

Chapter 1

INTRODUCTION

1.1 Background:

Nepal belongs to one of the least developed and poorest countries in the world where the income level of people is far below than the basic level for sustenance. Most of the people derive their earnings from agriculture and hardly sustain their lives from little earnings thus generated, which is the sole reason behind perpetual poverty. This has compelled the concerned sector to stimulate on diversification of solely agro-based economy towards industry-based economy. So the government's and the non-government's efforts are oriented on poverty alleviation as well as on reduction of wide economic gap existing between rich and bourgeois. That's why resource mobilization from the haves to have-nots and from unproductive to productive sectors is regarded as a must for economic development. Thus, development of capital market by bringing the lenders and borrowers of fund together in an organized market has always been an effort. 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.

Hitherto, in budget part, government revenues are seemed insufficient to meet its regular as well as development expenditures leading it to deficit budget. The government, to some extent, has been meeting such difference by domestic borrowings as a major source of Deficit Financing. Likewise, the local government bodies such as municipalities and district development committees are in the process of issuing debt securities as a source of fund

to finance their projects and to meet their expenses. Government securities are issued by Nepal Rastra Bank on behalf of the government and those include government bonds like Development bonds, national saving bonds and citizen saving bonds. The total amount of government bonds outstanding was Rs. 28,241 million on mid-January 2007.

In ancient times, investments were only confined to purchasing of fixed assets such as land, building, etc. and speculative assets such as gold, silver, etc. But today investment is viewed in different senses. There are a lot of financial instruments available for investing. Two kinds of investment alternatives are inherent for an investor. An investor either can invest in real assets or in financial assets. But our prime focus is on investment of financial securities. While investing on financial instruments, it implies bearing of risk, and waiting for positive return.

Securities are financial assets that form the part of an investor's wealth. Common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures, etc. are examples of securities. Security is not an age-old investment alternative in our country. The history of corporate securities in Nepal dates back to 1936 A.D. when Biratnagar Jute Mill issued 8,000 ordinary shares of Rs.100 each for the first time. A year later, Nepal Bank Ltd too issued ordinary shares of the same par value. Biratnagar Jute Mill was also the first corporate body to issue debentures of Rs.500 each in early 1936. Yet other significant developments related to capital markets were introduction of the Company Act in 1964, the first issuance of Government Bond in 1964, and the establishment of Securities Exchange Centre Ltd. in 1976.

Investors, from whom the corporation acquires funds, are the most important part of investment. They may be individuals, institutions – financial and non-financial, and other organizations. They spend their time, money and effort as well while investing in any asset – regardless of

financial or real. What investors do is that they invest their savings in the securities and take risk expecting compensating return in future course of time.

Securities Market:

In simple sense, securities market is the place where people buy and sell financial instruments. These financial instruments may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far security market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sell and resell of corporate securities. Although security market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently to maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the shares gives the best estimate of its true worth. Thus, the securities market is a place where shares of listed companies are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation.

Biratnagar Jute Mills Ltd. initiated the first public floatation of shares in the securities market in 1937. There were very few companies in Nepal issuing

shares to the general public until another company Act came into operation in 1951. In the absence of developed security market in Nepal, the government was the sole issuing authority of Development Bonds and National Saving Certificates. Therefore, the securities generally in the market were mainly the government securities. Government securities are fully traded under the management and supervision of Nepal Rastra Bank (NRB). Institutional Development of securities market in Nepal started from the year 1976 when Securities Exchange Centre (SEC) was established under the Companies Act with the joint Capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The Industrial Policy of the Government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the Centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to organize and provide marketing facilities of channelling securities exchange business through the centre. Its activities included the purchase, underwrite and sale, directly or through the licensed brokers or sub-brokers of the Centre, the shares, stocks and debentures of public limited companies and also Development bond as well as Treasury bills issued by the Government.

Securities market can be further categorized into two groups as Primary Market and Secondary Market.

Primary Market denotes the market mechanisms for the original sale of securities time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. Securities available for the first time are offered through the primary security market. The issuer may be a brand new company or one that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security – used

frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer.

All the securities whether in the money market or capital market, are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue, that is, the company actually receives the proceeds from the sale of securities.

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock is the major component of the securities market. Stock market is the medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the complete and efficient uses requires a well functioning capital market to facilitate the process.⁸ Thus, Secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling.

Secondary market in simple sense, are markets in which existing, already outstanding securities are traded between investors. It is the market that creates the price and allow for liquidity. If the secondary markets do not exist, the investors would have no place to sell the assets. Without liquidity many people would not invest at all. The function of the security market is to provide liquidity for the securities purchased in the primary market.

Money Market:

It can be defined as short-term financial market, which facilitates liquidity and marketability of securities. It is the market for short-term marketable instruments having less than one-year maturity period.

Money markets are sometimes defined as organized and unorganised money markets. The organized or formal money markets provide an institutional mechanism for the transactions of short-term securities and commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector.

The development of efficient market requires the development of institutions, instruments and operating procedure that aids widening and deepening of the market and allocation of short-term resources with minimum transactions costs and delays.

Capital Markets:

Capital Markets play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share prices of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with the long-term finance. The funds collected in the market are raised and traded by long-term financial instruments such as equities and bonds.

In early days of issuance, there were few investors, few securities to invest and the market mechanism was also not developed. Only stocks were considered as securities and dividends were anticipated in return. There had also been cases of over-subscription of securities in some companies in subsequent years. However, debentures were hardly accepted by the investors as securities. Later, bonds too were started to be issued and the

market get little diversified. However, preference share was not found to be included in the list of corporate securities till the establishment of Company Act 1936. It was embodied as corporate security only in the Company Act 1964. In ancient times, people lacked information on investing in various financial instruments, choices were limited regarding securities to invest leading to difficulty in constructing portfolios and their performances evaluation as the number of stocks were few in the market. In fact, common people hesitated to invest their wealth in financial instruments.

Risk and return are the two most important aspects for conducting rational investment 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. 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 attitudes 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 papers, etc, the return is the difference between par value and the purchase price. Capital is the lifeblood of the business organizations. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long-term funds plays highly significant role for future growth and prosperity of the organizations. Most business organizations gather long-term funds from financial market.

1.2 Statement of the Problems

Most of the people from rural areas are almost illiterate to securities. Also in urban areas, very few people with business and intellectual family backgrounds bear some knowledge on it. Concentration of wealth in a few

hands is also one of the major reasons behind backwardness of societies. This is a nationwide problem. Based on disparity in income, living standard, and educational status, people in our country can be easily categorized into lower, medium and upper class. There is existence of wide economic gap between rich class and bourgeois. Investing on various financial instruments forming efficient portfolios helps in reducing such gap by generating sufficient passive income to the small investors.

Investors in Nepal have been found relating it to gambling and speculation. However, it is very different from speculation and gambling. Rather, it is the process of rational decision-making. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation. Choice of securities for investors is extremely limited and confined to a few securities to construct and evaluate efficient portfolios. Due to state of utopia and over-expectation of getting rich overnight, people (mid-class) hesitate to invest in securities at first. Also most of the securities investors are seemed 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.

While investing rationally in a security, the price and value of that security should be matched and taken decision accordingly. If the price of that security is greater than its value, it will be better to sell short or simply sell. Likewise, if the price is less than its value, it will be better to buy or invest in. This can only happen and the accurate price can be calculated only when the investors are provided with sufficient, authentic information required to

calculate the real value of securities and their growth prospective. But in the context of Nepal, there is limited flow of information, non-transparency of the trading mechanisms, poor knowledge of securities analysis, and lack of consultancies for consultation to judge and value the securities. Thus, the problem is that the investors could not identify the profitable securities to invest in.

There is not any specific research study found to be conducted regarding investors, especially individual investors, in Nepal. So the attitude of the investors on securities and their preference of investment in securities over fixed assets are yet to be explored. Furthermore, there are limited numbers of securities to construct portfolios, and investors lack organization responsible for analysing the securities technically as well as fundamentally. Despite of the problems inherent, investors are attracted to securities investment, especially on stocks and government securities. However, the specific questions that are tried to answer through this research are:

- ◆ What is the attitude of investors on securities?
- ◆ What do the investors' prefer to invest in?
- ◆ What are the prospects and challenges of security investment in Nepal from the investors' viewpoint?
- ◆ Why do they invest in securities?
- ◆ What kind of earnings do the investors' desire?

1.3 Objectives of the Study

The general objective of conducting this research is to study the behaviour pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. In this way, the objective is able to cover the whole

capital market scenario of Nepal. However, the specific objectives behind conducting this research study are:

- ◆ To study on investors' attitude towards securities.
- ◆ To study the investors' participation and preferences of securities.
- ◆ To study the criteria adopted by the investors while making decision on securities.
- ◆ To reveal the anticipation and level of earnings desired by the investors from securities.
- ◆ To suggest people on having positive attitudes and making rational investment decisions.

1.4 Significance of the Study

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

Regarding the problems inherent and stated above, this study may act as a guideline to introduce the securities issued in the market, and the earnings associated with them to the investors. On the basis of study of investment trend, behavioural analysis and investors' earnings preference, we can infer certain core ideas on investors' attitude towards securities. Thus, it will be

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

1.5 Limitations of the Study

It is believed that to err is human and to admit is superhuman. So I admit that this study may not be totally free from errors and limitations but I can assure that such drawbacks will be minimized to a very extent. I think the study has carried the following limitations:

1. This study is based on primary as well as secondary sources of data. Accordingly, investors have not given the authentic and needed information as much as they are expected to be. They did not even respond to some questions. In such cases, certain intuitions have been made.
2. Most of the data will be on common stock investors and NEPSE has become the prime study area.

3. This is a descriptive research where the behavior and attitude of investors will be studied. So there will be more use of qualitative rather than the quantitative techniques of analysis. Thus, the use of statistical tools is limited.
4. All deciding factors of investment have not been incorporated.
5. Only individual investors have been considered, and the sample size is also quite low due to several constraints.

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, limitation of the study.

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

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

Chapter IV: Presentation and Analysis of Data: The fourth chapter deals with data collected from different sources. Based on the data analysis of 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 2

LITERATURE REVIEW

This chapter deals with the review of the existing studies related to research topic in more detail and descriptive manner. Under this part, compilation of the various texts, journals, articles reports, previous thesis and terminologies related to investors have been made.

Review form Books

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 Investors

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

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

Investors Classification

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

Institutional Investors

The institutional Investors are investor who collects fund from wide source and invest their capital in security in security market. The institutional investors have dominated the security market as they have large capital available to invest. The institutional investors take advantage from the various profit available from the security market. The security market have been a good place to invest for institutional investors as it gives an opportunity to institutions to make their capital works or decrease non performing assets (NPA).

Individual Investors

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

Institutional Investors in Nepal

Institutional investors are those who collect the fund for wide range of source and invest their capital in the security market. The institutional investors have dominated the security market and they have large capital to invest. They are investing organizations that trade large volumes of securities; thereby commanding reduced commissions and other special treatment. They are also the pullers of funds. A substantial portion of daily trading is for the account of institutional investors such as banks, trusts, pension funds, insurance companies, and mutual funds. Institutional Investors are firms that trade large volumes of securities, including mutual funds, banks, insurance companies, etc.

The major institutional investors existing in Nepal are as follows:

- a. NIDC Capital Market
- b. Nepal Share Market

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

2.1.2 Investment

An investment is a commitment of funds made in the expectation of some positive rate of returns. An investment involves sacrifices of current rupee for the future rupees. The sacrifice takes in present and in certain, whereas reward comes later and is uncertain. Every investment analysis entails some degree of risk-in the sense that it requires a present sacrifice for future uncertain benefit, under and investment analysis, examination of marketable securities such as common stocks, preferred stocks, bonds, put options, future contract on the traditional commodities, financial futures and other investment as well as the risks associated with each are performed. [Sharpe, W.F Alexander, Gordon J. Bailey, Jeffery, 2005:1].

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 capital gain can be realized. There is also a great problem of liquidity of such assets. However, investing in financial assets is possible with a lower

amount of capital, little effort to analyze and make decisions. Both the benefits of capital gain and normal gain can be reaped at a time.

Investing is about money in the same way that school is about education. It is not about chance or whims and not about fooling around, it is about having enough for the rest of your life. It is not about asset allocation and pie charts and financial planning. Investing about your life and being able to live the way you want to live.

2.1.3 Investors' Opinion on Securities

Investors' Opinion on securities means their feelings about investing in securities, their preferences of securities for investment purposes in regards to risk and rewards attached to it, their objectives behind investment, and their investment policies as well as their pattern and trend of investment. More specifically, their opinions on securities are reflected by their views, behaviors and their conception as well as perspectives on investing the securities available in the market. More succinctly, investors' attitude on securities means all the prospects, expectations, challenges, aspirations and perils that the investors feel at the time of investing in securities because of several factors such as changes in the market situation, political price and all changes in milieu of the securities behavior.

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

There might be several factors that induce investors to invest in securities and cause them to have positive attitude on securities. And these may result

into growth and expansion of capital market. For the radical changes in the investors' attitude towards securities, it needs efficient flow of information, proper trading rules and mechanisms, and clear-cut policies regarding the securities investment.

2.1.4 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 may be certainly 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. Investors are risk-averters and they select the securities that maximize expected rate of return for any given level of risk or minimize risk for any given level of expected returns. 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.

A number of factors may contribute to investment uncertainty. The factors usually mentioned with respect to marketable securities are business risk, financial risk, liquidity risk, default risk, interest rate risk, management risk

and purchasing power risk. Risk is a difficult concept to grasp. Some of the statistical methods that can be used to measure risk of an underlying financial asset are discussed below:

2.1.5 Investment Strategy

Investors can take two positions on securities viz.

Long position and 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.

2.1.6 Investment Policy

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

Investment policy is a combination of philosophy and planning. On the one hand, it expresses the investor’s attitudes toward important investment management issues such as, “Why am I investing in the first place?” or “To what extent am I willing to accept the possibility of large losses?” The answers to those questions will vary among investors in accordance with their financial circumstances and temperaments.

A critical of any investment policy involves the preparation of a written Investment Policy Statement (IPS). An IPS summarized the investor’s key

investment policy decisions and explains the rationale for each decision. The level of IPS detail will vary among investors. Institutional investors, who typically have complex investment programs, should generally prepare more detailed statements than individual investors. Nevertheless, an IPS serves the same role for all investors: It enforces logical, disciplined investment decision making, and it limits the temptation to make counterproductive changes to an investment program during periods of market stress.

2.1.7 Review on basic terms associated with investment

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

"Securities" 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 His Majesty's Government and it includes the securities issued under full guarantee of His Majesty's Government or securities as prescribed by His Majesty's 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.

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

There is an organization – SEBO/Nepal – solely responsible for advising HMG on the issues related to capital market and protecting investors’

interest, monitoring and supervising securities transactions, conducting studies and researches related to capital market, regulating public securities, and organizing workshops, seminars and conferences. Besides, there are several organizations that act as the stake to the investors and the securities transaction. NEPSE is the solely market for secondary transaction of securities.

On a frequent basis, the commercial banks have dominated the share market in terms of volume and value of share trading.

Investment Alternatives or Financial Instrument available in Nepal:

A wide range of investment alternatives is available to the investor in addition to corporate securities. However there is less varieties of hybrid instrument in Nepal but there are other investment, which can also considered which include precious metal and collectibles too.

Today, there are securities of 131 companies listed for trading in the Nepal Stock Exchange (NEPSE). Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor. These include a total of 128 common stocks from different companies and 3 debentures. Among the listed 125 common stocks, only 56 are included in the grade A companies on the basis of volume and value of their transactions in the market. The lists of securities that are issued by issuer company which is choice of investors to invest are as follows:

1. Common stock
2. Treasury bills
3. Certificate of deposit
4. Banker's acceptance
5. Government securities
6. Corporate bonds

7. Preferred stocks

1. 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:
 - b. Dividends to its owners,
 - c. Capital gain (due to price appreciation).

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

2. 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. There is no provision for participating individual investors in its issue.
3. 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.

4. 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.
5. 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.
6. 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 seven outstanding bonds (debenture) listed in Nepal Stock Exchange having paid up value of Rs. 1,000.00 each.

7. 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. Companies in Nepal such as Necon Air, Birat Shoe Factory, Everest Bank, Jyoti Spinning Mills, etc. have issued preferred stock as a source of financing.

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 ignorance 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.

2.1.8 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. [J.K Shim & Siegel, 1989:256].

Stock investors who want to invest in the stock market. Stock investors' 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:

- a. Security Of Principal
- b. Liquidity
- c. Stability of Income
- d. Strength (Leverage)
- e. Rate of Inflation
- f. Cash Flows
- g. Mobility
- h. Limited Management Requirements

2.2.1 Fundamental and Technical Analysis

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

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

While making a decision to buy or sell a particular stock, expectation are formed B. Technical Analysis:

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

2.2.2 Role of information in shaping the attitude of investors on securities

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

The invention in the field of information and technology like: satellite networks, Internet and Intranet have made information easier for 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.

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 selling decisions are to be made on the basis of available information. Therefore there should be reliable information and proper analysis of information for rational decision.

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

External source of information are those generated independently outside the company. These sources provide supplement to company generated information by overcoming some of its bias, such as public pronouncement by its officers. The external information source also provides certain kinds of information not found in these materials made available by companies themselves. [D.E Fisher et. al, 1972:189]

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. [R.Pike & Neale, 1998:23]

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.[F. Black, 1976]

Source of Information:

As information is based for investing it is clear that information is vital. The investors both institutional and individual are to be alert about all relevant information of issuing company. They should have daily update of information for buy hold and sell decision.. Investor can assess financial information and form a variety of investment information services such as, continues flow of report on a daily weekly and monthly as well as semi annually basis [Charles P. Jones, 1988:90]

According to Palat Raghu (1991):

The usual sources of information can be as follows:

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

2.2.3 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:

1] Interest rate risk:

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

2] Purchasing Power risk:

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

3] Bull-Bear Market Risk:

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

4] Management Risk:

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

5] Default Risk:

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

6] Liquidity Risk:

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

7] Political Risk:

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

8] Industry Risk:

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

2.3 Review of Previous Studies

2.3.1 Reviews from Journals and Magazines

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 effects of overconfident depend 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, stoical 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.

Nawaraj Baral, a well known stock-broker of Opal Securities Pvt. Ltd, 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.

[Terrance Odean, Journal of Finance, 1998:887]To obtain the different types of profit, investors must adopt simple analytical concept of investing. Overconfident traders increase volatility, though overconfident market makers may dampen it. Price taking traders, who are overconfident about their ability to interpret when there are many overconfident traders, market, tend to under-react to the information and overreact to salient, but less

relevant information. Like those who populate them, markets are predictable in their biases.

Windfield & Curry (1995), "...Small investors is far less exposed low risk than if his eggs were in one or two baskets-for over the most highly regarded companies have been known to go into liquidation. Modern financial theory suggests that diversification should be one of the prime objectives of the investors. The public is increasingly aware of the need of professional management. This in part reflects increased advertising and other promotional activities initially by unit trust groups, more recently by the life Insurance Companies".

The investor should be aware of such amateurs. However convincing the take-over story based on 'inside' knowledge seems, however much the friend employed by a large company claims to know about its current progress and however much the man on the train has made out of a particular share, he should either ignore what they say, or at least evaluate it carefully. The tale about the take-over may be true; it may merely be rumor. Few people in large companies can see whole picture of their company's activities. And a large profit on a purchase may only mean that the top price has been reached rather than that further appreciation is indicated.

An investor should be familiar himself with the range and use of various types of investment, and aware of the current investment climate, so that he can evaluate and assess the advice he receives returns.

"Every investment, of whatever type, must be suitable for the investor and for inclusion in the investment portfolio. This presupposes that each investor is aware of the nature of proposed investment, as only then can suitability be judged."

Strangely enough, whereas hardly anyone buys an overcoat to protect him against the weather without trying it on to see if it fits, many people buy an investment to protect them against inflation without the slightest idea whether it fits for their requirements or not.

Palat (1991), "If a man loses his money in the stock market it is almost always because of his own greed, stupidity or gullibility. It is certainly never the fault of the exchange and is very rarely the fault of his broker."

Gotejmannj (1999), "Man is by nature avaricious. He is hungry for tips that he can use for his profit. And a race, one loves to give tips. And nowhere is the giving and the quest for tips more frequent than among individuals active in the stock market."

Investors want to make more money in the future. The key measure of benefit derived from a security is the rate of return. "The investor return is a measure of growth in wealth resulting from that investment. The growth measures are expressed in percentage form to make it comparable across large and small investors. Stock return may be riskier or more volatile, but this concept from statistics, called standard deviation, is a single measure. Allocating different securities according to expected risk and return provides the basis for investment decision about portfolio choice.

Ghimire (2002), The essence of the message is that investors should be careful at this time while investing in the secondary market. For example, buy Standard Chartered Bank Nepal Ltd's share when they come down to Rs. 1500 because the dividend yield then will be more than 7%. Investors should be considered also while investing in the primary market. Do not get excited to heavy investment on primary issue because the allocation would be low and you may have to wait for six months before the scrip you invest on will be open trading on the secondary market. Even then it will not offer a price sufficient to compensate for the wait.

Shrestha(2000), study on “why share market is inactive, problems and measures” found that “ Investors are noticing about the negligence of public limited companies that have raised funds form share market by providing sufficient assurance of return investment within a desirable time framework as promised in prospectus. But despite so many years say 2 to 4 years company management is simply taking lame excuses of the problems which may have to face in real business world. Actual results have lagged behind from that of the estimated results exhibited in prospectus at the time of floating shares to the investing public.

There have been no liabilities imposed on the concerned promoters and directors signing the prospectus of compensate the investors for providing misleading information in prospectus to attract sales of shares.

M.K Shrestha has opined that at present growing number of shareholders are demanding information form the brokers regarding the intrinsic value of the company’s share with accurate fundamental and technical analysis. It means that investors must be aware about the stock information from their brokers. Business Manager (2000).” A real long-term successful investor in shares has to have a very look to the companies where he/she wants to invest in. This takes effect and line but the return for the effort can highly attractive.”

2.3.2 Review of Newspaper articles

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.

Prof. M. K. Shrestha in his book “Shareholders Democracy & Annual General Meeting (AGM) feedback” (1992) has focused various relations to protect of shareholders expectation. “Success of companies directly depend on the protection of their owners, but now can this be accomplished in main question. Thus, it is necessary to develop a possible guideline for enhancing the efficiency for the public limited companies to contribute directly in growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile.”

At present, overall shareholders democracy in terms of protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders wealth by appreciating the value of the share they hold.

Shrestha, “Shareholders Democracy & AGM_Feedback” (2049), The encouraging and growing confidence of shareholders over their investment seek an independent inquiry of disclosed contents of prospectus. This helps to satisfy a minimum standard of faith on investment in shares relying on the pros and cons of prospectus. It is, therefore, important to disclose everything in prospectus, which could reasonably influence the mind of the prudent investors. Various annual general meetings by different public limited companies reveal a greater gap between disclosure made in the prospectus and actual results, which were reported. In this context the expression of disclosure philosophy and investigation of frauds in prospectus need to be reconciled to check the growing problems in development of the capital market in Nepal.

Pistolese (1993), The stock market is well known for episodes of mass emotions. At times, euphoric buying propels the market upward like a rocket. On less happy occasions, panic selling causes it to fall like a boulder

crashing down a mountain. In either of these situations, many people make emotional decisions and later after the supercharged atmosphere has calmed down, come to regret their actions.

Gitman (1985), Every investor reacts to a certain price level of a stock according to his own cognitive nature, investing involves making decisions whose outcomes are unpredictable. Investors have experienced many hazards due to emotional decision in stock investment. They respond in their own way to risk and return offered by different stocks. Risk arises from imperfect knowledge of incomplete data. It is defined as a probability of occurrence of unfavorable outcomes.

The true owners of business firms are the common stock holders who invest their money in the firm only because of their expectation of future returns. A common stock holder is something referred to as a residual owner, since in essence he or she receives what is left after all other claims on the firm's income and assets have been satisfied. As a result of this generally uncertain position, the common stock holders expect to be compensated with adequate dividends and capital gains.

Chandra (1995), Common stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings. However, most of the time common stock are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of the most people to speculate or gamble, i.e. to give way to hope, fear and greed.

Francis (1998), securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditorship or ownership

depending on whether it is a bond. In contrast stockownership represents a cash investment in the future of a corporation; the investor owns a part of the corporations and shares in its profits.

2.3.3 Reviews of Previous Thesis

Among the thesis entitled on the same topic “Investors’ awareness on securities” prepared by Ashish subedi is found quite relevant and helpful for reviewing literature. In addition, articles and journals related to the investors have also been reviewed in the course of thesis.

Ashish Subedi in his research “Investors’ Awareness in the Securities market in Nepal” concluded that investors in Nepal 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.

Ashish subedi in his findings concluded that the level of investors’ awareness in the securities market was found to be very low and moderate level as responded by most of the investors while it is at very low and very high level as responded by very few investors. Moreover, his report revealed that the rumour and whim is found highly responsible in influencing the decision of the investors in share investment as responded by most of the investors whereas it is at low and very low responsible as per some of the investors.

His thesis was related to the measurement of degree of general awareness of investors including both individual and institutional in regards to securities investment. In the thesis report revealed above, 11 companies were taken as

sample. And for the materialization of thesis he took 72 no of investors as sample. In the same way my thesis is concerned with the preference of Individual and Institutional investors' preference on securities. So, I have taken a sample of 50 (mostly from NEPSE) as respondents of my questionnaires. Institutional investors have not been included in this thesis. In addition, prices of the securities have not been tested in this thesis as conducted by him and these things are left to the investors.

A study conducted by S.K Shrestha on the public response to primary issue in Nepal reveals that the scope of primary market in recent days in burgeoning by leaps and bounds. Even the general investors are boisterously pumping up their savings in the new issue of shares causing over subscription to a great deal. He found that capital market is encouraging since many public limited companies including joint venture banks have been successful in taping capital through the floating of shares to the general public. The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market.

L. Pandey, "Public response to Primary Issue of Shares in Nepal" (2001), "Public response to primary issue of share in Nepal" submitted by Mr. Pandey was objectively conducted to analyze the pattern of public response to shares and concluded that public response is high due to lack of opportunities for investment in other fields. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend, capital gain or bonus share. Due to delay in allotment, refund of money, delivery of certificate and listings of shares in the stock exchange, people are starting to lose confidence. Some companies have not been listed even after the prescribed time period, for e.g (Oriental Hotel Limited has not been listed even after 8 months of having closed its issue)

He found that the dynamism of the stock market has been greatly reduced by the domination of long-terms shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market, even though this reduces the dynamism of the stock market the investors have been very few rather no alternative to holding shares.

The general public simply taps everything that comes on their way, regardless of the promoter's background and the company's feasibility. Each and every company that came into the market has been successful in tapping of the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions. Issues of some foreign collaboration banks were over-subscribed to an extent of 19 times and this was because simply overwhelming to the company concerned as well as to the managers which led to delays in allotment of shares, refunding and distribution of shares certificate to the allotted public. An empirical term, the shares of 27 days companies were placed in the market after the establishment of full fledged stock exchange. This issue amount is Rs. 533.81M whereas 442841 applicants applied for the shares but only 132815 were allotted its shares.

Thesis titled "dividend decision and its impact on stock valuation" submitted by B.H Bhattarai was objectively conducted to analyze the variables such as profit, dividend, retain earnings, growth rate and other relevant variables to show the relationship between the value and other ingredients affecting it. In his study the researcher had found out that the dividend payment is not regular in Nepalese companies. So, there was negative correlation between market price of shares and stockholders required rate of return. Since most of the banking sector is managed by the foreign management companies under the technical and management contract so it may be the research subject to find out whether the investors

are mainly focused on banking sector mainly because of the dividend reason that is regular in this sector or there is more than that.

He also conducted that the market price is considerably higher than the actual net worth in Nepalese companies, but Bhattarai had taken only ten companies (Four banks, two insurance/finance companies and four manufacturing/trading) sector and concluded that investors (10 not have adequate knowledge on how to evaluate value of shares before investing on it). Besides he found that investment policy is not disclosed to the shareholders of the organization and government is silent on inefficiency of companies and no legislation is passed regarding dividend. So, he concluded by saying that investors have high perception of protection of their interest by joint venture companies established under foreign collaboration in comparison to other sectors.

But, Bhattarai had taken only ten companies (four banks, two insurance/finance companies and four manufacturing/trading) for research study. Bhattarai had only used the five-year data from 1990-1994, he had considered only dividend related factors, which affect the Income of the shares but not studied the services of brokers as one of many factors affecting the effective price formation of the shares.

The thesis entitled “Dynamics of Stock Market in Nepal” submitted by B. P Bhatta, has focused on the behavior of stock price in Nepalese Stock Market. His research was objectively conducted to find out the impact of the secondary market on primary market and vice versa. In order to evaluate stock prices, the price earning information was not made available timely to the investors. The investors could not identify the good and bad stocks. They only speculative behavior of the investors regarding, the future stock period led to set the stock price in the market lack of value judgment to determine the stock prices in the serious problem of the Nepalese Stock

Market. This is mainly due to the inability of the regulatory bodies of the stock market to regulate the market mechanism and failure to win the faith of investors. This problem can be solved only when the read determination of stock price are diagnosed and identified. He also conducted that the liquidity in the Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks take place in the stock exchange when the market is in boom.

Batta in his study said that the variation in ht data was also found when comparing with different source. He primarily based his analysis on secondary data. He also did not use any of the primary data collecting tools. Lie tremendously used different ratios to calculate the financial status of the companies under study.

Thesis titled “Current Status and Problem of Stock Market in Nepal” submitted by R. Pant, concluded that investors confidence in Nepal Stock Market relatively low because of the stock market is volatility, low return on investment, inadequate information, lack of financial markets instruments and investors not knowing about the risk of stock market investment. Pant used only five year data starting from 1992/93 to 1996/97. She focused her study mainly on the secondary source of data.

Thesis entitled “Protection of investors in the Capital Market in Nepal” submitted by T.R Pathak has concluded to know that how far the investors are protected and in what extent it could be changed in the rule and regulation of the listed companies for the safeguarding of the investors’ interest and development of the capital market. These two elements are independent of the capital market automatically protected. So listed companies, concerned authorities and associated investor’s organization has to think to change present situation of the capital market for the progress and prosperity of the capital market too,

Thesis entitled “Legal Provision to tile protection of investors under the Nepalese Law and An analytical and critical study” submitted by B. Pokharel. He has mainly conducted to analyze the trend of implementation of Nepalese legal provisions in regard to investors protection and to find out tile legal lacunas and weakness of execution bodies in regard to investors protection.

In his study, Pokharel found that Nepal has been forming laws to protect the interest of the investors on the scattered forms in various Acts, regulation and byelaws but there is still absence of a particular, specific and separate legislation for the protection of investors. Likewise, Nepalese investors are not governed under the corporate norms and valued due to lack of proper knowledge of their rights. They can be victimized but they do not complain at concerned authority. He has focused only legal provision. Rule and regulation alone would not be able to protect the interest of investors. They should be able to analyze and evaluate reliable information to provide by the company and concerns. The above section already mentions i.e factors to be considered before taking their investment decisions is also important.

Besides, the legal provision is not only all thing, it is only supporting feedback but also investors should be also clear to invest their money in the stock, before investment in shares, every investor knows about the reliable market information form the particular company and compares the price and value, which is profitable.

Pokharel had based his research mainly on the secondary source of data. The research was mainly based on the descriptive and diagnostic in its theoretical point in view rather on particular bases.

After reviewing the literature review I felt an encouragement to conduct research on individual investor’s. I found that there is lack in study of individual investor and their behavioral aspect in investment. I found no

research have so far been conducted which truly reflects the behavioral aspect and activity of individual investor investment world. So this study on “Investors’ Opinion on Securities and Their Anticipation of Earnings” is made to explore the behavioral of the individual investors. The study is conducted to find out how an individual investor takes decisions to invest. This study focuses on individual investor’s preference to invest in different available alternatives. The study is also performed to measure different individual parameter that can effect individual investment behavior.

In this way this research is concluded to fill a gap of research in behavioural aspect of individual investors.

2.4 Research Gap

Efficient Securities market is not only the output of interaction of institutions involved and mechanism of process of trading securities, however it is also the thing that is influenced by the investment habit, psychology and awareness of investors. Investor’s behaviour changes with the passage of time. So, does their preferences and priorities. This study examines the current trend of investor’s perception and attitude about the market and provides fresh findings and recommendations. In this connection, this study contributes something new toward the securities market that is not sought yet by surveying the psychology and awareness of investors investing in various types of securities. This sort of study identifying investor’s perception and awareness is a new and challenging in itself but is also an opportunity to learn and identify investors from their innermost. More specific studies as to the investors’ attitudes and perception in the security market related field, for example in the field of policies and operational issues, is necessary opening up the new and challenging research avenues for researchers.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter presents all the necessary steps to be followed throughout this research work in order to achieve and accomplish the objective of the study. This chapter presents outline of the nature and sources of data, sample selection & classification of variables, techniques and steps adopted in interpreting and analyzing the data. It also focuses on how to collect required data, what is the population and sample, and what techniques to be adopted to analyze and interpret etc.

3.1 Research Design

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

3.2 Source of Data and Collection Procedure

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

3.3 Population and Sample

The population for this study comprised 50 respondents the number of individual and institutional investors are assigned in certain proportion.

Total investors are divided into two strata namely individual and institutional investor. The samples of this study are as follows:

Table 3.1

Number of respondents

S.N	Categories	Numbers
1	Individual investors	30
2	Institutional investors	20
	Total	50

There are total 50 respondents. Out of them, sixty percentage of respondents are individual and rest 40 percentage are institutional investor. This classification has been made for analyzing difference in their opinion with respect to major aspect of investors' preferences towards financial instruments.

3.4 Tools for analysis of data

I) Median values

The median is the middlemost or most central item in the set of numbers. In other words, the median is a single value which divides the total number of observations into two equal parts such that 50 % of items lie below median value. It is used to show the importance of respondents towards the events. If respondents opine their response from one extreme to another extreme (i.e. "satisfied very much" to "dissatisfied very much"), the median can be used to identify their importance (Prachan, 2003).

II) Chi-square test

Chi-square, symbolically written as χ^2 , is a statistical measure used in the context of sampling analysis for comparing a variance to a theoretical variance. As a non-parametric test, it can be used to determine if categorical data shows dependency or the two classifications are independent. It can also be used to make comparisons between theoretical populations and actual data when categories are used. Thus, the chi-square test is applicable

in large number of problems. The test is, in fact, a technique through the use of which is possible for all researchers to i) test the goodness of fit: ii) test the significance of association between two attributes, and iii) test the homogeneity or the significance of population variance. Here in this study chi-square is utilized to test the significance of association between two attributes.

Chi-square is calculated utilizing the formula below:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Where,

χ^2 = Value of Chi Square

O = Observed Frequency

E = Expected Frequency

III)The Range:

The range is one of the traditional methods of measuring risk, which simply communicates the difference between the best possible return and the worst possible returns, it does not provide any information about the distribution of the rates of return between the extremes.

The range = Best possible rate of returns – Worst possible rate of returns.

The degree of risk of an underlying security is reflected in the magnitude of the difference. The smaller difference the lower will be the degree of risk.

IV)The Standard Deviation:

The standard deviation () is the other measure of investment risk. The smaller the standard deviation the lower will be the degree of risk of the stock. The formula for calculating the standard deviation is:

$$\text{Standard deviation ()} = \sqrt{\frac{\sum (R - E(R))^2}{N}} \dots\dots\dots (2)$$

In the equation, R is the possible rates of returns, and $E(R)$ is the average mean return and N is the number of observations. The variance can also be used to measure risk, which is the square of the standard deviation.

Total risk (σ_j) can also be defined as the sum of systematic risk plus unsystematic risk. Systematic risk has its source factors that affect all marketable assets and thus cannot be diversified away. The sources of systematic risk are market-pervasive. The measure of systematic risk permits an investor to evaluate an asset's required rate of return relative to the systematic risk of the stock. Unsystematic (or company-specific or unique) can be reduced through diversification. The relationships among total risk, systematic risk and unsystematic risk are shown below.

Total Risk (σ_j) = Systematic risk + Unsystematic risk;

With, Systematic risk = (ρ_{jM})(σ_M), and Unsystematic risk = $\sigma_j(1 - \rho_{jM})$.

In the equations ρ_{jM} is the correlation coefficient between the returns of a given stock 'j' and the return on market portfolio.

V)The Coefficient of Variation:

The coefficient variation (CV) is another useful measure of risk. It is the standard deviation divided by the expected return, which measures risk in terms of per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase with the increment in risk, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk.

Coefficient of Variation (CV) = $\sigma_j / E(R)$

V)The Beta Coefficient

The beta coefficient (β_j), a measure of systematic risk, can be calculated by using the following formula.

$$\text{Beta coefficient } (\beta) = \text{Cov}(i, M) / \sigma_M^2$$

Cov(i,M) is the covariance between the return of an individual asset and the returns of the market and σ_M^2 is the variance of the market returns. Stocks can be classified as aggressive or defensive or average depending on the value of beta coefficients. In general the CAPM indicates that an asset's required return should be related to the risk-free rate of return plus a risk-free return based on the beta of the asset.[Francis Jack Clarke, 2002:273-277]

<u>Beta coefficient</u> (β)	<u>Stocks classification</u>	<u>Degree of risk</u>
Exactly 1	Average stock	Equally risky as the market
Greater than 1	Aggressive stock	More risky than the market
Less than 1	Defensive stock	Less risky than the market

Beta coefficient can also be related with the CAPM equation to determine the required rate of return of a given stock. The required rate of return (K_i) is the risk free rate of return (R_F) plus a risk premium $\{RP_M = E(R_M) - R_F\}$ based on the beta of the stock (β).

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter presents the data those are relevant for making contemplated comparisons and analysis. This chapter also related to a number of closely related operations, which are performed with the purpose of summarizing the collected data and organizing these in such manner that they answer the research questions. Investor's preferences, reason for preferring one security over others, level of satisfaction they enjoy by buying security and grievances of investors against different institution etc. are the issues to be presented and analyzed here in this chapter.

4.1. Investor's Preferences and Type of Securities

An important thing in Nepalese capital market is to know what kinds of security investors prefer most. In this very regard, Investors are identified in terms of what type of security they prefer most given the certain number of securities those are generally in Nepalese market. Another issue in this regard is to identify whether the tendency of the institutional and individual investor related to each other or not. This is also tested in the null hypothesis that the type of security and type of investors are independent against the alternative hypothesis that these two attributes are associated and the association is not because of some chance factor but it exists in reality. The table below shows how the investors rate these securities in a scale of 1 (most preferred) to 5 (least preferred).

Table 4.1

Status of investor's preference and type of securities

Type of security	Rank					Median value	Overall rank
	1	2	3	4	5		
Common stock	23	18	6	2	1	1.11	1
Preferred stock	3	9	17	9	12	2.7	3
Debentures/Bonds	5	11	7	23	4	3.08	4
Government Bonds	19	11	2	13	5	1.54	2

Source: Field Survey, 2007, Kathmandu

The table no 4.1 shows that common stock is the security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively. From the table it is clear that median values of common stock, preferred stock, debentures and government bonds are 1.11, 2.7, 3.08 and 1.54 respectively. As these median values stand for indicating the concentration of respondents, for common stock the more of respondents are cantered to the 1 and 2 ranks resulting into median of 1.07. Thus it can be regarded that the common stock is the most preferred financial instruments among Nepalese investors. The second preference of Nepalese investors goes for government bonds and third preference to preferred stock and debenture is the kind of securities that is least preferred by Nepalese investors.

4.2. Relative Important Features of Common Stock

Respondents are given following features of common stock to rate as per the features' importance to investors. The results of the responses of the respondents are as follows:

Table 4.2

S.N.	Features of Common stock	Rank					Median	
		1	2	3	4	5		
1	Power to exercise rights	7	7	10	20	6	3.05	5
2	Participation in management	8	15	7	8	12	2.28	3
3	Sense of ownership	4	7	10	15	14	3.26	6
4	Participation in earnings	24	15	6	3	2	1.023	1
5	Bulk transaction	3	7	23	12	5	2.65	4
6	Marketability	15	20	10	3	2	1.5	2

Source: Field Survey, 2007, Kathmandu

The table 4.2 shows that various important features of common stock viewed by the respondents. The main reason to prefer common stock is because it entrusts holders the rights to participate in earnings. Next to this, marketability is the second feature of common stock in terms of the perceived importance of Nepalese investors. In the same Participation in Management, Bulk Transaction and power to exercise right are in third, fourth and fifth priority in the Nepalese investor's perception. Sense of ownership is in last to attract the motive of investors to purchase common stock. The median value of the above features are 1.023, 1.5, 2.28, 2.65, 3.05 and 3.26 respectively for the participation in earnings, marketability, participation in management, power to exercise rights, and sense of ownership respectively. The main reason of Nepalese investor's inclination towards the common stock can be attributed to their willingness to participate in the earnings of the firm. Like wise common stock is relatively liquid and it has attribute of marketability. This is also a factor that attracts Nepalese investors to transact on the common stock.

4.3 Industrial Sectors and Investment Attitude of Investors

There are different industrial sectors one can invest in but which is the most attractive is the issue to be addressed here in this section. Investors are provided with the following industrial sectors and are asked to rate them as per their willingness to invest in the sector. The results of their ratings are appeared as in the table 4.4 below.

Table 4.3

Industrial sectors and investment attitude

S. N	Industrial sector	Rank							Median	Rank
		1	2	3	4	5	6	7		
1	Bank	30	10	4	2	2	1	1	0.89	1
2	Finance	10	25	8	3	2	1	1	1.6	2
3	Hotel	8	10	8	12	10	1	1	3.38	5
4	Manufacturing and Processing company	15	20	9	2	2	1	1	2.5	4
5	Insurance Company	5	7	20	12	3	2	1	1.74	3
6	Trading Company	2	4	5	7	8	9	15	4.87	6
7	Others	1	2	3	5	6	8	25	5	7

Source: Field Survey, 2007, Kathmandu

The table shows that the most attractive sector for Nepalese investors is banking sector, as the median value (0.89) for this sector is less in comparison of other six sectors (mentioned above in table). Finance sector is the next most attractive sector after banking sector for Nepalese investors. This finding supports the growing tendency of investment in this sector. The median value of insurance, hotel, trading, manufacturing, processing, and other sectors are 1.74, 3.38, 4.87, 2.5, and 5 respectively indicating the consecutive priority of investors so far as their matter of investing in different industrial sector is concerned. Our current economy shows that manufacturing industries are affected more harshly than financial sectors

owing to different macro forces such as political instability, deadlock and national insecurity prevailing in the country. This might have induced the investors to go for financial sectors rather than manufacturing and other sectors.

4.4 Investment objectives of the Investors

Investment objective is the foundation of investment on the basis of which investor's makes a decision regarding selection of security, evaluation of the performance and time horizon of investment etc. The investment objective of investors is not only a basis to identify investor's investment psychology but also a milestone to set investment related policies and to set price and other features of securities. In this regard the investors are identified on the basis of what type of objective they bear in mind while investing in securities. Investors are asked to rank following major objectives in order of their importance to them. The detail results of investors are given in the table 4.4 & 4.5 below:

Table 4.4

Investment objectives of investors

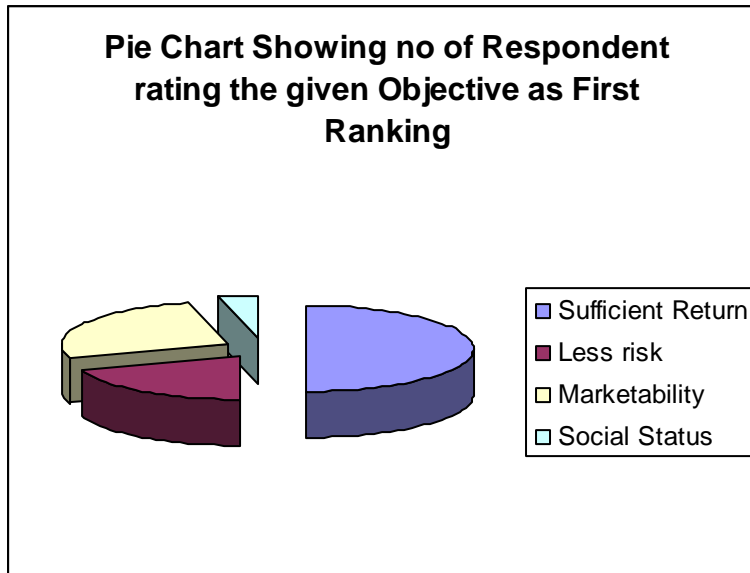
Investment	Rank				Median	Overall
	1	2	3	4		
Sufficient return	25	20	4	2	1.05	1
Less risk	10	13	14	13	2.14	2
Marketability	13	6	16	15	2.375	3
Social status	2	10	15	23	2.86	4

Source: Sample Survey, 2007, Kathmandu

Investors' objectives to invest imply the major psychological reason for investing in securities. These simply explain for what purpose investors tend to invest i.e. either it is to maximize return, to enhance their social status, or to minimize the possible risk. The table above shows that out of the given kind of objectives 'sufficient return' is the kind of investor's objectives for

which they attack most in comparison with others. Investors are attracted more towards the sufficient return because they can minimize the risk to the extreme through portfolio creation and form the expert's services.

Figure 4.1



Rank computed on the basis of median value is also lowest to all i.e. 1.05 which indicates the concentration of more number of investors in this option. The second most important objective for the investor is less risk, as the median value of this option is least of all the option except that of the first option. Although there are 20 percent of investors ranking this option as first, the overall median value is lower than all other option except the first option. So less risk is another important aspect next to sufficient return for Nepalese investors. After the sufficient return and less risk, investors want security having features of good marketability and thereafter they seek security that enhances their social status.

In this analysis investors seem less concern over social status and more concern over sufficient return and less risk so far as the matter of investing in securities is concerned.

4.5 Shortcomings of debentures and preferred stock

Debentures and preferred stock are not used as commonly as common stock in Nepalese market as this is discussed in part 4.1. What are such reasons that get the Nepalese investors feel so alienated with debt security is a question to be analyzed here onwards. The answer of this perhaps will be the solution in itself to correct the problems that has been apparent in Nepalese bond market. Followings are some of the major problems in investing these sorts of securities.

Table 4.5

Problems in investing in debt and preferred stock

S.No	Statements	Rank					Median	Overall
		1	2	3	4	5		
1.	No provision of handsome return that compensates the perceived risk of investors.	20	9	6	8	7	1.55	2
2.	These financial instruments provide only certain return.	14	18	10	5	1	1.5	3
3.	Overburden of legal formalities	9	8	9	5	19	2.88	6
4.	Due to the lack of professional practices	15	7	6	14	8	2.5	5
5.	Lack of marketability and liquidity.	20	8	3	13	6	1.62	4

6.	No legal protection in favour of investors	3	8	9	10	20	3.5	7
7.	Due to the lack of wide varieties in these kinds of securities.	23	14	5	4	3	1.07	1

Source: Field Survey, 2007. Kathmandu

While investors are asked to give their views as to the reasons in terms of their agreement or disagreement, the result appears as in the table above. Comparing the median value of second last column of the table, it is apparent that the reason to less or no use of debt can be attributed the cause that debt or preferred stock does not provide wide variety in their kinds, so investors are less inclined towards these securities. In the same way the second thing investors agree upon is that these securities provide less return than it actually required compensating the risk inherent in these securities.

The reason such as illiquid and less marketable tends investors to have negative attitude towards these securities (i.e. Debentures and preferred stocks). Of course there are no provisions for investors who do require adjustable return as per the market scenario. As a result they also agree that the securities provides stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc. as the median values for these are greater in comparison to others.

4.6 Bond preference

Of course bond market is not as in the height as stock market. However there are so many types of bonds that meet the investors' need and get them propel to invest in these securities but what is such bond that can win the

investor's psychology is the main question to be addressed. Investors are given the bond option having following alternative features and asked which of these they like most. The results of their views are provided in table below:

Table 4.6

Preference of alternative bonds

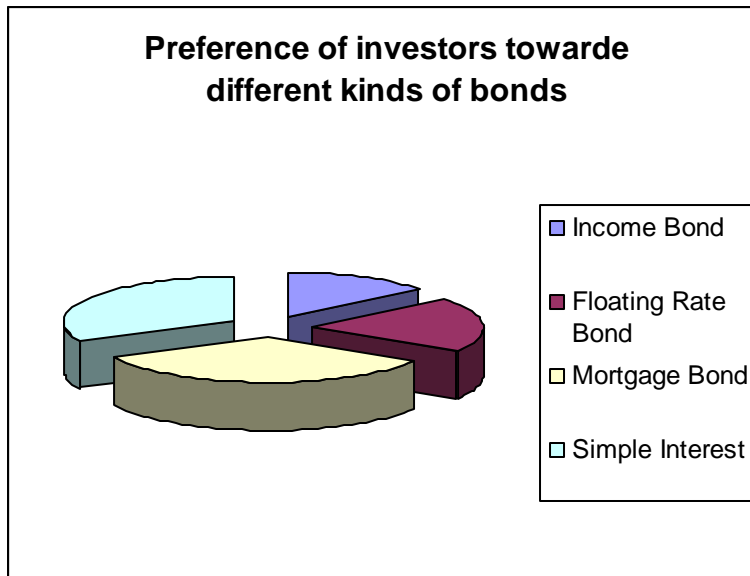
Observations	No of respondents	%
Bond that gets you participates in profits and or loss (income bond).	7	14
Bond that adjusts promised interest rate according to the rate in the market (floating rate).	10	20
Bond that is pledged against the firm's assets (mortgaged bond).	17	34
Simple debt that pays regular interest (simple interest).	16	32

Source: Field Survey, 2006, Kathmandu.

From the table above one can observe that out of the total respondents 17 respondents like such bond that is pledged against the firm's assets and it is technically called mortgaged bond. Like wise mortgage bond is the most favoured bond followed by simple interest bond, floating rate bond and income bond. The result of the survey has also been presented in figure below. It shows that out of the total respondents 17 (34 percent), 16 (32 percent), 10 (20 percent) and 7 (14 percent) respondents are in favour of mortgage, simple interest, floating rate and income bond respectively. This shows that firms should not only issue bond of traditional nature but they should also add some feature in bond to pull bond market up to an inspiring level.

The difference of views can apparently be seen for each of the kind of observation describing the type of bond.

Figure 4.2



4.7 Factor Affecting Choice of Security

Factors those affect or determine the choice of security may be innumerable depending upon the status of security market in the country and investor's psychology. As a matter of fact nothing can fully explain the determining factors those affect the choice of the investors in buying security notwithstanding here an attempt has been made to identify some of the important factors that may affect their choice. Given the following important four factors influencing the choice of security investors are asked to rate these giving 1 for most influencing to 5 for least influencing factor. The results of their rating are appeared as follows:

Table 4.7

Factors	Rank					Median value	Overall rank
	1	2	3	4	5		
Return pattern	10	30	6	3	1	1.5	2
Availability	5	13	15	9	8	2.46	3
Company's overall performance	34	7	5	1	3	0.74	1
Rumours	1	1	10	19	19	3.68	4

Source: Sample Survey, 2007, Kathmandu

Numbers of respondents rating 'company's overall performance' as first ranking are highest of all the respondents i.e. it is 34. The median value of this factor i.e. 0.74 indicates that most of the respondents rate this factor as the factor determining the choice of security. Out of the given factors 'return pattern' is in the second position to determine the investor's choice of security as there are 10 respondents rating this option as second ranking. Median value of return pattern is 1.50 from this observation which lies in second rank as per the overall ranking of all the factors presented.

There are few respondents rating availability of security as the important factors determining the choice of security. The last ranking is received by 'rumours' and it is least important so far as the matter of affecting investor's choice of security is concerned. The median values of these factors are 2.46 and 3.68 respectively.

4.8 Reason for preferring government securities

As per the analysis in part 4.1 investors are inclined more towards government bonds than corporate bonds and preferred stock. In course of identifying the reason for preferring government security following analysis is performed and presented. On the other way, it is the need to identify what are such features of government security that make the investors prefer the security. As an attempt towards that end following alternative features of government bonds are presented and asked to rate these as per their importance giving 1 to most important and 5 to least important.

Table 4.8

Reason for preferring government security as viewed by respondents

Factors affecting choice of security	Rank					Median Value	Overall rank
	1	2	3	4	5		
Risk Free	35	7	4	1	3	0.71	1
Advantage for construction	5	19	7	5	14	2.14	2
Protection against malpractices	4	9	12	15	10	3.00	4
Less legal formalities	1	7	16	8	18	3.04	5
Stable return	6	9	10	8	17	3	3

Source: Sample Survey, 2007, Kathmandu

The result gives the information that the most important feature of government security to propel investors to purchase these is it is risk free. There are 35 respondents those rates this features as 1, this resulted into the median value 0.71 indicating that most of the respondents tend to rate this feature as most important influencing factor affecting choice of security. Next to this, investor's favours this security for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby

provides more wide risk return space. Like wise as per the overall ranking based on median value stable return is in the third ranking as its median value is 3. Median value of ‘protection against malpractices’ and ‘less legal formality’ are 3.00 and 3.04 respectively indicating the less attractive features inherent in the government security.

4.9 Methodological Process of Risk and Return Analysis

Whether the Nepalese investors are fully aware of the risk and return or not are analyzed here or do the investors tend to adopt any particular method of analyzing risk and return of the security before investing in or not is the question to be addressed here in this section. Following is the result of survey conducted to identify behaviour of investors in this regard.

Table 4.9

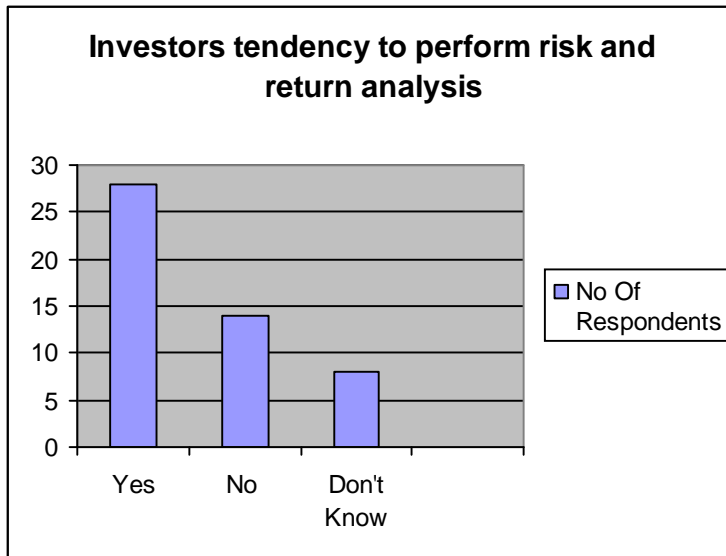
Investors performing risk and return analysis

Response	No Of Respondents	%
Yes	28	56
No	14	28
Don't know	8	16
Total	50	

Source: Field Survey, 2007, Kathmandu

Out of the total respondents there are more of investors (i.e. 56.00 percent) performing risk and return analysis while investing in securities. Like wise investors who don't perform risk and return are 14 as opposed to those who perform. Investors having no idea as to this are 8. This is also presented in the figure below.

Figure 4.3



Out of the total respondents 56 percent perform risk and return analysis while rest 28 percent don't perform the risk and return analysis and balance have no idea as to what does it mean. The figure also shows that investors sensitive to the performance of risk and return analysis.

4.10 Investment processes

Investment processes are the sequential steps of making investment decision and going through these processes over the investment horizon. Whether or not Nepalese investors follow the investment processes is analyzed and interpreted in this section. Investors are provided with the following five investment processes and asked to mark yes if the respondents follow the process or processes. The results of their markings have been appeared as in the table below:

Table 4.10

Investment processes as followed by Nepalese investors

Investment process	Ranking						
	Yes	%	No	%	Don't know	%	Total
Set investment policy	44	88	5	10	1	2	50
Analyze security	34	68	7	14	9	18	50
Portfolio construction	24	48	10	20	16	32	50
Portfolio Revision	8	16	16	32	26	52	50
Portfolio performance evaluation	5	10	24	48	21	42	50

Source: Field Survey, 2007, Kathmandu

Out of the total respondents 88 percent set investment policy and remaining do not set investment policy. Like wise 68 of the total respondents analyze security before making investment decision remaining 32 percent do not analyze security. Here the interesting result is that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Likewise numbers of respondents those revise and evaluate their portfolio are also minimum. Here out of the total respondents 16 percent revise portfolio but next 32 percent do not and still another 52 percent of respondents even don't know as to the revision of portfolio.

The last step in investment process is portfolio performance evaluation. For this step too Nepalese investors seem alienated, as there are only 10 percent

of respondents who evaluate performance of portfolio and other 48 percent do not evaluate the performance of portfolio and balance do not know as to this.

4.11 Investors General Awareness in Investment

To know the general investors awareness as to the functioning of the security market and its components different types of questions were developed and asked. The fundamental questions as to the transactions of security in the Nepalese security market are designed and asked to know investors' general awareness. The questions and the number of respondent giving correct answer to these questions are presented in the table below:

Table 4.11

Number of respondents with wrong and correct answer

	Questions of general awareness	No. of respondents	
		Wrong answer	Right answer
A.	While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which legal provision is relevant in this regard?	17	33
B.	What sort of information do you generally take after having filled the order specification? Please make a tick mark.	25	25
C.	If you did not receive sales proceeds from the concerned broker company within which period do you report it to stock exchange?	9	41
D.	If your order is purchase order and you did not receive financial security within the given time	7	43

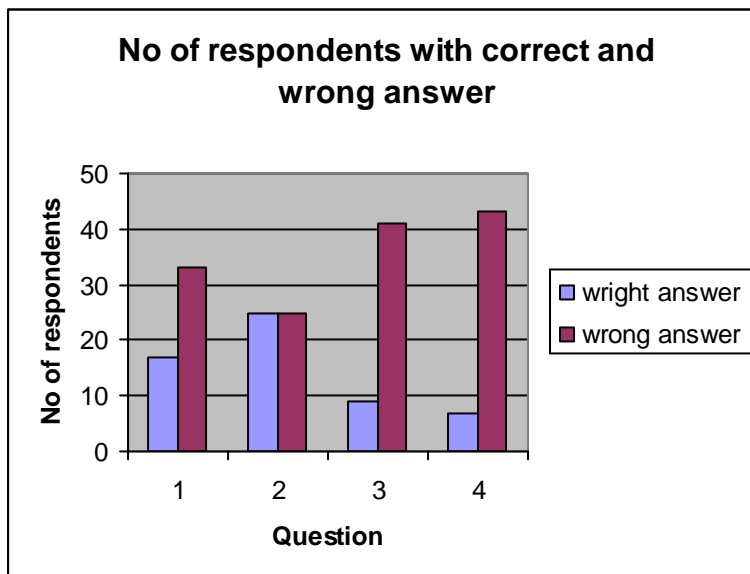
	periods. Which of the following statement is true in this regard?
--	-------------------------------------------------------------------

Source: Field Survey, 2007, Kathmandu

As shown in the table the number of respondents with correct answer for question number one is 17 out of the total respondents of 50 which results into 34 percent indicating the percentage of respondents with correct answer and this shows that investors are less aware towards the general functioning of security market in the country.

Percentages of respondents with correct answer are also presented in figure below:

Figure 4.4



The second question is related to the necessary information to be taken from Broker Company after having filled the order specification. The numbers of respondents with correct answer for this question are 25 and it is 50 percent indicating investors are aware as to the information to be taken from Broker Company. The number of respondents with correct answer for question number 3 is only 9, and this is the 18 percent out of the total respondents. This result is so dismal as so few of the respondents are concern over the general information as to the security market and it's functioning. Like wise

number of respondents with correct answer for question number 4 is only 7 which is the least number of respondents with correct answer.

In Nutshell the analysis above spells that Nepalese investors need to be more aware towards the security market and its functioning because the current state of their seriousness over security market seems to be less reliable and insecure.

4.12 Investor’s grievances

Investors are the sovereigns of the capital market so the need of today to identify what sort of complain they have towards the parties of security market is the things to be addressed here in this section.

4.12.1 Investor’s grievances against issuer companies

Issuer Company is the major part of the whole system of security market. Here, an attempt has been made to identify investor’s grievances, if any toward Issuer Company if they purchase their share in secondary market. The number of respondents along with the nature of grievances has been presented in the table below and these grievances are related with the investors who purchase share from secondary market.

Table 4.12

Secondary market investor’s grievances towards Issuer Company

Nature of grievances	No of respondents	Percentage
Rejection to transfer the share or delay to do so.	-	-
No timely information as to the prices and financial statements	11	22

No timely delivery of dividends/bonus share/right share.	29	58
No timely annual general meeting.	1	2
Total	41	82

Source: Field Survey, 2007, Kathmandu

Out of the total respondents 50, 41 have complaint of one or other kind. This shows that 82 percent of the total investors have one or other kind of grievances. Most of the respondent complain that there are no timely delivery to dividends, bonus share, and right share like wise there are also a significant number of respondents those complain that no timely information of price, financial statements and other vital information. Out of the total respondents one respondent has complain about the general meeting that is not held in time.

Further the natures of grievances of the investors who purchase first issued security from the primary market are presented in the table below:

Table 4.13

Primary market investor's grievances towards Issuer Company

Nature of grievances	No. of respondents with the grievances	Percentage (%)
Issuer Company does not provide the prospectus/security/purchase application form	-	-
Company wants to influence unduly through prospectus and other advertisements	16	32
Company does not provide the article of association, memorandum of association and other related documents for detail	3	6

perusal.		
Company rejects to receive the share application form duly filled by the investor.	-	-
Irregularities while allocating the security to the investors.	11	22
Total	40	80

Source: Field Survey, 2007, Kathmandu

The grievances of the investors who purchase share from primary market against Issuer Company also seems to be significant as there are 40 investors out of 50 respondents complains against Issuer Company in one or other area of functioning of Issuer Company. Most of the respondent complaint as to the company's tendency to influence unduly to the investors through different type of source of information having their reach. And some of the respondents also dissatisfied with the process of allocating shares to the investors. Other 7 have complained that company does not provide necessary documents for detail perusal.

4.12.2 Investor's grievances against Broker Companies

Broker companies are the organizations that remain in frequent contact with investors to manage investors' investment options. In this course of action they have to perform innumerable functions. The grievances and complaint that are against this organization from the investor's part is the questions to be answered in this part.

Table 4.14

Investor's grievances towards Broker Company

Nature of grievances	No. of respondents with the grievances	Percentage (%)
Unavailability of security order form or rejection of the order from the company	-	-
No execution of the order given to the company	1	2
Execution of order in the prices more or less than the price stipulated	-	-
The company takes more commission/ transfer fees than it is provided	-	-
Wrong or no information as to the security and market	12	24
Total	13	26

Source: Field Survey, 2007, Kathmandu

There are 13 respondents out of the total 50 respondents having grievances against Broker Company that account for 26 in percentage, of which most of respondents feel that Broker Company does not provide necessary information as to the market scenario and obstructs investor's from being informed with the same. In their views this the most offensive act to not provide vital information as and when investors feel necessity of such information. Of the 13 respondents 1 have a complain that the order is not execute in the timely manner and creates difficulties to search for alternative

investment opportunities and the rest 12 have complain on wrong or no information as to the security and market.

4.12.3 Investors' Grievances against Security Exchange

Security Exchange Company is the sole organization that regulates and looks after the functioning of other security related companies. The type and nature of grievances of the respondents are provided below in the table.

Table 4.15

Investor's grievances against Nepal Stock Exchange

Nature of grievances	No. of respondents with the grievances	Percentage (%)
Stock exchange does not inform to market as to the price sensitive information and financial statements.	15	30
Stock exchange does not provide the necessary information of the sold/purchased share.	-	-
It does not provide information relating to the membership, listing of securities and transactions etc.	2	4
Total	17	34

Source: Field Survey, 2007, Kathmandu

Of the total respondents there are 17 respondents having complain against exchange canter. The complain is that the canter stock exchange does not inform to market as to the price sensitive information and financial statements. The respondents further complain that the company used to provide information and financial statement of previous year in a web site www.nepalstock.com. Presently one cannot find the financial statements of

listed company in the web site this has revealed their irresponsibility towards investors. Further another 2 respondents complain that the company cannot make up to date information as to the information relating to the membership, listing of securities and transaction etc.

4.12.4 Necessary Actions to Accelerate State of Security Market

As discussed above transactions of securities and overall situation of security market is in its developing phase and it is the need of today to get it accelerated. With a view to identify actions that possibly help upgrade the present state of security market following type of actions are identified and asked to rate these as per their necessity and urgency in the context of Nepalese security market. The results of their rankings are appeared as follows.

Table 4.16

Necessary actions to accelerate state of security market as viewed by respondents

Observations	Rank					Median	Overall Rank
	1	2	3	4	5		
1. Expansion of activities beyond capital city.	20	16	8	2	4	1.31	1
2. Arrangements for the involvement of Employee's Provident Fund, Citizen's Investment Trust, and Mutual Fund in security market	9	12	17	8	4	2.23	3
3. Sufficient Publicity	5	3	4	17	21	3.76	4
4. Amendment and strict implementation of rules and regulations	14	19	13	2	2	1.57	2

Source: Field Survey, 2007, Kathmandu

Investors feel that the first observation is the most important observation as an action to be taken to develop present state of Nepalese security market. The observation states that to accelerate present state of the Nepalese security market the access of the securities services, institutional capacity and services not only in capital city are the must. The security services are bounded in the capital city only and this needs to be corrected by expanding the services in outskirts too that propels all the people in the country to participate in the investment activities that may result into the more developed security market.

Next thing investors actively concerned over are amendment and strict implementation of current status of Nepalese security market. The Securities Ordinance 2005 has been enacted for the effective securities market regulations system. For the implementation of the ordinance, the necessary arrangement of legal provisions in line with international practices and the development of fair, dynamic and credible securities market is a challenging task. Company Ordinance, 2005 has provisioned trustee for the issuance of institutional debenture. However, in the absence of regulatory mechanism for the trustee another regulatory framework, there is a need for separate Trust Act to promote joint venture investment, securities depository and other trustee work for the mobilization of financial resources from financial market. Although the ordinance on securities, 2005 has authorized Securities Exchange Board for the regulation of the securities market, it hasn't provided autonomy related to employee and financial activities. It is necessary for the autonomy related to employee and financial activities. It is necessary for the autonomy and capacity building of the board. It has to be immediately equipped with resources and manpower.

Still the next important and urgent action to be taken to develop security market is to make clear-cut arrangements for regulations concerning the involvement of Employee's Provident Fund, Citizen's Investment Trust,

construction extractive and Information Technology sector and Mutual Fund in security market.

Sufficient publicity as to the security market and its benefits to the investors and general public is also an important thing to upgrade the present state of Nepalese security market. But this is a least important action, as viewed by the respondents, in comparison to others mention above.

4.13 Major Findings

On the basis of the whole issues dealt here in this research, following major findings can be pointed out:

Analysis of investor's preferences reveals that common stock is the security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively. Median values of common stock, preferred stock, debentures and government bonds are 1.11, 2.7, 3.08 and 1.54 respectively. As these median values stands for indicating the concentration of respondents, for common stock the more of respondents are cantered to the 1 and 2 scales resulting into median of 1.11. Thus it can be regarded that the common stock is most preferred financial instruments among Nepalese investors. Similarly, second preference of Nepalese investors goes for government bonds, third preference to preferred stock and debenture is the security that is least preferred by Nepalese investors. For common stock the t-value is highly insignificant. Hence it is concluded that the preference of two types of investors do not differ and are similar as regards the attitude of transacting common stock among them.

The main reason to prefer common stock is because it entrusts holders the rights to participate in earnings. Among the various features of common stock the most preferred feature is that it entails the right to participate in earnings. Next to this, marketability is the second feature of common stock in terms of the perceived importance of Nepalese investors. Likewise

participation in management, Bulk transaction, Power to exercise rights and are in third, fourth and fifth priority in the Nepalese investor's perception. Sense of ownership is in last to attract the motive of investor to purchase common stock. The median value of the above features are 1.023, 1.5, 2.28, 2.65 and 3.05 respectively for the participation in earnings, marketability, participation in management, bulk transaction, power to exercise rights, and for sense of ownership respectively. The reason of Nepalese investors' inclination towards the common stock can be attributed to their willingness to participate in the earnings of the firm. Like wise common stock is relatively liquid and it has attribute of marketability. These are factors that attract Nepalese investors to transact on the common stock.

Analysis of attractiveness of industry sector show that for Nepalese investor's most attractive sector is banking sector, as the median value for this sector is 0.89. Thus the respondents are centred for the first ranking as opposed to other ranking. Finance sector is the next most attractive sector to banking sector for Nepalese investors. This finding supports the growing tendency of investment in this sector. The median value of insurance, Mfg, Hotel, trading processing, and other sectors are 1.74, 2.5, 3.38, 4.87 and 5 respectively indicating the consecutive priority of investors so far as their matter of investing in different industrial sector is concerned.

Investor's objectives to invest imply the major psychological reason for investing in securities. These simply explain for what purpose investors tend to invest that is either it is to maximize return, to enhance their social status, or to minimize the possible risk. Out of the total respondents 48 percent investors rank this objective as the most important. Looking at the overall rank computed on the basis of median value is also lowest to all that is 1.05 indicates the concentration of more number of investor's in this option. The second most important objective for the investor is less risk, as the median

value of this option is least of all the option except that of the first option. So, less risk is another important aspect next to sufficient return for Nepalese investors. After the sufficient return and less risk institutional investors want security having features of good marketability and thereafter they seek security that enhances social status.

In this analysis investors seem to be less concern over social status and to be more concern over sufficient return and less risk so far as the matter of investing in securities is concerned.

The analysis that has performed to find out reason for less or no use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provide wide variety in their kinds so investors are less inclined towards these securities. In this way the second thing investors agree upon is that these securities provide less return than it actually required compensating the risk inherent in these securities. The reason that these securities are illiquid and less marketable tends investors to have negative attitude towards these securities (i.e. Debentures and preferred stocks). Of course there is no provision for investors who does require adjustable return as per the market scenario. As a result they also agree that the securities in question provides stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Due to this very feature of these securities Nepalese investors do not want to invest in these types of securities (i.e. Debentures and preferred stocks). Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc.

Given the option of different type of debt security, 34 percentage respondents like such bond that is pledged against the firm's assets and it is technically called mortgaged bond. Likewise mortgage bond is the most favoured bond followed by simple interest bond, floating rate bond and

income bond. The result of the survey shows that out of the total respondents 17 (34 percent), 16 (32 percent), 10(20 percent) and 7(14 percent) respondents are in favour of mortgage, simple interest, floating rate and income bond respectively.

Analysis of the factors determining investor's choice of security reveals that 'company's overall performance' receives first ranking as such this factor can be regarded as the most important factor determining their choice of security. Out of this given factors 'return pattern' is in the second position to determine the investor's choice of security as there are 22 respondents rating this option as second ranking. There are few respondents rating availability of security is the important factors determining the choice of security. The last ranking is received by 'rumours' and it is least important so far as the matter of affecting investor's choice of security is concerned. The median values of these factors are 2.46 and 3.68 respectively. The values are higher in comparison to this for other factors.

The most important feature of government security to propel investors to purchase these is it is risk free. There are 35 respondents those rates this features in first ranking, this resulted into the median value 0.71 indicating that most of the respondents tend to rate this feature as most important. Next to this, investors favour this security for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk return space. Like wise as per the overall ranking based on median value stable return is in the third ranking as its value is 2.99. Median value of 'protection against malpractices' and 'less legal formality' are 3 and 3.04 respectively indicating the less attractive features inherent in the government security.

Out of the total respondents 56 percent perform risk and return analysis while investing in securities. Like wise investors who don't perform risk and

return analysis are 28 while 16 percent of respondent don't know about analysis of risk and return before investment.

While talking about Investment process followed by Nepalese Investors out of the total respondents 88 percent set investment policy and remaining do not set investment policy. Like wise 68 percent of the total respondents analyze security before making investment decision while remaining 32 percent do not analyze security. Here is an interesting result that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Like wise number of respondents those revise and evaluate their portfolio are also minimum. Here out of the total respondents 16 percent revise portfolio but next 32 percent do not and still another 52 percent of respondents even don't know about the reason of portfolio revision. The last step in investment process is portfolio performance evaluation. For this step too Nepalese investors seem alienated, as there are only 10 percent of respondents who evaluate performance of portfolio and other 48 percent do not evaluate the performance of portfolio, and balances don't know as to this.

Analysis of general awareness of investors towards security market and its functioning shows that investors are less aware towards the general functioning of security market in the country. This result is so dismal, as so few of the respondents are concern over the general information as to the security market and it's functioning.

Most of the respondents who purchase security in secondary market have the complain that there are no timely delivery to dividends, bonus share, and right share like wise there are also a significant number of respondents those complain that no timely delivery of as to the price, financial statement and other vital information. Out of the total respondents one respondent has complain about the general meeting that is not held in time.

The grievances of the investors who purchase share from primary market against issuer company also seems to be significant as 40 investors complains against issuer company in one or other area of function of issuer company. Most of the respondents complain as to the company's tendency to influence unduly to the investors through different type of source of information having their reach. And some of the respondents also dissatisfied with the process of allocating shares to the investors. Other 3 have complained that company does not provide necessary documents for detail perusal.

There are 13 respondents out of the total of 50 respondents having grievances against Broker Company that account for 26 in percentage. Of which most of respondents feel that Broker Company does not provide necessary information as to the market scenario and obstructs investor's from being informed with the same. In their views this the most offensive act to not provide vital information as and when investors feel necessity of such information. Of the 13 respondents 1 have a same complain that the order is not executed in the timely manner and creates difficulties to search for alternative investment opportunities.

Of the total respondents there are 17 respondents having complain against exchange centre. The complain is that the centre stock exchange does not inform to market as to the price sensitive information and financial statements. The respondents further complain that the company used to provide information and financial statement in previous year in a web site www.nepalstock.com and presently one cannot find the financial statements of listed company in the web site this has revealed their irresponsibility towards investors as per the investors' views. Further another five

respondents complain that the company cannot make up to date information as to membership, listing of securities and transactions etc.

The first thing that must be done to accelerate the present state of the Nepalese security market is to make conducive environment for the access of the securities services, institutional capacity and services not only in capital city are the must. Security services are bounded in the capital city only and this needs to be corrected by expanding the services in outskirts too that propels all the people in the country to participate in the investment activities that may result into the more developed security market.

Next thing investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market. Still the next important and urgent action to be taken to develop security market is to make clear-cut arrangements for regulations concerning the involvement of Employees' Provident Fund, Citizens' Investment Trust, construction, extractive and IT sector and Mutual Fund in Security Market.

Sufficient publicity as to the security market and its benefits to the investors and general public is also an important thing to upgrade the present state of Nepalese security market. But this is a least important action, as viewed by the respondents, in comparison to others mention above.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter attempts to summarize, give conclusive and suggestive end to the whole study. As essence to the study, the conclusion and suggestion would be of great help for the concerned parties. This chapter is divided into different parts namely summary, conclusion, recommendation, and suggestion, which are as follows:

5.1 Summary

This study is mainly related to identify the Nepalese investors' preferences and attitudes toward different kind of financial securities such as common stock, bond, government securities and preferred stock etc. This study is mainly exploratory for it attempts to explore the status of investors' attitude toward securities. The important inferences have been drawn on the basis of sample size of 50 respondents applying different tools and techniques of analyzing and presenting the data. Every constituents of the capital market may take advantage of this study for restructuring the operational and policies issues in respect to the capital market. Main findings of the study can be summarized in the manner below:

Study of investors' preferences toward particular securities reveals that common stock is the kind of security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively. The main reason to prefer common stock is that it entitles holders the rights to participate in earnings. Among the various features of common stock the most preferred feature is that it entails the right to participate in earnings. Next to this, marketability is the second feature of common stock in terms of the perceived importance of Nepalese investors. In this way participation in management ,bulk transaction, Power to exercise rights and are in third,

fourth and fifth priority in the Nepalese investor's perception. Sense of ownership is in last to attract the motive of investor to purchase common stock.

Analysis of attractiveness of industry sector shows that for Nepalese investors most attractive sector is banking sector, as the median value for this sector is highest of all. Finance sector is the next most attractive sector to banking sector for Nepalese investors. This finding supports the growing tendency of investment in this sector.

Analysis to identify the objective of holding particular security shows that out of the given kind of objectives 'sufficient return' is the kind of objective for which investors attach most in comparison with others. The second most important objective for them is less risk, as the median value of this option is least of all the option except that of the first option. So less risk is another important aspect next to sufficient return for Nepalese investors. After the sufficient return and less risk investors want security having features of good marketability and thereafter they seek security that enhances social status.

The analysis that has performed to find out reason for less or no use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provide wide variety in their kinds so investors are less inclined towards these securities. In this way the second thing investors agree upon is that these securities provide less return than it actually required for compensating the risk inherent in these security. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities (i.e. Debentures and preferred stocks). Of course there are no provisions for investors who do require adjustable return as per the market

scenario. As a result they also agree that the securities in question provides stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Due to this very feature of these securities Nepalese investors do not want to invest in. It is perhaps due to them being high risk and return investors. Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc.

Given the option of different type of debt security 34 percentages of respondents like such bond that is pledged against the firm's assets and it is technically called mortgaged bond. On the other way mortgage bond is the most favoured bond followed by simple interest bond, floating rate bond and income bond.

Analysis of the factor determining investor's choice of security reveals that 'company's overall performance receives first rankings as such this factor can be regarded as the most important factor determining their choice of security. Out of the given factors 'return pattern' is in the second position to determine the investor's choice of security as there are 10 respondents rating this option as second ranking. There are few respondents rating availability of security is the important factors determining the choice of security. The last ranking is received by 'rumours' and it is least important so far as the matter of affecting investors' choice of security is concerned.

The most important feature of government securities to propel investors to purchase these is for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk return space. Like wise as per the overall ranking, stable return is in the third

ranking. 'Protection against malpractices' and 'less legal formality' is less attractive features inherent in the government security.

Out of the total respondents there are more investors (i.e. 56 percent) perform risk and return analysis while investing in securities. Like wise investors who don't perform risk and return are 28 as opposed to who perform are 56. Investors having no idea as to this are 16.

Out of the total respondents 88 percent set investment policy and remaining do not set investment policy. Like wise 68 of the total respondents analyze security before making investment decision remaining 32 percent do not analyze security. Here is an interesting result that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Like wise number of respondents those revise and evaluate their portfolio are also minimum. Here, out of the total respondents 16 percent revise portfolio but next 32 percent do not and still another 52 percent of respondents even don't know as to the revision of portfolio. The last step in investment process is portfolio performance evaluation. For this step too Nepalese investors seem alienated, as there are only 10 percent of respondents who evaluate performance of portfolio and other 48 percent do not evaluate the performance of portfolio, and balance don't know as to this.

Analysis of general awareness of investor's towards security market and its functioning shows that investors are less aware towards the general functioning of security market in the country. This result is so dismal as few respondents are concern over the general information as to the security market and it's functioning.

Most of the respondents who purchase security in secondary market have the complain that there are no timely delivery to dividends, bonus share, and right share like wise there are also a significant number of respondents those

complain that no timely delivery of as to the price, financial statements and other vital information. Out of the total respondents one respondent has complain about the general meeting that is not held in time.

The grievances of the investors who purchase share from primary market against Issuer Company also seems to be significant as there are 40 investors complaining against Issuer Company in one or other area of functioning of Issuer Company. Most of the respondents complain as to the company's tendency to influence unduly to the investors through different type of source of information having their reach. And some of the respondents also dissatisfied with the process of allocating shares to the investors. Other 7 have complained that company does not provide necessary documents for detail perusal.

There are 13 respondents out of the total of 26 respondents having grievance against Broker Company that account for 25 in percentage. Of which most of respondents fell that Broker Company does not provide necessary information as to the market scenario and obstructs investor's from being informed with the same. In their views this is the most offensive act to not provide vital information as and when investors feel necessity of such information. Of the 13 respondents 1 has a complain that the order is not executed in the timely manner ad creates difficulties to search for alternative investment opportunities.

Of the total respondents there are 17 respondents having complain against exchange centre. The complain is that the centre stock exchange does not inform to market as to the price sensitive information and financial statements. The respondents further complain that the company used to provide information and financial statement in previous year in a web site www.nepalstock.com and presently one cannot find the financial statements

of listed company in the web site this has revealed their irresponsibility towards investors as per the investors' views. Further another 2 respondents complain that the company cannot make up to date information as to membership, listing of securities and transactions etc.

The first thing that must be done to accelerate the present state of the Nepalese security market is to make conducive environment for the access of the securities services, professionalism of the stock market and traders, institutional capacity and services not only in capital city are the must. Current condition of stock trader and market seems lacking professionalism hence it needs to be professional in trading stock in the market, like wise security services are bounded in the capital city only and this needs to be corrected by expanding the services in outskirts too that propels all the people in the country to participate in the investment activities that may result into the more developed security market.

Next thing investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market.

Still the next important and urgent action to be taken to develop security market is to make clear-cut arrangements for regulations concerning the involvement of Employees Provident Fund, Citizens Investment Trust, Construction, Extractive and IT sector and Mutual Fund in security market.

Sufficient publicity as to the security market and its benefits to the investors and general public is also an important thing to upgrade the present stage of Nepalese security market. But this is a least important action, as viewed by the respondents, in comparison to others mention above.

5.2 Conclusion

This study is mainly exploratory for it attempts to explore the status of investors' preference on securities .On the basis of the whole study following conclusive end can be provided to this research:

- ◆ Analysis of investors' preferences towards the financial securities paves the way to conclude that Nepalese investor's most preferred security is common stock. The most important characteristic that attracts investors to this security is that it allows investors to actively participate in company's earnings. Like wise they prefer this security more as compared to other security, for it being more marketable.
- ◆ It is imperative to conclude that investors seem to be less concern over social status and to be more concern over sufficient return and less risk so far as the matter of investing in securities is concerned.
- ◆ The debt and/or preferred stock in Nepalese securities market do not provide wide variety in their kinds so investors are less inclined towards these securities. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities (i.e. Debentures and preferred stocks).
- ◆ Company's overall performance and return pattern of the security under consideration are the factor those can be regarded as the most important factor determining their choice of security.
- ◆ Government bond is less risky and this attributes of the security attracts to invest in. Next to this, investors favors this security for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk and return space.

- ◆ More of the investors perform risk and return analysis while investing in securities. Most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio.
- ◆ Investors are less aware towards the general functioning of security market in the country. This result is so dismal as so few respondents are concern over the general information as to the security market and it's functioning.
- ◆ Most of the respondents who purchase security in secondary market have the complain that there are no timely delivery to dividends, bonus share, and right share like wise there are also a significant number of respondents those complain that no timely delivery of as to the price, financial statements and other vital information. The grievances of the investors who purchase share from primary market against Issuer Company also seem to be significant. Their complain is mainly as to the company's tendency to influence unduly to the investors through different type of source of information having their reach. And some of the respondents also dissatisfied with the process of allocating shares to the investors. Broker Company does not provide necessary information as to the market scenario and obstructs investor's from being informed with the same. Complain against the Security Exchange Center is that the center does not inform to market as to the price sensitive information and financial statement of previous year in a web site www.nepalstock.com and presently one cannot find the financial statements of listed company in the web site this has revealed their irresponsibility towards investors as per the investor's views.
- ◆ The first thing that must be done to accelerate the present state of the Nepalese security market is to make conducive environment for the access of the securities services, professionalism of the stock market and traders, institutional capacity and services not only in capital city but all over the country.

- ◆ Next thing investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market.
- ◆ Still the next important and urgent action to be taken to develop security market is to make clear-cut arrangements for regulations concerning the involvement of Employees' Provident Fund, Citizen's Investment Trust, Construction, Extractive and It sector and Mutual Fund in security market.
- ◆ Sufficient publicity as to the security market and its benefits to the investors and general public is also an important thing to upgrade the present state of Nepalese security market. But this is a least important action, as viewed by the respondents, in comparison to others mention above.

5.3 Recommendation

- To issue common stock as source finance is relatively easy for Issuer Company since investors like to hold common stock as compare to other securities. However, debt market should be upgraded so that issue of debt capital would be easy, as any company with equity capital only cannot take advantages of leverage.
- Debt and preferred stock are the kind of securities that are less preferred by Nepalese investors because of less variety. This demand for dynamic debt market with a good maturity mix of the debt securities. For this, policy making body and other related institution should pay their attention.
- Investors prefer to invest in those securities whose overall company performance is outstanding. This suggests that development of security market is not only the matter of investor's awareness but also a thing of company's performances. This calls for the new initiatives from the part of Nepalese companies to enhance their deteriorating performance.

- Investor seem to be less aware as to security market and its functioning, this calls for the initiation of the awareness program to make prospective investors fully aware and informed as to the security market.
- Most of the investors in Nepal have one or other type of complaints against various types of institutions. These all the grievances should be handled promptly and reasonably otherwise the transparency, accountability and credibility of securities market will come to a difficult verge and the expense of which will be irrecoverable.
- Current condition of stock trader and market seems lacking professionalism hence it needs to be professional in trading stock in the market, like wise security services are bounded in the capital city only and this needs to be corrected by expanding the services in outskirts to that propels all the people in the country to participate in the investment activities that may result into the more developed security market.
- The Securities Ordinance 2005 has been enacted for the effective securities market regulation system. For the implementation of the ordinance, the necessary arrangement of legal provisions in line with international practices and the development of fair, dynamic and credible securities market is a challenging task. Company Ordinance, 2005 has provisioned trustee for the issuance of institutional debentures. However, in the absence of regulatory mechanism for the trustee another regulatory framework, there is a need for a separate Trust Act to promote joint venture investment, securities depository and other trustee work for the mobilization of financial resources from financial market. The act has not provided autonomy related employee and financial activities. It is necessary for the autonomy and capacity building of the board. It has to be immediately equipped with resources and manpower.

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APPENDIX-1

RESEARCH QUESTIONNAIRE

I hereby request you to fill up the questionnaire designed for proposed survey of the surveyor. The precious views and opinions from your side will be helpful for facilitating the research entitled “**A STUDY ON INVESTORS PREFERENCES ON SECURITIES**”. The views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

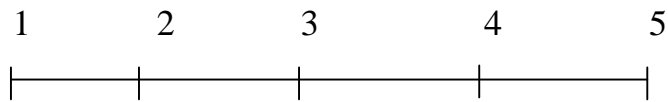
Name (Optional) _____ :
Address _____ :
Qualification _____ :
Occupation _____ :

1. Please consider the following financial instruments in Nepalese security market, Place a number that best describe your preference on a scale of 1 to 5 on the line before each of these securities.

1	2	3	4	5
----- ----- ----- -----				
Most preferred				Least preferred
1. Common stock		_____		
2. Preferred stock		_____		
3. Debentures/Bonds		_____		
4. Government Bonds		_____		

2. Following are the eight industrial sectors. In your opinion, which of the sectors is attractive so far as the matter of investing in securities is concerned? Please rank in order of their attractiveness as per the given scheme.

More attractive _____ Least attractive _____



1. Bank..... ()
2. Development bank..... ()
3. Finance..... ()
4. Hotel ()
5. Manufacturing and Processing Company..... ()
6. Insurance Company ()
7. Trading Company ()
8. Others..... ()

3. Which of the followings best matches with your investment purposes?
Please rank in order of their importance to you.

- ◆ Sufficient return..... ()
- ◆ Less risk..... ()
- ◆ Marketability..... ()
- ◆ Social status..... ()
- ◆ Other (please specify) ()

4. Following are the some of the features of common stock. Please rank in order of their following importance to you.

1. Power to exercise rights.....
()
2. Participation in management.....
()
3. Sense of ownership.....
()
4. Participation in earnings.....
()

5. Bulk transaction.....
 ()
6. Marketability.....
 ()
7. Others (please specify)
 ()

5. In Nepalese capital market, financial instruments except common stock have not been used frequently. How far do you agree/disagree with the following reasons of not using debt and preferred stock as frequently a common stock? Please make a tick mark as the appropriate number as per the following scheme:

1= strongly agree, 2= agree, 3= don't know, 4= disagree, 5= strongly disagree

S. No	Statements	1	2	3	4	5
1	No provision of handsome return that compensates the perceived risk of investors.					
2	These financial instruments provides only certain return					
3	Overburden of legal formalities					
4	Due to the lack of professional practices.					
5	Lack of marketability and liquidity					
6	No legal protection on favor of investors					
7	Due to the lack of wide varieties in these kinds of securities					

6. Followings are some descriptions about different types of bonds. Which bond(s) do you prefer most? Please rank in order of their importance (If you prefer bond).

1. Bond that gets you participates in profit and loss.
2. Bond that adjusts promised interest rate according to the rate in the market.
3. Bond that is pledged against the firm's assets
4. Simple debt that pay regular interest.

7. 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.

- ◆ Earnings ()
- ◆ Availability..... ()
- ◆ Rumours..... ()
- ◆ Company's overall performance..... ()
- ◆ Others (please specify) ()

8. What may be the main attraction of government securities? Please rank in order of their importance.

1. Risk free/safe..... ()
2. Advantages for portfolio construction..... ()
3. High interest rate..... ()
4. Less legal formalities..... ()
5. Protection against mal practices..... ()
6. Others (Please specify) ()

9. When making investment decision, do you think, it is necessary to make risk and return analysis? Please make a tick mark in the box.

Yes 2. No 3. Don't know

10. Following are the general investment processes. Do you follow one or others process or processes please make a tick mark in the box.

	Yes	No	Don't know
1. Set investment policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Analyze security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Portfolio construction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Portfolio revision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Portfolio Performance Evaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which of the following legal provision is relevant in this regard?

1. The order will be assumed to remain outstanding for 15 days.
2. The order will be assumed to remain outstanding for 10 days
3. The order will be assumed to remain outstanding for 7 days.
4. The order will automatically be terminated.
5. The order is put aside to execute in the future.
6. Don't know.

12. If you did not receive sales proceeds from the concerned broker company within which period do you report it to Stock exchange?

1. Within 7 or 8 transaction days.
2. Within 8 or 9 transaction days.
3. Within 11 days.
4. Within 23 days.
5. Don't know.

13. If your order is purchase order and you did not receive financial security within the given periods. Which of the following statement is true in this regard?

1. Such case should be reported to stock exchange within one month.
2. Such case should be reported to stock exchange within 8 days.
3. Such case should be kept secret.
4. Nothing one can do with such a case.
5. Don't know.

14. Following are some of the observations that can be done to develop security market in Nepal. Please rank in order of their importance.

1. The access of the securities services, professionalism of the stock market and traders, institutional capacity and services not only in capital city.
2. Making clear- cut arrangements for regulations concerning the involvement of Employee's Provident Fund, Citizen's Investment Trust, construction, extractive and IT sector and Mutual Fund in security market.
3. Sufficient publicity as to the security and security market.
4. Amendment and strict implementation of current rules and regulations.
5. Others (Please Specify).

16. Following are the subject matter of grievances against Issuer Company that issues security in the primary market. Please make a tick mark on the subject matter related to you.

1. Issuer Company does not provide the prospectus/security purchase application form.

2. Company wants to influence unduly through prospectus and other advertisements.
3. Company does not provide the article of association, memorandum of association and other related documents for detail perusal.
4. Company rejects to receive the share application form duly filled by the investor.
5. Irregularities while allocating the security to the investors.
6. Others (please specify)

17. Make a tick mark on the grievances you have against Broker Company:

1. Unavailability of security order form or rejection of the order from the company.
2. No execution of the order given to the company.
3. Execution of order in the prices more or less than the price stipulated.
4. The company takes more commission/transfer fees than it is provided.
5. Wrong information as to the security and market.
6. Other (please specify)

18. Following are the subject matter of grievances against Nepal Stock Exchange. Please make a tick mark on the subject matter related to you.

1. Stock exchange does not inform to market as to the price sensitive information and financial statements.
2. Stock exchange does not provide the necessary information of the sold/purchase share.
3. It does not provide information relating to the membership, listing of securities and transactions etc.
4. Other(please specify)

THANK YOU FOR YOUR KIND COOPERATION.

APPENDIX-II

Table 4.1

Status of investor's preference and type of securities

Type of security	Rank					Median value	Overall rank
	1	2	3	4	5		
Common stock	23	18	6	2	1	1.11	1
Preferred stock	3	9	17	9	12	2.7	3
Debentures/Bonds	5	11	7	23	4	3.08	4
Government Bonds	19	11	2	13	5	1.54	2

Source: Field Survey, 2007, Kathmandu

Calculation:

Here the no. of Observations is 50 hence we calculate the Md as Follows:-

$$Md = l + \frac{N/2 - cf}{f}$$

Where l = lower value

$$N/2 = 50/2 = 25$$

Cf is cumulative frequency

F is frequency

In the above calculation we have done the calculation as :-

For Common Stock Md is calculated as:-

Rank(x)	Frequency(f)	Cumulative Frequency (cf)
1	23	23
2	18	41
3	6	47
4	2	49
5	1	50

Putting it in formula we get Md as

$$Md = 1 + \frac{N/2 - cf}{f}$$

$$Md = 1 + \frac{50/2 - 23}{18}$$

$$Md = 1.11$$

In the same way the other calculations are done in the problem and the other in the thesis.