

**A STUDY ON INVESTORS' ATTITUDE ON SECURITIES AND
THEIR ANTICIPATION OF EARNINGS**

By

MANISH PRADHAN

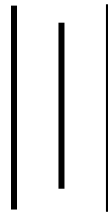
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***In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)
Kathmandu, Nepal
March 2011***

RECOMMENDATION

This is to certify that the thesis

Submitted by:

MANISH PRADHAN

Entitled:

**A STUDY ON INVESTORS' ATTITUDE ON SECURITIES AND
THEIR ANTICIPATION OF EARNINGS**

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

.....
Dr. Shilu Manandhar Bajracharya
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

MANISH PRADHAN

Entitled:

A STUDY ON INVESTORS' ATTITUDE ON SECURITIES AND THEIR ANTICIPATION OF EARNINGS

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A study on Investors’ Attitude on Securities and their Anticipation of Earnings**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Dr. Shilu Manandhar Bajracharya** of Shanker Dev Campus, T.U.

.....

Manish Pradhan

Shanker Dev Campus

Campus Roll No.: 800/061

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This study has been prepared for partial fulfillment of the requirement for the master degree in business studies. It is my privilege to complete this thesis entitled "*A study on Investors' Attitude on Securities and their Anticipation of Earnings*", which tried to analyze the investor's perception in Nepalese Security Market.

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Manish Pradhan

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ABBREVIATIONS

Co.	:	Company
Deb	:	Debenture
F/Y	:	Fiscal Year
Fin.	:	Finance
LTD	:	Limited
Manu. Co.	:	Manufacturing Company
NEPSE	:	Nepal Stock Exchange
NG	:	Nepal Government
NIBL	:	Nepal Investment Bank Limited
NRB	:	Nepal Rastra Bank
P. Share	:	Preference Share
Rs.	:	Nepalese Rupees
SEBON	:	Security Board Of Nepal
T-Bills	:	Treasury Bills
Trad. Co.	:	Trading Company
TU	:	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Each and Every managerial decision making is based on financial analysis. It covers the acquisition, utilization, control and administration of fund. Finance is concerned with the conversion of capital funds to meet the financial need of business organization. Financial management leads to the decision making most skillfully. Finance has become an important branch of any economy of which share market is a leading sector. In the short period, the field of finance has developed considerably securities raise funds in capital market that certainly helps to expand the national economy. Stock market is an important part of finance that encourages on the progression for the development of a country's financial sector. Especially in the capitalist market represents the development of a country's financial sector and it speed up the nation's economic growth.

Investment in its broadest sense means the sacrifice of current rupees (dollars) and resources for the sake of future rupees (dollars) and resources as every investment entitles some degree of risk. Two for an investor there are two types of alternatives which are inherent. He/she either can invest in real assets or in financial assets. May be, investment patterns, objectives and strategy may vary from investor to investor. 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" means shares, stock, bond, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government or securities as prescribed by Nepal Government by a notification published in the Nepal Gazette or receipts relating to

deposits of securities as well as rights and interests relating to securities (Security Exchange Act, 1983: 2a).

After reestablishment of democracy in 2046 B.S the government has introduced the liberalization policy for the economic and financial development of the country under the enhanced structural adjustment facility (ESAF), with the first amendment of the "security exchange act in 1992 A.D. the government initiated the policy to reform the capital market with amendment in the act.

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

The place where the securities like stocks, bonds, etc are traded is known as securities market. On the basis of maturities of the securities traded, there are two types of security markets – capital and money market. Security market facilitates the process of transferring funds from savers to investors and acts as mechanisms created to facilitate the exchange of financial assets. Stated in another way, it is the place where financial assets are traded. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. It is seemed that investors are lacking adequate information on the securities in the market to make decisions about what to buy or the price to pay. And being the emerging nations, the security market of Nepal is an inefficient market.

In early days of issuance, there were few investors, few securities to invest and the market 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 included as corporate security in 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 portfolio 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. Risk is defined as “a hazard; a peril; exposure to loss or injury.” whereas return is the total income or loss on an investment over a given period of time. 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.

Nowadays in Nepal too, securities are considered as the prime investment alternatives but mostly in urban and educated societies only. Today, there is an organized exchange market – *Nepal Stock Exchange* (abbreviated as *NEPSE*) for trading of securities from various corporate as well as government bodies. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities

Exchange Act, 1983. NEPSE has got its name after a series of modifications and amendments. While having a glimpse at its history, it extends back to 1976, when the government established Securities Marketing Center. Then it was converted into Securities Exchange Center in later years. During those years, the activities of the Center were confined only to trading of government securities. The Center was again converted into Nepal Stock Exchange in 1994, which is still in operation.

The securities in the Nepalese market comprises of Primary and Secondary Securities. Common stocks, preferred stocks, debentures (corporate bonds), government bonds, and treasury bills are the examples of Primary securities. However, the Secondary securities include bank deposits, life insurance policies, and units (like NCM Mutual fund and CIT units) (Shrestha et al., 2003). In Nepal, most of the corporations and companies have issued common stocks rather than debentures and preferred stocks, which are listed at Nepal Stock Exchange, where the secondary phase of transaction takes place. There are several efforts initiated from government as well as private sectors to increase the potential number of investors, to protect the rights and interests of the existing investors, and to foster financial and capital markets (<http://www.sebonp.com>). Mainly such efforts are reflected in the form of creation of investment environment, liberalizing securities registration and transaction, structuring and implementing tax system, development of financial system (instruments, intermediaries, and markets). In retrospection of the securities and the securities market in Nepal, the issue of securities and their trading in secondary markets can still be regarded in infancy.

However, there are no specialized investment companies in Nepal responsible for collecting money by selling units to the investors and investing in portfolio of securities.

Only NIDC Capital Markets and Citizen Investment Trust are performing the functions of Investment Company in Nepal. Till 1997, there were no specific regulations to govern mutual funds in Nepal. Companies' Act and Securities

Exchange Act used to govern it. In view of the growing need for the specific regulation for the establishment and operation of trust fund, Nepal Government enacted Securities Investment Trust Act, 1997.

The capital market consists of primary and secondary market. The transaction is called primary market. The financial market in which security are initially issued, the only market in which the issuer is directly involved to the other hand. Transaction is called primary market. On the other hand, the secondary market is that financial market in which pre-owned securities (those that are not new issues are traded). The best example of secondary market (also called stock market) is organized stock exchanges like NEPSE in Nepal. The stock exchange has important function as a ready market for securities. It ensures their liquidity and thus encourages people to channel savings into corporate investments and as pricing mechanisms. It allocates capital among firm by determining prices that reflect the true investment value of a company's stock.

1.2 Statement of the Problem

Investors in Nepal have been found relating it to gambling and speculation. However, it is very different from speculation and gambling. It is the process of rational decision-making. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation.

People from rural areas are totally unknown about the securities because they are almost illiterate. Also in urban areas, very few people with business and intellectual family backgrounds bear some understanding on it. This is a problem of our whole nation Concentration of wealth in a few hands is also one of the major reasons behind backwardness of societies. We can out rightly categorize people on the basis of difference in income, living standard, and educational status. There is a wide economic gap between rich and bourgeois. Investing on various financial instruments forming efficient portfolios helps in reducing such gap by generating sufficient passive income to the small investors.

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 if they invest in securities, they don't behave rationally. Instead, they invest in without proper analysis and judgment of the risk and return leading their decision to atheism. 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.

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 (Francis, 2001: 209). 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 stocks to invest in.

Furthermore, there are limited numbers of securities to construct portfolios, and investors lack organization responsible for analyzing the securities technically as well as fundamentally. Despite of the 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 is the investors' trend of investment on securities?

- What are the prospects and challenges of security investment in Nepal from the Investor's view point?
- What forms of earnings do the investors' desire?
- What are the factors that most influence investors' attitude and their anticipation of earnings?

1.3 Focus of the Study

Risk and Return of common stock is the major factors, which help in making decisions about investment on securities of the companies. The main focus of the whole study surround to the investor's periphery with their attitude and their anticipation of earnings. Investors basically prefer to get good expected return from their investment .And in the efficient market only the investors are rational. So, the investors should be efficient enough to recognize the potential for excess return. The most important condition for market is to know what the preference of the investor is. Thus, it is necessary to give guidelines frequently to the companies and investors for economic strength of the nation and ensure to give sound expected return to the investors for making investment meaningful and rewarding.

Securities market plays vital role in Nepalese Economy. It effects the whole economic environment of the Nation. Security market is one of the prominent sources for the economic development. So, the existing and potential investors are the biggest assets of the nation. Hence this study focuses to provide information about the present condition of investor attitude and their anticipation of earnings.

This study tries to find out the different prominent factors of the investors. Actually it focuses much more towards the investors and with regard to their attitude and their anticipation.

1.4 Objectives of the Study

The general objective of conducting this research is to study the behavior pattern, preferences and investing trend of people in regards to securities and 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 the investors trend of investment and attitude of investment on securities.
- To study the criteria adopted by the investors while making decision on securities investment.
- To reveal the earnings kinds investors desired from securities.
- To suggest and recommend on the basis of major findings decisions.

1.5 Significance of the Study

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

Regarding the problems inherent and stated above, this study may act as a guideline to introduce the securities issued in the market, and the earnings associated with them to the investors. On the basis of study of investment trend, behavioral analysis and investors' earnings preference, we can infer certain core ideas on investors' attitude towards securities. Thus, it will be beneficial for the potential investors and the prospective issuers too. As a result, the trading of capital market may expand both in volume and value. Instilling positive attitude on securities and enticing the investors on taking rational decision is thus its major significance. In another way, it may also help in bolstering the earnings of minority investors and thus helps reduce the widening gap prevailing in our society. Hence, somewhere there lie 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.

1.6 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 may carry following limitations:

- This study is based on primary as well as secondary sources of data. Accordingly, investors may not give the authentic and needed information as much as they are expected to be. They may not even respond to some questions. In such cases, certain intuitions have to be made.
- Most of the data is based on common stock investors and NEPSE is the prime study area.
- This is a descriptive research where the behavior and attitude of investors are studied. So, there is more use of qualitative rather than the quantitative techniques of analysis. Thus, the use of statistical tools are limited.
- All deciding factors for the investment in securities are not incorporated.
- The main objective of this study is to fulfill partial requirement of Master Degree.
- Reliability of this study depends upon the accuracy of published data and the genuineness of respondent.

1.7 Organization of the Study

This study has been divided on the following five chapters.

Chapter - I: Introduction

In this chapter, there is detail introduction regarding the investor's attitude and their preferences to the financial instruments as well as there is detail summary about the current security market of Nepal and also it is cleared that why study is needed.

Chapter - II: Review of Literature

In this chapter, the clear review regarding investors, their types, investment process as well as investment alternatives are showed. Also, relations of risk and return have

been shown along with analysis. This chapter also reviews the various unpublished thesis on the similar topic.

Chapter - III: Research Methodology

This chapter is the backbone of study which consists from where and how the data are collected. What are the tools of analysis are clearly mention in this chapter.

Chapter - IV: Data Presentation and Analysis

In this chapter, all the collected information whether it is primary or the secondary data are analyzed through hypothesis testing along with table and figure.

Chapter - V: Summary, Conclusion and Recommendations

This chapter mentions the summary of all the study. It also consist conclusion and the recommendation after finishing all the analysis

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with review of the existing studies related to research topic in more detail and descriptive manner. Under this part, compilation of the various texts, journals and terminologies related to investors have been made. The primary purpose of literature review is to learn not to accumulate. The whole chapter is divided clearly into two parts:

- Theoretical Review
- Review of Related Studies

2.1 Theoretical Review

2.1.1 Investors

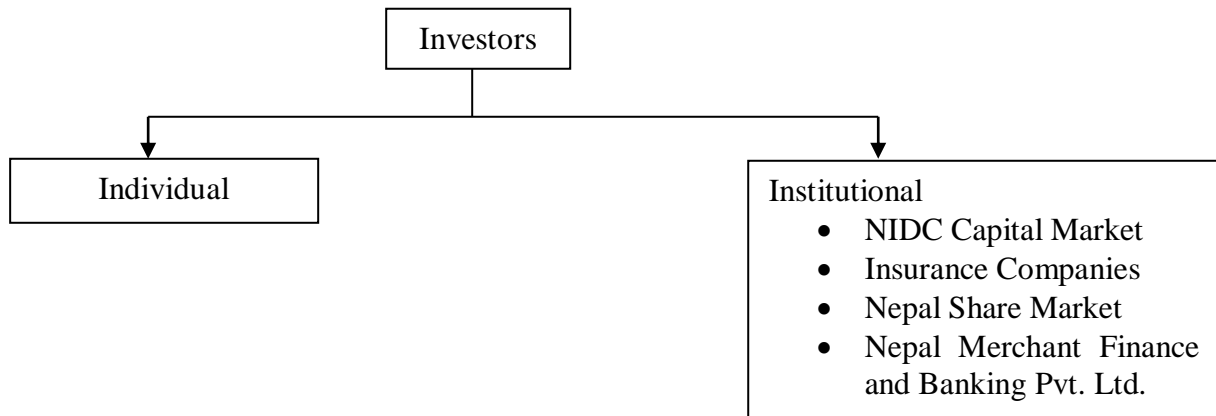
Investors are defined precisely as those who supply capital to the capital market. In financial parlance, they are known as individuals or institutions buying shares of stock in a firm or lending money to a business. They are the people who look forward to making money over a long period of time in the 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, 2002: 527). However, our part of discussion is only on the individual investors.

2.1.2 Investors' Classification

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

Figure 2.1
Types of Investors



(Source: Subedi, 2003:25)

2.1.3 Institutional Investors in Nepal

Institutional investors are investing organizations that trade large volumes of securities, thereby commanding reduced commissions and other special treatment. They are also the pullers of funds. A substantial portion of daily trading is for the account of institutional investors such as banks, trusts, pension funds, insurance companies, and mutual funds. Institutional Investors are firms that trade large volumes of securities, including mutual funds, banks, insurance companies, etc.

The major institutional investors existing in Nepal are as follows:

- NIDC Capital Market
- Nepal Share Market
- Nepal Merchant Finance and Banking Pvt. Ltd.
- Insurance Companies

2.1.4 Individual Investors

The average 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.

Investment

An investment is a commitment of money that is expected to generate additional money. Every investment entails (involves) some degree of risk - in the sense that it requires a present certain sacrifice for a future uncertain benefit. Under investment analysis, examination of marketable financial instruments such as common stocks, preferred stocks, bonds, put options, call options, combination options, futures contracts on the traditional commodities, financial futures, and other investments, as well as the risks associated with each are performed (Francis, 2000: 1-2).

Investment can be made in two kinds of assets viz: real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. Whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc. However, we are not going to deal with the investment on non-financial sectors.

Investment is made in an anticipation of future return. Such a rate of return desired by the investors from their investment is certainly positive. The length of time from the date of investment to the final date is called planning horizon, investment horizon or holding period. In other words, investment implies the employment of the fund with the objective of realizing additional income or growth. And it includes sacrifice of current rupees and waiting for reward (Francis, 2000: 1ff). 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 is about your life and being able to live the way you want to live” (Subedi, 2003: 40).

2.1.5 Investors' Attitude on Securities

Investors' attitude 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 attitudes on securities are reflected by their views, behaviors and their conception as well as perspectives on investing the securities available in the market. The investment objective may vary from investor to investor. And such objectives set by the investors guide their securities selection criteria and investment horizon. The investment objectives act as the corner-stone of investment process. Some may invest in the securities just to set aside some portion of their savings to receive higher positive returns, some may invest to finance their children's education, and others may invest simply to generate the

desired wealth when it is needed or at the time of retirement. However, there is a consensus that most investments are undertaken to increase wealth. Also various theories suggest that investors do not have a single investment objective at any time. More succinctly, investors' attitude on securities means all the prospects, expectations, challenges, aspirations and perils that the investors feel at the time of investing in securities because of several factors such as changes in the market situation, political price and all changes in milieu of the securities behavior.

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

Investors who can manage risk in stocks never fear investing. "No risk no gain" is their motto. Research and analysis reduces the risk. Hasty investors do not like to engage in technical and fundamental analyses because they are more dependent upon lady luck. The next important factor is the skill to buy and sell at appropriate times. The skill does not come overnight but those who have it can tell you when to act (Subedi, 2003: 40).

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.

2.1.6 Investors' Attitude Towards Risk

Risk is defined as the possibility of suffering some form of loss or damage. It is the chance of unfavorable event (Shrestha et al. 2003: 49).

“Risk is defined as the variability of possible returns around the expected return of an investment” (Cheney and Moses, 1998).

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 (Weston et.al., 1999). 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 one 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.

$$E(R_j) = R_f + RP_j \dots\dots\dots (1)$$

Where,

$E(R_j)$ = Required rate of return for asset j.

R_f = Risk-Free- rate of return.

RP_j = Risk premium for stock j.

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 (Francis, 2004: 3-10). Some of the statistical methods that can be used to measure risk of an underlying financial asset are discussed below:

a. 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.

b. The Standard Deviation

The standard deviation (σ) 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:

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

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) 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 = $(\sigma_j)(\rho_{jM})$, 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.

c. 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.

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{E(R)}$$

The Beta Coefficient

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

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

$\text{Cov}(i,M)$ 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, 2004: 273-277).

Beta coefficient (β)	Stocks classification	Degree of risk
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).

2.1.7 Investment Strategy

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

Long Position

A long position involves simply buying and holding the assets in order to profit from any price appreciation, cash dividends, interest, or other income. This is the most popular investment strategy. A long position in a security is appropriate in anticipation of a rising price. A long position results in positive returns if the price of the stock increases, while negative returns occur for the short position. Long position is less risky than short position because the maximum loss on a long position is 100 percent, which would occur if the price declined to zero.

Short Position

Short sales allow investors to profit from a decline in a security's price. An investor borrows a share of stock from a broker and sells it. Later, the short seller must purchase a share of the same stock in the market in order to replace the share that was borrowed. This is called covering the short position. The short seller anticipates the stock price will fall, so that the share can be purchased at a lower price than it initially sold for; the short seller then reaps a profit. Short sellers must not only replace the

shares but also pay the lender of the security any dividends paid during the short sale. A short position offers more risk than a long position in the same security.

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

2.1.8 The Investment Environment

The investment environment encompasses the kinds of marketable securities that exist and the place and the process of buying and selling. The investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in, how extensive the investments should be, and when the investments should be made. To begin the investment environment, investment at first should be clearly defined. A distinction is often made between investment and savings. Savings is defined as foregone consumption; investment is restricted to “real” investment of the sort that increases national output in the future. Now, it is useful to make a distinction between real and financial investments. Real investments generally involve some kind of tangible asset, such as land, machinery, or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds. But the focus is on the various ways the resources come from to pay for the land and the construction of the apartments.

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

There are three main elements of the investment environment: securities (also known as financial investments or financial assets), security markets (also known as financial markets), and financial intermediaries (also known as financial institutions) (Francis, 2004: 1).

2.1.9 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 (Sharpe et.al., 2002: 10).

Investment policy is a combination of philosophy and planning. On the one hand, it expresses the investor’s attitudes toward important investment management issues such as, “Why am I investing in the first place?” or “To what extent am I willing to accept the possibility of large losses?” The answers to those questions will vary among investors in accordance with their financial circumstances and temperaments. Investment policy is also a form of long-range strategic planning. It delineates the investor’s specific goals and how the investor expects those goals to be realized. In this sense, investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor’s assets (Weston, and Brigham, 2003: 13).

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

Mission Statement

A description of long-run financial goals. For example, an individual might be focusing on savings for a child's college education. A pension fund might be intended to accumulate sufficient assets to fund promised benefits.

Risk Tolerance

The amount of risk that an investor is willing to bear in pursuit of the designated investment missions. An elderly retiree may have a relatively low risk tolerance. Conversely, a well-defined pension fund with a young work-force may have a relatively high risk tolerance.

Investment Objectives

The specific investment results that will indicate when the investment program has been successful. For example, an investor's common stock portfolio might be expected to perform at least as well as a broad stock market index over a multilayer period.

Policy Asset Mix

The investor's long-run allocation to broad asset classes, such as stocks and bonds. This choice is by far the most important decision that the investor makes and should be consistent with the investor's mission, risk tolerance, and investment objectives.

Active Management

The extent to which the investor attempts to "beat" the market by hiring investment management firms that analyze and select individual securities or groups of securities expected to exceed the performance of specified benchmarks.

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 (Weston and Brigham, 2003: 18).

2.1.10 Review on Basic Terms Associated with Investment

It is imperative to become well acquainted with the terms and provisions mentioned below to have some attitude on securities. "Securities" means shares, stocks, bonds, debentures, debenture stocks issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government or securities as prescribed by Nepal Government by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities (<http://www.sebonp.com>, Securities Exchange Act, 2040).

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 (Shrestha et al., 2003: 5).

There is an organization – SEBO/Nepal – solely responsible for advising Nepal Government 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 (<http://www.sebonp.com>). Besides, there are several

organizations that act as the stake to the investors and the securities transaction. NEPSE is the solely market for secondary transaction of securities.

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

2.1.11 Investment Alternatives or Financial Instruments Available in Nepal

Today, there are securities of 197 companies listed for trading in the Nepal Stock Exchange (NEPSE). Among the listed 197 common stocks, only 56 are included in the grade A companies on the basis of volume and value of their transactions in the market (<http://www.nepalstock.com>).

Also not mentioned here are preference shares issued by some companies.

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

Common Stocks

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

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

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

Treasury Bills

Treasury bills are short-term securities issued by the government which has a maturity period of maximum 91 or 182 or 364 days. They are normally issued on denominations of '000' and are sold on discount basis. In Nepal, it has been issued only by the Nepal Rastra Bank on behalf of Nepal Government. There is no provision for participating individual investors in its issue.

Certificate of Deposit

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

Banker's Acceptance

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

Government Securities

To meet the uncovered expenses, government offers debt securities to the public from time to time. Those securities offered to the individual and institutional investors are the least risky ones and provide lower returns to the investors in comparison to the returns received from other corporate securities. Government securities of Nepal are issued by NRB, the central bank of Nepal, on behalf of the government. Treasury bills, Development bonds, National Saving bonds and Citizen Saving bonds are important types of government securities in Nepal. Financial institutions (like provident funds, insurance companies), business enterprises and individuals invest on them. The total amount of government bonds outstanding was Rs. 28,241 million on mid-January 2002.

Corporate Bond

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

Corporate bond has not been popular investment alternative in Nepal. There are only two outstanding bonds (debenture) listed in Nepal Stock Exchange. One is Rs. 100, 8.5% 100,000 debentures of Himalayan Bank Ltd and the other is 19%.

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.

Figure 2.2

Investment Alternatives for Investors

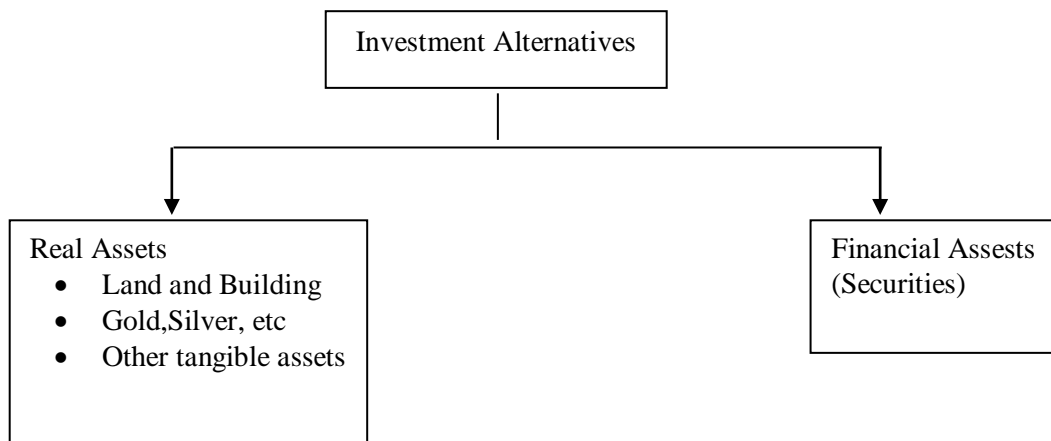
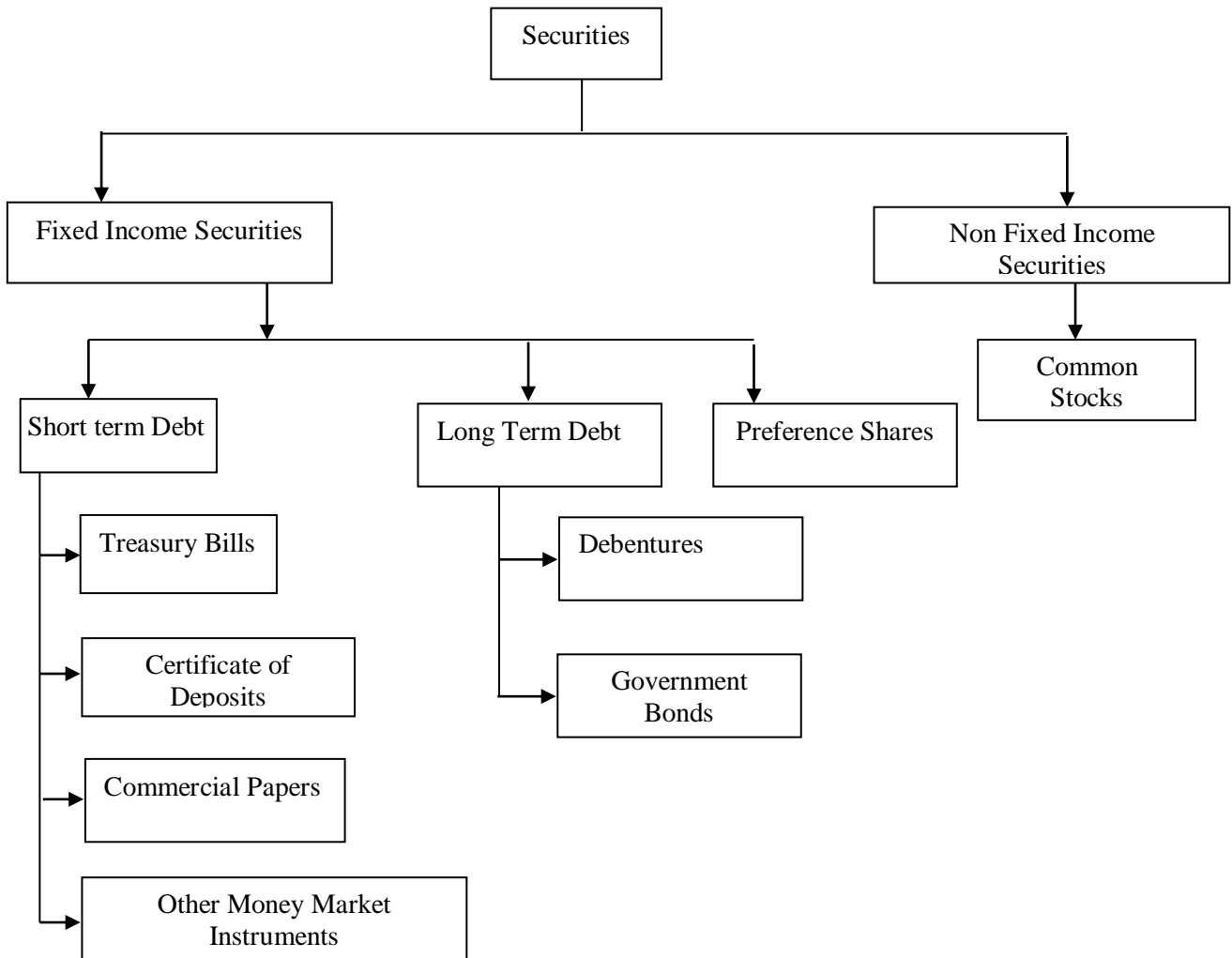


Figure 2.3
Types of Securities



(Source: Francis, 2003: 10)

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.

2.1.12 Factors to be Considered Before Investing in Securities

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 in 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 (Subedi, 2003: 317-318).

- 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

2.1.13 Earnings Associated with Securities

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

Dividend

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

Cash Dividend

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

Stock Dividend (Bonus Shares)

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

Interest

Interest is defined as the cost of funds used in the business. It is paid to the lender of loans. In public companies, the debt-holders also called bond holders or debenture

holders are paid in fixed amount as stated at the time of issue. It must be paid compulsorily irrespective of the profit or loss position of the company.

Capital Appreciation

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

Both these methods of analysis of securities can be deduced and included under the term quantitative analysis. When a securities analyst focuses on a corporation's financial data in order to project potential future performance, the process is known as quantitative analysis. This methodology involves looking at profit and loss statements, sales and earnings histories, and the statistical state of the economy rather than at more subjective matters such as management experience, employee attitudes, and brand recognition. While some people feel that quantitative analysis by itself gives an incomplete picture of a company's prospects, advocates tend to believe that numbers tell the whole story ([http://www.google.com/Individual Investors/Dictionary of Financial Terms](http://www.google.com/Individual%20Investors/Dictionary%20of%20Financial%20Terms)).

2.2 Review of Related Studies

2.2.1 Review of Journals/Articles

Nawaraj Baral(2005) 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

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 (The Kathmandu Post, Nepse trading up, albeit nominally, February 8, Sunday, 2004). 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 finance companies shares are being preferred by the investors.

2.2.2 Review from Previous Research

Badri Subedi (2003) on “*Investors Awareness in the securities Market in Nepal*” for the partial fulfillment of Masters of Business Studies in the year 2003 under Shanker Dev Campus, Tribhuvan University. The study had the following objectives:

- To examine the popularity of the securities among the general public.
- To find out whether the investors are adequately aware or not in the share trading.
- To trace out the investors attitude towards the share investment in comparison to investment in other sectors.

To achieve the objectives of this study, descriptive and analytical design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate awareness of investors in Nepalese security market and through analyzing following findings have been drawn out:

Out of the total investors 24.54 percent investors responded that there are better opportunities for investors in non- securities sectors while 75.46 percent responded there were better opportunities for Nepalese investors in securities sectors. Among these respondents, who choose securities market as better sector for investors, responded the banking, finance, insurance, manufacturing, hotel, trading and other

sectors are suitable for investment in ranking. Likewise, the respondents, who chose non- securities sector as better sector for investors responded the bank fixed deposit, fixed asset, business venture and other sectors are suitable for investment in ranking. They specify the nursing home and educational institutes.

18.05 percent of the respondents said that they are satisfied with the present availability of the information about the securities while 81.95 percent of the respondents showed their dissatisfaction about the present situation of the availability of the adequate information.

Companies are found unable to meet the target level as described in the prospectus as 14 percent of the investors said that listed companies are able to meet the target as mentioned in their prospectus while 86 percent of them said that they are not able to meet the target as mentioned in the prospectus.

The regularly activities of the regulatory authorities were found inefficient as 32 percent of the respondents responded that the regulatory activities are efficient while 68 percent of them opposed the response.

The status of grievances handling of the different institutions involved in share trading activities could not be considered satisfactory as 12.5 percent of the total respondents are found satisfied with the performance of the different institutions in handling the grievances of investors while 87.5 percent of them showed their dissatisfaction.

Most of the investors were found dissatisfied with the return they are presently getting from the stock investment as 23.61 percent of the total investors were found satisfied while 76.39 percent were found dissatisfied.

Friends and other sectors were found to be highly inspiring source to get the idea to invest in share while investors education program and brokers were found to be less inspiring sources to make investment in shares.

The regulatory aspect of NEPSE is found at low to maintain the fair share trading activities as 29.17 percent of investors were found satisfied with the regulatory activities while 70.83 percent of them were found dissatisfied with their regulatory activities.

The dividend and capital appreciation were found most inspiring factors for investors to invest in shares while social status and participation in AGM were found less inspiring factors whereas marketability was found to be moderately considerable factors.

The level of investors' awareness in the securities market was found at 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.

The rumor and whim is found highly and moderately 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.

Prasad Dangol (2004) had conducted a study on “*A Study on Investors Perception in Nepalese Stock Market*” for the partial fulfillment of Masters of Business Studies in the year 2004 under faculty of management, Public Youth Campus. The study had the following objectives:

- To examine the impact on the stock market as per the change of investors' perception.
- To examine whether investors' perception leads to growth of the stock market.

In order to achieve the objective Dangol used the secondary data as well as primary data in the form of questionnaire. And the data collected has analyzed by using the

different test and ultimately following major findings has been detected which are as follows:

- The interests of investors have been decreasing continuously towards the stock market. Regarding the revenue from the disposal of the stocks, 30.37% of individual and 55% of institutional investors reinvested on other shares/ stocks. And the remaining individual investors invested on other sectors after selling their stocks such as bank deposits, business, Government bond and others. The remaining institutional investors invested on other sectors after selling their stocks such as bank deposit, invested on business and others.
- The revenue dividends and capital gains from stocks were not also 100% reinvested on stocks. It was seen that 52.59% individual and 55% institutional investors' perceptions indicated that they did reinvest the dividends and capital gains in stock, 7.41% individual and 5% institutional investors indicated that their reinvestment depended on others situations. The remaining 40% of both types of investors indicated that they did not reinvest the dividend and capital gains in stock.
- The fluctuation of the stock price is the cause of the investors' perception. Actually, changing perception of investors' continuously pushes the price of the stock up and down. From the one sample runs test it was found that banks, manufacturing and others sectors have a negative trend in response to their share price. Similarly finance and insurance sectors have a positive trend in response to their share price. In aggregate, it was found that the NEPSE index has a negative growth. It indicated that the perception of the investors' led the growth of the stock market.

Kiran Pandit (2006) has conducted a study on "*Investors Preference and Financial Instruments in Nepal*" for the partial fulfillment of Masters of Business Studies in the year 2006 under People's Campus, Tribhuvan University. The study has the following objectives:

- To explore widely used financial instruments in Nepal.
- To study the primary issues in Nepalese Financial Market.

- To analyze the preferences of the different investors of Nepal and to know what type of instruments the investors prefer the most.

In order to achieve the defined objectives, Pandit has combined descriptive, exploratory and analytical methods. By the help of these followings has been drawn:

- The issuance of corporate securities made since 1993/94 shows that around 76% of total issue is covered by common stock is the most widely used corporate security. Government issues, show that Treasury bills are the mostly used government security, which covers around 39% of total government issues.
- Corporate securities, government securities, real estate and bullion are considered as the major investment alternative. Among them, corporate securities are found to be the most preferred investment alternative. Preferences over these alternatives in terms of different categories of investors were also found similar. However, as per the size of investors, small investors showed high preference toward real estate also. Similarly, the employed investors preferred the corporate securities whereas unemployed preferred real estate.

To focus more on financial instruments, common stocks appeared as the most preferred financial instrument. Preferences of different categories of investors, as well as different size of investors were also found similar. As per the issuance agreed that the capital market heavily depends upon common stock. Investors also agreed that the capital market lacks the choices. It means financial innovation is really lacking in Nepalese financial market.

- Results showed that investors prefer banking and financial sector very much in comparison to other sectors. Analysis of subscription ratios showed that the issues of financial institutes are highly over subscribed in the primary market. In the secondary market trading also, last five years trading volume shows that more than 55% of trading volume is covered by the shares of commercial banks.
- Growth (capital gain) was found to be the most preferred investment objective for all type of investors. When only stock investment was considered, then also

investors preferred capital gain. Bonus shares appeared as the second preferred objective of the stock investment.

- More than 30% respondents have never invested on government securities. Majority of those who have invested said that they have invested because of safety. Those who are aware and have invested in government securities disagreed that the low yields make government securities unattractive to individual investors.
- Most of the investors were found educated but education has nothing to do much with the knowledge of market and investment opportunities. Investors have agreed that they are guided by whim and rumor (IPA: 0.694), and investors disagreed (IPA: 0.446) that they do detailed analysis before investing. Only 37.7% were found who consider the factor like forecasted profits of the companies while investing. Awareness toward the derivatives is found to be very poor. 58.2% of respondents said they have not ever heard about derivatives.
- When alternatives with increasing risk and return, were asked to select. Majority of investors selected alternative with moderate risk and return.

Surakshya Shrestha (2009) has conducted a study on “*Investors Attitude and Anticipation of Risk and Return With References to Finance Companies*” for the partial fulfillment of Masters of Business Studies in the year 2009 under Nepal Commerce Campus, Tribhuvan University. The study has the following objectives:

- To study on investor’s attitude towards securities of finance companies.
- To study and analyze the existing situation of portfolio management of listed finance companies in Nepal.
- To study volatility of different stocks of finance companies.
- To recommend few key particles implication based on analysis of the data.

In order to achieve the defined objectives, financial and statistical tools have been used to draw following findings:

- Without proper analysis of individual security, portfolio security, industry and overall market, it is almost impossible to beat the stock market. General

knowledge about political, economic and technological trend is more advantageous.

- Stocks have greater volatility risk than other investments. Stocks take a random and unpredictable path. Obviously, stock market is undoubtedly risky in the short term.
- The higher risk of common stock may have greater possible return i.e. finance companies stock providing higher return for higher risk.
- It is found that in most of cases portfolio management of listed finance companies in Nepal is not systematically organized.
- It is found that the process of determining the division of a corporate investor's portfolio among variable classes heavily based on experience.
- It is found that to reduce the portfolios risk most of corporate investors use diversification across industries technique.
- It is found that the major objectives of portfolio management are to minimize risks.
- It is found that generally 2.5 years' time horizon is appropriate for profit in most cases.
- It is found that 75% to 25% stock bond mix is selected by majority corporate investors.
- In Nepalese stock market, it is found that passive portfolio strategy is more suitable than active strategy to achieve better results.
- It is found that majority of corporate investors depends on fundamental analysis than technical analysis portfolio securities selection.
- Corporate investors revise portfolio time to time using experience.
- It is found that corporate investors think portfolio evaluation is necessary but lack of specific knowledge they depend on conventional method.
- It is found that for the effectiveness of portfolio management finance companies in Nepal stock market should be developed, training and development program about portfolio management should be conducted.
- The first hypothesis (t-test) is based on the test of significance of different

average returns (i.e. finance companies return & market return) has been executed to test whether overall return of common stocks of finance company is equal to the market or not. Thus over the study period, it was found that the alternative hypothesis (H1) is accepted i.e. average return of the common stock of listed finance company is not equal to market portfolio return.

2.3 Role of Information in Shaping the Attitude of Investors on Securities

Market information is an essential matter to the present and potential investors to know about the capital markets, especially about the listed companies' right information in the right time and at the right place (Sharpe et al., 2002: 9).

Investment being an information-oriented subject, most of the investors undertakes their investment decisions guided by the quantity and quality of the information on the basis of expectations for the future. In plight of this, investors need to know the characteristics of various investment alternatives and must be informed on the procedures of how they are traded institutions and markets where they are available. Various public and private, published and unpublished information need to be sorted and analyzed. All these tasks of investors are reflected in the security analysis performed by them before investing in securities.

There are two broad categories of information: **Internal and External**.

Internal information consists of data and events made public by firms concerning their operations. It mainly takes the form of interim and annual reports to shareholders, and public and private statements of the officers and managers of the firm. The principal information sources generated initially by a firm are its financial statements.

External sources of information are those generated independently outside the company. These sources provide supplements to company-generated information by overcoming some of its bias such as public pronouncements by its officers. The external information sources also provide certain kinds of information not found in the materials made available by companies themselves (Fisher and Jordon, 1992).

2.4 Research Gap

Researcher found previous research related topic. All these previous research has given emphasis in Investors Attitude and their anticipation of Earnings, and they pointed out that investors attitude are quite different on the basis of their races and education level. It is found that some investors attitude are quite historical that they do not do any analysis and invest on according to the past data, on the other hand some made both analysis fundamental and analytical and they invest on the investment alternative. Most of the investor preferred the common stock but none of them had tried to analyze in micro level that's why choice is lacking. Most of them have found that they invest in security due to the whim and rumor. In the collection of primary data, it was found that they invested in purchasing the banking sector share because it will provide a lot of return, they never analyze which bank is financially in weak condition, risk imposed on investing in that bank and so on. This is the case of Kathmandu valley, than what to imagine the awareness level of investors outside the Kathmandu valley. In this context how the company feel safe to issue new type of security to the general public and it is believed that one third of investor are outside of Kathmandu valley. Most probably, I personally think that due to this reason the companies are depending only on these limited securities for collecting the funds, and this will continue for couple of more years.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology describes the methods and process applied in the entire aspect of study. Research methodology is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. "Research methodology refers to the various sequential steps (along with the rationale of each such step) to be adopted by a researcher in studying a problem with certain object of view". So it is the method, step and guidelines, which are to be followed in analysis and it is way presenting the collected data with meaningful analysis.

3.2 Research Design

In order to conduct any type of research, a well-set research design is indispensable to meet the objectives of the study. In general, research design means definite procedures and techniques which guides the study and provides ways for research viability. It is arrangements for collection and analysis of data. To achieve the objectives of this study, both descriptive and analytical research design have been used. The data have been collected, presented, organized, and analyzed. In addition various descriptive techniques have been adopted to evaluate attitude of investors on securities. Based on those, some generalizations have also been made and necessary recommendations have been provided at the end. The collected primary data had been represented in the tabular form, sorted and infiltrated, analyzed, and concluded. As far as possible, the numerical data had been revealed in respective suitable bar diagrams.

3.3 Population & Sample

Investors, brokers, staff members of SEBON and NEPSE and other related parties to securities market are the total population of the research. Stratified and purposive sampling methods have been used to select the samples.

All the companies listed in NEPSE have been considered. Professional investors are the investor who is engaged as buying and selling of securities. Brokers are the person who acts as a middle man for trading of securities. The staff members of SEBON and NEPSE have also been considered.

The samples under study are as follows:

S.N.	Categories	Samples	Responses
1.	Investors	95	80
2.	Brokers	15	12
3.	Staff members of SEBON & NEPSE	10	10
	Total	120	102

There are indefinite numbers of investors. Total population size of the investors includes those indefinite numbers. Only 95 investors are selected for this research under which 80 responded. There are altogether 23 licensed brokers and out of which 15 is selected for the sample but 12 of them responded. Likewise only 6 officers of SEBON and 4 officers of NEPSE are selected as samples and all of them gave a response.

3.4 Nature and Sources of Data

Both the secondary data primary data have been used in order to complete the objective of the study.

Secondary Data Collection

It is an indispensable source of data for literature reviewing. Various abstracts from websites, textbooks, articles, journals and publications related to securities and its investors were consulted and reviewed in various institutions, organizations and

concerned people as well. I think this will certainly help in understanding the current trend of investment and attitude of investors towards securities along with the returns desired by them. In this way, the literature part will be prepared.

Primary Data Collection

On this part of data collection, both structured/unstructured questionnaire methods have been used. The related individuals – existing and potential investors – were given the schedule of questionnaires to fill in through direct personal visit. Primary data were acquired using questionnaires and interviews from investors, brokers and staffs of NEPSE and SEBO/N. However, the individuals had been selected on a judgmental basis. As far as possible, efforts are organized to minimize or avoid biasness and technical errors. Also, the related experts had been consulted frequently. In the course, direct e-mail or telephone enquiries had also been used. Moreover, NEPSE and SEBO/Nepal were visited frequently. Thus, most of the data are of primary in nature regarding the subject matter as per the requirement of this thesis.

Some inferences and generalizations have been made in the course of preparation of report as demanded by the situation. For the purpose of organization of data, some modifications have also been levied without manipulating the core intention of the respondents.

3.5 Data Collection Technique

Secondary data and information are collected from the annual report published by NEPSE, SEBON and NRB. For collecting primary data and information, the schedules of questionnaire have been developed and provided to the investors and other related parties. Their opinion have been taken and used as vital information for this research.

3.6 Data Analysis Tools

The collected data information through primary as well as secondary sources correspondingly have been tabulated, categorized and analyzed by using appropriate statistical and financial tools. Tick mark and open- end questions are included in the

questionnaires. Many concerned personalities were interviewed in the course of collecting data to get relevant information. Data from questionnaires have been gathered and tabulated systematically and then have been analyzed using percentage. The comparative analysis has also been undertaken using graphs and chart. The responses of related parties of questionnaires have been presented according to question patterns in the columns of table with observed and expected frequencies. These observed and expected frequencies have been tested using chi-square test.

Chi Square test

In testing of hypothesis, chi square test has been used. Expected frequencies were calculated by applying following formula:

$$E = \frac{RT \times CT}{N}$$

Where,

RT = Row Total

CT = Column Total

N = No. of observations

Calculated values of chi were calculated by applying following formula:

$$\text{Chi} = \sum \left(\frac{O - E}{E} \right)^2$$

Where,

O = Observed Frequency

E = Expected Frequency

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter includes the analysis of secondary and primary data along with their result and interpretation. This chapter is divided into three sections. The first section includes the presentation and analysis of secondary data. The second section includes the presentation and analysis of primary data collected from different respondents. And third section encompasses the major findings of the study.

4.1 Presentation and Analysis of Secondary Data

In this section presentation, analysis and interpretation of secondary data is conducted. Secondary data have been collected from the NEPSE trading report, SEBON annual report and the web site of NRB. The main purpose of the study is to examine the preference of investors regarding different financial instrument, which is issued in the market. On the basis of the security, which is issued in the market, broadly we can have mainly two types of security one is corporate security and next one is Government security.

4.1.1 Corporate Securities

Table 4.1
Issue of Corporate Securities

(Rs. In Million)

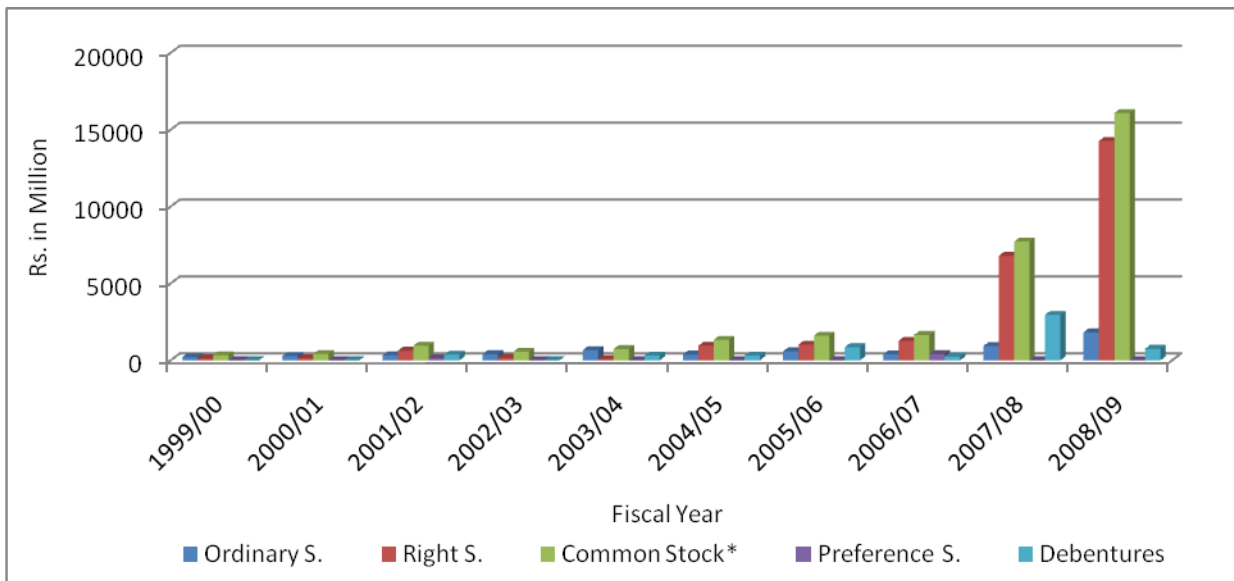
F/Y	Ordinary Shares	Right Shares	Common Stock*(Rs.)	Preference Shares (Rs.)	Debentures (Rs.)	Total (Rs.)
1999/00	202.30	124.60	326.90	0	0	326.90
2000/01	278.70	131.80	410.50	0	0	410.50
2001/02	319.50	621.90	941.40	140	360	1441.40
2002/03	394.30	162.20	556.50	0	0	556.50
2003/04	657.50	70.00	727.50	0	300	1027.50
2004/05	377.50	949.30	1326.80	0	300	1626.80
2005/06	579.80	1013.5	1593.30	0	850	2443.30
2006/07	380.30	1265.30	1645.60	400	250	2295.60
2007/08	924.80	6793.40	7718.20	0	2950	10668.20
2008/09	1815.70	14262.81	16078.51	0	750	16828.51
Total	5930.40	25394.81	31325.21	540	5760	37625.21
%	15.52	66.48	82.00	1.41	15.24	100
Rank			1	3	2	

(Source: SEBON Annual Report 2008/2009)

* -Includes both Ordinary shares and Right shares

The table 4.1 shows that the amount of different corporate securities that are issued in different times (from fiscal year 1999/2000 to 2008/2009) in Nepalese financial market. The total amount figures Rs.37625.21 millions. Table shows that Right shares have the largest share in the total amount i.e. 66.48%, and then comes Ordinary shares, Debentures & Preference shares. These instruments are ranked in terms of their coverage in their total amount. The ranks show that Common stock is in first rank, debenture in the second, and Preference in the third.

Figure 4.1
Chart of Corporate issues



The column chart presented in figure 4.1 shows the issues of corporate securities made in capital market of Nepal since 1999/2000 .Columns represent the corporate securities of different year. It is clear from the figure that common stocks are the most widely used and the preference stock is the least one, which is hardly seen in the figure.

On this basis, it can be concluded that those common stocks are the most widely used corporate security. Similarly, preference stock is a least used instrument (with 3 rank), in Nepalese financial market. It means that capital market of Nepal is heavily dependent upon the equity instruments. Financing from the other instruments is still very small as compared to equity instrument.

Issuance of just three types of securities reveals the fact that our capital market is really very poor on the matter of varieties of corporate securities. Nepalese capital market is fully dependent upon these traditional types of securities. Financial securities innovation is lacking in Nepal's capital market.

4.1.2 Government Securities

Table 4.2
Issues of Government Securities

(Rs. In Million)

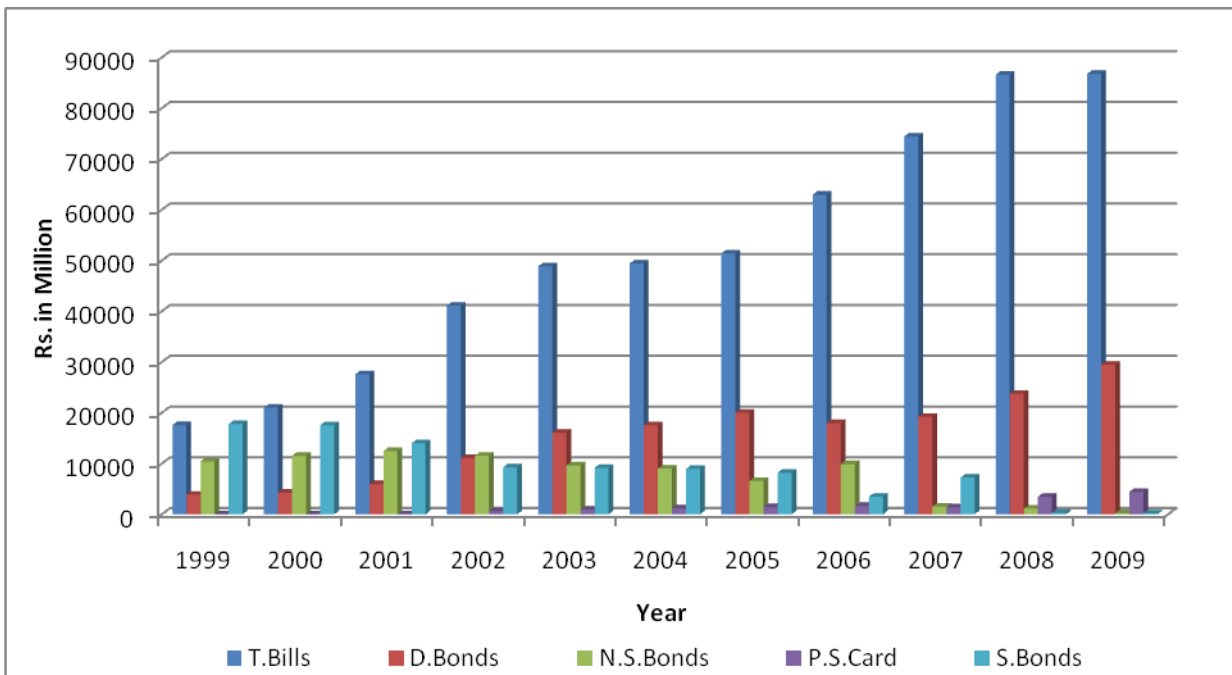
Years	T.Bills (Rs.)	D.Bonds (Rs.)	N.S.Bonds (Rs.)	P.S.Card (Rs.)	S.Bonds (Rs.)
1999	17586.90	3872.20	10426.40	0.00	17784.20
2000	21026.90	4262.20	11526.50	0.00	17541.40
2001	27610.8	5962.3	12476.4	0.00	13994.30
2002	41106.5	11090.70	11536.10	628.10	9259.30
2003	48860.70	16059.20	9629.80	931.10	9164.50
2004	49429.60	17549.20	9029.80	1178.90	8946.20
2005	51383.1	19999.2	6576.8	1428.9	8176.3
2006	62970.3	17959.2	9876.8	1678.9	3469.8
2007	74445.3	19177.1	1516.9	1391.0	7245.7
2008	86609.02	23735.43	1116.92	3466.58	287.76
2009	86775.08	29478.5	216.92	4433.64	204.16
Total	567804.2	169145.23	77929.34	15137.12	96073.62
%	61.31	18.26	8.41	1.63	1.04
Rank	1	2	3	4	5

Source: NRB Directives 2008/2009

* includes IMF Promissory Notes

Similarly, if we see the scenario of Government securities, in table 4.2, we can see Treasury Bills come in the first rank and Development Bonds come in second rank, in terms of percentage coverage in total amount of government securities issued in the year 1999-2009. N. S. Bonds are in third place with the coverage of 8.41% of total amount of government securities issued, and then come National Saving Bonds and Public saving cards. Public saving cards were issued for the first time in 2002. Its contribution is quite small so it is in fifth rank.

Figure 4.2
Chart of Government Issues



The column chart presented in figure 4.2 displays the trends of issuance of various government securities. In the figure we can see the Treasury bill is in increasing trend and the Development bond is also increasing from couple of years. Special bonds and National saving bonds are also increasing but in recent years they are decreasing. Public saving cards line is in very low level.

From these analysis it can be concluded that Treasury bills and Development Bonds are the most widely used government securities and Public saving cards are the instrument which is new than others. Development bonds though its coverage is quite small and it is in declining stage.

4.2 Presentation and Analysis of Primary Data

This section includes the presentation and analysis of primary data collected from different respondents. The primary data have been collected through the questionnaires distributed to the staff members of NEPSE & SEBON, Broker and investors. The collected data have been presented in the table and figure and then analyzed. The purpose of the analysis of primary data is to achieve the objectives of the study.

4.2.1. Investors' Preference: Instrument Wise

Table 4.3

Investor's Preference: Instrument Wise

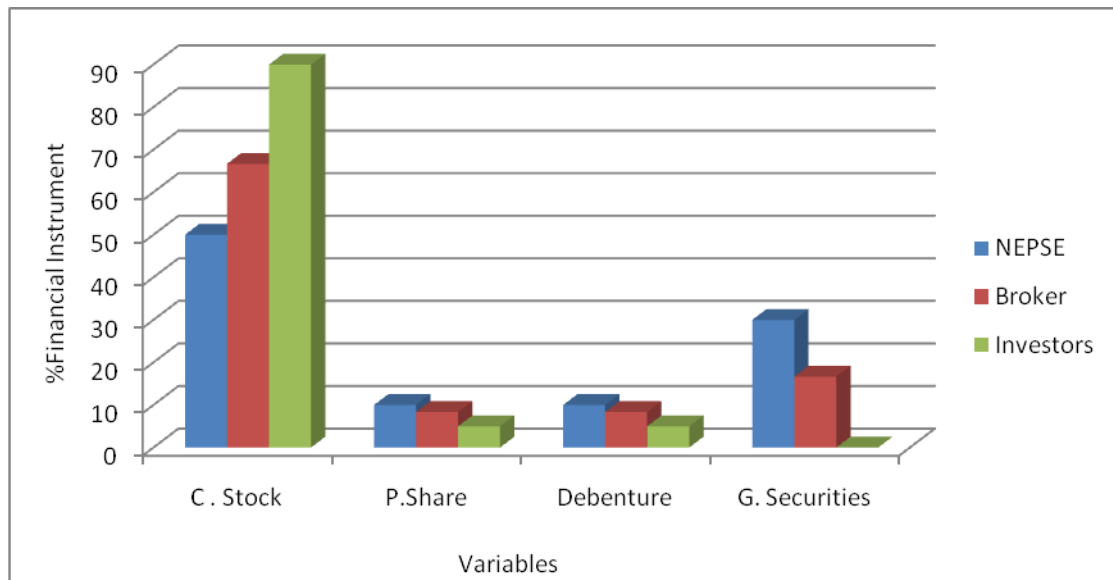
S.N.	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1.	C. Stock	5	50	8	66.67	72	90	85	83.33
2.	P. Share	1	10	1	8.33	4	5	6	5.88
3.	Debenture	1	10	1	8.33	4	5	6	5.88
4.	G. Securities	3	30	2	16.67	-	-	5	4.91
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 1)

In the above table 4.3, it is clearly given the respondents view regarding the different financial instrument. Majority of the respondents (83.33%) stated that the Nepalese investors preferred to invest in common stock, 5.88% of the respondents stated that the preference of investors on to invest in debenture and preference share. 4.91% of the respondents stated that the preference of investors on to invest in government securities. Comparison of the responses of each responding group also majority of responses 50%, 66.67%, 90% of staff of NEPSE and SEBON, broker and investors respectively prefer to equity in Nepalese market and likewise in same way each respondents prefer the debenture and preference share in the low volume.

Figure 4.3

Chart showing Investor's Preference: Instrument Wise



The column chart presented in figure 4.3 clearly depicts the preference of investor regarding the common stock, preference share, and debenture and government bonds. In the figure we can see that most of the investor prefer the common stock and after the common stock they go for the Government bonds whereas they least prefer the preference share and the debenture.

On the basis of all these things finally, we can say that most of the investor gives the preference towards the common stock and after that they go for the government bonds and the least coverage of the investor goes for the preference share and the debenture.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi-square test has been used. The computed chi-square value is 23.365 and the critical value at 5% level of significance for d.f., $v=6$ is 12.592 (Annex –II). The computed value is greater than the critical value. Therefore, it can be stated that there is significant difference in the opinions of different responding groups. Thus, the responses of different groups are different regarding the investor preferences.

4.2.2 Investors' Preference: Sector wise

Table 4.4

Investors' Preferences: Sector wise

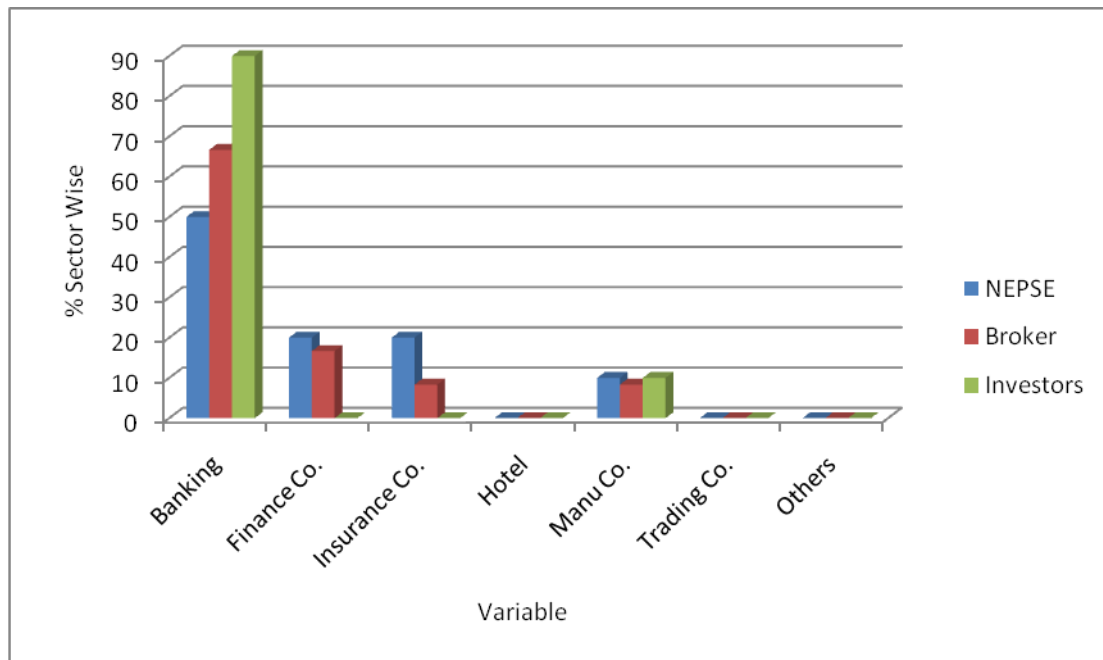
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Banking	5	50	8	66.67	72	90	85	83.33
2	Finance Co.	2	20	2	16.67	-	-	4	3.92
3	Insurance Co.	2	20	1	8.33	-	-	3	2.94
4	Hotel	-	-	-	-	-	-	-	-
5	Manu Co.	1	10	1	8.33	8	10	10	9.81
6	Trading Co.	-	-	-	-	-	-	-	-
7	Others	-	-	-	-	-	-	-	-
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 2)

We can see from the above table 4.4 that the majority of the opinions (83.33%) supported banking sector investment, 9.81% respondents stated that Nepalese investor prefer manufacturing companies. Then 3.92% respondents prefer finance companies and 2.94% investors prefer insurance companies. We can also see that none of the investor prefers the hotel sector and trading company .Majority of respondents 50%, 66.67% and 90% from staff member of NEPSE and SEBON, Broker and Professional Investors respectively stated that Nepalese investors prefer to invest in banking sector.

Figure 4.4

Chart showing Investor's Preference: Sector wise



The column chart presented in figure 4.4 shows the preference of Investors according to the sector wise. Among the different sector it is clearly seen that the most of the investor prefer the banking, next most of them prefer the finance company, than after the issuance company, manufacturing company and the trading company. And we can see that none of the investor selects the hotel sector.

On analyzing all these aspects we can conclude that most of the investor preference is on the banking sector than any other investment alternative whereas none of the investor interested to invest in the hotel sector and trading company.

Hypothesis Testing

To test whether there is significant difference or not between the responses of the NEPSE and SEBON, Broker and Professional investors, the chi square test has been used. The computed value of chi square is 30.3238 and the critical value at 5% level of significance for d.f., $v=8$ is 15.507 (Annex – II). Since the computed value is greater than the critical value, the opinions of all responding groups are different and

there is significant difference between the responses of different groups regarding the sector wise preferences of investors.

4.2.3 Investors' Purpose of Investment

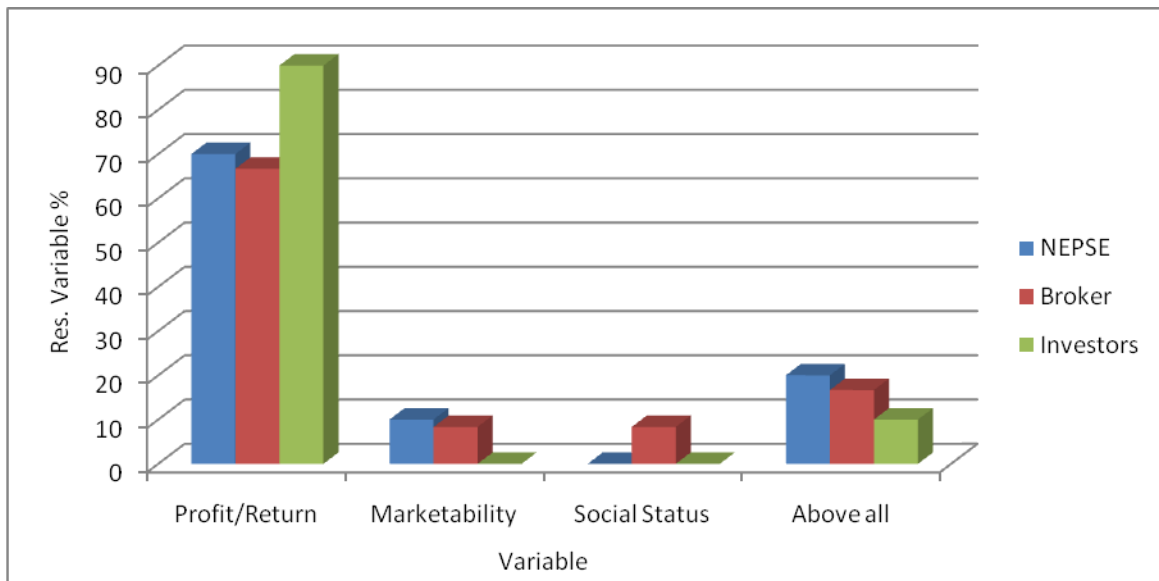
Table 4.5
Investors' Purpose of Investment

S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Profit/Return	7	70	8	66.67	72	90	87	85.29
2	Marketability	1	10	1	8.33	-	-	2	1.96
3	Social Status	-	-	1	8.33	-	-	1	0.98
4	Above all	2	20	2	16.67	8	10	12	11.77
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 3)

In the above table 4.5, the responses of different groups are presented with aspect to purpose of investors to invest in financial instruments, 85.29% opinions revealed that profit or return from the investment is the main purpose of the investors. Only 1.96% opinions revealed that investors invest for marketability and 0.98% opinions revealed that they do make investment in the securities for social status. 11.77% respondents stated that they invest for profit/return, marketability and social status. 70% of NEPSE, 66.67% of broker and 90% of professional investors responded that the investors invest in financial institution for profit or return.

Figure 4.5
Chart Showing Investors' Purpose of Investment



The column chart presented in figure 4.5 shows the purpose of investment. Among the different purpose it is clearly seen that most of the investor invest due to the profit/return. Only less number of the investor invests as a result of the marketability and social status. And 11.77% of the investors invest for the purpose of profit/return, marketability and social status.

On analyzing all these aspect of purpose of investment we can conclude that majority of investor invest for the purpose of profit/return whereas few investors invest for the purpose of marketability and social status.

Hypothesis Testing

Whether there is significant difference between the opinions of different responding groups or not, the hypothesis was tested using chi-square. The computed value of chi-square is 139.8188 and the critical value at 5% level of significance for d.f., $v=6$ is 12.592 (Annex-II). Since the computed value is greater than the critical value, there is significant difference between the opinions of NEPSE and SEBON, Broker and Professional investors. So, the opinions of different groups are different.

4.2.4 Basis of Investment Decision

Table 4.6

Investment Decision in Securities

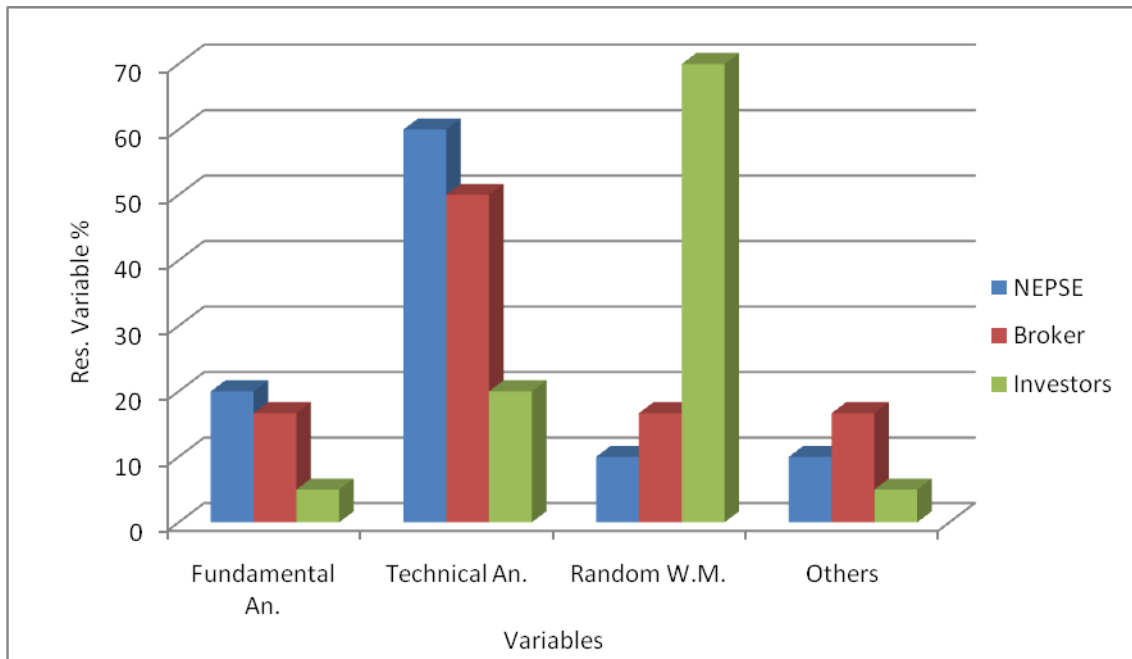
S.N.	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Fundamental An.	2	20	2	16.67	4	5	8	7.84
2	Technical An.	6	60	6	50	16	20	28	27.45
3	Random W.M.	1	10	2	16.67	56	70	59	57.84
4	Others	1	10	2	16.67	4	5	7	6.87
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 4)

The respondents were asked to find out the basis of investment decision, what type of analysis they follow when making investment. The majority of the respondents i.e. 57.84% stated the investor follow the random walk model before making the investment. 7.84% opinions revealed that the investor carry out the fundamental analysis. 27.45% respondents stated that the Nepalese investor adopt technical analysis and the 6.87% of the respondents stated that some investor adopt any other measure to make investment other than fundamental, technical and random walk model. The majority of respondents of each category 60% of NEPSE and SEBON, 50% of Brokers assume technical analysis whereas 70% of Professional Investors stated that investors assume the random walk model for the base of investment in financial instrument.

Figure 4.6

Chart Showing Investment Decision in Securities



The column chart presented in figure 4.6 shows in what basis the investor made investment decisions. It is clearly seen that majority of investors (57.84%) follow the random walk model, after this 27.45% of the investor follow the technical analysis, 7.84 % of the investor follow the fundamental analysis and few investor (6.87%) follow the other things for investing in the securities.

By analyzing all these bases of investment decision we can conclude that most of the investor follow the random walk model and less number of investor follow the fundamental analysis as well as any other analysis before investing in the securities.

Hypothesis Testing

Whether there is significant difference between the opinion and different responding groups, hypothesis has been tested using chi-square. The computed chi-square value is 23.3499 and the critical value at 5% level of significance for d.f., $v=6$ is 12.592(Annex-II). Since the computed value of chi-square is greater than the critical value, it can be stated that the opinion of NEPSE and SEBON, Broker and

Professional Investors are different and there is significant difference between the responses.

4.2.5 Investors' Preference on Market

Table 4.7
Investors' Preference on Market

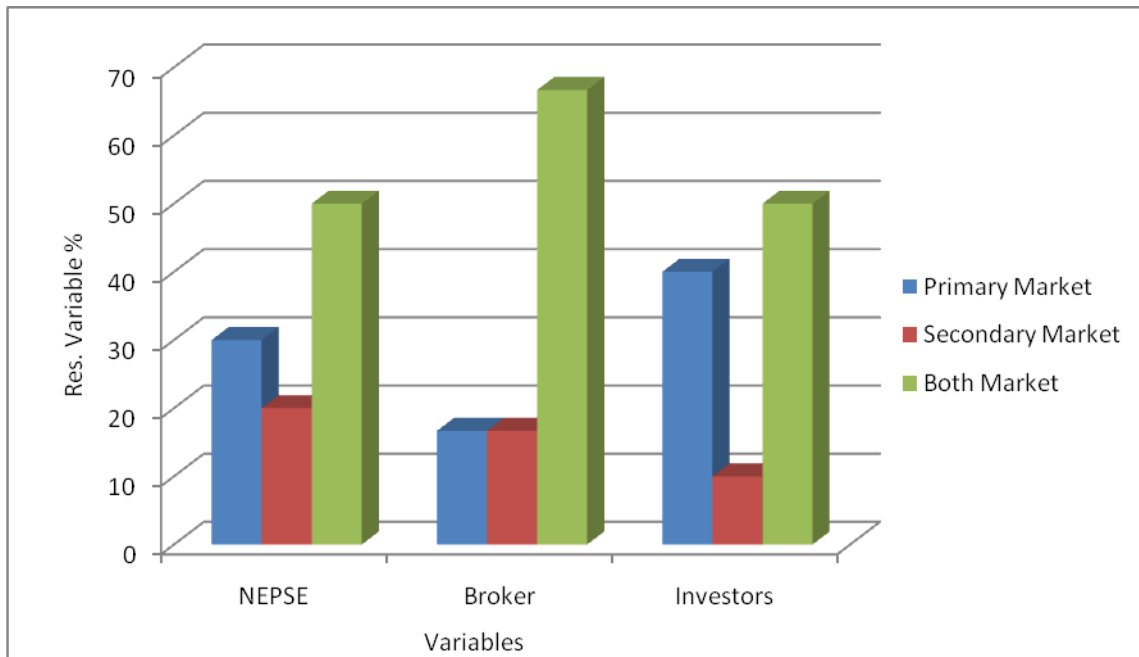
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Primary Market	3	30	2	16.67	32	40	37	36.27
2	Secondary Market	2	20	2	16.67	8	10	12	11.77
3	Both market	5	50	8	66.67	40	50	53	51.96
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 5)

In the above table 4.7, the responses of different groups are presented. Under this the respondents asked the investors that in which market they want to buy the securities. The majority of the respondents i.e. 51.96% respondents stated that the investors buy the securities from both market (Primary and Secondary), 36.27% respondents stated that the Nepalese investors go to primary market, 11.77% respondents stated that the Nepalese investor go to the secondary market to buy the securities. Majority of respondents 50%, 66.67% and 50% from staff of NEPSE and SEBON, Broker and Professional Investor respectively stated that the investor want to buy the securities from both market (Primary and Secondary).

Figure 4.7

Chart Showing Investors' Preference on Market



The column chart presented in figure 4.7 shows the security market in which the investor want to purchase the security. Among the different market it is clearly seen that most of the investor prefer to buy the security from both the market and after that they prefer to buy from the primary market. Finally less number of investor prefer to purchase the security from secondary market.

On analyzing all these aspects we can conclude that most of the investor prefers to purchase the security from both the market (Primary and Secondary) whereas less number of investor goes for the Secondary market.

Hypothesis Testing

Whether there is significant difference between opinions of different responding groups, hypothesis has been tested using chi-square test. The computed chi-square value is 3.6866 and the critical value at 5% level of significance for d.f., v=4 is 9.488 (Annex-II). Since the computed value of chi-square is less than the critical value, it

can be stated that the opinions of the NEPSE and SEBON, Broker and Professional Investors are same and there is no significant between the responses.

4.2.6 Influencing Factors of Investors' Preference

Table 4.8

Influencing Factors of Investors' Preference

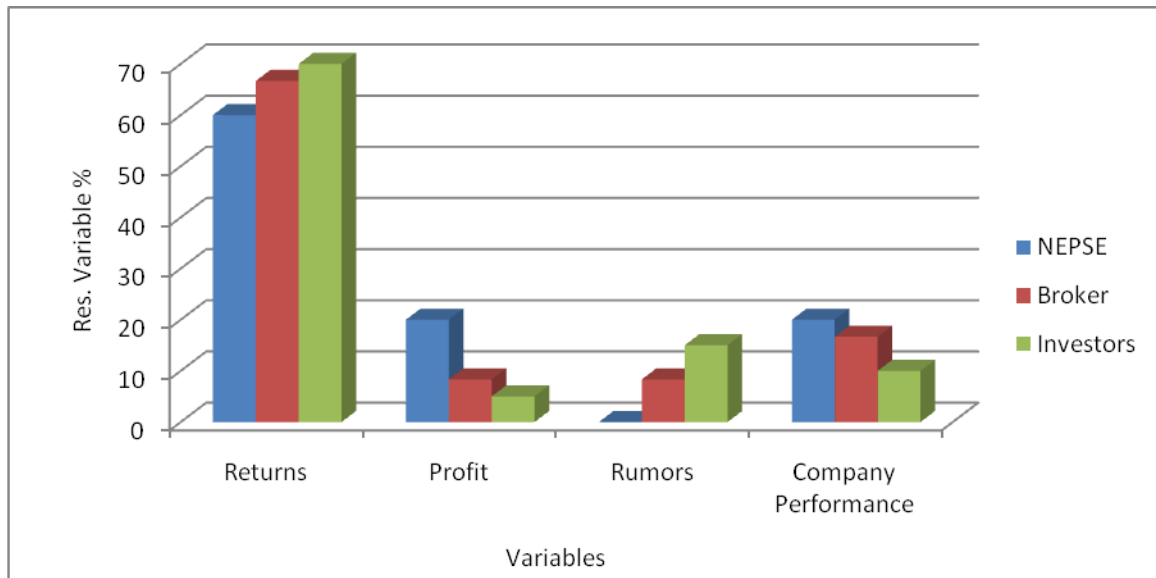
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Returns	6	60	8	66.67	56	70	70	68.63
2	Profit	2	20	1	8.33	4	5	7	6.86
3	Rumors	-	-	1	8.33	12	15	13	12.75
4	Company Performance	2	20	2	16.67	8	10	12	11.76
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 6)

The respondents were asked what are the influencing factors of the investors preference in the financial instrument, the majority of the opinions (68.63%) revealed that the major influencing factor is return. 12.75% opinions concerned with the rumors, 11.76% opinions revealed that the next influencing factor is company performance and 6.86% opinions concerned with the profit to be the main influencing factors for the investors. In the aspect, when the responses of different groups are compared, majority of the respondents from each category 60%, 66.67% and 70% from NEPSE and SEBON, Broker and Professional Investors respectively stated that return from financial instrument is the main influencing factor of the investors.

Figure 4.8

Chart Showing Influencing Factors of Investors' Preference



The column chart presented in figure 4.8 shows the influencing factors for the investor's preference. It is clearly seen that as per the responses of the respondents, majority of the investors (68.63%) is influenced for the investing in financial instrument is due to return and 12.75% of investor is influenced due to rumors, 11.76% investors is influenced by company performance whereas 6.86% of investors is influenced due to profit.

On analyzing all these aspects we can conclude that the majority of Nepalese investor invest in security market is mainly for the purpose of getting return whereas for some investor the influencing factor is company performance ,profit and rumors also.

Hypothesis Testing

Whether there is significant difference between the opinion and different responding groups, hypothesis has been tested using chi-square. The computed chi-square value is 5.9052 and the critical value at 5% level of significance for d.f., v=6 is 12.592(Annex-II). Since the computed value of chi-square is less than the critical value, it can be

stated that the opinion of NEPSE and SEBON, Broker and Professional Investors are same and there is no significant difference between the responses.

4.2.7 Satisfaction from Return

Table 4.9
Satisfaction from Return

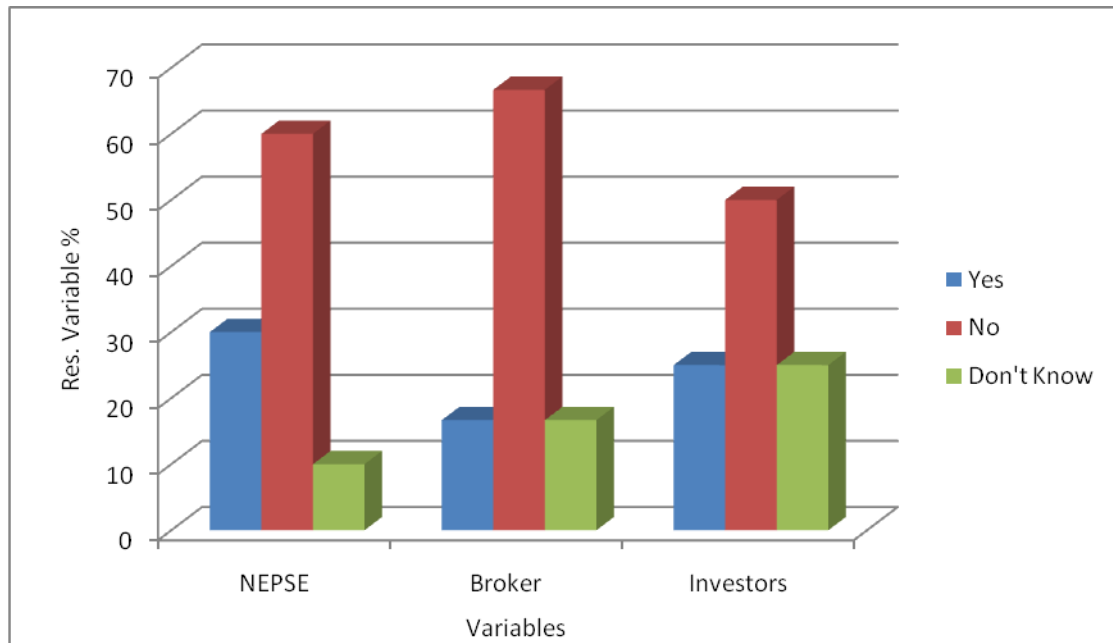
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	3	30	2	16.67	20	25	25	24.51
2	No	6	60	8	66.67	40	50	54	52.94
3	Don't Know	1	10	2	16.67	20	25	23	22.55
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 7)

The respondent's were asked whether they are satisfied with the return on their investment, the majority of respondent i.e. 52.94% stated that the investors are not satisfied from return on their investment. 24.51% respondents stated that the investors are satisfied from their return and 22.55% responses clarified that they don't know about investor's satisfaction from their return. Comparing the percentage of satisfaction from their return on investment, majority of the respondents from each group i.e. 60.0%, 66.67%, and 50% of NEPSE and SEBON, Broker and Professional Investor respectively concluded that the investors are both not satisfied from return on their investment.

Figure 4.9

Chart Showing Satisfaction from Return



The column chart presented in figure 4.9 shows whether they are satisfied with the return on their investment. It is clearly seen that majority of Investors (52.94%) are not satisfied with the return they are getting from the investment, only 24.51% of investor are satisfied with the return and 22.55% of investor have no any idea about the return.

On analyzing all these aspects we can conclude, with the responses made by the respondent that most of the investors are not satisfied with the return whereas they don't know about some investors' satisfaction from their return.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi square test has been used. The computed chi square value is 2.1796 and the critical value at 5% level of significance for d.f., $v=4$ is 9.488 (Annex –II). The compute value is less than the critical value. Therefore, it can be stated that there is no significant difference in the opinions of

different responding groups. Thus, the responses of different groups are similar regarding the satisfaction from the return.

4.2.8 Reasons for Not Issuing Debenture/Debt and Preference Share by the Company

Table 4.10
Reasons for Not Issuing Debenture/Debt and Preference Share by the Company

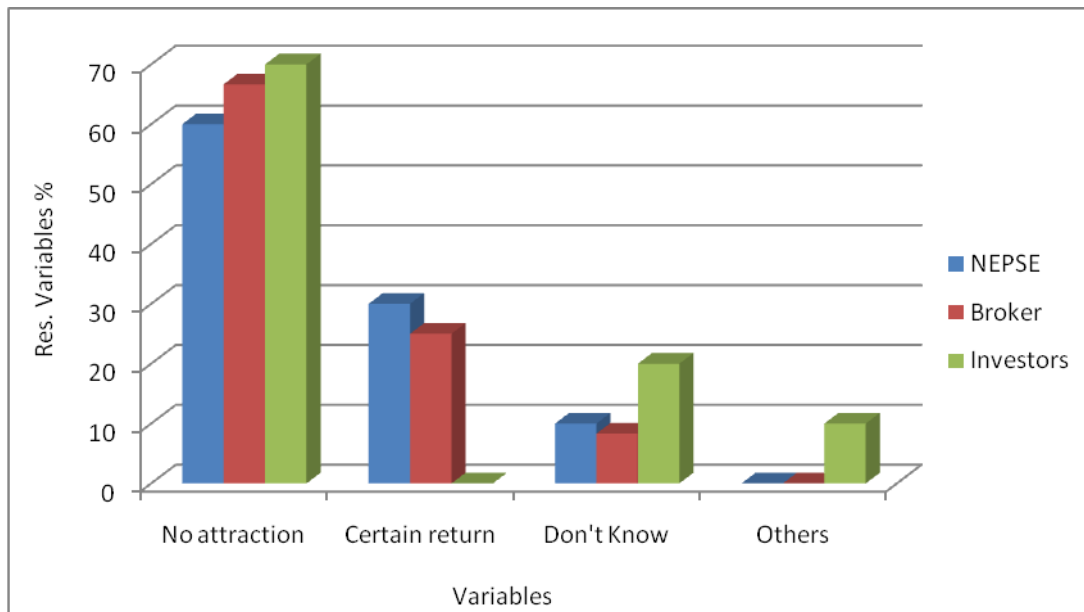
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	No attraction	6	60	8	66.67	56	70	70	68.63
2	Certain return	3	30	3	25	-	-	6	5.88
3	Don't know	1	10	1	8.33	16	20	18	17.65
4	Others	-	-	-	-	8	10	8	7.84
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 8)

The respondents were asked why the Nepalese companies are not issuing debentures and preferred stocks rather than common stocks. Majority of respondents i.e. 68.63% stated that there is no attraction of the investors. Only 5.88% respondents replied that debenture and preferred stocks carry a certain level of return, which is very low and 17.65% respondents replied that they do not know why the Nepalese companies are not issuing debentures and preferred stocks. 7.84% stated that other might be the reason for not issuing debenture and preferred stocks. When the opinions of different groups are compared, the majority responses of different responding groups i.e. 60%, 66.67%, and 70% from NEPSE and SEBON, Broker and Professional Investors respectively stated that the main reason is no attraction of investors in debenture/debt and preferred stock.

Figure 4.10

Chart Showing Reasons for Not Issuing Debenture/Debt and Preferred Stock



The column charts presented in figure 4.10 shows the reasons for not issuing debt and preferred stocks. It is clear from the figure that among various reasons, no attraction to the investor is the powerful reasons due to which the company did not issue debt and preferred stock. We can see remarkable percentage, which the respondents are unaware about the reason for not issuing the debt and preferred stock. Like can also see that others and certain return and , which the investors feel low is the third highest and lowest coverage of not issuing the debt and preferred stock.

On analyzing all these aspects we can conclude that the powerful reasons of not issuing the debt and preferred stock in the Nepalese security market are due to no attraction of security and of certain return and other reasons.

Hypothesis Testing

To test whether there is significant difference or not between the responses of the NEPSE and SEBON, Broker and Professional investors, regarding the reasons for not issuing debenture/debt and preferred stock, the chi-square test has been used. The computed value of chi square is 32.4621 and the critical value at 5% level of significance for d.f., $v=4$ is 9.488 (Annex – II). Since the computed value is greater

than the critical value, the opinions of all responding groups are different and there is significant difference between the responses of different groups.

4.2.9 Effect of Political Situation on the Decision of the Investors

Table 4.11

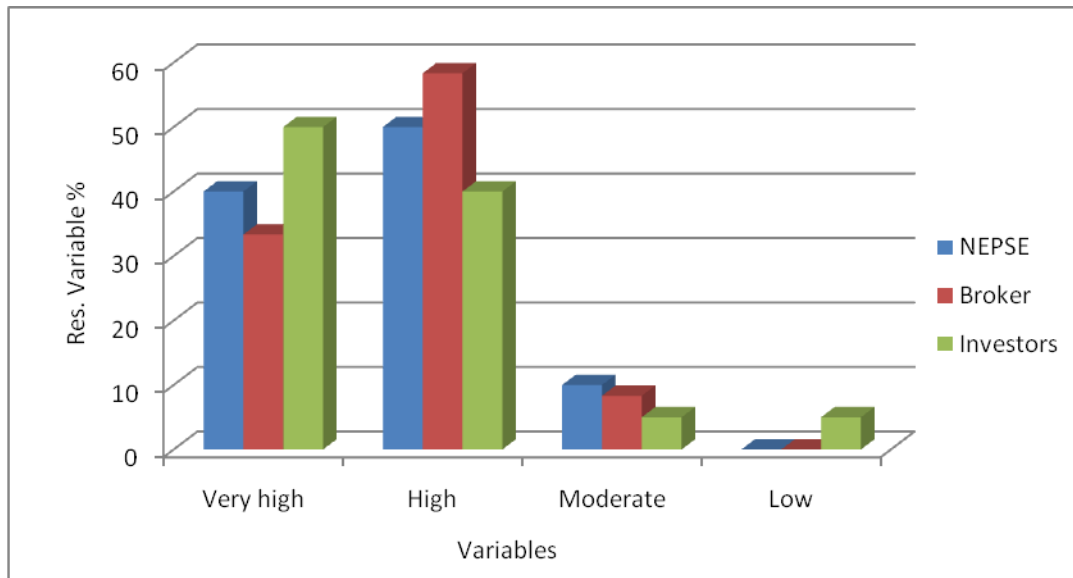
Effect of Political Situation on the Decision of the Investors

S.N.	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Very high	4	40	4	33.33	40	50	48	47.06
2	High	5	50	7	58.33	32	40	44	43.14
3	Moderate	1	10	1	8.33	4	5	6	5.88
4	Low	-	-	-	-	4	5	4	3.92
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 9)

The respondents were asked to what extent the political situation of country affects the decision of the investors investing in security. Majority of the respondents i.e. 47.06% opined that political situation of the country will very highly influence the decision of the investor for investing in security. 43.14% respondents stated that political situation of country will highly influence the decision of the investor. 5.88% of respondents stated that the political situation of the country will moderately affect the decision of the investors and 3.92% of the respondents stated that the political situation of the country will less affect the decision of the investor.

Figure 4.11
Chart showing the Effect of Political Situation on the
Decision of the Investors



The column chart presented in figure 4.11 shows that the effect of the political situation on the decision of the investors. It can be seen clearly that most all of the respondents stated that there is positive relation between the effects of political situation on the decision of the investor i.e. majority of respondents stated that political situation will very highly and highly effect the decision of the investors only few of the respondents stated that there is low effects of political situation on the decision of the investors.

On analyzing all these aspects we can conclude that political situation of country determines the investment possibility. So, in order to increase the number of investor friendly political situation is necessary.

Hypothesis Testing

To test whether there is significant difference or not between the responses of the NEPSE and SEBON, Broker and Professional investors, regarding the effects of political situation on decision of investors, the chi-square test has been used. The computed value of chi square is 3.2842 and the critical value at 5% level of

significance for d.f., v=4 is 9.488 (Annex – II). Since the computed value is less than the critical value, the opinions of all responding groups are similar and there is no significant difference between the responses of different groups.

4.3.10 Availability of Information to Investors from Companies

Table 4.12

Availability of Information to Investors

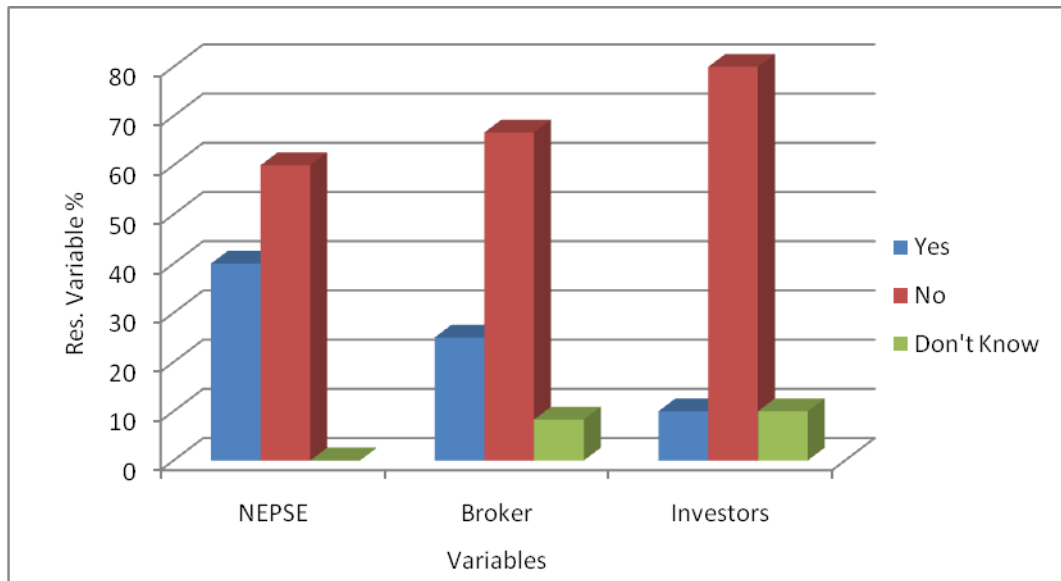
S.N.	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	4	40	3	25	8	10	15	14.71
2	No	6	60	8	66.67	64	80	78	76.47
3	Don't Know	-	-	1	8.33	8	10	9	8.82
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 10)

The respondents were asked whether the Nepalese investors getting sufficient and timely information from companies where they have made investments. The majority of the respondents i.e. 76.47% stated that the investors are not getting the sufficient and timely information regarding the investment from the companies. 14.71% respondents stated that they are getting sufficient and timely information from the companies. Likewise, 8.82% respondents didn't know about getting sufficient and timely information from the companies. In these aspects, when the responses among the different responding groups are compared, majority of the responses from each group i.e. 60%, 66.67% and 80% of respondents from staff members of NEPSE and SEBON, Broker and professional Investors respectively opined that the investors are not getting sufficient and timely information from companies where they have made investment.

Figure 4.12

Chart Showing Availability of Information to Investors



The column chart presented in figure 4.12 shows the availability of information to investors from companies. It is clearly seen from the figure that the majority of the investors (76.47%) didn't get the timely information from the companies and 14.71% of the investor get the timely information from the companies whereas we can see that the respondents (8.82%) have no idea about the investor regarding the availability of information from company.

On analyzing all these aspects we can conclude that almost all Nepalese investors are far from availability of information to which they are investing. So, in order to make favorable environment, which will try to pull the participations more and more investor to invest in the security market, the companies should provide timely and sufficient information to the investors.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi square test has been used. The computed chi square value is 8.0709 and the critical value at 5% level of significance

for d.f., $v=4$ is 9.488 (Annex –II). The computed value is less than the critical value. Therefore, it can be concluded that there is no significant difference in the opinions of different responding groups regarding availability of information.

4.3.11 Sufficiency of Rules and Regulations

Table 4.13

Sufficiency of Rules and Regulations to Protect the Investors

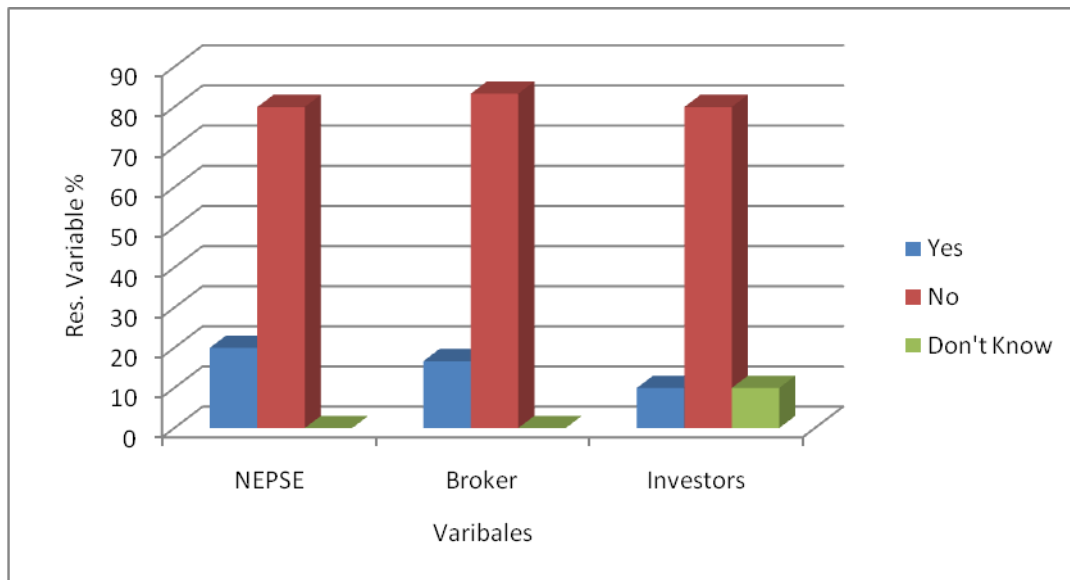
S.N	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	2	20	2	16.67	8	10	12	11.77
2	No	8	80	10	83.33	64	80	82	80.39
3	Don't Know	-	-	-	-	8	10	8	7.84
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no: 11)

The respondents were asked whether existing rules and regulation regarding the investment in Nepalese capital market are effective/sufficient or not, majority of the respondents i.e. 80.39% stated the existing rules and regulations of the government are not sufficient and effective. 11.77% respondents concluded that the rules and regulation are sufficient for the protection of investment in security market and 7.84% respondents replied that they don't know whether the investor know the rules and regulation of government or not. In this aspect, when the responses of different groups are compared, the majority of respondents from each group i.e. 80%, 83.33% and 80% from NEPSE and SEBON, Brokers and Professional Investors respectively replied that the existing rules and regulations of the government are not sufficient to protect the investment in the security market.

Figure 4.13

Chart Showing Sufficiency of Rules and Regulations



The column chart presented in figure 4.13 shows whether the rules and regulation is sufficient to protect investors or not. It is clear that most of the investors (80.39%) stated that there are no sufficient rules and regulation to protect the investors. Only a few investors (11.77%) are satisfied with the rules and regulation imposed by the government for the protection of the investors and we can also see that the respondents (7.84%) have no idea about it.

On analyzing all these aspects we can conclude that there is no any strong rules and regulation for the protection of the investors. Until and unless there exists a safety environment to invest in security market it is quite impossible to think the security market will be able to pull all the potential investors to invest in the security.

Hypothesis Testing

Chi-square test has been used to test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups. The computed chi-square value is 3.2479 and the critical value at 5% level of significance for d.f., $v=4$ is 9.488 (Annex –II). Since, the computed value is less than the critical

value, it can be concluded that there is no significant difference in the opinions of different responding groups.

4.2.12 Investors Awareness Regarding the Investment in Nepalese Security Market

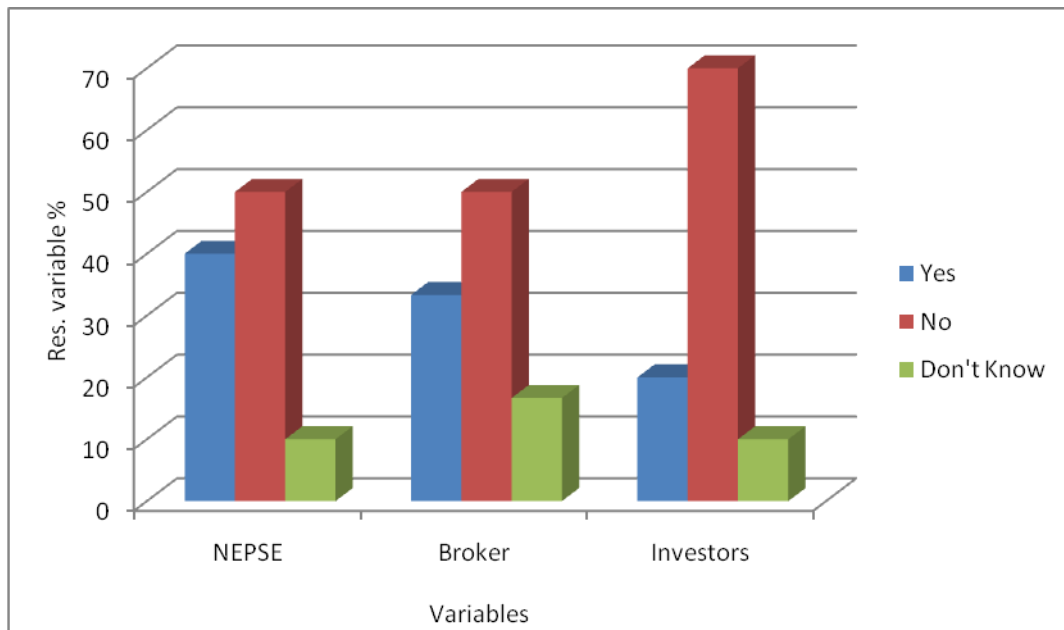
Table 4.14
Awareness of Investors Regarding the Investment in Nepalese Security Market

S.N.	Research Variable	NEPSE/SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	4	40	4	33.33	16	20	24	23.52
2	No	5	50	6	60	56	70	67	65.69
3	Don't Know	1	10	2	16.67	8	10	11	10.79
	Total	10	100	12	100	80	100	102	100

(Source: Field Survey, Questionnaire no:12)

In the above table 4.14 respondents responses regarding the investor's awareness in security market are presented. The majority of the respondents 65.69% stated that the investors are not aware about the investment in financial instruments. 23.52% of the respondents stated that the investors are aware about their investment and 10.79% of respondents replied that they don't know about the investor's awareness. If the responses of different groups (NEPSE and SEBON, Broker and Professional Investors) are compared, majority of the respondents 50%, 60%, and 70% of NEPSE and SEBON, Broker and Professional Investors respectively stated that the investors are not aware regarding the investment in financial instrument in the Nepalese security market.

Figure 4.14
Chart Showing Awareness Regarding the Investment in Security Market



The column chart presented in figure 4.14 shows the Awareness of investors regarding the investment in security market. It is clearly seen that as per the respondents responses, majority of the investors (65.69%) are not aware regarding the investment in the security market, only 23.52% of investors are aware about the investment and the respondents has no idea about 10.79% of investors.

On analyzing all these aspects we can conclude that only few percentages of the investors are really aware about the investment and other majority has no idea about the investment in the security market.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi-square test has been used. The computed chi- square value is 11.8658 and the critical value at 5% level of significance for d.f., $v=4$ is 9.488 (Annex –II). Since, the computed value is greater than the critical value. Therefore, it can be stated that there is significant difference in the opinions of different respondents groups regarding the awareness of investors in Nepalese security markets.

4.2.13 Difficulties to Invest in Securities in Nepalese Security Market

On collecting the various responses from the respondents, it was asked about the difficulties that the investors are facing in the Nepalese security market. Most of the respondents pointed out the various difficulties, which are as under:

1. In Nepalese security market, investors have only limited alternatives of securities. Innovation of new security is lacking.
2. It was found that the banking sector only discloses the financial matter information clearly. The disclosure practice is not found in other sectors.
3. Broker besides only helping for transaction of security, they don't provide the proper advice to the clients.
4. NEPSE is following the open out cry system, which is very conservative, traditional and unscientific system.
5. Lack of computers aided technology for analyzing the securities and very few numbers of security analyst or firm involved in forecasting market trends and future price of the securities, they feel difficulties to take right investment decisions at right time.
6. The existing rules and regulation of government are insufficient for protecting investor's rights in security market.
7. Share markets are controlled by big investor's rumors affect the market.

4.2.14 Suggestion from Respondents to Solve the Above Difficulties in the Security Market

The respondents were also requested to suggest the appropriate measures, which will help to build the healthy security market. The suggestion made by them is as under:

1. Nepalese security market must bring the various alternatives for investment. For this they have to innovate such type of securities which are preferred by the investor. It may be hybrid types of instruments, asset backed instruments, forward, options, swaps etc.
2. Disclosure practice of their financial matter except banking is found in a rare manner. This type of non-transparent and lack of openness in transaction will make the investors suspicious to invest in that security. So, Disclosure practice should be immediately seen in the Nepalese security environment.
3. Number of stock brokers should be increased. Their duties and responsibility is not just merely related to make transaction of securities but they must provide proper advice to the investors.
4. NEPSE should be well acquainted with the trading principles of the other developed nation. This open out cry system is quite conservative and should be replaced with other new system so that the investors also feel easy on knowing the trading mechanism.
5. The trading system should be computer aided technologies for analyzing the securities. There should also be financial consultancy agencies to provide financial assistance to the existing as well as prospective investors when the feel it necessary.
6. The existing rules and regulation of government are insufficient for protecting investor's investment in security market. Hence, the government should draft new rules and regulations to make the trading scientific and transparent.
7. Economic crisis should be balanced and there must be political stability to develop the Nepalese securities market.

4.4 Major Findings of the Study

It is analyzed that most of the investor like to invest in the securities at the secondary market because they can observe the trend of the past performances of the available securities, analyze them and decide to invest accordingly.

1. Issue of corporate securities (Table 4.1) shows that corporate securities consist of common stock, preference share and debenture. Among these securities, most of the companies issue common stock and hence it has high volume of coverage in Nepalese market. Likewise, we can see debentures and preferred stock has the respective position in the Nepalese security market.
2. Issue of government securities (Table 4.2) shows that the government securities consists of treasury bills, development bonds, national saving bond, public saving card and special bonds. Among these securities government issues heavy volume of treasury bills and hence it has high volume of coverage in Nepalese market. Likewise, special bonds, national saving bonds, development bonds and public saving card have the respective position in the Nepalese market.
3. The level of investor's awareness in the securities market was found low. Majority of the respondents replied that the investors were not aware regarding investment in security market (Table 4.14)
4. The market capitalization of different financial instrument shows that common stock has the coverage of trading in the market. In the common stock also we can find the common stock of financial sector is high and most probably this trend will be continuing for additional couple of years.

Apart from these major findings we have also various other findings on the analysis of primary and secondary data.

1. The majority of investors preferred the equity share for the investment. They equally preferred stock and debentures. The government stock is least preferred (Table 4.3).

2. Among the various sector most of the investor preferred Banking sector. After the banking they gave the priority to the manufacturing company, finance company and insurance company respectively.
3. It was found that from the respondents' response that Nepalese investor mainly invests for the purpose of profit (Table 4.5)
4. It was found from the responses made from the respondent that the most of the Nepalese investor made the investment decision on the basis of random walk model (Table 4.6)
5. It was found that the most of the Nepalese investors buy the securities from both markets. We find the investors prefer primary market more than secondary market, but majority of responses proves that they go for both market to purchase the security (Table 4.7)
6. It was found out that major portion of the investors is influenced for investing in security is mainly for dividend/ returns (Table 4.8)
7. The majority of the respondents stated that the Nepalese investors are not satisfied with the return from their investment (Table 4.9)
8. With respect to the companies not preferring to issue debt and preferred stock, the majority of the respondents stated that no attraction of investors was the main reason that the Nepalese companies did not prefer to issue debt and preference stock frequently (Table 4.10)
9. The unfavorable political situation of the country will affect very highly to the investment decision of the investors (Table 4.11)
10. The majority of the respondents of the different groups stated that the Nepalese investors are not getting sufficient and timely information from the companies (Table 4.12)
11. With respect to the rules and regulation of government, it was found that the existing rules and regulations were not sufficient to protect the investors investment in the security market (Table 4.13)
12. It was found from the respondents responses that majority of investor are not aware regarding their investment in Nepalese security market (Table 4.14)

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the overall Summary of the study and conclusions drawn from the analysis of the study. This also includes the recommendation to correct certain aspects, which will help to improve the financial Instrument position in Nepalese Security market.

5.1 Summary

This study was conducted to analyze the investor's preference on financial instruments. The first objective of the study was to explore financial instrument position in the security market. Similarly the second and third objective were to find the awareness level in the security market and finally to forecast the investment trend of the Nepalese security market.

This study is primarily based on the secondary data. However the analysis is done on the basis of primary data as well. For collecting the primary data, the schedule of questionnaires (See Annex-1) were developed and provided to the investors and other concerned bodies. And then the responses from the respondents were tabulated, figured and analyzed. The secondary data were abstracted from various annual reports of NEPSE/SEBON, NRB publications and different financial management related books. The study covered the sample period of ten years beginning from F/Y 1999/2000 to F/Y 2008/2009.

Respondent's response is systematically presented in the table form as according to the questionnaire. The tabulated questionnaire responses is tabulated and then analyzed with thoroughly. To make clear from the figure, the tabulated data is presented in the column chart.

After the data tabulation and presentation, hypothesis testing was conducted. In this regard Chi-Square was used. Chi-Square test at 95% level of confidence has been used

to test whether there is significant difference between the opinions of the different responding groups or not.

5.2 Conclusion

After analyzing the secondary data and responses of the respondents, different major conclusions have been drawn out.

Among the limited securities the Nepalese investors prefer the common stocks. In the common stocks also they prefer the common stock of banking sector. Most of the investors feel confident that investment in the banking sector is good and it will provide a high return in the form of dividend. That is why; market capitalization of the common stocks of banking sector is high. Hence, the preference of investors is on common stock of banking sector.

The investors gave least priority to preferred stock, debenture, & government securities. It was found from the primary data, no attraction of investors is the main reason of the Nepalese companies for not preferring to issue debenture and preferred stock.

The Nepalese investors do not seem aware in regarding investment in the security market. They don't analyze the risk and return before any investment in any securities. They invest their money just by observing the market trend, which is very unscientific in Nepalese context because security market is not in equilibrium. The investors are feeling that the existing rules and regulations regarding the security market are insufficient. They claimed that they are not getting sufficient and timely information from the companies where they have invested their money.

Besides these things, on collection of the questionnaire different matters of the investor are identified. It is believed that one third of share investors live out of the valley and for them information regarding the security is inaccessible. If they want to have a transaction then there is no any alternative than to come to valley. Not only this any complaints, other information is accessible for them only by coming to valley.

5.3 Recommendations

At present, we have a situation of peace. Though the economy at current is not in a prominent stage, but we can expect that the economy will go towards the Boom, if the peace is restored permanently. Than at that time we can expect that the Nepalese security market play a crucial role for development, though in this stage also it is playing to uplift the whole economy. Right now we can see the flow of issuing of securities is very high in common stock of Commercial Bank. Every company feel secured to collect the fund by issuing common stock. Investors taste in securities is not judged yet. The investors should be encouraged to make investments in securities market by creating congenial investment environment. Government policies regarding the financial sector reforms and security market development can create such environment. The specific recommendations to encourage the Investor and for the development of security market is summarized below.

- The pace of economic development should be accelerated in order to have its positive impact on the security market development. The development of security market is also depending on political stability of the nation. Due to the political conditions of the country, investors are scaring what will happen to their investment. So, government should try to maintain the political stability to win the Investors confident.
- The brokers should also act as an important and responsible sector for the development of the securities market and should strictly avoid involving themselves in to security market disorders. As well as, the concerned authorities should take very strict action to those responsible for creation of security market disorders.
- The brokers should perform their activities within the limitations of the rules and regulations. They should provide right and authentic information about all the companies to help the investors chose the security of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefits.

- The brokers and the related companies should also provide reliable and adequate information regarding the transaction and other aspects so that maximum number of investors could participate in investing in to security.
- Nepalese security market being a small, is sustaining anyhow with the maximum use of equity stocks. But we cannot rely on this scenario in the long term if the peace is restored permanently. If the conditions of the country become favorable then the financial engineering and innovations are very crucial for Nepalese Financial Market. In this regard it can introduce different types of hybrid securities, but should be tested previously in order to know the taste of investors.
- Most of the Nepalese Investors was found very low level of knowledge on security. So, the concerned authorities should conduct various research studies and disseminate the information relating to the security trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- Nepalese investor was found that they invest in stock for the purpose of dividend. So in order to safeguard the interest of the investor companies should declare at least the minimum possible level of dividend.
- Computer- aided technologies should be adopted for analyzing the securities. It is felt that the NEPSE should computerize its transaction system. There should be provisions to buy or sell securities through internet, which will attract the prospective investors residing outside the Kathmandu valley to make investment through centrally located secondary market of Nepal. By computerizing the trading system of NEPSE, the funds from unproductive sectors out of Kathmandu valley can be diverted to the capital market.

- To win the trust of investors regulating authorities should act on the best interest of investors. While giving the approval to the new issues and types of issues the investor's preferences should also be taken in to account.
- To attract the institutional investors in the market of financial instruments and to avoid their passiveness in secondary market, some flexibility in the directives should be brought. The limitations imposed currently can be loosened to make them invest more on the financial instruments.
- Although NEPSE is performing the market surveillance system to some extends, it should improve the quality of this activities the high volatility if market prices of securities regularly and effectively to create the price formation of the securities. The researcher faced the several types of in conveniences in getting permission to observe the trading system frequently in NEPSE. So, it should also arrange some special provisions for university students and researchers to gather information and to observe the floor transactions for research study so that many opinions and information could be generated from the young minds.

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ANNEXURE

Annex-I

Investors' Attitude on Securities and Their Anticipation of Earnings

A questionnaire for sample survey

Dear respondents,

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

Thank you!

Manish Pradhan

Researcher

Investor's Profile:

Name:

Address:

Occupation:

Age/Gender:

Date:

Please place (√) mark on the correct box and express your ideas and views where necessary.

1. In which of the following financial instruments do you want to invest?

- a. Equity Share
- b. Preference Share
- c. Debenture / Bonds
- d. Government Bonds

2. In your opinion, which one of the following investment sectors do you prefer to make investment?

- a. Banking
- b. Finance Company
- c. Insurance Company
- d. Hotel
- b. Manufacturing Company
- c. Trading Company
- d. Hydropower
- e. Others Specify.....

3. For what purpose do you want to invest in securities?

- a. Profit / Return
- b. Marketability
- c. Social Status
- d. Above All

4. On what basis do you make investment decisions in securities?
- a. Fundamental Analysis
 - b. Technical Analysis
 - c. Randomly
 - d. Others Specify
5. In which of the following market do you want to buy the securities from?
- a. Primary Market
 - b. Secondary Market
 - c. Both Market
6. In your opinion, which of the following is the main influencing factor for you to invest?
- a. Dividends / Returns
 - b. Profit
 - c. Rumors
 - d. Company Performance
7. Are you satisfied with the return from their investment decision in the security market?
- a. Yes
 - b. No
8. In Nepalese capital market, other financial instruments except common stock have not been used frequently. In your opinion, why do the companies not prefer to issue debt and preferred stocks?
- a. No Attraction
 - b. Certain Return
 - c. Don't Know
 - d. Others Specify.....

9. To what extent do you think political situation influence the decisions of the investors?

- a. Very High
- b. High
- c. Moderate
- d. Low

10. In your opinion, are the Nepalese investors getting sufficient and timely information from the companies where they have made investment?

- a. Yes
- b. No
- c. Don't Know

11. In your opinion, are the rules and regulation of the government sufficient to protect the investors' investment in the securities market?

- a. Yes
- b. No
- c. Don't Know

12. In your opinion, are the investors aware regarding the investment in Nepalese security market?

- a. Yes
- b. No
- c. Don't Know

13. Do you think, are there any difficulties to invest in securities in Nepal?

- a. _____
- b. _____
- c. _____

14 In your view, what can be done to develop the Nepalese securities market?

a. _____

b. _____

c. _____

Annex - II

Result of Chi – square

Q.N.	NEPSE/ SEBON	Brokers	Investors	Total	Chi- square	5% level	Remarks
Q.1							
a.	5	8	72	85			
b.	1	1	4	6			
c.	1	1	4	6			
d.	3	2	-	5			
Total	10	12	80	102	23.365	12.592	NHR
Q.2							
a.	5	8	72	85			
b.	2	2	-	4			
c.	2	1	-	3			
d.	-	-	-	-			
e.	1	1	8	10			
f.	-	-	-	-			
g.	-	-	-	-			
Total	10	12	80	102	30.3238	21.03	NHR
Q.3							
a.	7	8	72	87			
b.	1	1	-	2			
c.	-	1	-	1			
d.	2	2	8	12			
Total	10	12	80	102	139.8188	12.592	NHR
Q.4							
a.	2	2	4	8			
b.	6	6	16	28			
c.	1	2	56	59			
d.	1	2	4	7			
Total	10	12	80	102	23.3499	12.592	NHR
Q.5							
a.	3	2	32	37			
b.	2	2	8	12			
c.	5	8	40	53			
Total	10	12	80	102	3.6866	9.488	NHA
Q.6							
a.	6	8	56	70			
b.	2	1	4	7			
c.	-	1	12	13			

d.	2	2	8	12			
Total	10	12	80	102	3.835	12.592	NHA
Q.7							
a.	3	2	20	25			
b.	6	8	40	54			
c.	1	2	20	23			
Total	10	12	80	102	2.1796	9.488	NHA
Q.8							
a.	6	8	56	70			
b.	3	3	-	6			
c.	1	1	16	18			
d.	-	-	8	8			
Total	10	12	80	102	32.4621	12.592	NHA
Q.9							
a.	4	4	40	48			
b.	5	7	32	44			
c.	1	1	4	6			
d.	-	-	4	4			
Total	10	12	80	102	3.2842	12.592	NHA
Q.10							
a.	4	3	8	15			
b.	6	8	64	78			
c.	-	1	8	9			
Total	10	12	80	102	8.0710	9.488	NHA
Q.11							
a.	2	4	8	12			
b.	8	10	64	82			
c.	-	-	8	8			
Total	10	12	80	102	3.2479	9.488	NHA
Q.12							
a.	4	4	16	24			
b.	5	6	56	67			
c.	1	2	8	11			
Total	10	12	80	102	11.8658	9.488	NHR

Note: NHA – Null Hypothesis Accepted

NHR – Null Hypothesis Rejected (Alternative Hypothesis Accepted)

Annex - III

List of the Respondent for the Questionnaires

Categories	Response Number
Investors	80
<u>Brokers:</u>	
Kumari Securities (P) Ltd.	1
Arun Securities (P) Ltd.	1
Agrawal Securities (P) Ltd.	1
Malla & Malla Stock Broking Co. (P) Ltd.	1
Annapurna Securities Service (P) Ltd.	1
Nepal Stock House (P) Ltd.	1
Nikhil Securities (P) Ltd.	1
Sagarmatha Securities (P) Ltd.	1
Nepal Investment & Securities Trading (P) Ltd.	1
Silpa Securities (P) Ltd.	1
Siprabi Securities (P) Ltd.	1
Sweta Securities (P) Ltd.	1
Staff Member of SEBON	6
Staff Member of NEPSE	4
Total	102