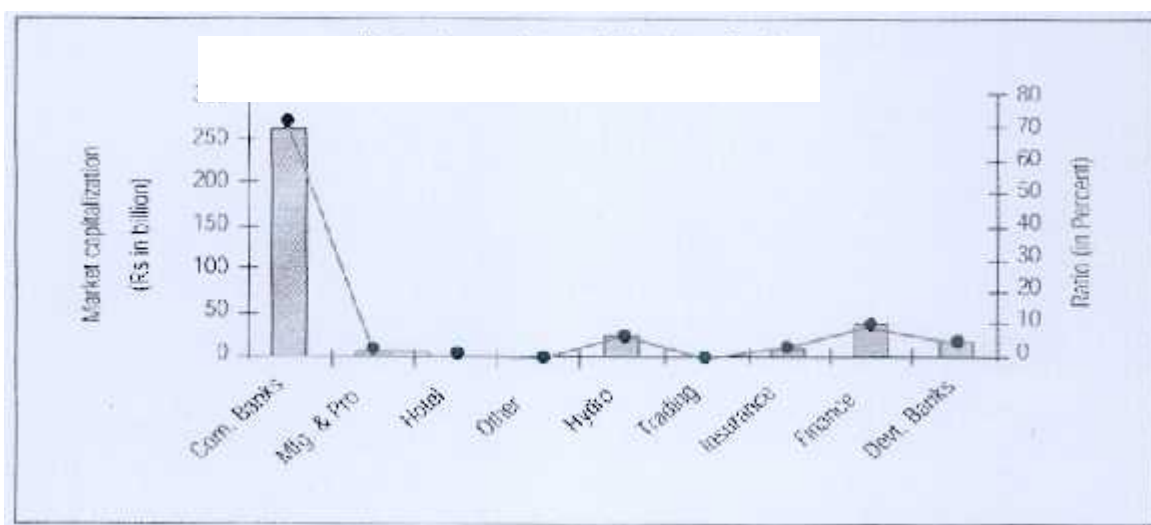
The block transactions of Bottlers Nepal contributed to tremendous growth of the manufacturing and processing group in terms of turnover. This group posted a 100 times growth in the review period.

4.4.4 Market Capitalization

In the fiscal year, 2007/08 ,total market capitalization of listed shares increased by 96.59 percent to Rs.3,66,247.5 million as compared to 18, 630.13 million in the fiscal year 2006/07. The central bank's directive to increase capital base of banks and financial institutions has a major impact on the market value of listed shares. Most of the companies opted to issue bonus and right share to increase their capital base. It created buying pressure on market as investor attracted by the offering of bonus shares and right share.

Figure 4.17

Sector wise Market Capitalization Ratio



With the steep increase in market capitalization, its ratio to GDP went upto 44.3 percent this year. The commercial bank group again stood first in contribution to market capitalization. Market capitalization of the commercial bank group touched 259.55 billion rupees in FY 2007/08 which is 72 percent of the total market capitalization. Hydropower companies occupied 7 percent of the total market capitalization. Similarly, share of finance companies in the total market capitalization was 10 percent, insurance companies 3 percent, development banks 5 percent , manufacturing and processing 2 percent and 1 percent of the total market capitalization whereas others and trading occupied less than 1 percent.

4.4.5 Listing and De-listing

The total number of listed companies in FY 2007/08 was 148 with listing of 13 new companies. However, the no. of listed companies at the end of fiscal year came down to 142 with the delisting of five companies and merger of two. Altogether 0.17 million unit shares amounting Rs. 174.91 million have been de-listed during the year.

Table 4.8

Number of Transactions and Listed Securities in NEPSE

Fiscal Year	No. of Transaction	% of Growth	No. of Listed Securities	% of Growth
1993/94	9357	-	43424	-
1994/95	21472	129.48	58247	34.14
1995/96	17943	-16.44	65880	13.10
1996/97	12428	-30.74	85193	29.32
1997/98	15483	24.58	90107	5.77
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.24	114057	7.98
2000/01	46095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.21	194673	87.91
2005/06	97374	-8.35	226540	16.36
2006/07	120510	23.75	243504	7.5
2007/08	150800	25.1	321131	31.9

Number of transactions is very much varied comparing with different years. In the year, 1993/94 the number of transaction was 9357 while in 1994/95 it rose up by 129.48 percent with transaction of 21472. There was a negative growth rate in transaction in the year 1995/96 by 16.44 percent and it was continued by -30.74 percent in the year 1996/97. The significant growth rate can be traced in the year 1999/00 by 84.24 percent

as compared to the growth rate of 2.14 of 1998/99. The negative growth rate in number of transactions in 2005/06 was by -8.35 percent as compared to the growth rate of 24.21 percent of 2004/05. The growth rate in 2007/08 increased by 31.9 percent with 150,800 number of transactions.

The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. The growth rates of number of listed securities are all positive with lowest in the year 1993/94 and highest in the year 2007/08. The highest growth rate is in the year 2004/05 by 87.91 percent with 194,673 numbers of listed securities and the lowest growth rate is 0.74 percent with 161,141 numbers of listed securities in the year 2003/04.

4.4.6 NEPSE Index

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

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

The computation formula for price index is as follows:

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

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

Where,

P_{01} = NEPSE Price Index

P_0 = Base Market Price

P_1 = Today's Stock Price

Q_0 = Base Listed Shares

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

Table 4.9
Yearly NEPSE Index

Year	NEPSE Index	% Change in Index
1993/94	226.03	-
1994/95	195.48	-13.52
1995/96	185.61	-5.05
1996/97	176.31	-5.01
1997/98	163.35	-7.35
1998/99	216.92	32.79
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.10
2005/06	386.83	34.93
2006/07	683.95	76.80
2007/08	963.36	40.85

Source: Trading Report NEPSE, 2007/08

Table 4.9 represents that the NEPSE Index is in fluctuating trend before fiscal year 2003/04, but after that fiscal year NEPSE Index is increasing trend over the study period. The NEPSE index was highest in the fiscal year 2007/08 with 963.36 and it was lowest in

the year 1997/98 by 163.35 points. The NEPSE index for this fiscal year 2007/08 is 963.36 which is somewhat high than 683.04 of the previous year 2006/07.

4.5 Major Findings

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

- Both primary and secondary markets are increasing every year in terms of capital raised and transaction volume.
- Annual Turnover of NEPSE is increasing
- There have been wider and increasing participation of investors towards securities market
- This sector is considered one of the most lucrative sectors to invest in after land and building in the current market scenario of Nepal
- Though many investors are being attracted to securities market, they were found to be lacking the knowledge on the actual mechanisms and principles of securities market
- Majority of them considered short terms gains rather than long-term gains and preferred capital appreciation.
- A majority of respondents were found to have known about this sector through media.
- Many of them have grievances that they did not get adequate and transparent information from the part of the securities issuing companies
- The market is also found to be dominated by common stock only. So, the investors do not have enough options available though in recent years, there has been issuance of corporate bonds, government bonds and preference share issued by Everest Bank Limited.
- Amongst the listed companies, the majority of them were from banking and financial sector.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

NEPSE is the only secondary market in Nepal. The total market capitalization has reached Rs. 3,66,247.5 million by the end of F/Y 2007/08. The annual turnover of NEPSE is also increasing tremendously. It increased by 173 percent compared to previous year making Rs. 22,802.8 million in the fiscal year 2007/08. The total number of listed companies in the F/Y 2007/08 was 142 with addition of 13 new companies.

There is no wide dispersion in the demographic characteristics of investors. 40 % of investors are aged between 30-40 years of which 64% of them are male. The married

population (55%) is higher than that of singles (45%). It was found that 60% of the investors are involved in their profession i.e. those having a job. Only 25% accounted for self employed investors and 15% of them were even students. 53% of investors had education upto Masters and above.

A majority of them came to know about securities market through media and they also depend upon media reports while making investment decision. There are also many such respondents who invest on whims and market rumours. A maximum of investors (45%) also check the share price daily which shows their alertness and active participation. 52% of investors also said that they take consultancy services from their security brokers while buying and selling securities. Though investors participation is high and is attracting a number of general public everyday, many of them are not aware of the actual mechanism of the securities market. Of the investors surveyed in this research, 49% said they do not know the mechanism.

As we know that the Nepalese capital market is dominated by common stock, many investors, while personally interviewing, did not know that there are other financial instruments too other than common stock. However, though, some few commercial banks and government entities have introduced corporate bonds and government bonds and as upto now, there's a large public participation in it. There is also a preferred stock of Everest Bank Limited which has been listed in the NEPSE. In today's context, the shares of commercial banks are the ones that are traded in maximum. Commercial banks have been doing very well and this sector has shown tremendous growth and profitability in the recent years. Therefore, investors are found to be highly attracted to the shares and debentures of commercial banks. However, a thing to be noted is that there still exists another sector which is even alluring than securities market which the investors rank as their number one priority list of investment i.e land and building. The price of land and building are appreciating day by day specially in the urban and suburbs. With large number of people migrating to the cities, the development of modern bungalows, apartments, residencies and every person's desire to own a house of their own, this sector has turned out to be a very profitable sector to the investors.

As depicted earlier that people are not fully aware about the securities market, they are attracted for short term gains only. They do not look for long term returns. 44% of the respondents said that they prefer capital appreciation. Only 22% said they prefer dividend and 34% said they prefer right and bonus shares. This shows that the investors are not fully aware of the actual mechanism and they do not know the systematic way of measuring risk and return. Therefore, they look short term gains rather than long term return.

Another thing that has been found is that many investors complain that they do not have adequate and transparent information regarding the companies whose stocks and bonds they would like to purchase. So, they get manipulated many times. This is specially in case of small investors. They have less information than average investors. Securities prices are not predictable in the short run. Those investors who regularly trade securities can fare better than those who hold out for the long run.

5.2 Conclusion

Nepalese capital market is at a critical stage of transformation. The number of corporations raising capital from the primary market is increasing year after year. Similarly, the market capitalization, number of companies listed, number of securities listed and annual turnover of secondary market are also increasing remarkably. All these facts are the sign of good prospect for capital market development in Nepal. market is increasing year after year.

More and more individual investors are attracted towards the security market. There were approximately 700,000 individual investors in Nepalese security market few years ago according to a report of SEBO/N. This shows that securities market has been able to attract household savings to some extent. But the alternatives available to them for investment are limited to common stocks, few preference shares, limited number of corporate debentures and recently introduced government bonds. Most of the investors prefer those securities that can provide capital gain in the short run. But such securities

are limited to common stocks only. Derivative securities such as rights, options, warrants and convertibles and futures are not available for them to make investment. So, the investment alternatives for individual investors are very limited in variety and number too.

Security market is dominated by middle aged investors. The market is male dominated and most of the investors are part time investors who invest their extra income in the securities with the anticipation of multiplying funds at a short period. A majority of investors were found having academic qualification bachelors and above and most of them were professionals i.e those involved in their job rather than self employed people. Students usually those doing their Masters level studies also invested.

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

Investors have high expectations from security investment. They take help from security brokerage firms to take consultancy services regarding their investment decision as they themselves are not properly aware of. They even acquire their needed information through such financial intermediaries.

As the main objective of the investors is to make capital gain in the short period, they prefer common stock as the most important investment alternatives since other securities available cannot fulfil their purpose. Their second preference goes to real estate as this is one of the most popular and highly lucrative sectors. Preference shares and bonds/debentures do not seem to be much attractive to them. This reveals that Nepalese investors want to make more money in short term and they take more risk by investing in the common stock. Their portfolio consists of maximum number of common stocks and real estate investment. Investment on other securities is very negligible.

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

5.3 Recommendations

- NEPSE should take necessary steps to start financial derivative market. Derivative securities like rights, options, futures should be introduced in the market. This will widen the investment alternatives for the investors and at the same time provide appropriate mechanism for managing the risk of investment.

- As the corporate information is not disclosed on time, Nepalese securities market has become more a rumour based market. In such a situation, individual investors base their investment on the general hearsay in the market. This creates abnormality in the security prices. So the concerned authorities should take initiatives to make strong provisions for penalizing those who do not comply the information disclosure provisions.

- Nepalese security market is dominated by liquidity traders. Very few investors make analysis of financial statements of the corporations. The presence of liquidity traders in a massive scale creates huge market volatility.
- The present system of de-listing of securities is not investor friendly. It prohibits investors from selling de-listed securities. So, a provision should be made to establish Over-The-Counter (OTC) market as soon as possible where investors can trade de-listed securities and other non-listed securities.
- Due to limited number of brokerage firms, small investors are suffering. They overlook small investors. As a result, such investors cannot buy or sell desired securities at the time of need. Though, SEBO/N has already started homework for increasing the number of brokers, it should reach the result and also increase the competencies of the brokers.
- Necessary provisions should be made to increase the participation of women and labour class of people in the security investment. Similarly, the concept of regional security market should be brought to increase the participation of investors all over the country. For this purpose, a suitable motivational and informative training should be designed.
- Manipulation and speculation, specially done by big investors and groups exploit small and uninformed investors. To avoid such undesirable phenomenon in the market, market makers should be made effective. SEBO/N should create favourable environment for the market makers and the regulations governing them should be made liberal and clear so that such undesirable practices will be reduced.
- A separate credit rating agency should be established for rating various corporations and their securities. This will help investors for the selection of securities to be included in their portfolio.

- The present market is dominated by common stock. It may not be preferable for those who want to make risk less investment. For such investors, securities like corporate bonds, preference shares and especially government bonds are preferable. Due to low interest rate, institutional investors invest in such securities and hold them for the long time. This reduces the transaction of such securities and is not available for individual investors. Similarly, different tax rate on interest income for institution and individual also reduces the transaction of such securities.

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Websites

- <http://www.nepalstock.com>
- <http://www.nrb.org>
- <http://www.sebon.com>

QUESTIONNAIRES

I hereby request you to fill up the questionnaire designed for my proposed survey. Your precious views and opinions would be helpful for facilitating the research entitled **“Behavioral Analysis of Individual Investors towards Securities”**. The views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

Name of respondent:

Address:

1. Investor’s Profile

Age Group

Below 20 yrs 20 – 30 yrs 30-40 yrs 50 and above

Gender

Male Female

Profession

Student Professionals & Technical Self-employed

Non employed / Housewife

Academic Qualification

SLC – Intermediate Bachelors Masters and above

Income

5000 – 10000 10000 – 30000 30000 – 50000 50000 and above

Marital Status

Single

Married

Type

Professional

Amateur

2. How did you come to know about financial securities?

- Textbooks
- Media (newspaper, TV, radio, internet etc.)
- Through friends, colleagues, relatives

3. What do the term investment mean for you?

- Savings for future
- Saving plus earning some extra income
- Sacrificing current rupee for future rupee

4. When did you first come to know about financial securities?

- Last 10 yrs
- Last 5 yrs
- Last 2 yrs
- Recently

5. Do you know the actual mechanism of share market?

- Yes
- No

6. What kind of services do you generally take from the broker?

- Consultancy services as to which security is profitable to invest in, when to sale or buy shares etc.
- Sale purchase only
- Others

7. What information do you think that investors in Nepal rely on while making their investment decision?

- Media reports i.e newspapers, radio, television, articles, journals
- Market rumors
- NEPSE data
- Past record and information about the company
- Information from your organization
- Detailed analysis of the scenario

8. What type of investors are you?

- Risk avoider
- Moderate risk taker
- High risk taker
- Risk neutral

9. Which of the following sectors do you generally prefer to invest in? (Please rank 1 to 6, 1 being the one with first priority)

- Commercial Banks
- Public Undertakings
- Development Banks
- Hydro projects
- Manufacturing Units
- Others

10. What is the general trend behavior of investors while:

Buying securities?

- When prices are down
- At the time of initial public offering
- Increasing market reputation

Selling securities?

- When prices are up
- Market rumors
- When money is required

11. How do you invest / what is source of your buying?

- Saving
- Borrowing

12. How often do the investors check the share price

- Daily
- Weekly
- Monthly
- Quite often

13. Which of the following securities do you think is most popular among Nepalese investors? (Please rank 1 to 5, 1 being the one with first priority)

- Common Stock
- Preference Stock
- Debentures
- Government Bonds
- Right Shares

14. Which of the following factors, in your opinion, is the most important factor to select securities to invest in? Please rank in order of their importance.

- Return..... ()
- Share Availability..... ()
- Rumors..... ()
- Company's overall performance..... ()
- Others (please specify) ()

15. What do you think is the investor's attitude towards securities?

- Good source of earning given the investment is done rationally
- Better sector to invest than gold, land and building etc.,
- A kind of gambling where money multiplies quite faster

16. Do you think that there are enough financial intermediaries in Nepal in this sector?

- Yes
- No

17. What do you think are the major problems faced by investors in Nepal ?

- J Lack of systematic mechanism
- J Lack of adequate information
- J Lack of transparency

18. What do you think investors generally prefer to in their earnings?

- J Dividend
- J Capital appreciation
- J Bonus

19. How many of investors in Nepal do you think are full time investors?

- J Too many
- J Moderate
- J Few Only

20. What are the major factors that are attracting quite a large number of people towards securities?

- J Good source of earnings for future
- J Good way of multiplying funds at short time
- J For participation in management of company
- J Marketability of the security

21. What criteria do the investors generally consider while making their investment decision?

- J Profile of company issuing the securities i.e. its reputation in the market, past record, management of the company etc.,
- J Market price of share
- J Information from media, friends, relatives
- J Economic scenario of the country

22. List the following investment options from 1 to 7 that investors in Nepal would prefer. (1 being the one with highest priority)

- J Bank deposit
- J Gold & Silver
- J Shares & Debentures

- Land & Building
- Vehicles
- Government Bond
- Others

23. Do you think that investing in shares is a good place to multiply your money in a short period?

- Yes
- No
- Yes, given that you play safely