A STUDY ON RISK AND RETURN ANALYSIS ON COMMON STOCK INVESTMENT IN COMMERCIAL BANKS OF NEPAL

(With reference to Nepal Investment Bank Limited, Everest Bank Limited, Himalayan Bank Limited and Nabil Bank Limited)

A Thesis proposal

By

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1. Background of the study

Common stockholders of a company are its ultimate owners. Collectively they own the company and it is assumed that ultimate risk is associated with ownership. So the common stock is risky security. It's hard to define, but you know it when you see it. Investor invests in common stock for higher return. But their expected return may or may not change in realities. This uncertainty is major risk to investors in stock market investment.

The return is income received on an investment, which is expressed as dividend, plus any change in market price of share and usually expressed in percent. Both market price of share and dividend are uncertain figures. So, the actual figure of return on investment in common stock may differ substantially from the expected return. The greater variability, the riskier the security is said to be. The market price of share of a company is driven both by fundamental business values and stock market sentiment. For a given business, it is always worth attempting to identify which of those is driving its share price (Shakya, 2009).

Generally investors are risk averse. They always seek higher return for more risk as risk premium. So the primary problem of investment is to identify the security, which has low risk and high return. Although, return cannot be increased substantially, risk can be reduced by diversification can eliminate the unsystematic risk, which is not explained by general market movement. Systematic risk, which is associated with change in return on the market as a whole, cannot be avoided with change in return on the market as a whole, cannot be avoided by the diversification (Manandhar, 2006).

Stock market indices are used to study the trend of growth pattern in the economy, to analyze as well as to forecast business cycles and to correlate it with economic activities. The higher index implies increase in market price of securities and he better performance of companies and vice versa. NEPSE follows the Standard and Poor's Index method for its calculation by taking the market capitalization of all listed securities based on February 12, 1994 prices as 100 (Kandel, 2018).

In Nepalese contest, the institutional set up of securities market began along with the securities exchange center (now Nepal Stock Exchange Ltd.) in 1976. In spite of considerable development there are still more potentialities to be explored for the development of stock market in Nepal. Most of the potential investors and the shareholder public themselves are unknown or least understood about risk-return behavior of stock. Most of the Nepalese investors are finding to visit in single security due to lack of information and poor knowledge, market intermediates exploit investors. So, many investors are afraid to invest in stocks. People participation in securities investment and its dynamic trading plays a vital role in overall economic development. For this propose potential investors must be able to analyze risk and return of individual stock and portfolio as well. This will increase their confidence and ultimately increase stock investment and increase the degree of market efficiency, which is essential to spreading economic development of the nation (Kandel, 2018).

Investment in its simplest from means employing money to generate more money in future. It is the sacrifice of current rupees for future rupees. The sacrifice takes place in the present and is certain. But the reward comes later and is an uncertain. Return is the primary motive of investment, but it always entails some degree of risk. Buying common stocks, bonds, deposited money into bank account, buying a piece of land, gold or silver are some example of investment. All these examples involve sacrifice of current rupees in expectation of future return. Hence, they are investment. The main objective of investment is to maximize the wealth of an investor.

Investment can be made on real assets or financial asset. Investment on real assets is known as real investment and investment on financial assets is known as financial investment. Real investment means investment on real assets like land buildings, factory etc. financial investment means on financial asset like share, debentures, warrants and convertibles etc.

The term risk and return is closely associated with investment. Investment simply means sacrificing current funds for future returns, bearing certain risk. The investment may be on fixed assets like land, building or precious metals and collectibles or something else. But here as a student of finance, I have focused the term investment as sacrificing current fund on financial assets like shares, debenture, warrants, convertibles etc. for the long term return

2. Problem statement

The key issue of this study is whether the MPS of listed commercial banks are really representing the financial indicators: Share price, EPS, P/E Ratio, Dividend Per Share. The situation of stock market in Nepal worsened from 1995/96 onwards with the onset of political instability. Both the investment climate as well as the operational climate suffered leading to poorer results in many companies. As a result, the price at NEPSE nose-dived and it incurred heavy losses.

The period was 1997 to 1998, after which the situation improved somewhat with the commencement of operations by many finance companies, which paid out dividends. The improvement, however, was only marginal just to keep enough attentions.

The economic and political scenario became more volatile with the rise in insurgence which led to slowing down of economic activities resulting at worsening performance in many sectors like tourism and manufacturing, thus, leading to a more volatile and NEPSE. This shows that not only the economic factor but the volatility in the political factor might have the significant influence on the stock price. Therefore it is significant influence on the stock price. Therefore it is crucial to identify whether stock market get affected by the non-economic factors as well.

A very small proportion of manufacturing, trading and hospitality sectors are listed with NEPSE. More importantly, services sector which has shown tremendous growth after economic reforms, have hardly been listed except commercial banks, a few hotel and airline companies (both in the hospitality sector). The most affected are the manufacturing companies followed by trading and hospitality companies. Banks and finance companies, as compared to others are in better position. Such listed companies affect on the stock market are usually neglected while showing the factors influencing stock price in Nepal. More specifically the research questions are;

i. What is the risk and return of common stocks of banks?
ii. What is the existing situation of common stock financing of sample banks?
iii. What are the comparative analysis of the risk and return on the common stocks of sample banks?

3. Objectives of the study

The main objectives of the study are to assess the risk and return on common stock investment of listed commercial banks. The specific objectives of the study are as follows:

i. To analyze the common stock in terms of risk and return.
ii. To assess the existing situation of common stock financing of sample banks.
iii. To examine the comparative analysis of the risk and return on the common stocks of sample banks.

4. Conceptual framework

The following conceptual framework is constructed based on the theoretical framework with the consultancy of different theories related to this study and literature review and the following conceptual framework is developed:

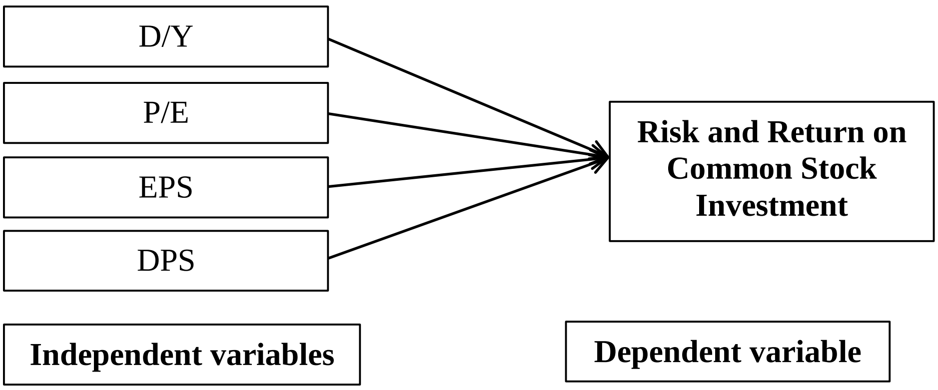

Figure- 1: Conceptual Framework

Source: LIP. Variance in return and SRG return.

EPS, DPS, P/E Ratio and D/Y are independent variables whereas Risk and Return on Common Stock investment is dependent variable

5. Rationale of the study

The study is to point out the risk and return position of investing shares of commercial banks in Nepal. The study is helpful for investors as well as commercial banks. It also provides proper guidelines for making choices of stocks and bonds on the basic of risk and return. It is also important to those people who are interested to know about risk and return and capital market in Nepal. It provides the consolidated basic data and information about the NEPSE and commercial banks under study. This study covers the investors' perception upon the risk and return factors while investing in common stocks of commercial banks. It provides the brief information on risk and return from the investors' perspectives.

This study is useful to several shareholders transacting in the share market. Nowadays, the number of investors investing in the share market is increasing. The outcome of the study can help them while making their transaction. The key players in the stock market like brokers, market makers can also be benefitted. They have access to the information regarding the factors influencing stock market given my research outcome. Such information is beneficial to make them alert and enable them to take sound decision. This study is also significant in the way that within the given time frame it has attempt to identify whether there is any political influence on stock market performance measured by NEPSE index. The idea is to use an approach where the analysis of the six quantitative factors influence on the stock market is identified. Following the result showing no significant influence on the stock market is identified. Following the result showing no significant influence, political factor implications is tested. Therefore, the outcome thus created may also have implications for historical studies. Here the researchers can conduct in–depth study which can further provide the concrete result.

6. Limitation of the study

As every research has its own limitation, the study is not free from it. Some limitations of this study are as follows:

i. There are 27 commercial banks are listed in NEPSE. Only four banks have been taken purposively (Nepal Investment Bank Limited, Everest Bank Limited, Himalayan Bank Limited and Nabil Bank Limited) but the study does not include the entire listed commercial banks.

ii. Only secondary data is used in this analysis.

iii. The study is basically concerned only with the risk and return of the listed commercial banks i.e., other aspects of the banks have not been taken under the consideration.

iv. This study has covered only five years period FY 2014/15 to FY2018/2019.

Despite these limitations, this study has tried to provide valid result as well as in depth of risk and return of common stocks in Nepalese commercial banks.

7. Literature review

In the field of finance in Nepal it is very difficult to get advanced and research based journal. There are very limited numbers of journals available in the subject of management and it is also hard to find any article in the subject matter of finance. Almost no articles about the risk and return analysis on common stock investment are found. Hence some foreign well known recently published journals of finance has been reviewed here. However, it helps to build the conceptual framework on this topic.

7.1 Theoretical review

Theories of Stock Price Behavior

There are two theories of price behavior i.e. classical approach and efficient market theory approach. Classical or conventional approach includes fundamental analysis theory and technical analysis theory. Under efficient theories, there are three forms of efficient market hypothesis. Classical approach assures market as inefficient whereas the efficient market theory investors were generally divided on to two groups, fundamentalists and technicians (Pastor & Veronesi, 2012).

Classical approach

The classical or conventional approach includes fundamental analysis and technical analysis theory. Fundamental analysis or approach forecast stock price on the basis of earning and dividend of the company. The fundamental analysis theory holds that the market value of a share is based on certain intrinsic or fundamental factors such as the earnings, dividends, growth potential, debt equity mix etc. whereas technical analysis theory talks about the stock prices on the basis of past price behaviour of the company, which suggests by the plotting the market price of shares over a period of time on a chart, that can determine certain patterns (Blanchard & Perotti, 2002). Fundamental analysis, technical analysis, random walk theory are significance theory under classical approach.

Efficient market theory

The term efficiency may be defined in various ways. For instance: allocation efficiency, operational efficiency and informational efficiency. The word 'efficiency' in security market has unfortunately been used to represent a variety of logically distance concepts. Efficiency has different dimensions such as; exchange efficiency production efficiency and information efficiency. However, present study concerns only with information efficiency in the pricing of stocks. When the financial literature speaks on market efficiency, it exclusively speaks about information efficiency in pricing the stock. A market is said to be information efficient if, the current market price is instantaneous and fully reflects all relevant available information. The market value of a particular share may be under or overvalued. An efficient market is one where shares are always correctly priced and where it is not possible to outperform the market consistently (Blanchard & Perotti, 2002).

Efficient market theory contends that in a free and perfect competitive market, stock price always reflects all the available information and adjusts with every influx of new information instantaneously. In efficient market securities prices fully reflect available information. In efficient market, price change would only occur from new information. An initial and every important premise of an efficient market is that there are large numbers of knowledge and profit maximizing independent buyers and sellers, new information is generated randomly and investors adjust the information rapidly (Pastor & Veronesi, 2012). Therefore, if market is efficient, it uses all available information to set price. The measure of efficiency evolved from the nation of perfect competition, which assumes free and instantly available information rational investors with no taxes or transaction cost. Weak form market efficiency, Semi-strong form market efficiency and Strong form market efficiency are important theory under efficient market theory

Modigliani and miller's (MM) theory

A financial theory stating that the market value of a firm is determining by its earning power and the risk of its underlying assets, and is independent of the way it chooses to finance its investments or distribute dividends. Remember, a firm can choose between three methods of financing: issuing shares, borrowing or spending profits (as opposed to dispersing them to shareholders in dividends). The theorem gets much more complicated, but the basic idea is that, under certain assumptions, it makes no difference whether a firm finances itself with debt or equity.

This theorem states that, in the absence of taxes, bankruptcy costs, and asymmetric information, and in an efficient market, a company's value is unaffected by how it is finance, regardless of whether the company's capital consists of equities or debt, or a combination of these, or what the dividend policy is. The theorem is also known as the capital structure irrelevance principle (Pastor & Veronesi, 2012).

A number of principles underlie the theorem, which holds under the assumption of both taxation and no taxation. The two most important principles are that, first, if there are no taxes, increasing leverage brings no benefits it terms of value creation, and second, that where there are taxes, such benefits, by way of an interest tax shield, accrue when leverage is introduced and/or increased (Blanchard & Perotti, 2002).

The theorem compares two companies one unlevered (i.e. financed purely by equity) and the other levered (i.e. financed partly by equity and partly by debt) and states that if they are identical in every other way the value of the two companies is the same.

7.2 Empirical review

Empirical review of journal, articles and thesis are given below;

Rouwenhorst (1999) articles entitled "*Local Return factors and Turnover in Emerging Stock Markets*" by K Greet Rouwenhast. This paper examines the sources of return variation in emerging stock markets. Compared to the developed markets the correlation between most emerging market and stock market has been historically low and until recently many emerging country restricted investment by foreign investor. He attempts two set of question to answer. The first set of three questions concern the existence of expected return premiums. (i) Do the factors that explain expected return difference in developed equity markets also describe the cross section or expected returns of emerging market firms?(ii) Are the returns factors in Emerging markets primarily local or they have global components as well? (iii) How does the emerging market evidence contribute to the international evidence form developed markets that similar return factors are present in markets around the world? The set of questions of the paper include, (iv) is there a cross sectional relation between liquidity and average, returns in emerging markets? Are the return factors in emerging markets cross sectional correlated with liquidity? Total returns are calculated in the sum of the dividend return and price appreciation using prices scaled by a capital adjustment factor, which the IFC computers to correct for price effects associated with stock splits, stock dividends and rights issues. Many emerging market have firms with multiple share assess are treated as a single value weighted portfolio of the outstanding equity securities. In this proper Roowenhorst has been made detail analysis of the data and he interprets the result in each section. Lastly, he has concluded his findings as "The first conclusion is that the return factors in emerging markets are qualitatively similar to those in developed markets: Small stocks outperform growth stocks and emerging market stocks exhibit momentums. There is no evidence that local market betas are associated with average returns. The low correlation between the country return factors suggest that the premium have a strong local character. Furthermore, global exposure cannot explain the average factor returns of merging market. This is little evidence that the correlation between the local factor portfolios have increase, which suggests that the factors responsible for the increase of emerging market country correlation are separated from those drives the difference between expected return within these markets. A Bayesian analysis of Premiums in developed and emerging markets shows that unless one has strong prior belief to the contrary. The empirical evidence favors the hypotheses that size, momentum and values strategies are compensated for in expected returns around the world. Finally, the paper documents the relationship between expected returns and share turnover and examines the turnover characteristics of the local factors portfolios. There is no evidence of relation between expected returns and turnover, in emerging markets. However, beta, size momentum and value are positively cross sectionally correlated with turnover in emerging markets. This suggests that return premium do not simply reflect a compensation for liquidity (Rouwenhorst, 1999:1462). After reviewing, an article entitled American Association of Individual Investors, Investing basis reveals importance to understand how personal circumstance affect investment decision. (If these factors make no difference we could simply publish one suggested portfolio for everyone to follow). Investment profile is the beginning of the asset allocation process, which consists of dividing portfolio among the major asset categories of stocks, bonds and cash. The asset allocation decision will have a far more effect on portfolio return.

Elton (1999) article entitled "*Expected Return, Realized Returns and Assets Pricing Tests*" by Edwin J. Elton as journal of finance in the year 1999 is relevant to this study. In this proper he points out the fundamental issues in finance like that what the factors are that affect expected return on assets, the sensitivity of expected return to those factors, and the reward for bearing this sensitivity. There is along history of testing in this area and it is clearly one of the most investigated assess in finance. Almost all of the testing being aware of using realized returns as a process for expected returns. The sue of a average realized relies on a belief that information surprises tent to out over the period of a study and realized returns are therefore an unbiased estimate of expected returns. However, he believes that there is ample evidence that there is ample evidence that this belief is misplaced. There are period's longer than 10 years during which stock market realized returns are one average less than the risk free rate (1973 to 1984). There are periods longer than 50 years in which risk long term bonds on average underperform the risk free rate (1927 to 1981). Having a risky asset with expected return above the risk less rate is an extremely weak condition for realized returns to be an appropriate process for expected return, and 11 and 50 years is an awful longtime for such a weak condition not to be satisfied. aIn the recent past, the United States has had stock market returns of higher than 30% per year while Asian Markets have had negative returns. The journal of finance, published by American Finance Association for many decades is taken into account.

Yilmaz and Gulay (2006) made a study on Istanbul stock market and dividend policy keeping the major objective of examining the effects of cash dividend payments on stock returns and trading volumes in the stock market. It also investigates whether there is any difference in the investment behavior of investors with respect to the dividend payout ratio. They have used an event study methodology to avers the effect of cash payments on the prices of underlying assets. They have concluded that prices start to rise for certain period before the cash dividend payments and on the ex dividend day, they fall less than do dividend payments, finally decreasing in the sessions following the payment. Similarly, trading volume showed considerable upward movement before the payment date and stable thereafter. Thus cash dividends influence prices and trading volume in different ways before, at and after providing greater opportunity for the investors to make some profitable active trading strategy.

Pastor and Veronesi (2012) made a study keeping the major objective of analyzing how changes in the government policy affect stock prices. They developed a simple asset pricing model featuring uncertainty about government policy and a government whose decisions have both economic and non-economic motives. The model makes numerous testable predictions. Like stock prices should fall at the announcement of policy change, decline in prices should be large if uncertainty about government policy is large and policy change is preceded by a short or shallow economic downturn, policy changes should increase volatilities and correlations among stocks and finally the jump risk premium associated with policy decisions should be positive, on average.

Sopipan et. al. (2012) made a study keeping major objective of forecasting the stock prices of top 50 listed companies on Stock Exchange of Thailand. They have used the multiple regressions considering high correlation (multi co linearity problem) among the explanatory variables. In order to avoid the problem they have used Principal Component Analysis (PCA). Thus they have employed principal component scores (PC) in a multiple regression analysis. They have concluded that 99.4% of the variation in the stock prices of top listed companies on Stock Exchange of Thailand can be explained by all PCAs.

Naik (2013) made a study keeping the major objective of investigating the impact of macroeconomic factors on stock market behavior considering Indian data. He applied Johansen's co-integration and vector error correction model to explore the long term equilibrium relationship between stock market index and macro-economic variables. Here monthly data of five macroeconomic variables were used named industrial production index, inflation, money supply, short term interest rate, exchange rate and stock market index of the period of 1994-2011. He concluded that the macroeconomic variables and the stock market index are co-integrated. Hence, long run equilibrium relationship exists between them.

Bhattarai (2014) studied on determinants of Share Price of Nepalese Commercial Banks. The study of the determinants of equity share prices has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially a banking sector to identify the factors that influence share prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effects of dividend payout ratio, dividend yield, earning per share, price- earnings ratio and size on the share price of banks listed on Nepal stock exchange Limited. The findings of the study over the period 2006-2014 revealed that earning per share and price-earnings ratio have the significant positive association with share price while dividend yield showed the significant inverse association with the share price of the banks. The study concludes that dividend yield, earnings per share and price earnings ratio are the major determinants of share price of Nepalese commercial banks. He results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of the this study seems to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices.

Rakhal (2015) studied on determinants of Stock Market Performance the major role of the stock market in the economy is to raise capital and utilize such capital into the productive sectors and to ensure that the funds raised are utilized in the most profitable opportunities. This paper performs the necessary analysis to answer whether changes in the selected macroeconomic indicators affect the stock market performance or not and sheds light on the nexus between stock market and four key macroeconomic variables. The study has been guided by an objective to explore the relationship between selected macroeconomic indicators and stock market performance in international and Nepalese context based on the available literatures. The selected key macroeconomic indicators that have been included in the study are remittances, exchange rate, interest rate, and money supply and effect of these indicators have been analyzed with the help of literatures and research gap has been found. Based on the literature and support of majority findings of the studies, the study draws a number of conclusions. First, the study concludes that remittance has positive effect on stock market performance. This means an increase in remittance will significantly improve the performance of stock market and it implies that a substantial percentage of remittance is invested in the stock market and hence improving stock market performance. Second, the study reveals that money supply positively affect the stock market. Meaning that when money supply growth is higher in the economy it leads to increase in investable amount among investors and hence improves the stock market performance. Third, there is a negative relationship between exchange rate and stock market index in Nepal. This can be explained by the fact that depreciation of Nepalese rupees against foreign currency would lead cost of import high for native industries and resulting poor performance and continuous depreciation currency is the sigh of worsening the economy of particular country. Finally, the study concludes that interest rate has the negative effect on stock market performance meaning that when T-bill rates rise investors tend to shift their investment in government securities resulting weak performance of stock market.

Aliu, Pavelkova, & Dehning (2017) published the articles under the title 'Portfolio risk-return analysis: The case of the automotive industry in the Czech Republic'. Portfolio management still remains as a science that does not give clear answers on the portfolio construction. Arranging a portfolio that would generate excess return on the investments, seems to be more an art than a science. The results show that the rising number of companies from 10 to 37 reduce the risk level, when we move from Portfolio A to Portfolio B. In contrast, when we move from Portfolio B (37 companies) to the Portfolio C (47 companies), risk level has increased. In spite that the number of securities augmented in Portfolio C, the average correlation coefficient went up. We can conclude that investing in Portfolio C (auto suppliers and manufacturers) delivers lower risk than investing in Portfolio A (auto manufacturers) but higher risk than in the Portfolio B (auto suppliers). Which portfolio investors would choose, it depends on their risk profile. Portfolio B offers the lowest risk and also lowest returns, but the highest risk-return tradeoff. According the results, it is clear that investments in the same sector cannot perfectly diversify risk, but there is an evidence, that it is possible to look for increasing risk-return tradeoffs creating different portfolios. As we demonstrated, the investments to auto suppliers operating in the Czech Republic during the period of 2005-2014 could create higher wealth in comparison with investments to auto manufacturers, even returns of manufacturers in the portfolio achieved higher level. The lowest wealth in comparison with risk was achieved by investment to the portfolio of manufacturers and suppliers taken together. The world economic downturn of the financial crisis hardly affected automotive industries around the world. It is clear from our results that the Czech automotive industry was affected from the last financial crisis - returns declined rapidly. The automotive industry is very sensitive to the business cycles. Further studies might identify, if the decline of returns during and after the crisis was driven also by local factors or influenced only from the world economic distress. The stock market crash of 1987, the Asian financial crisis of 1997 and the US financial and economic downturns of 2007 demonstrated that financial markets deliver the first symptoms of the sick economy. Financial globalization reflected, through highly correlated stock markets, narrowed room for international portfolio diversification. The returns in the same industry might not be a gainful target for the investor, who tends to find securities that are negatively correlated. A systematic shocks, that might occur, will affect identically most of the assets in the portfolio.

Kandel (2018) published the articles on 'Risk and Return Analysis of Commercial Banks of Nepal (with reference to NABIL and NIBL)'. After the analysis of risk and return of sample bank and based on the past data of their last five fiscal years i.e. (FY-2012/13 to FY-2016/17), it is concluded that all the commercial banks, which are under study, are very much risky with fluctuated rate of return. From the findings of beta coefficient of each sample bank, the C.S. of NABIL is seems very much volatile than NIBL stock. The study also shows that the selected commercial banks under study, the required rate of return of both commercial banks i.e. (NABIL & NIBL) is more than expected rate of return, so both stocks are overpriced. Hence it is more profitable to take decision of short selling by investors. This study also shows that both selected bank have a high proportion of unsystematic risk i.e. NABIL (89.29%) and NIBL (93.18%) which can be minimized from internal management. Hence, it is better to have a low proportion of systematic risk and comparatively a high proportion of unsystematic risk because unsystematic risk can be reduced to zero but systematic risk cannot be even reduced as it is created from market.

Shakya (2009) has conducted research on "Risk and Return on common stock investment of commercial Banks in Nepal" with special reference to five listed commercial banks. The major objective of this study was to promote and protect the interest of the investor by regulating the issuance sales and distribution of securities and purchases, sale or exchange of securities. He also intends to supervise and monitor the activities of the stock exchange and of other related firms carrying on securities business. In addition he tried to render contribution to the development of capital market by making securities transactions fair health, efficient and responsible.

Adhikari (2010) has conducted research on “Impact of Return and Risk on share". The study was based on the data collected for eight banks from mid July 2004. The main objectives of the study was to determine whether the shares of commercial banks in Nepal are over or under priced by analyzing risk and return characteristics of the individual shares. The findings: most of the individual shares appeared to be defensive as beta coefficients were less than one low data shares were less volatile than market as a whole. Only the return of shares of bank of Kathmandu had beta coefficient of greater than one, indicating that the share was more risky than the market. Nepal Arab Bank Ltd., Nepal Indosuez Bank Ltd., Himalayan Bank Ltd. had higher expected equilibrium return them expected rate of return. And standard character Bank Ltd., Nepal SBI Bank Ltd., NB Bank Ltd., Bank of Kathmandu had lower equilibrium return them expected rate of return. From this study we get Nepal Arab Bank Ltd. Nepal Indosuez Bank Ltd. and Himalayan Bank Ltd. was overpriced and others were under prices. Following are the findings of this study. It was noticed that there is a positive correlation between risk and return character of the company. Nepalese capital market being inefficient, the price index itself is not sufficient to give the information about the prevailing market. Situation and the company proper regulation should be introduced so that there is more transparency in issuance, sales and distribution of the securities. Investors do not have/any idea about the procedures of the securities issuance. Neither company nor the stock brokers transmit any information to the investors about the current market situation and hence it becomes difficult for common investors to invest in the securities. Both government authorities and the stock exchange regulator body should try to promote healthy practices so that the stock brokers don not give false information to the investors for their personal benefit which is a common practice in Nepal. Investors should get regular information about the systematic Risk (Beta), Return on Equity and P/E ratio of various listed companies in some way; it is given in economic times for the companies listed in Nepal Stock Exchange. Security exchange Board of Nepal should make this mandates that it is easier for the investors to calculate risk and risk return of portfolio and transparence is increased.

Budha, (2018) has conducted research on Risk and Return Analysis of Common Stock Investment in Commercial Banks of Nepal (With Reference to Nepal Investment Bank, Everest Bank, Himalayan Bank And Nabil Bank Limited).

Major objective of the study were to analyze the common stock of selected banks in terms of risk and return, to identify whether stock of selected commercial banks are overpriced, underpriced and equilibrium price and to analyze the proportion of diversifiable and diversifiable risk of the selected banks.

From the study it is concluded that all the commercial banks, which are under study, are very much risky with fluctuated rate of return. From the findings of the different banks beta coefficient of EBL is riskier than the market. Similarly the beta coefficient of stock of NIBL, HBL and NABIL is less than 1, so these stocks are less riskier than the market. The study shows that HBL under study required rate of return is less than expected rate of return, so all stocks are underpriced. It shows that HBL the banks have stock with good investment opportunity and the study shows that NIBL, NABIL .HBL is greater than expected rate of return, so all stocks are overpriced. It shows all stock of these banks is better to sell in market. This study shows that HBL has high proportion of unsystematic risk i.e. 22.86% and NABIL has high proportion of systematic risk i.e. 91.87% which cannot be minimized from internal factor. NIBL, HBL, NABIL bank common stock fall under category of defensive stock because of these banks beta coefficient is less than 1.

8. Research methodology

There is a vital role of methodology in any type of research process. To collect the reliable data from research area and presentation of collected data, we can use various types of research methods. Research methodology describes the method and process applied in the entire aspects of the study, focus of data, data gathering instrument and procedure, data tabulation and processing and method of analysis.

8.1 Research design

Design of the study refers to the overall strategy that the researcher selects to integrate the different components of the study in a coherent and logical way. It is a logical sequence in which the study is carried out, and constitutes the blue print for collection, measuring and analysis of data (Kothari, 2004). The present study will be based on descriptive research design. Descriptive research design will be used to describe the status of risk and return from tables, graphs, and figures with basic calculation of present collected data. Similarly mean and standard deviation also will be calculated to interpret the data

8.2 Population and sample

Total population of the study is 27 commercial banks listed in NEPSE which are taken on the basis of listed years of commercial banks. The study will carried out those commercial banks which are listed before 2012 A.D. in NEPSE. For research purpose, Himalayan Bank Ltd, Everest Bank Ltd, Nabil Bank Ltd and Nepal Investment Bank Ltd are selected on the basis of purposive sampling method for study. These banks have the large volume of transactions and they also have many branches in different sectors of the country. So, the large numbers of employees are also involved in commercial banks. Therefore, the present study will not cover all the employees of selected banks. However, the researcher will try to cover as many employees as possible.

8.3 Nature and sources of data

All the data necessary for the research will be collected from secondary sources. Data related to market prices of shares (MPS), movement of NEPSE index etc. will be taken from the trading report published by NEPSE, other relevant data will be collected from individual banks, Security Board of Nepal (Thapathali) and from their web sites.

The collection procedure is summarized below: -

i. Financial document and summary sheets provided by companies.
ii. Trading manual published by Nepal Stock Exchange Limited.
iii. Related URL
iv. Materials published in Newspapers and Magazines.
v. Other related journals, periodicals, books and booklets.
vi. Central library OF T.U

8.4 Data analysis tools

The process of data analysis has been started after the collection of raw data. Data analysis is a process, which involves editing, coding, classification, and tabulation of the collected data (Kothari, 2004). All the data will be presented and analyzed to fulfill the objectives developed in the introduction chapter to illustrate the research. Worksheets and figures will be used for the data presentation to evaluate risk and returns. Categorically, the study will use financial and statistical tools.

9. Chapter plan

This study is organized or structured as follows:

Chapter I: Introduction

The first chapter of the research project provides basic information related to the research topic and outline of the study. It showcases background of the study, statement of problem and research questions, objectives of the study, significance of the study, limitation of the study.

Chapter II: Literature review

The second chapter is literature review. Second chapter includes some relevant literature available on the subject matter of the study; it consists of literature on emergence of concept of dividend policy from the review of books, articles and thesis related to the study field.

Chapter III: Research methodology

This chapter presents the research design and methodology utilized in this research. The research design and methodology includes the planned methods used while conducting the research which has helped to guide the research towards its main findings and conclusion. This chapter contains framework and procedure of the study, it deals with research methodology used to carry out the research, it includes research design, population and sample, sources and techniques of data collection, tools and techniques of data analysis.

Chapter IV: Results

The fourth chapter deals with the main results of the study. This chapter is heart of the study- This chapter contains presentation of data, their analysis and interpretation using financial and statistical tools such as financial indicators and variable analysis, multiple regression analysis, correlation coefficient analysis etc.

Chapter V: Conclusion

This chapter outlines the discussion of results and suggestions for further

This is final chapter of the research work; hence it revolves around showcasing summarized report of whole work. It focuses on concluding the work highlighting the main findings as well as making recommendations and providing guidelines for the prospective users, readers and future researchers.

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