

**INVESTORS' PREFERENCE FOR INVESTMENT IN
FINANCIAL INSTRUMENTS**

A Thesis

Submitted

By

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Certificate of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by myself. Any help that I have received in my research work and the preparation of this thesis itself has been acknowledged. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

.....

SurajKatuwal

September, 2018

RECOMMENDATION LETTER

I certify that the Thesis submitted by Mr. SurajKatuwal entitled “**Investors' Preference for Investment In Financial Instruments**”has been prepared as per the format prescribed and approved by the Faculty of Management, Tribhuvan University. This research work is completed under my supervision and guidance. This thesis is the candidate's original research work. I am fully satisfied with the language and substance of this Research submitted to Faculty of Management. To the best of my knowledge, the candidate has fulfilled all the requirement of **Masters of Business Studies (MBS Semester)** degree, Faculty of Management, Tribhuvan University. I, therefore, recommend that this research be considered for the award of master degree.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Investors' Preference for Investment in Financial Instruments**” Presented by Mr. Suraj Katuwal, a candidate for the degree of **Masters of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS/ACRONYMS

DPS	:	Dividend per Share
EPS	:	Earning Per Share
ETC	:	ET. Cetera
FRN	:	Floating Rate of Notes
I. E.	:	That Is
IPO	:	Initial Public Offerings
LTD	:	Limited
MBS	:	Master in Business Studies
MPS	:	Market Price per Share
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
SEBON	:	Security Board of Nepal
SPSS	:	Statistical Package for the Social Science

ABSTRACT

This thesis attempts to identify the investors' preference for investment in financial instrument. Questionnaire survey method is used to obtain the views of randomly selected 60 investors from different five broker companies. The preference of investors' for investment sector plays a vital role in the development of any capital market.

The purpose of this study is to find out the investors' preference in choice of the financial instruments, specific factors, which affect the investors' decision, investors' preference for investment in different sectors of investment and investors' awareness. This thesis finds out various factors that would affect the investors' preference for investment. Two theories technical analysis and fundamental analysis have been taken into consideration for purpose and finding out factors affecting to investment. After this thesis I would like to say that maximum Nepalese investors' were preferred the common stock because of sufficient return. Dividend, capital gain and EPS makes Nepalese investor's more motivated for investment. Nepalese investors wants that kinds of bond which participates in profit and/or loss i.e. income bond. After this thesis we can conclude that Nepalese investors' were less aware about investment decision they does not take necessary information before or after investment.

CHAPTER - I

INTRODUCTION

1.1 Background of the study

An investor is who makes an investment into one more category of assets-equity, debt securities, real estate, currency, commodity, derivatives such as put and call options, etc. with the objective of making a profit (Narayana b. 2012). Investors are any person who commits capital with expectation of financial returns. Investors utilize investments in order grow their money and/or provide an income during retirement, such as with an annuity. Investors typically perform technical and/or fundamental analysis to determine favorable investment opportunities and generally prefer to minimize risk while maximizing returns. Variety of investment stock, bonds, commodities, mutual fund, options, foreign exchanges, gold, silver, retirement plans, and real estate. Individual who commits money to investment products with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher than average profits (investorword.com). Investors are a person or organization that buys stock or shares or pays money into a bank in order to receive a profit (French bank credit national). That would give foreign investors looking for a return another reason to avoid sterling. (Time Sunday times 2016).

Transfer of capital all throughout the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership of an entity. The smooth continuity of development activities widely depends on the adequate supply of medium as well as long-term capital funds in productive investment projects, which is concerned with finance. The finance is directly concerned with conversion or accumulation of capital funds to meet the financial needs of various institutions. For efficient mobilization of financial resources, the financial market has an intermediary role to bridge funds from surplus units to deficit units through the trading of financial instruments. Financial instruments refer to the stock, bond, debenture and other

financial assets those represent the right of the holder to receive future prospective benefits under the terms and conditions provided in the instrument.

Financial instrument is traded in the financial market. Investors can buy or sell securities at a price that varies little from the financial markets and facilitates the price discovery process. In other words, financial market facilitates the transaction of financial assets like deposits, loans, bonds, securities, stocks, bills etc. financial market refers to all the activities of financial institutions those transact on financial assets and liabilities.

Financial instruments are monetary contracts between parties. They can be created, traded modified and settled. They can be cash, evidence of an ownership interests an entity (share) or a contractual right to receive or deliver cash (bond) (Wikipedia.org). Further, financial market provides a forum in which suppliers and demanders of funds can transact business fund directly; financial market constitutes money market and capital market.

The money market is often accessed alongside the capital market. While investors are willing to take on more risk and have pretenses to invest in capital market, money markets are a good place to "park" funds that are needed in a shorter time period usually one year or less than one year. The money market provides a variety of functions for either individual, corporate or government titles. Investors, on the other hands use money market to invest funds in a safe manner, unlike capital market, money markets are considered low risk, and risk adverse investors are willing to access them with the anticipation that liquidity is readily available. Those individual living on a fined income often use money market because of the safety associated with these types of investments. According to crowther "the money market is a name given to the various firms and institution that deal in the various grades of near money".

A money market is a mechanical device though which short term funds are loaned and borrowed though which a large part of the financial transactions of a particular country or world are dreaded. A money market is distinct from but supplementary to the commercial banking system. The capital markets are perhaps the most wildly followed markets both the stock and bond markets are closely followed, and their daily movements are analyzed as proxies for the

general economic condition of the world market. As a result, the institutions operating in capital markets stock exchanges, commercial banks and all types of corporations, including non-bank institution such as insurance companies and mortgage banks are carefully scrutinized. The investors of securities in the capital market tend to use funds that are targeted for longer term investment. Capital markets are risky markets and are not usually used to invest short term funds. For retirement or education, as long as the investors have lengthy time horizons.

A capital market is where the organization trading of securities and investments takes places. Capital market serves buyers and sellers of equity and debt instrument.

Because capital is a crucial component of economy, capital markets are vital (divestopedia.com). Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. the buying /selling is undertaken by participants such as individual and institutions (The economic times).

Nepal's economic is in developing stage in order to speed up this place of economic development financial sectors have crucial role, as they accumulate scattered savings for capital formulation. The public investors are interested to invest their money in financial instruments. All the prospective investors will not set the share of investment in financial securities issued by public companies in the primary market due to exceeds of demand to original offer. In the Nepalese context, there is the lack of wider investment opportunities that provide good rate of return, so there exists a huge amount of unutilized saving funds with the investors.

1.2 Statement of problems

The number of public limited companies is increasing tremendously in response to the economic liberalization and globalization policies adopted by the Nepalese government. Most of institutions provide banking services, corporative finance insurance service etc. and comparatively fewer institutions are participatory in developmental works, manufacturing and processing and other. Although

opportunities are limited such institutions are mushrooming and competing with themselves intensely.

NEPSE creates liquidity on shares of such companies issued in the primary market, and provides floor for trading of share, numbers of legislative provisions have been made. NEPSE, SEBON, NEPAL RASTRA BANK are monitoring the share market regularly for timely check and balance, investors awareness campaign are frequently going to ensure right movement of the market. The study of investor's interest, wants, expectations and preference to ward investment decision is vital which very complex and crucial task is. Considering the situation the study has focused on addressing following issues:

1. What is the status of investor's preference regarding investment in different investment sectors?
2. What are the affecting factors for the investors to make investment decision?
3. What is the degree of investor's preference for investment in different securities?
4. What are the investor's awareness regarding the before and after investment decision?

1.3 Purposes of the study

As we aware that the stock market of Nepal is gradually developing as per need of the economy developing but it is not sophisticated as in the market of advance countries. Therefore, sustainability of stock market and fulfillment of investors' expectations should be considered for country economy development. It is relevant to address the investor's preference for investment on financial instruments.

The specific objectives of this study are outlined as follows:

1. To examine the Nepalese investors' preference for investment in different sectors of investment.
2. To find out specific factors, which affect the investors' decision.
3. To identify, the investors' preference in choice of the financial instruments.
4. To assess investor's awareness regarding the investment decision.

1.4 Significance of the study

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

Academics, research scholars, students and policy makers may be benefited from this study as it tends to give some practical insights that can be very useful to turn the theoretical knowledge into practical field.

1.5 Limitations of the study

As every research or study, it has its own limitations, this study has some limitations as below:

- I. The data and information required for this study is collected from both primary and secondary sources of information. But this study mainly based on primary data.
- II. The major portions of analysis and interpretation have been done on the set of questionnaires that are filled by the target investors'.
- III. Only five financial instruments have been taken into consideration for the study. (I.e. equity share, preference share, debenture, government bond and other (mutual fund and fixed deposits)).
- IV. The study focused on the analysis of investors' preference with present and past circumstances of the stock market and investors in Nepal.
- V. Only selected statistical tools have been used in the study.

1.6 Organization of the study

This study is divided into five different chapters. The titles of these chapters are as follows:

Chapter one: chapter one contains the introductory part of the study which includes the general background, statement of problems, objectives of the study, significance of the study and limitation of study.

Chapter two: chapter two mainly focuses on the theories about investors'. Investment, financial instruments and investors' preference for investment.

Chapter three: chapter three describes the research methodology used to conduct the research. This chapter also contains the research design, data collection procedure, sample selection and statistical tools.

Chapter four: chapter four is the main part of the study which presents and analysis data to find out the investors' preference for investment in financial instrument, also it include major findings.

Chapter five: chapter five deals with the summary, conclusion of the study and gives recommendation for improvement in the investment decision.

CHAPTER- II

REVIEW OF LITERATURE

In this chapter, the basic literatures related to the research topic are reviewed. It includes prior theories and review of the empirical evidences of previous studies.

2.1 Conceptual frameworks

2.1.1 Investment

Investment is defined as the commitment of current financial resources in order to achieve higher gains in the future. It deals with what is called uncertainty domains. From this definition, the importance of time and future arises as they are two important elements in investment. Hence, the information that may help shape up a vision about the level of certainty in the status of investment in the future is significant (Machiraju, 1998). An investment is an assets or item acquired with the goal of generating income or appreciation in an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance an investment is a monetary asset purchased with idea that the asset will provide income in the future or will later be sold at higher price for a profit. An investment is an asset intended to produce income or capital gain. In general; to invest is to allocate money or sometimes another resource, such as time. In the expectation of some benefit in the future for example, investment in durable goods, in real estate by the service industry, in factories for manufacturing in product development, and in research and development. Investment is using money to purchase assets in the hope that the asset will generate income over time or appreciate over time. Consumption, on the other hand is when you purchase something with the immediate intent of personal use and with no expectation that it will generate or increase in value (study.com). An investment simply means commitment of saving into any alternative that is expected to generate positive income. (Thapa.S. 2017).

"Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain." (Kristina, 2010).

2.1.2 Investment process

Investment process involves how investors should make decisions about what marketable securities to invest in how extensive that investment should be, and when the investment should be made.

Here are some steps or process of investment given below:

2.1.2.1 Determining investment policy

The first step of investment process is to set the investment policy. It involves determining the investor's objectives and the amount of his or her investable wealth. Investment objectives should be stated in terms of both risk and return. This identification will be based on the investment objectives, amount of investable wealth, and tax status of the investor. An investment policy statement is a client-specific document designed to address the objective, constraints, unique circumstances and overall oversight procedures that govern the investment related activities of a nonprofit organizations (Ferson G. O, 2006).

2.1.2.2 Performing security analysis

The second step of the investment process is to performance security analysis. The securities available to an investor for investment are numerous and of various types. The main purpose of conducting such examination is to identify those securities that currently appear to be mispriced.

There are mainly two approaches to security analysis described as below:

Technical analysis is the forecasting of future financial price movement based on an examination of past price movements technical analysis does not result in absolute predictions about the future. Instead, technical analysis can help investors anticipate what is "likely" to happen to prices over time. Technical analysis uses a wide variety of charts that show price over time (stockcharts.com). Technical analysis is a trading tool employed to evaluate security and attempt to forecast their future movement by analyzing statistics gathered from trading activity, such as price movement and volume. Unlike fundamental analysis who attempt to evaluate a security's intrinsic value. Technical analysts focus on chart of price movement and various analytical tools to evaluate a security strength or weakness and forecast future price changes.

Fundamental analysis is a method of evaluating assets on the basis of external and influences, as well as financial statement on the assets itself. It is used traders to make decisions on different assets by measuring the economic, financial and market conditions that can affect its price. Fundamental analysis is a method of evaluating a security in an attempt to measure its intrinsic value, by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts anything that can affect the security's values including macro-economic factors such as the overall economy and industry conditions and macro-economic factors such as financial conditions and company management.

2.1.2.3 Constructing a portfolio

The third step in the investment process is the construction of portfolio. Construction of portfolio involves identification of specific securities in which to invest, along with the proportion of investable wealth to be put into each security. While constructing portfolio, the investor needs to address the issues of selectivity, timing, and diversification. Portfolio construction is all about investing in arrange of fund that work together to create an investment solution for investors (Guerard., 2010). Building a portfolio involves understanding the way various types of investments work and combining them to address your personal investment objectives and factors such as attitude to risk the investment and the expected life of the investment.

2.1.2.4 Revising the portfolio

The fourth step in the investment process is portfolio revision. Portfolio revision involves both realizing that the currently portfolio is not optimal and specifying another portfolio to hold with superior risk return characteristics. The investor must balance the costs of moving into the new portfolio against the benefits if the revision. "The art of changing the mix of securities in a portfolio is called as portfolio revision. The process of addition of more assets in an existing portfolio or changing the ratio of funds invested is called portfolio revision". (Vikram., 2008).

A portfolio review analysis the composition of the micro finance portfolio and the performance of individual projects across the portfolio to assess whether a funder delivers on its microfinance strategy. First and for most, portfolio review are leaning tool for funders who want to understand what works, what doesn't, and why.

Analyzing performance across a funder's portfolio can yield meaningful learning and can help inform future program design and strategic reorientations (Barbara., 2012).

2.1.2.5 Evaluating the portfolio performance

The last step of investment process is evaluating the portfolio performance. It involves determination of the actual performance of a portfolio in terms of risk and return and comparing the performance with that of an appropriate "benchmark" portfolio. Choosing investing is just the beginning of your work as an investor. As these investments to see how they are together in your portfolio to help your progress toward your goals. Generally speaking, progress means that your portfolio values is steadily increasing, even one or more of your investment may have lost value (Rajarajan, 2003).

2.1.3 Types of investors

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

2.1.3.1 Individual investor

Individual investor who purchase small amount of securities for him/herself, as opposed to an institutional investor. Also called retail investor or small investor (Investorword.com). An individual investor may be protected by the strategy he uses in investment. The strategy includes an appropriate price of the stock or assets in the right time he enters. It's hard to fix what "an appropriate price" is, and when it is appropriate because no one makes a purchase or sale absolutely in his most favorable situation. However, determination may be made when the price of such share or assets are undervalued comparing to its potentiality. Individual investment behavior is concerned with choices about purchases of small amounts of securities for his or her own account, Investment decisions are often supported by decision tool. It is assumed that information structure and the factor in the market systematically influence individual investment decision as well as market outcomes (Mutswenje, 2014).

2.1.3.2 Institutional investor

An institutional investor is mainly a large that as organization that has considerable cash reserves with which to invest in securities and other investment assets. Institutional investors include endowment fund, hedge fund, insurance companies, pension funds, mutual funds etc. other operating companies, which invest a part of

their profiles in different types of assets, may also be called institutional investors (Divestopedia.com).

An institutional investor is an organization that invests on behalf of its members. Institutional investors face fewer protective regulations because it is assumed they are making knowledgeable and better able to protect themselves. There are generally six types of institutional investors: endowment funds, commercial banks, mutual funds, hedge funds, pension funds and insurance companies.

2.1.4 Financial instruments

Financial instrument is any contract that gives to financial assets of one entity and a financial liability or equity instrument of another entity (Putra, 2015) Financial instruments are assets that can be traded they can also be seen as packages of capital that may be traded. Most types of financial instruments provide an efficient flow and transfer of capital all throughout the worlds' investors. These assets can be cash or contractual right to deliver or receive cash or other types of financial instrument, or evidence of one's ownership of an entity.

A financial instrument is a claim against a person or an institution for payment, at a future date, of a sum of money or periodic payment in the form of interest or dividend. A financial instrument represents paper wealth such as shares, debentures, bonds, notes etc. different types of financial instruments can designed to suit the risk and return preference of different classes of investors. Financial instruments help financial markets and financial intermediaries to perform the important role of channelizing funds from lender to borrowers; financial instruments are also known as investment avenues (Kumar, 2015).

The major financial instruments in Nepal are:

- Common stock
- Debt
- Preferred stock
- Government securities
- Fixed deposit
- Bonds

- Saving bank account

A. Common stock

Common stock is one form of a price of ownership of a corporation. They are the type of stock that most people are thinking of when they use the term “stock”. Since stocks are partial ownership of a corporation. They are also known as “shares”. Common stocks allow stockholders to vote on corporate issues. Common stock is a security that represents ownerships in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Common stockholders are on the bottom of the priority ladder of ownership structure in the event of liquidation, common shareholders have rights to company assets only after bondholders, preferred shareholders and other debt holders are paid in full. With common stock, if a company goes bankrupt, the common stockholder do not receive their money until the creditors and preferred shareholders have received their respective share of the leftover assets. This makes common stock riskier than debt or preferred shares. The first ever common stock was established in 1602 by Dutch east India company and introduced on the Amsterdam stock exchange. When a company needs capital for expansion, it sells shares its stocks to the public most company issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable. When a company issues just one type of stock it is called common stock, and it includes the equity shares than the owners of a company receive. Common stock holder in a company usually received return on their investment in the form of dividends. They usually receive a portion of the assets at the time of sale, and have significant decision making power in the company such as the ability to vote on the board of directors (Jayabal, 2009).

Advantages of holding common stock are as follows:

1. Common stock provides ownership of the firm.
2. It provides control power.
3. Purchase of common stock gives the following rights to stockholders:
 - Voting right
 - Participation in general meeting
 - Right getting information

- Electing as a board of director
- Participation in the profit and loss of the company
- Transferring shares
- Proxy representation

The disadvantages of holding common stock are as follows:

1. It is more risky than other securities
2. The rights may not be exercised in his or her best interest as individual investor represents very small proportion of total shares.
3. On liquidation, holders of common stock are last in the priority of claims. Therefore, the portion of capital they contribute provides a cushion for creditors, if losses occur on dissolution.
4. As an owner of firm, investor of common stock should bear legal responsibility, and personal liability.

B. Debt

Debt is when something, usually money is owed by one party the borrower or Depot to a second party, the lender or creditor. The debt may be owed by sovereign state or country, local government, company, or an individual debt is generally subject to contractual terms regarding the amount and timing of repayments of principal and interest. Debt is used by many corporations and individuals as a method of making large purchase that they could not afford under normal circumstances. A debt arrangement give the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

I. Debenture

In corporate finance, a debenture is a medium to long-term debt instrument used by large company to borrow money, at a fixed rate of interest. The legal term “debenture” originally referred to a document that either creates a debt or acknowledges it. Debentures are generally freely transferable by the debenture holder. Debenture holders have no rights to vote in the company’s general meetings of shareholders.

II. Subordinate debentures

An unsecured bond with a claim to assets that is subordinate to all existing and future debt. Thus, in the event that the issuer encounters financial difficulties and must be liquidated, all other claims must be satisfied before holders of subordinated debentures can receive a settlement. Subordinated debt is more risky than unsubordinated debt. Subordinated debt is any type of loan that's paid after all other corporate debts and loans are repaid, in the case of borrower default.

III. Mortgage Bonds

Mortgage bonds are collateralized by assets such as plant or factories. Corporation is liquidated, the bondholder

has a direct claim on those assets. A mortgage bond can be open-ended or closed-ended. An open-ended mortgage bond allows the corporation to issue more bonds backed by the same collateral and of equal seniority. A closed end mortgage bond, the corporation may issue more bond backed by the same collateral, but bonds are divided into classes according to the order in which they were issued. (Rana, 2017).

A legal document by which the owner transfers to the lender an interest in real estate to secure the repayment of a debt. Evidenced by a mortgage note. When the debt is repaid, the mortgage is discharged and a satisfaction of mortgage is recorded with the register or recorder of deeds in the county where the mortgage was recorded.

IV. Income bonds

A bond that promises to pay interest only when earned by the issuer, failure to pay interest does not result in default. A bond in which the issuer is only responsible for making coupon payment when it has sufficient income to do so. Income bonds are most common in reorganization plans in which the issuer is attempting to maintain operations in bankruptcy. An income bond is useful for the issuer because it provides capital quickly. It can be disadvantageous for the bondholder because there is little or no guarantee of repayment. As a result, income bonds are relatively rare securities (Thapa, 2017).

V. Floating rate notes

Floating rate notes are fixed income securities that pay a coupon determinate by a reference rate which resets periodically as the reference rate resets. The payment received is not fixed and fluctuates overtimes. FRNS are in demand among investors when it is expected that interest rates will increase to earn higher coupon payment should the reference rate risk. FRNS also offer lower duration than fixed rate notes which protects values in a rising rate environment. FRNS present risk if interest rates decrease, which would result in lower coupon worthiness of the issuer. The floating rate note (FRN) was developed to decrease the risks of interest rate volatility at high levels. In an FRN, the coupon rate varies at a given percentage above prevailing shorter long-term treasury debt yields. The FRN rate is typically either fixed or guaranteed to exceed a stated minimum for an initial period and then adjusted at specified intervals to movements in the treasury rates. FRNs were first issued in the United States by Citicorp in 1974. The rate was set at a minimum of 9.7 percent for ten months and then adjusted semiannually to 1 percent above the current three month Treasury bill rate. Other firms followed Citicorp's lead. These early issues carried rates based on T-bill yields, and most allowed investors to "put" the FRN to the issuer at face value after a given date. Initial rates on the notes were well below the going rate on such short-term borrowing as commercial paper. In July 1974, the rate on three-month prime commercial paper was 11.9, while Treasury bills of comparable maturity were yielding 7.6 percent. Because interest rates were generally expected to decline, borrowers hoped that FRNs would also cost less over the life of the notes than fixed rate long-term debt.

VI. Equipment trust certificates

Equipment trust certificates, one type debt instrument which is similar in some ways to a mortgage or a lease with equipment trust certificates, the investor is given use of a particular assets, which he/ she pays for over time according to the specification of the title for the assets. Equipment trust certificates are commonly used as a method for financing the purchase of item such as aircraft. These certificates were originally designed for financing railroad cars. Some companies

prefer using equipment trust certificates because of the tax benefit; since the assets is not officially owned by the company while they are still paying for it. It is not considered property of the company and taxes are not owned on it. (Ravichandran, 2008).

VII. Equity linked debt

Sometimes the investors in the debt instruments of a company are given an option on common stock. With debt warrants, the debt holder has an option to purchase the common stock of the company and he or she continues to hold the instrument more attractive. A convertible bond is one that may be exchanged, at the option of the holder, into a certain numbers of shares of common stock of the corporation. The number of shares into which bond is convertible, is specified in the bond indenture, and these shares remain unissued until actual conversion. Purchasing of debt provides the followings advantages and disadvantages to debt holders from the viewpoint of long-term debt holders, debt is less risky than preferred or common stock, has limited advantages in regard to income, and is weak in regard to control. To elaborate:

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

C. Preferred Stock

Preferred stock is junior to all bonds that's a company owns. However, owners of preferred stock generally receive a fixed dividend when it is declared by the company's board of directors. Preferred stock dividends must be paid before any dividends are paid to common stockholders. Furthermore, preferred stockholders have prior claims on the company's assets and, in care of liquidation, are entitled to full payment before the common stockholders receive anything. However, preferred stockholder do not generally participate in company management and they have no voting rights as the common stockholders (Rana, 2017). You should consider preferred stock when need a steady stream of income. This is true in particular when interest rate is low it's because preferred stock dividends pay a higher income stream than bonds. Although lower, the income is more rates rise. This because that's when they start to lose value it's with bonds as full. "Preferred stocks are equity security, which has infinitive life and pay dividend. But preferred stock is attributed to the type of fixed- income securities, because the dividend for preferred stock is fixed in amount and known in advance" (Warne, 2012).

Preferred stock provides the following advantages to the investor.

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

Preferred stock also has some disadvantages to investors:

1. Although the holders of preferred stock bear a substantial portion of ownership risk, their returns are limited.

2. Price fluctuations in preferred stock may be greater than those in bonds; yet, yields on bonds are sometimes higher than those on preferred stock.
3. The stockholders have no legally enforceable right to dividends.
4. Accrued dividend arrearages are seldom settled in cash comparable to the amount of the obligation that has been incurred.

D. Government securities

Government securities are debt instrument issued by a national government as means of borrowing money. Bond holders receive which is a repayment of the face value of the bond at maturity (Debjyoti, 2014). Government issues various types of securities to fulfill and undertake the development works under the deficit budget and raises scattered funds from public. These securities are assumed to be less riskily as compared with external debt.

An efficient and well functioning government bond market is often considered important to the smooth functioning of financial markets more generally. High liquidity in a government bond market can smooth the use of the market for hedging positions in other markets facilitating issuance and secondary market trading in such market. Combined with liquidity can make the market a benchmark for risk free rates and for pricing instruments in other market (Bai, 2013).

Uses of government securities

- A steady income through a fixed rate of interest paid.
- A fixed data of maturity.
- A very low-risk investment if you hold the bonds until maturity.

1. Treasury bills

Short-term (usually less than one year, typically three month) maturity promissory note issued by a national government as a primary instrument for regulating money supply and raising funds via open market operation. Issued though the country's central bank, T-bills commonly pay no explicit interest but are sold at a discount, their yield being the difference between the purchase price and the pre-value. This yield is closely watched by financial market and affects the yield on municipal and corporate bonds and bank

interest rates. Although their yield is lower than on other securities with similar maturities. T-bills are very popular with institutional investors because, being backed by the government's full faith and credit they come closest to a risk-free investment.

T-bills are securities representing financial obligations of the government. Treasury bills have maturities of less than one year. They have the unique feature of being issued at a discount from their nominal value and the difference between nominal value and discount price is the only sum which is cash, only accrued. Other important feature of T-bills is that they are treated as risk-free securities ignoring inflation and default of a government, which was rare in developed countries, the T-bills will pay the fixed stated yield with certainty (Investment Avenues Available in India).

2. Development Bonds

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

The development of bond market is the key for the efficiency of the economic system, besides that fact that it would bring more opportunities for investors and deepen the financial markets. The existence of an effective bond market plays a crucial role on reducing financial sector fragility and provides an alternative cheap capital for firms (Dung, 2015).

3. National Saving Bonds

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

National saving in macroeconomic theory is defined as it is the merger of public savings and private savings of a nation. Previous ideas regarding savings, it plays a very important role for economic development (Mahmood, 2013)

4. Citizen Saving Certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate which is paid semi-annual basis. It cannot be used as collateral.

Individual and institutional purchase can buy this bond. It is a taxable bond.

5. Special Bonds

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

2.1.5 Market risk and return

Market risk is the risk that the value of an investment will decrease due to changes in market factors. These factors will have an impact on the overall performance on the financial markets and can only be reduced by diversification into assets that are not correlated with the market such as certain alternative asset classes (Rajic, 2015).

Risk is defined in Webster's as "a hazard; a peril; exposure to loss or injury" thus, risk refers to the chance that some unfavorable event will occur. For an investment in financial assets or in new projects, the unfavorable event is ending up with a lower return than you expected. An assets risk can be analyzed in two ways: (1) on a stand-alone basis, where the asset is considered in isolation; and (2) on a portfolio basis, where the asset is held as one of number of assets in a portfolio (Ehrhardt, 2015). Market risk can be reduced to some extent if you diversify your investment, i.e. widen your portfolio. However, it is impossible to eliminate all risk. Some market risk is not possible to present or foresee natural disasters, such as hurricanes, earthquakes etc. can strike at any time and many affect the value of your investments other source of market risk include terrorists' attacks, political instability, recessions and trade embargoes.

Return on market investment is a metric used in online marketing to measure the effectiveness of marketing companies. Return is the additional wealth generated from

an investment. There are many ways by which return on an investment can be measured. One way of measuring return is in terms of expected return. The expected rate of return is the weighted average of all possible returns where the returns are weighted by the probability that each will occur. Thus, it is a function of the probability of particular state of the economy and the possible rate of return for corresponding state (Rockinger, 1993).

2.1.6 Sources of investment risk

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

i. Political risk

Political risk is the risk an investment's return could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy markets or military control and become political risks are notoriously hard to quantify because there are limited sample sizes or case studies when discussing an individual nation. Some political risks can be insured against through international agencies or other government bodies. The outcomes of a political risk could drag down investment returns or even go so far as to remove the ability to withdraw capital from an investment.

Political risk arise from the actions of national governments which interfere with or prevent business transactions, or change the terms of agreements, or cause the confiscation of wholly or partially foreign owned business property (Kobrin, 2005).

ii. Industry risk

Industry risk is that apportion of an investments total variability of return caused by events that affect the products and firm that make up an industry. The stage of the industry's life cycle, international tariffs and or quotas on the products produced by an industry related taxes, industry wise labor union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. As a result of these commonalities, the prices of the securities issued by competing firms tend to rise and fall together.

The above-mentioned uncertainties are the major sources of investment risk. Moreover, there might be numerous minor sources of investment risk. The just discussed major sources are of additive nature, which adds up to total risk i.e.

Variance.

iii. Other risk

- Currency risk: The risk that exchange rates will go up and possibly down.
- Equity risk: The risk that share prices will go up or down.
- Inflation risk: The potential for inflation to increase the price of all goods and service such that it undermines the value of money.
- Commodity risk: The possibility of commodity price such as metals changes values dram fanatically.
- Interest rate risk: The risk that comes from an increase or decrease in interest rates.

2.1.7 Tradeoff between Risk and Return

Risk is complicated subject and needs to be properly analyzed. The relationship between risk and return is described by investor perception about risk and their demand for compensation. No investor will like to invest in risky assets unless he is assured of adequate compensation for the assumption of risk. Therefore, it is the investors required risk premiums that establish a link between risk and return. In a market dominated by rational investor, higher risk will command by rational premiums and the tradeoff between the two assumes a linear relationship between risk and risk premium (Pradhan, 1996).

2.1.8 Factor to be considered while making investment in financial instruments

Investing is not an easy; Investor should consider various factors before selecting securities such as good future prospects, risk factor, reliable management of the company, beneficial company, higher growth company etc. There are risky, illiquid, long-term investments. So, you need to do a lot work upfront to increase your odds of

success. Investment portfolio should consist of products that match your need and work to words achieving your goals.

Normally the following factors should be considered in investment decision:

- Risk and Return of securities
- Liquidity
- Availability and accessibility
- Investment portfolio
- Taxes
- Age
- Investment objective

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

a) Stage of the company

Prior to and the factors, one should keep in mind the stage of issuing company and if the company is stagnation or it is in a growing stage. This will give you a sense of whether it is a good idea to put your money in the IPO.

b) Exiting competition in the market

An intelligent investor will come to know the future prospects of a company by looking at its core competitors who are presently listed companies in a stock exchange. One can come up with the stock price based on competitor's stock price and then compare it with the price the company is issue during the IPO.

c) Utilization of the proceeds

Before going to invest in an IPO, an investor should read prospectus of the company care full and should study all the necessary information there, investor should utilization of the raised funds by the company.

d) Past performance

Company's past performance is a clear indicator of how company has performed over the year and is going to perform in the coming years. If the company's growth chart is volatile, an investor should refrain from not investing in a particular company. However, if company's growth rate has been stable and

growing over the years, there is a high probability that company will perform well in the future.

e) Management analysis report

No one knows the company's insider info better than the management itself and the management discussion analysis report tells whole story about the company. One should read the report with caution and should take the less positive notes about the company very seriously. If the management says that the growth cycle will slow down in couple of years, then the investors should have processed with care before making an investment in the IPO.

f) Investment grades

A major indicator of investment in a IPO is the credit rating or the investment grades that the credit rating agencies give to an IPO before it is public as the analysis done by these agencies are a complete analysis of the company and the credit rating agencies have dedicated team of experts who work to the best of their knowledge to come up with an investment grade for an IPO. Generally, A+ investment grades are an ideal IPO to be subscribed by the public which can prove to be a good investment.

g) Other avenues

Lastly, one has to have a complete look at their other investment alternatives that can provide them with higher and more worthy returns. It is not necessary to invest in an IPO as you always have an option to buy it from the secondary market so it's good to evaluate other funds and stock which may be safer and might give better returns than investing in an IPO(Sonkar, 2016).

The investors are required to be informed on the followings before investment in the share in the secondary market.

- a) Check what the company does i.e. its business sector, its offerings etc.
- b) Check the company level of profitability by examining its quarterly or annual earnings reports.
 - I. The net income on per share earnings of the company.
- c) Examine the company's earnings history.

- I. Check whether the company has a history of steady earnings growth
 - II. Also, consider that a maturing company might not be able to register exponential increase in its growth as a younger company does.
- d) Analyze the company's balance sheet:
- I. The company's debts
 - II. The company's liquidity levels
 - III. The company's inventory levels
 - IV. The company's earnings
 - V. The company's return on assets
 - VI. The company's return on equity
 - VII. The company's focus on research and development
 - VIII. The company's net margins
- e) Analyze the competition
- I. Compare the company you're interested in with company's business rivals.
 - II. Which company has the biggest market shares?
 - III. Does one company dominate the market or is the market highly fragmented in mature.
- f) Examine the company's leaders and management.
- g) Examine the risk factors associated with the company.
- h) Check whether the company's position in the market is sustainable.
- i) Analyze the information notified to the investors in the notice board of SEBON and NEPSE about the companies.
- j) Study the articles related to the trading of shares and economic matters published in the different newspapers and magazines.
- k) Study the trading statements and financial analysis of listed companies published by NEPSE.

2.1.9 Act, Rule and Regulation about investor's preference and Investment in Nepal:

- A. Foreign Investment and Technology Transfer Act

a. Foreign investment

- Investment in share.
- Reinvestment of the earnings derived from the investment as referred to in sub- section.
- Investment made in the form of loan or loan facilities.

b. Technology Transfer

- Use of any technological right, specialization, formula, process, patent, or technical know-how of foreign origin.
- Use of any trademark of foreign ownership.
- Acquiring any foreign technical, consultancy, management and marketing service.

c. Foreign Investor

Foreign investor means any foreign individual, firm, company or corporate body involved in foreign investment or technology transfer including foreign government or international agency.

d. Permission to be Obtained

- For investment in an industry with fixed assets up to NPR 500 million, permission of foreign investment or technology transfer to be taken from department of industry, and from the industrial promotion board if it is in excess of NPR 500 million.
- No permission shall be granted for making investment in the industries like cottage, arms and ammunition, security printing, poultry farming, fur farming etc.

e. Repatriation

- The amount received by the sale of the share of foreign investment as a whole or any part thereof.
- The amount received as profit or dividend in lieu of the foreign investment.
- The amount received as the payment of the principal of and interest on any foreign loan.

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

1. Order Specification

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

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

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

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

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

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

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

5. To give security or purchase price

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

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

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

7. Transaction Risk

Investor must be careful as to the possibility that the security may not be received in time. Such risk may arise due to the negligence of the Broker Company. If the

broker company does not settle the transaction of the security within one-month investor should contact with stock exchange explaining such case.

8. My Word My Bond

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

9. Right to Receive Information

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

2.2 Theories to explain stock price

There are two approaches to explain share price fluctuations. Market efficiency is the basis for the both approaches. Conventional approach has considered that market is inefficient, which includes technical analysis theory and fundamental analysis of theory. Contrary approach was argued the market is efficient under which there are forms of efficient market hypothesis. “Prior to the development of the efficient market theory, investors were generally divided into two groups: fundamentalists and technician” (Kasilingam. 1958). Based on incorporation of various types of information set with speed and accuracy in pricing stock there are three forms of efficient market theories such as weakly efficient market or Random walk, semi-strongly efficient and strongly efficient market theory.

2.2.1 Technical analysis theory

In finance technical analysis is an analysis methodology for forecasting the direction of price through the study of past market data. Primary and volume behavioral economics and quantitative analysis use many of the same tools to technical analysis, which being an aspect of active management stands in contradiction to much portfolio theory (King, 1966). The principle of technical analysis derives from observation of financial market over hundreds of years. The oldest known hints of technical analysis appear in JospphDelaJega’s account of

the Dutch markets in the 17th century. In Asia the oldest example of technical analysis is thought to be a method developed by Homma Munehisa during early 18th century. Technical analysis examines what investors fear or think about those developments and whether or not investors have the where withal to back up their options. Main assumptions of the technical theory are as follows.

- Price is determined by the interaction of demand and supply.
- Demands and supplies are governed by various factors, both rational and irrational.
- Series of price content trends that persist for appreciable length of time.
- The change in trend caused by shifts in demand and supply are detectible in the analysis of past price and volume data.
- The patterns tend to repeat itself.
- Technical analysis trend, which they believe to repeat in the future and recommended for the timely holding and disposing mechanism which is profitable or that recommended for short-term speculation based in its forecast of profitable patterns.

The technicians usually attempt to predict short-term price movements and thus makes recommendations concerning the time of purchase and sales of either specific stocks or groups of stocks.

2.2.2 Fundamental analysis theory

Fundamental analysis is a method of evaluating a security in an attempt to assess its intrinsic value, by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysis studies anything that can affect the security's value, including macroeconomics factors and microeconomic factors (Van Horne, 2000). The end goal of fundamental analysis is to produce a quantitative value that some investors can compare with a security's current price thus individual whether the security is undervalued or overvalued. Fundamental analysis determines the health and performance of an underlying company by looking at key numbers and economic indicators. Fundamental analysis uses real, public data in the evaluation a security's values. Although most analysts use fundamental

analysis to value stocks, this method of valuation can be used for just about any type of security. Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts. There are several possible objectives:

- To conduct a company stock valuation and predict its probable price evolution.
- To make a projection on its business performance.
- To evaluate its management and make internal business decisions and/or to calculate its credit risk.
- To find out the intrinsic value of the shares.

The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas fundamental analysis theory recommends for the selection of appropriate stocks. Another approach to describe share price behavior has supposed that the market is efficient in pricing the share. The detail explanation of efficient market theory is followed in the following section (Stasytyte, 2010)

2.3 Review of Journals and Articles:

The report published in IOSR journal of business and management. Written by O. M. Jaya Priya in topic A comparative study on investment preference of high net worth individual(HNIS) of selected manufacturing and service sector in salem district. February 2018.

Investment is the commitment of money or capital to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. There are so many options available for the general public savings, chits, bonds and company securities. The investment avenues like gold, fixed deposits, insurance and other savings are more commonly used. An investment involves the choice by an individual or an organization such as a pension fund, after some analysis or thought to place or lend money in a vehicle, instrument or assets, such as property commodity, stock, bond or the foreign asset denominated in foreign currency, that has certain level of risk and provides the possibility of generating returns over a period of time, but the avenues like shares, mutual funds and stock trading are not so commonly used by the

people in rural areas. Investing in capital markets makes the people to increase their income comparatively more than other investments like fixed deposits.

Objectives of the study:

- To know the demographic factors which are influencing the investment decisions of HNIS of manufacturing and service sectors in the Salem district.
- To study the factor which are influencing the investment decisions of HNIS of selected manufacturing and service sectors.
- To evaluate the investment objectives of HNIS of selected manufacturing and service sectors in Salem district.
- To find out the financial literacy of HNIS of manufacturing and service sectors in Salem.
- To find out the suggestion to improve the financial knowledge and investment decision making of HNIS of manufacturing and service sectors in Salem district.

This study is based on investments preference of manufacturing and service sector HNIS. On financial decisions for creating wealth for his future well being. This study is conducted in various places across Salem, thus in helping us to know the way of choosing the investment option of the HNIS, the study conducted helps to incorporate new ideas to the people for their effective investment preference and have good wealth. The analysis of how selecting of investment preference get affected by demographic variables could help the individuals to improve their financial planning. It helps the individuals to understand about what are the factors which he needs to concentrate on to manage the finance well.

The report published in international journal of humanities and social science. Written by Ambrose Jagongo in topic A survey of factor influencing investment decisions: The case of individual Investors at the NSE. February 2014.

Investment decisions are made by investors and investment managers. Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis and judgment. Investment decisions are often supported by decision tools. "A rapidly growing area that deals with the influence of psychology on the behavior of financial practitioners". Individual investments behavior is concerned

with choices about purchase of small amount of securities for his or her own amount(Nofsinger and Richhard 2002).

The main objectives of the study

- i. To determine whether the factors related to self image/ firm image coincidence have an effect on the behavior of the individual investor.
- ii. To determine whether the factors related to accounting information have an effect on the behavior of the individual investor.
- iii. To determine whether the factors related to neutral information have an effect on the behavior of the individual investor.
- iv. To determine whether the factors related to advocate recommendation have an effect on the behavior of the individual investor.
- v. To determine whether the factors related to personal financial needs have an effect on the behavior of the individual investor.

The study was conducted on the 42 investors out of 50 investors that constituted the sample size. To collect data the researcher used a structured questionnaire that was personal to the respondents. The objective of the study was to identify the factors influencing investment decision in NSE. Results of factor analysis revealed that the most important factors were: firm's position and performance; Investment returns and economic condition; diversification and loss minimization. Friedman's ranking was used to identify the most important individual factors that influence investment decision in NSE. The factors were reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firm's stock, price per share, feeling on the economic and expected.

In conclusion this study tested the tenets of the behavioral finance theory on the factors that influence investment decisions under conditions of uncertainty. The analysis performed and knowledgeable investors would readily admit that the structure and relative weights of the chosen categories reflect on the average, a still unsophisticated and immature investor profile.

The report published in international journal of technology marketing, written by Narayanan Bhaskaran, in topic Investors Behaviour in Various Investment Avenues A Study. July 2012.

Saving form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the country. Indian financial scene too presents a plethora of avenues to the investors. Though certainly not the best or deepest of markets in the world, it reasonable options for ordinary man to invest his savings. Investment benefits both economy and the society. It is an outgrowth of economic development and the maturation of modern capitalism. For the economy as a whole, aggregate investment sanctioned in the current period is a major factor in determining aggregate demand and hence, the level of employment.

Every individual investor must follow three principles of investing: using a long-term investing approach following the right strategy to maximize the return on investment and proper allocation of investible funds. While applying these three principles, an individual investor has to confront his/ her demographics, lifestyle and investment psychology. Whether the investor's age or occupation or family income has a role of play in making choice of investment avenues? Is the investor choice affected by his overconfidence, reference group and framing of the available alternatives? The knowledge of all these aspects in imperative for all progressive investors, researchers, financial consultants, academicians, students and the marketer of the financial product. (Sushant Nagpal, 2007, Psychology of Investment and Investor's preferences).

Investments are made with an avowed objective of maximizing wealth. Investors need to make rational decisions for maximizing their return on the information available by taking judgments free from emotions. Investor's behavior is characterized by over excitement and overreaction in both rising and falling stock markets. Most of the investments and financial theories are based on the idea that everyone takes careful account of all available information before making investment decision. This research is conducted to analysis the factors influencing the behavior of investor's in capital market. This research article also investigates how investor interprets and acts on various capital market information to make informed investment decisions. (V. Shanmugarsundaram and V. Balakrishnan, 2011, investment decision making- A Behavioural Approach).

Objectives of the study

- To study the various alternative of investment which are available in the market.
- To study the investors preference towards the investment.
- To find out how investors are motivated to invest in various financial instruments.

Major finding of the study

- Majority of the active and regular investors belong to accountancy and related employment, non-financial management and some other occupations are very few.
- Most investors choosing two or more sources of information to make investment decisions. Most of the investors discuss with their family and friends before making an investment decision.
- Most investors prefer to park their fund in avenues like bank, life insurance, mutual funds and gold.
- Most of the investors are financial illiterates.
- Increase in age decrease the risk tolerance level.
- The investment habit was noted in a majority of the people who participated in the study.
- The investor's decisions are based on their own initiative.

This study confirms the earlier finding with regard to the relationship between age and income level of the individual investors. The present study has important implications for investment manager. As it has come out with certain important facets of the individual investor. The individual investors still prefer to invest in financial product which gives risk free returns. Large number of portfolio is not good for healthy investment. The Indian investors are very much aware about the concept of portfolio allotments and risk and return if the investment. In India, purchase of gold and land are the two most ideal form of investment. Its carry good return and appreciation. This confirms that Indian investors prefer to play safe.

The report published in journal of Contemporary Research in management, written by Dr. K. Ravichandran in topic A Study on Investors preferences towards

various investment avenues in Capital Market with special reference to derivatives. July- Sep 2008.

Generally all capital market investment avenues are perceived to be risky by the investors. But the younger generation investors are willing to invest in capital market instruments and that too very highly in derivatives segment. Even though the knowledge to the investors in the derivative segment is not adequate, they tend to take decisions with the help of brokers or through their friends and were trying to invest in this market. This study was undertaken to find out the awareness level of various capital market instruments and also to find out their risk preference in various segments. "Investment property portfolio management and financial derivatives". By Patrick Mcallister, John R. Mansfield.

Need for the study:

To educate investors who are risk averse for trade in derivatives.

Awareness can help the various uses of derivatives can help investors to reduce the risk and minimize the losses.

Summary of findings of the study

Most of the respondents are of the age group 31-40

Majority of the respondents are male.

Most of the respondents are graduates followed by post graduates.

Most of the respondents are influenced by friends and relatives followed by brokers.

Majority of the respondents preferred wealth maximization instruments followed by steady growth instruments.

In the current scenario, investing in stock markets is a major challenge even for professionals. Derivatives acts as a major tool for reducing the risk involved in investing in stock market for getting the best results out of it. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is

subjected to high risk, by using derivatives the loss can be minimized to an extent.

The report published in the journal of Nepalese business studies, written by Radhe S. Pradhan. In topic research in Nepalese finance. Buddha Academic publishers and distributors Pvt. Ltd. 2003.

The first article has explained the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies. This article is based on the pooled cross section data of 29 companies from 1994 to 1999 with total of 93 observations. The results of the models of this study have shown that dividend has the strong effect on the market price of the share and less effect of retained earnings. Moreover, this study found that dividends are relatively more attractive to Nepalese stockholders.

The second article is the revised version of the article published in studies in the financial market of the Pacific basin in 1994. This article presents the results of the survey on financial management practices in Nepal. Based on survey of 24 public enterprises and 54 private enterprises in Nepal, this article presents the issues relating to finance functions, sources and types of financing, debt ratios and debt limits, sensitivity analysis of financing preferences, tax and distress effects, dealing with the banks and dividend policy of public and private enterprises in Nepal.

The third article is related to stock market behavior in a small capital market like then stock exchange centre. This paper is also a republication of an article published in Nepalese management review in 1993. This study is based on the pooled cross sectional market equity, market value to book values, price earnings and dividend with liquidity, leverage, profitability, assets turnover, and interest coverage.

The fourth article is a part of the financial management practices in Nepal published in 1994. This is based on the survey of executives of 78 enterprises located in Kathmandu, Bhaktapur, Chitawan, Kaski and Lalitpur districts in 1992. This paper provides the behavioral evidences from 63 executives of Nepalese industries on the appropriateness of the choice of variable of prediction of financial distress; Pradhan has used 14 financial ratios. In this study he has concluded that executives of Nepalese enterprises perceive that short term

liquidity ratios are the most important indicators of the financial distress. Moreover, he concluded that there is no significant difference between the choices of financial ratios by private enterprises and public enterprises' in Nepal.

The last article of this anthology is related to the demand for cash by corporations. This study is based on the time series data of nine manufacturing public enterprises. Author has estimated the demand for cash equations with pooled data consisting of 90 observations. The estimated pooled regression results have showed the presence of the economies of scale with respect to the demand for cash. Further this study has shown that the demand for cash is the function of both sales and holding cost of cash.

2.4 Review of Previous Thesis

Nabaraj Adhikari (1999) has also conducted a research on *Corporate Dividend practice in Nepal*. The main objectives of the study were as follows:

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

The major findings of the study were as follows:

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

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

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There is also a positive difference between the ratio of dividend per share to book value per share and interest coverage. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. A positive difference is found between payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paid out. The position of current ratio of stocks paying larger dividends is also more variable as compared to stocks paying lower dividends. Where as a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand, there is a positive difference between dividend payouts and earnings before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends. There is a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand there is positive difference between dividend payouts and earnings before tax to total assets and net worth is more variable for stock paying higher dividends.

The difference between dividend payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts have higher turnover ratios. However, turnover ratios of stocks paying larger dividend are more variable. Positive difference is also observed between dividend payouts and interest coverage.

When studied the difference between dividend per share to market price per share ratio and liquidity ratio, the study revealed that the stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity positions of stocks paying larger dividends are also more variable as compared to stocks paying lower dividends.

SumanDahal (2010) conducted a study entitled, *A study on Nepalese stock market in the light of its growth, problems and prospects*. The main objective of this study is given below:

- To examine the growth of Nepalese stock market.
- To indentify the existing problems and challenges faces by the Nepalese stock market.
- To analyze prospects of Nepalese stock market.

The major finding of the study is:

- From the analysis of growth of Nepalese stock market it can be concluded that growth of market capitalization and growth in number of market capitalization and growth in number of institutional investor are satisfactory. However, majority of the respondents are not satisfied with the growth in the number of listed companies.
- The investors are facing several problem and difficulties during their transaction period. The majority of the response dents are agreed with the asked statements. So, it was concluded that main problems of stock market are insufficiency of legal rule and regulations, unavailability of information, influenced by small number of large investors, insufficiency of number of issue managers, rumor based market, insufficient knowledge of investors.
- By analyzing the prospects of Nepalese stock market, it can be concluded that increase in number of listed companies and stock turnover of listed companies, return from the stock market. Increase in amount of IPO and increase in trend of larger companies listed are main factor for the prospects of Nepalese stock market.
- The majority of respondents cannot say general provisions are becoming easy or not, program launched by SEBON is successful or not etc. most investors are not satisfied with the policy of dynamic transparent credible and investor friendly stock market taken by government.
- By analyzing the overall aspect of stock market, it is found that the stock market is suffering from various problems. The growth of Nepalese stock market is satisfactory and the prospect of stock market is equally strong if the government has taken transparent credible and investor friendly policy.

JhabindraGyawali (2017) conducted a study entitled *factor influencing investment decision: the case of individual investor at Nepal stock exchange (NEPSE)*. The main objective of this study is to identify the type of factor influence investment decision:

- To identify the composition of individual investors at NEPSE.

- To identify the factors influencing individual investment decision at NEPSE.
- To examine the effectiveness of the factors influencing the individual investment decision making.

The major findings if the studies are given below:

- The proportion of the male and female investors in Nepalese market is different. Total 128 respondents used in the study, 61% are male and 39% are female. Thus Nepalese stock market largely composed of male investors.
- As for as education background of the investor is concern. A little more than half of the respondents are from masters and above, while +2 or bachelor pass represent the 47% only. The participation of educated investors high in the market that means the investment sector have good player who can encourage fair play.
- Majority of the investor in Nepalese stock market are below thirty i.e. 54% while 30-50 comprises 30% and above 50 comprises 16%. The presences of investors of less than 30 in Nepalese stock market reflect the attraction of younger people toward investment.
- The majority of the Nepalese respondents have stock market experience less than 1 year or 1 to 5 yrs.
- The five most influencing factors of individual investor's investment decision in the NEPSE in order of importance are: expected corporate earnings, expected dividend statement from government officials, date in reports and prospectus and diversification need.
- The five least influencing factor of individual investors investment decision in the NEPSE in order is : religious reason, opinion of firms, majority stock holders, firms status, perceived ethics of the firm and coverage in the press.
- Statement from government official is most important factor for the investor under the neutral information and coverage in the press is least important.
- Among the personal financial need factor, diversification need is important but risk minimizing is least important.

- Among the market information factor, stock marketability has high impact and price level of other stock has low impact while making investment decision.

2.5 Research Gap

There are hundreds of researches related to the investor, investment and financial instrument. Investors' behavior changes with the passage of time. So, does their preference and priorities. In previous studies and researches are limited to macro subjects of the economic and nation. Obviously, their findings and conclusions does not include, perhaps the most important one psychological aspect of the investors. Investment itself is also psychological and behavioral activity. It has wider influence in the world of investment than any other factors. So, this study examines the current trend of investor's perception, preference and attitude about the market and provides fresh findings and recommendations. In this connection, this study contribute something new toward the securities market that is not sought yet by surveying the psychology and awareness of investors investing in various types of securities. This sort of study of identifying investors' perception, preference and awareness is a new and challenging in itself but is also an opportunity to learn and identify investors from their innermost.

So, this study in true sense fills the gap of innocence with knowledge for the seekers more specific studies as to the investors' attitudes and preference in the security market related field.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is the procedure by which researcher go about their work of describing, explaining and predicting phenomenon. In other word, research methodology describes method and process applied in the entire aspect of the study.

3.1 Research design:

The research design is the integrated frame that guides the researcher in planning and executing the research work. It use different analytical tool to analyze the investors' preference toward financial instruments. This study followed descriptive and analytical research design. An analytical approach has been followed to analyze the related data and relationship among variables. Similarly, it used descriptive in the sense that it clarifies different aspects of investors' preference toward financial instruments.

3.2 Source of data and collection procedure:

This study mainly based on primary data. Information was collected through questionnaire. Mail questionnaire method of collection data are employed to collect primary data. Also it needed secondary data that supports the study have been collected from the various published and unpublished sources.

The secondary data have been acquired from various other sources like:

1. Newspaper and magazines
2. National planning commission
3. Annual report of Security board of Nepal
4. Annual report of NEPSE
5. Annual report of different broker company
6. Annual report of NRB

3.3 Population and sample:

Currently there are 50 broker companies in capital market of Nepal. Among them this research has selected 5 broker companies with highest involvement of investors, there

were investors with equal participation of men and women with the investment amount of 1-10 lakhs and above 10 lakhs, and were from different backgrounds like civil service, banking, engineering, teachers and house wives etc. selected broker companies were Sweta Securities pvt.ltd, Crystal Kanchanjungha Securities pvt.ltd, Kalika Securities pvt.ltd, Secured Securities Ltd and Asian Securities pvt.ltd. In these broker companies there were total 23000 investors with valid DEMAT account, among which only 200 questionnaires were distributed with 40 questionnaires to each broker company. Also 50 questionnaires were distributed to some cities like Ilam, Jhapa, Dharan and Dhangadhi of Nepal through E-Mail. Hence, total collected questionnaires were 250 which also the population for this study and among these 250 total populations, 60 filled up questionnaires has been systematic analyzed.

3.4 Data collection instrument:

Data was collected from both primary and secondary sources. The secondary sources includes text books, journals, magazines and the internet etc. the primary source was the questionnaire. The researcher distributed questionnaires to respondent personally. The questionnaire consisted of open ended questions. In the questionnaire 1st, 2nd, 3rd and 4th question talked about the preference of investors for investment in different financial instruments available in Nepalese financial market, the best objective of the investors, considerable factors for taking before investment decision and investors motivating factors for investment respectively. Same way 5th, 6th and 7th question talked about the uses of common stocks, different types of bonds and the nature of government securities respectively. Followed by 8th and 9th question says about different kind of investment sectors in order of their attractiveness for investment. Last three questions were about investors' awareness about the different part of the investment.

3.5 Administration of questionnaires

A questionnaire were distributed to the investors, questionnaire were directly given to respondents by the researcher. This allowed the researcher to clarify issues where necessary. Another reason was that investors reluctant to fill the questionnaire if another person other than researcher gave it to them during the pilot study, as most of them were at various stages of their own research work.

3.4 Tools for analysis of data:

Pie-diagrams:

A pie-diagram is a widely used aid that is generally used for diagrammatic presentation of the values different widely is magnitude. In this method all the given data are converted into 360 degree as the angle of a circle is 360 degree and all components of the data are presented in terms of angles that total 360 degree for one set of data.

Percentage:

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage mean per hundred. In other words, the fraction with 100 as it denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

Graphs:

Graphs are visual aids which give a bird's eye view of set of numerical data which shows the information in a way that enables us to make comparison between two or more than sets of data.

Median value:

The median is the middlemost or most central item in the set of numbers. In other words, the median is a single value which divides the total number of observations into two equal parts such that 50 percent of items lie below median value. It is use show the importance of respondents towards the events if respondents opine their response from one extreme to another extreme. The median will be used to identify their importance.

3.5 Data analysis and presentation:

APA 6th edition followed for the citation and references for this thesis. Responses from the collected data were statically analyzed and interpreted. Using the statistical package for the social sciences (SPSS).into frequencies with the corresponding percentages, median, table, diagrams and graphs etc to issustrare the results of the study. Quantitative programs like the SPSS enable the data entry of mainly quantitative data. The researcher adopted direct entry of data into the system and not by using software such as a database management software or spreadsheet. Package,

where the resultant. Files could have been imported into SPSS. The variable tables and the value etc, using SPSS interface. SPSS offered an easy graphic user interface that made coding very simple.

CHAPTER – IV

RESULTS

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

4.1 Investors preferences and types of securities

An important thing in Nepalese capital market is to know what kinds of security do investors prefer most. In this very regard, investors are identified in terms of what type of security they prefer most given the certain number of securities those are generally in Nepalese market. Providing five different types of securities to the Nepalese investors and request to rank them in the scale of 1 (most preferred) to 5 (zero preferred) as per their preference to invest. The results of their takings are appeared as in the table 4.1 below.

Table: 4.1

Status of Investors' Preference and type of Securities

S.N.	Type of Securities	Rank					Median Value	Overall Rank
		1	2	3	4	5		
1.	Common stock	48	8	4	-	-	1.00	1
2.	Preferred stock	3	27	22	2	6	2.50	2
3.	Debenture/Bond	3	13	13	20	11	4.00	3
4.	Government Bond	3	4	28	15	10	4.00	4
5.	Others	3	8	6	9	34	5.00	5

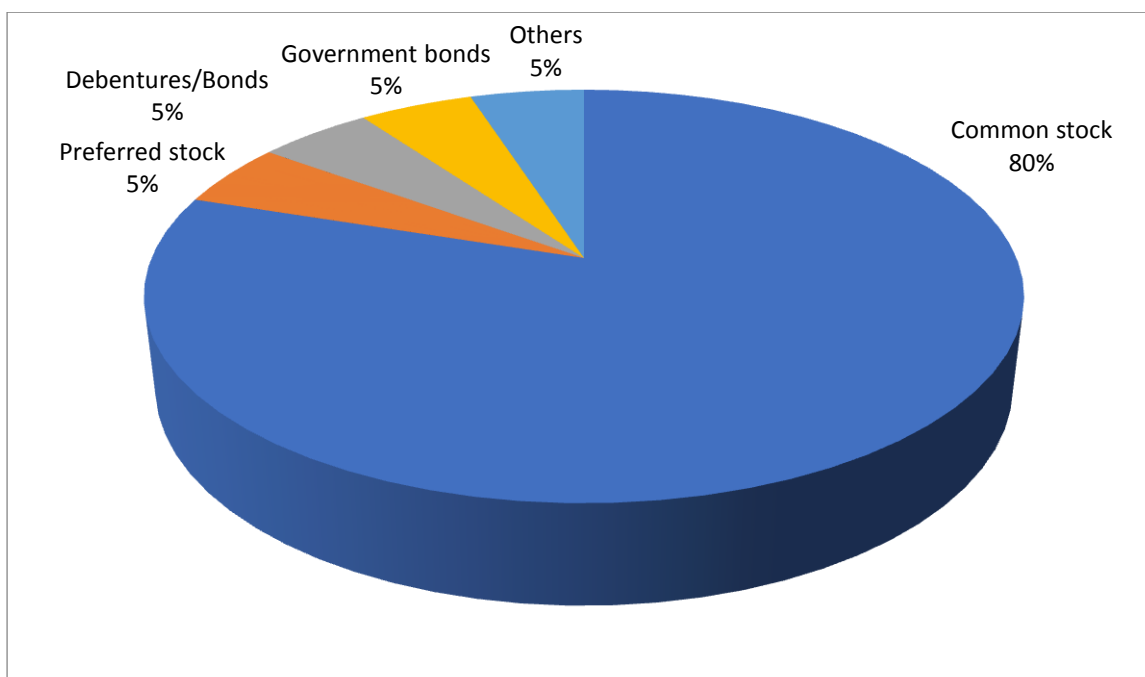
Source: Field Survey, 2018, Kathmandu

The table no. 4.1 shows that the investors most preferred security is common stock with lowest value of 1, followed by preferred stock, debenture, government bonds and others respectively. From the table it is clear that medial values of common stock,

preferred stock, debentures, government bonds and others are 1, 2.5, 4, 4 and 5 respectively.

Figure: 4.1

**Percent of Respondents Rating the Given Types of Securities As
Most Preferred**



Out of the total respondents 80 percents investors rank common stock as first (most preferred) ranked security to invest which is presented in above chart. Where 5%, 5%, 5% and 5% investors rank preferred stock, debentures/bonds, government bonds and others (mutual funds, fixed deposits etc) in most preferred respectively. As median value stand for indicating the concentration of respondents, for common stock the most of respondents are centered to the 1 rank since the median value is the lowest 1. Hence since it can be regarded that the common stock is the most preferred financial instruments among Nepalese investors. The second preference of Nepalese investors goes for preferred stocks and third preference to debentures/ bonds and government bonds and others (mutual funds and fixed deposits) are the kind of securities that is least and zero preferred by Nepalese investors.

4.2 Investor's investment objectives

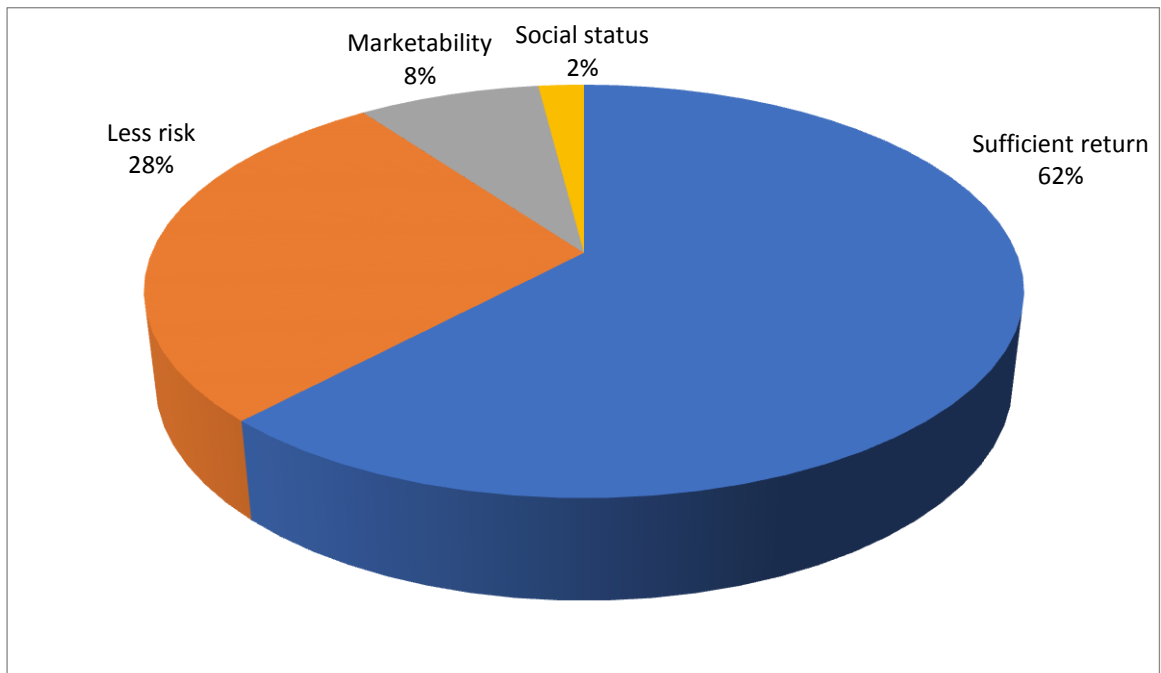
Investment objective is the foundation of investment. On the basis of objective investors make a decision regarding selection of security, preference evaluation and time horizon of investment. The investment objective of investors is not only a basis to identify investor's investment psychology but also a milestone to set investment related policies and to set price and other features of securities. In this regard the investors are indentified on the basis investing insecurities. Investors are asked to rank following major objectives in order of their importance to them. The detail results of investors are given in table 4.2

Table: 4.2
Investors' Investment Objectives

S. N	Investment Objectives	Rank					Median value	Overall Rank
		1	2	3	4	5		
1	Sufficient Return	37	21	-	-	2	1.00	1
2	Less Risk	17	20	15	7	1	2.00	2
3	Marketability	5	15	25	15	-	3.00	3
4	Social Status	1	3	16	31	9	4.00	4
5	Other, if any	-	1	5	6	48	5.00	5

Source: Sample Survey, 2018, Kathmandu

Investors objective to invest imply the major psychological reason for investing in the securities. These simply explain for what purpose investors tend to invest i.e. either it is to maximize return, to enhance their social, or to minimize the possible risk. The table above shows that out of the given objectives "sufficient return" is the type of investors objectives for which they are attracted most in comparison with others. Out of the total respondents 62 percents investors rank this objective as the most important which is presented below the chart.

Figure: 4.2**Percent of Respondents Rating the Given Objectives As Most Preferred**

Median value is also the lowest to all i.e. 1 which indicates the concentration of most investors in this option. The second most important objective for the investors "less risk" as the median value of this option is least of all the option except that the first option. Although there are 28 percent of investors ranking this option as first, the overall median value is lower than all other option except the first option. So, "less risk" is another important aspect next to sufficient return for Nepalese investors. On the basis of median value after the sufficient return and less risk investors want security having features of good marketability and thereafter they seek security that enhances their social status whereas 8 percent investors rank first position for marketability and only 2 percent investor's rank first position for social status features. From this analysis investors seem less concern over social status and more concern over sufficient return and less risk.

4.3 The considerable factors for taking investment decision

Theoretically investment decision should be guided by basic financial indicators in order to minimize investment risk for this study purpose respondents are given as per their importance for investment decision. The results are as follows:

Table:4.3
Considerable Factors for Taking Investment Decision

S. N.	Statement	1		2		3		4		5		Total
		Most Important		Important		All Right		Less Important		Least Important		
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	Earning Per Share (EPS)	46	77	10	17	2	3	2	3	-	-	60
2	Dividend Per Share (DPS)	32	53	18	30	6	10	4	7	-	-	60
3	Book Value Per Share (BVPS)	16	27	24	40	18	30	-	-	2	3	60
4	Market Price Per Share (MPS)	28	47	12	20	13	21	6	10	1	2	60
5	Rate of Return	34	57	13	22	9	14	1	2	3	5	60
6	Capital Structure	20	33	18	31	11	19	9	14	2	3	60
7	Nature of Company	23	38	15	25	14	23	4	7	4	7	60
8	Management of Company	29	49	10	17	10	17	9	14	2	3	60

Source: Sample Survey, 2018, Kathmandu

The table no 4.3 shows eight various factors to consider while taking investment decision out of total respondent 46 (77%) investors consider earning per share (EPS) as the most important factor. Whereas 34 (57%) and 32 (53%) investors consider rate of return and dividend per share (DPS) respectively. Similarly, book value per share

(BVPS), capital structure, nature of company, market price per share (MPPS) and management of company considered as important factors by 16 (27%), 20 (33%), 23(38%), 28 (47%) and 29(49%) respectively. However respondents are given 1 to 5 (from most important to least important) level of options. Most of the investors consider all factors as most important and important. This shows that most of investors consider all given factors while they taking investment decision.

4.4 Basic motivating factors for investment

Factors those affect or determine the choice of security may be innumerable depending upon the status of security market in the country and investors psychology. As a matter of fact nothing can fully explain the motivating factors those affect the choice of the investors in buying security notwithstanding here an attempt has been made to identify some of the important seven factor to prefer them giving 1 for most important/ motivating to 5 for least important/ motivating factor. The results of their preference are appeared as follows:

Table: 4.4

Basic Motivating Factors for Investment

S. N.	Statement	1		2		3		4		5		Total
		Most Important		Important		All Right		Less Important		Least Important		
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	Capital Gain	36	60	13	22	7	12	2	3	2	3	60
2	Liquidity	23	38	20	35	14	22	2	3	1	2	60
3	Dividend	37	62	18	30	5	8	-	-	-	-	60
4	Right Share	18	30	11	18	12	20	10	17	9	15	60
5	Bonus Share	31	52	17	28	9	15	2	3	1	2	60
6	Voting Right	11	18	6	10	7	12	27	45	9	15	60
7	Social Status / Prestige	7	12	6	10	12	20	17	28	18	30	60

Source: Sample Survey, 2018, Kathmandu

The table no. 4.4 shows motivating factors for investment preferred by investors, out of them dividend is the first most motivating factor, followed by capital gain and bonus share. As per above table 37 (62%) investors think dividend as most important factor for investment, 36 (60%) and 31 (52%) investors take capital gain and bonus share as most important factors respectively. Liquidity is in fourth rank for which 23 (38%) investors' preferred important factor for investment. Right share and voting right are 5th and 6th priority for which 18(30%) and 11(18%) investors preferred as all right. Social status/prestige is placed the last motivating factors to attract investors for investment in securities for which 17(28%) and 18(30%) investors preferred as less important and least important motivating factors respectively. From the above analysis we can conclude that the investor's investment decision is highly influenced by dividend, capital gain, bonus share and liquidity.

4.5 Limitation of debentures and preferred stock

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

Table: 4.5**Limitation in Investing in Debt and Preferred Stock**

S. N.	Statement	1		2		3		4		5		Total
		Strongly Agree		Agree		All Right		Disagre e		Strongl y Disagre e		
		No .	%	No .	%	No .	%	No .	%	No .	%	
1	No provision of handsome return that compensates the perceived risk of investors.	22	37	21	35	12	20	3	5	2	3	60
2	These financial instruments provides only certain return	13	21	34	57	9	15	4	7	-	-	60
3	Overburden of legal formalities	11	18	14	23	25	42	10	17	-	-	60
4	Due to the lack of professional practices.	16	27	18	30	17	28	8	13	1	2	60
5	Lack of marketability and liquidity	14	23	24	40	13	22	5	8	4	7	60
6	No legal protection in favor of investors	10	17	22	37	15	25	10	17	3	5	60
7	Due to the lack of wide varieties of these kinds of securities	8	13	23	38	19	32	7	12	3	5	60

Source: Field Survey, 2018. Kathmandu

While investors are asked to give their views as to the reasons in terms of their agreement or disagreement, the result appears as in the above table. Comparing the percentage value of obtained date, 22(37%) investors strongly agree in with the reason to less or no use of debt or preferred stock that have no provision of handsome

return that compensates the perceived risk of investors. So investors are less inclined towards these securities. Similarly, 16(27%) investors strongly agree that these securities have lack of professional practices.

The reason such as liquidity and less marketability tend investors to have negative attitude towards these securities. Of course these are no provisions for investors who do require adjustable return as per the market rate of return. As a result they also agree that the securities provide stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Among the various disadvantages investors are less vexed at the overburden of legal formalities lack of professional practices and legal insecurity.

4.6 Bond preference

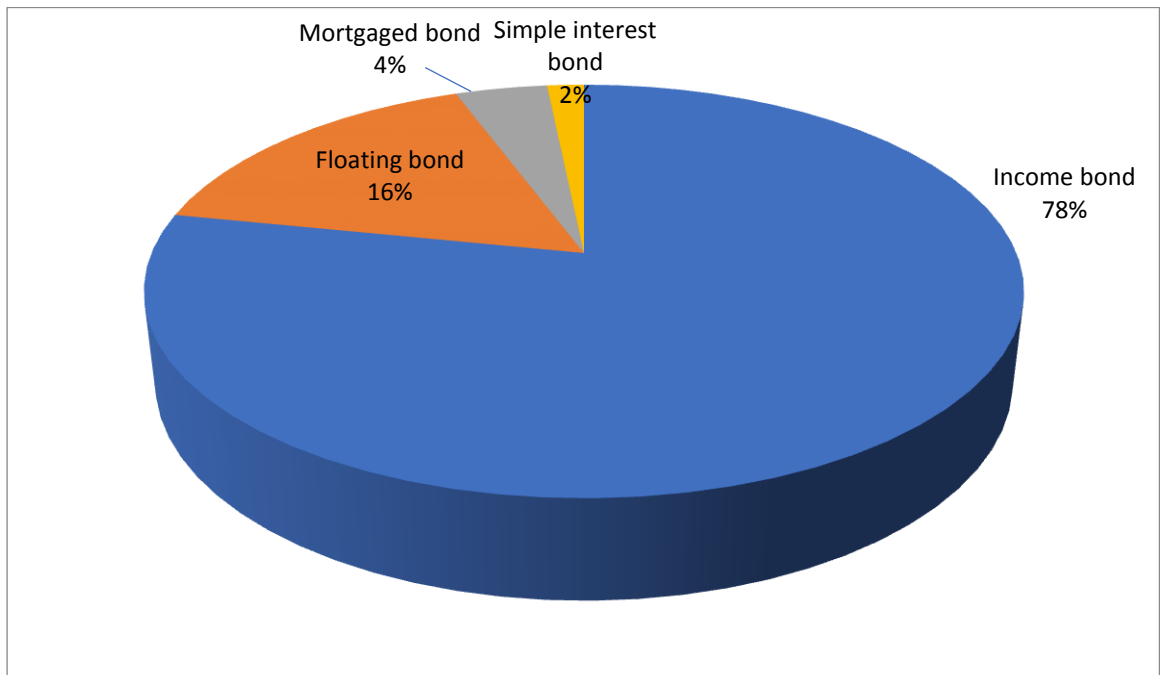
Bond market is not as in the high of stock market. However, there are so many types of bonds that meet the investors need and get them propel to invest in these securities. But what is such bond that can win the investors psychology is the main question to be addressed. Investors are given the bond option having following alternative features and asked which of these they like most the results of their views are provided in table below:

Table: 4.6
Preference of Alternative Bonds

S.N.	Observations	Rank				Total	Median Value	Overall Rank
		1	2	3	4			
1	Bond that gets you participates in profits and or loss (income bond).	35	15	5	5	60	1.00	1
2	Bond that adjusts promised interest rate according to the rate in the market (floating rate).	7	15	30	8	60	3.00	3
3	Bond that is pledged against the firm's assets (mortgaged bond).	2	7	19	32	60	4.00	4
4	Simple debt that pays regular interest (simple interest bond).	16	23	6	15	60	2.00	2

Source: Field Survey, 2018, Kathmandu.

From the above table one can observe that with lowest median value i.e. 1 most of investors like such bond that gets participates in profits or loss i.e. income bond. Likewise income bond is the most favored bond followed by simple interest bond, floating bond and mortgaged bond. The result of the survey has also been presented in the chart below. It shows that out of total respondents 35(58%), 16(27%), 7(12%)and 2(3%) investors rate as first rank to income bond, simple interest bond, floating bond and mortgage bond respectively, this shows that firms should not only issue bond of traditional nature but they should also add some feature in bond to pull bond market up to inspiring level.

Figure: 4.3**Percent of Respondents Rating the Given types of Bonds as First Ranking****4.7 Attraction for preferring government securities**

Some of the investors preferred the government securities. In course of identifying the reason for preferring government security following analysis is done. On the other way, it is needed to identify what are such features of government security that make the investors prefer the security, as an attempt towards that end following alternative features of government bonds are presented and asked to take them as per their importance giving 1 to most important and 5 to least important.

Table: 4.7**Attraction for Preferring Government Security**

S. N.	Factors	Rank					Total	Median Value	Overall Rank
		1	2	3	4	5			
1	Risk Free/Safe	52	4	2	2	-	60	1.00	1.00
2	Advantage for Portfolio Construction	1	28	21	5	5	60	3.00	3.00
3	High Interest Rate	5	21	6	22	6	60	3.00	2.00
4	Less Legal Formalities	-	3	25	21	11	60	4.00	4.00
5	Protection Against Malpractices	3	4	6	10	37	60	5.00	5.00

Source: Sample Survey, 2018, Kathmandu

The result gives the information that the most important feature of government security to propel investors to purchase these securities is it is risk free/safe. There are 52 respondents who rate these features as most important. This resulted into the median value of 1 indicating that most of the investors tend to rate this feature as most important factor for selecting this security. Next to this, investors favor this security for it has high interest rate with median value 2. Likewise as per the overall ranking based on median value advantageous to construct portfolio is in the third ranking as its median value is 3. Median value of "less formalities" and protection against malpractices" are 4 and 5 respectively indicating the less attractive inherent in the government security.

4.8 Industrial sectors and their attractiveness

There are different industrial sectors one can invest in but which is the most attractive is the issue to be addressed here. Investors are provided with the following industrial sectors and are asked to rate them as per their willingness to invest in the sector. The results of their rating are presented in the table no. 4.8

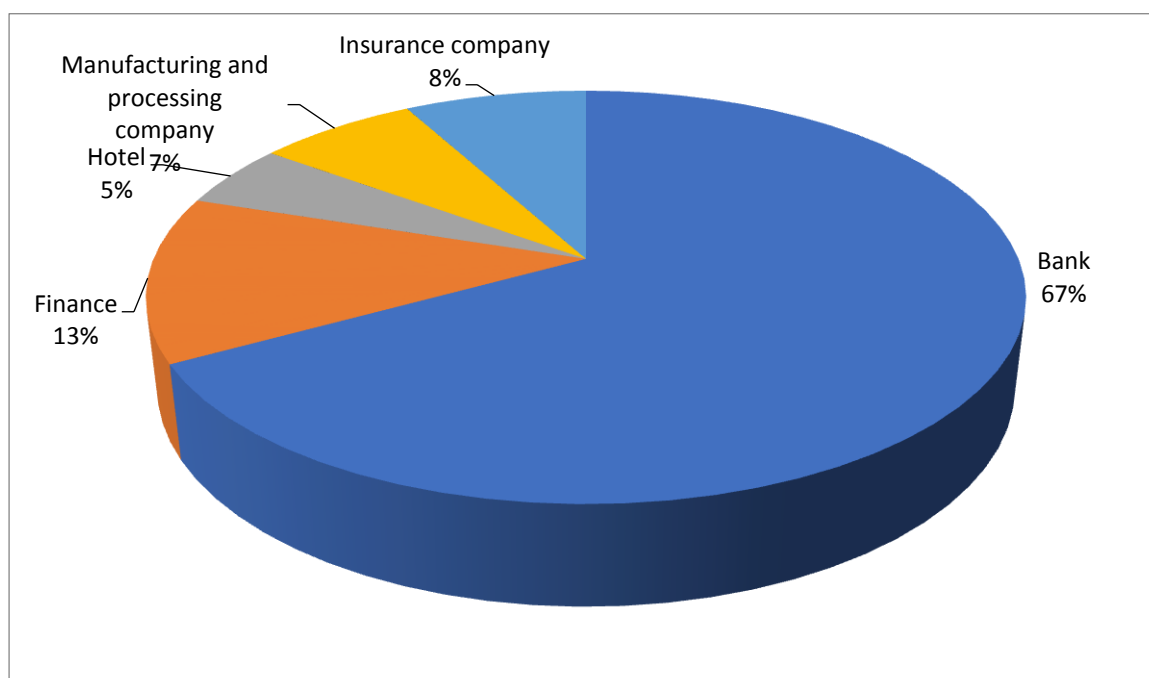
Table: 4.8**Industrial Sectors and their Attractiveness**

S.N.	Industrial Sectors	Rank							Median Value	Overall Rank
		1	2	3	4	5	6	7		
1	Bank	40	5	9	-	2	1	3	1.00	1
2	Finance	8	12	12	14	7	4	3	3.00	3
3	Hotel	3	10	10	18	9	9	1	4.00	4
4	Manufacturing & Processing Company	4	5	10	8	21	11	1	5.00	5
5	Insurance Company	5	25	11	11	5	2	1	2.50	2
6	Trading Company	-	2	4	7	13	28	6	6.00	6
7	Others	-	1	3	2	4	5	45	7.00	7

Source: Field Survey, 2018, Kathmandu

The above table no. 4.8 shows that most attractive sector for Nepalese investors is the bank sector the median value 1 for this sector is the least in comparison with other six sectors insurance company is next most attractive sector after bank sectors with 2.5 median values. The median value of finance, hotel, manufacturing/processing, trading company and others sectors are 3, 4, 5, 6 and 7 respectively indicating the consecutive priority of investors for their choice of investing in different industrial sector is concerned, our current economy shows that manufacturing industries are affected more harshly than financial sectors owing to different macro forces such as political instability, deadlock and national insecurity prevailing in the country. This might have induced the investors to go for financial sectors rather than manufacturing and other sectors.

Figure: 4.4
Percent of Respondents Rating the Different Investment Sectors



Out of total respondents 67% investors choice bank as most attractive sector for investment, following by the insurance company with 8% investors. Likewise 13%, 5% and 7% get finance company, hotel and manufacturing and processing company most attractive sectors on the Nepalese capital market respectively. And there are zero percent investors who get trading company and other sectors most attractive sector. After this research we can say that most of investors will enjoy investing in the banking sector.

4.9 Investment processes

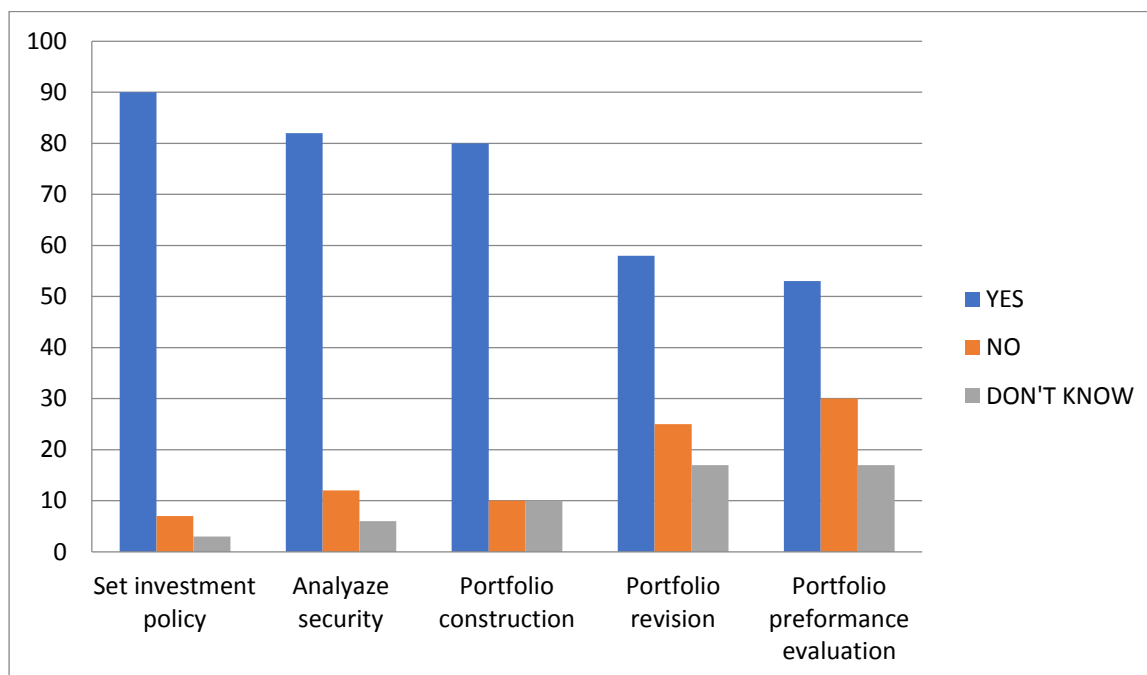
Investment processes are the sequential steps of making investment decision and going through these processes over the investment horizon. Whether or not Nepalese investor follows the investment processes in analyzed and interpreted in the section. Investors are provided with the following five investment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

Table: 4.9
Investment Processes as Followed by Investors

S.N.	Investment process	Ranking						Total
		Yes	%	No	%	Don't know	%	
1	Set investment policy	54	90	4	7	2	3	60
2	Analyze security	49	82	7	12	4	6	60
3	Portfolio construction	48	80	6	10	6	10	60
4	Portfolio Revision	35	58	15	25	10	17	60
5	Portfolio performance evaluation	32	53	18	30	10	17	60
Total		218		50		32		300

Source: Field Survey, 2018, Kathmandu

Among the investors 54(90%) investors set investment policy and remaining don't. likewise 49(82%) investors analyze security before making investment decision remaining 18% don't. also 48(80%) investor construct portfolio. Similarly respondents who revise and evaluate their portfolio are also 35(58%) and 32(53%) respectively. Out of total respondents 4(7%) does not set the investment policy. 7(12%) does not analyze security before investment. 6(10%) does not construct the portfolio. Revision of portfolio step does not follow by 15(25%). Also 18(30%) don't evaluate their portfolio. Out of 60 responded 2(3%) don't know about set investment policy, 4(6%) does not know about analyze of securities. Similarly 6(10%), 10(17%) and 10(17%) don't know about portfolio construction, portfolio revision and evaluation of portfolio performance respectively.

Figure 4.5**Percentage of Investors about Following the Investment Process**

Out of total respondents 90% make the investment policy and other 7% they doesn't make the investment policy also 3% respondents don't know about the investment policy. Here 82% respondents are analyzing their securities before investment but 12% respondents doesn't care about analyzing security and 6% respondents don't know about the analyzing the security. There are 80% respondents who make the portfolio, but 10% respondents don't make the portfolio of their investment. Also there are around 58% and 53% respondents they revision and evaluate their portfolio and 25% and 30% respondents doesn't know about the portfolio revision and portfolio preference evaluation. There are 17% each respondent they don't know about the process of portfolio revision and portfolio evaluation. After this research we know that there are so many Nepalese investors they follow the investment process.

4.10 Investors general awareness in investment.

To know the general investors awareness as to the functioning of the securities market and its components, different types of question were developed and asked. The questions and the number of respondent giving correct answer and wrong to the questions are presented in the table below:

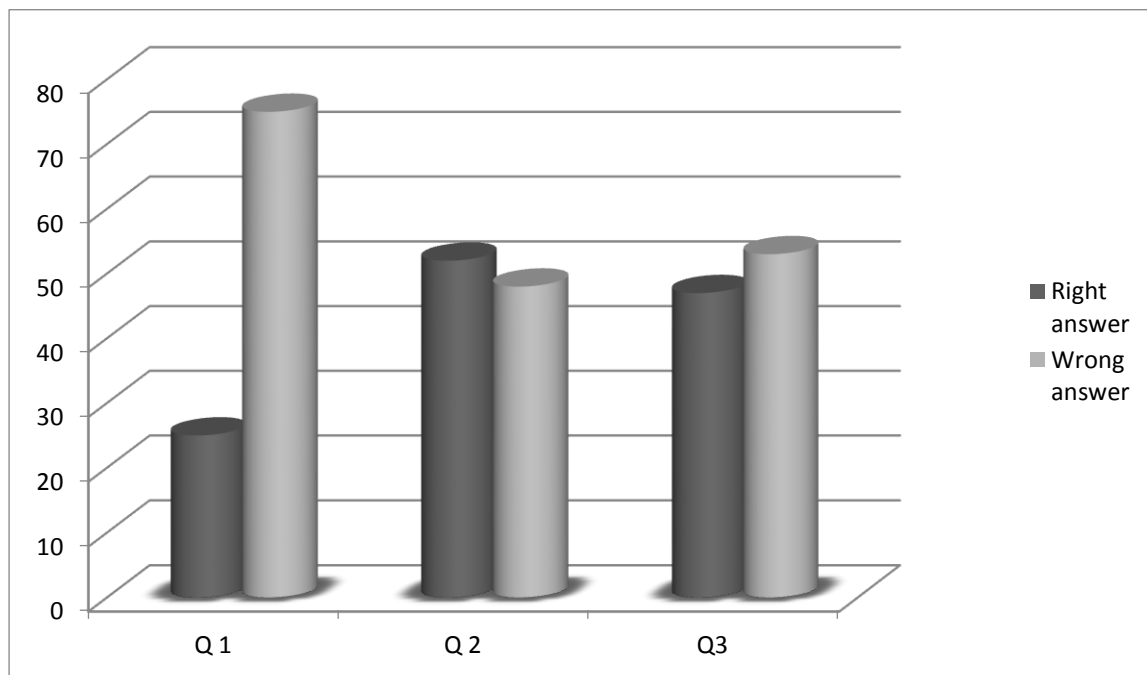
Table: 4.10
Number of Investors with Right and Wrong Answer

S. N.	Questions of General Awareness	No. of respondents				
		Right Answer	%	Wrong Answer	%	Total
1	What sort of information do you generally take before having filled the order specification?	15	25	45	75	60
2	If you did not receive sales proceeds from the concerned broker company within which period do you report it to stock exchange?	31	52	29	48	60
3	If your order is purchase order and you did not receive financial security within the given time periods. Which of the following statement is true in this regard?	28	47	32	53	60

Source: Field Survey, 2018, Kathmandu

Number of Investors with right and wrong answer are also presented in chart below:

Figure 4.6
Percentage of Investors with Right and Wrong Answer



The first question is related to the necessary information to be taken from Broker Company after having filled the order specification. The number of respondents with right answer for this question is 15 which is 25% only indicating few investors are aware as to the information to be taken from broker company. The number of respondents with correct answer for number 2 question is only 31 and this is the 52% out of the total respondent. Like wish number 3 is only 28 and that is the 47% of the total respondents. This result is so, dismal as so few for the respondents concern over the general information as to the security market and its functioning in nutshell the analysis above spells that Nepalese investors needs to be aware towards the security market and its functioning mechanism. Because the current state of their seriousness over security market seem to be less reliable and insecure.

4.11 Major Findings

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

- I. Analysis of investors' preference reveals that common stock is the security that is most preferred by 48 (80%) investors, followed by preferred stock, debentures/bonds, government bonds and other were 5% each respectively. Thus it can be conducted that the common stock is most preferred financial

instruments among Nepalese investors. Similarly, 27 (45%) Nepalese investors second preference is preferred stock, third preference of 15 (25%) investors were government bond and fourth preference of 13 (22%) investors was debenture/bond. Others (mutual funds and fixed deposits etc) is the security that is zero preferred by 34 (57%) Nepalese investors.

- II. Investors' objectives to invest imply the major psychological reason for investing in securities. The finding of analysis is that out of the given types of objectives "sufficient return" is 37 (62%) investors' objectives for which they attach most in comparison with others. The second most important objective for 17 (28%) investors is less risk. After the sufficient return and less risk 5 (8%) investors want security having features of good marketability. In this analysis 1 (2%) investors seem to be less concern over social status and to be more concern over sufficient return and less risk regarding investment in different types of securities.
- III. The analysis that has preformed to find out factors to consider while taking investment decision. Out of total respondents 46 (77%) investors consider earning per share (EPS) as the most important factor. Next to this 34 (57%) and 32 (53%) investors consider rate of return and dividend per share (DPS) as the most important factors. On the other hand management of company, market price per share (MPS), nature of company and capital structure are considered as important factors by 29 (49%), 28 (47%), 23(38%) and 20 (33%) investors respectively. However respondents are given 1 to 5 (from most important to least important) levels options, most of investors consider all factors as most important and important. This shows that most of investors consider all given factors whiles they taking investment decision.
- IV. Out of seven motivating factors for investment preferred by investors, dividend is the first most important motivating factor As per analysis 37 (62%) investors preferred to dividend as most important factor for investment then 36 (60%) and 31 (52%) investors preferred capital gain and bonus share as most important factors. Liquidity falls in the fourth priority for which 23 (38%) investors thinks as important factors for investment. Right share and voting

right are in fifth and sixth priority for which 18 (30%) and 11 (18%) investors mark them most important motivating factor. Social status/ prestige seems as the last motivating factor to attract investors for investment in securities for which 17 (28%) and 18 (30%) investors term them as less important and least important motivating factors respectively.

- V. The analysis that has been preferred to find out reason for less or not use of debt or preferred stock. 22 (37%) investors things that debt and preferred stock does not provide handsome return that compensates the perceived risk of investors. Similarly, the second thing 16 (27%) investors' views that these securities have lack of professional practices. Of course there is 14 (23%) investors things there was lack of marketability and liquidity. 13 (21%) investors said that debt and preferred stock provides only certain return.
- VI. Among the given option of different type of debt security, around 35 (58%) investors like such bond that get participates in profit and loss i.e. income bond, Followed by simple interest bond, floating bond and mortgaged bond. It that out of the total respondent 16 (27%), 7 (12%) and 2 (3%) investors rate as first rank to income, simple interest, floating rate and mortgage respectively.
- VII. The most important feature of government bonds to propel investors to purchase is it is risk free there are 52 (87%) respondents those rates this features as first (due to lowest median value 1). Nest this, 28 (47%) investors' favor this security as being advantageous to construct portfolio. Likewise as per the overall ranking 5(8%) investors attracted with government bond because of high interest rate. Out of the total respondent only 5% each attracted with 'less legal formalities' and 'protection against malpractice'.
- VIII. Analysis of attractiveness of industry sector show that from out of total respondent 40(67%) investors' most attractive sector is banking sector. insurance company is the next most attractive sector to 25 (42%) investors. The median value of finance, hotel, manufacturing and processing, trading company and other sectors are 3, 4, 5, 6 and 7 respectively. out of total respondents 7%, 3%, 2%, 13% and 5% were attractiveness with

manufacturing and processing, trading company, finance company and other company respectively.

- IX. Out of the total respondents 54 (90%) investors set investment policy and remaining do not set. Likewise 49 (82%) investors analyze security before making investment decision and remaining 18% does not analyze security. Here the interesting result is that most of the respondents construct portfolio 48 (80%) investors construct portfolio. The number of respondents who revise and evaluate their portfolio is minimum. There out of total respondents 35(58%) revise portfolio but 15 (25%) do not and still 10 (17%) investors even don't know about the revision of portfolio. The last step in investment process is portfolio preference evaluation. For this step to Nepalese investors seem alienated as there are 32 (53%) of respondents who evaluate performance of portfolio and other 28 (47%) do not.
- X. The first question is related to the necessary information to be taken from Broker Company after having filled the order specification. Only 15 (25%) respondents could give right answer indicating lesser investors' shows interest on information of Broker Company. The numbers of respondents with correct answer 31 (52%). Likewise number of respondents with correct answer for question number third is only 28 (47%).

4.12 Discussion on findings

In Nepalese's capital market, there is significant relation between sufficient return and preference of investor for choosing financial instruments with existing relation with social status. Maximum investor around 80% investor invest in the common stock rather than preferred stock, debt and government bond because they does not give the sufficient return comparing to common stock. That's way issuer of preferred stock, debt and government bond should manage the rate of return. Main objective of Nepalese investors for investment were sufficient return, they wants to invest in that kind of investment sector which provide maximum return that is common stock. That's way investment sector should maintain the sufficient return to make investor to invest is different financial instrument in Nepalese capital market. Earnings per share (EPS) were most important factor for 77% Nepalese investor for investment in different financial instrument. Rate of return and DPS also play positive role to

motivate the Nepalese investors for investment. So, Issuer Company has to manage the rate of return and DPS of the company.

Dividend is the first motivating factor for investor. Which financial instrument gives maximum dividend investors invest in that kind of financial instrument. Because dividend play positive role to motivate investors. Following by capital gain also motivate the investor because of these the company should give dividend to investors in regular time. Nepalese investors were not interested to invest in the preferred stock and debt because they does not provide the handsome return that's way they ignore to invest in preferred stock and debt. To make investors to invest in preferred stock and debt is would be better to provide handsome return to the investors after that they should be interesting in preferred stock and debt.

Current investor of Nepalese capital were risk taker they wants to take risk in the investment that's way they wants to invest in that kind of debt which participates in profit and loss i.e. income bond. In the income bond investors get return when company goes in profit other way investors does not received return. To knowing this fact issuer should think about investors' risk factor. Also Nepalese investor wants to invest in simple interest bond. Now days Nepalese government were issuing different kind of government bond because they wants to collect money from Nepalese investors that way government should make the investment environment in Nepalese capital market. Investors wants to invest in government bond because they were risk free, but some investors think that the government bonds have more legal formalities and they cannot protected against malpractice after investigation nature of government bond, government should make its formalities easy and less time taker also government should make sure about protecting against mal practices.

In Nepalese capital market there were so many banking sectors for investment that's way maximum Nepalese investors invest in bank sector. Finance, insurance company, manufacturing and processing company investing in these sectors is not easy comparing to banking sector; this is also one major factor for investor to invest in banking sector. Nepalese investor invest in banking sector because of they think that banking sector is less riskier than other investment sectors, that's way broker company and issuer manager should give the more knowledge about other sector rather than banking sector. They should make investor more risk taker rather than risk seeker. Before making investment decision investors should think about the process of investment. Following the investment process investment were safer and more

profitable for investors that were way they should follow investment process to make investment safer. In Nepalese capital market more than 90% investor follow the first step of investment that is set the investment policy, 82% investors analyze their security before investment, 80% investors construct portfolio, 58% and 53% investors revision and evaluation there portfolio. After these research we can concluded that maximum Nepalese investors follow the process of investment.

Nepalese's investors were less knowledgeable about the investment, they does not aware about making the portfolio and the benefit of portfolio that way broker company have to make plan to aware the investor about the investment plan. Maximum Nepalese investor want to invest in the common stock because of they were easily available in Nepalese capital market comparing to preference stock, debt and government bonds. That's way different Investment Company should issue preference stock, debt and government bonds after that investor would enjoy investing in these financial instruments.

CHAPTER –V

CONCLUSIONS

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

5.1 Summary

This study is mainly related to identify the Nepalese investors' preference and attitude toward different kind of financial securities such as common stock, bond, government bonds, preferred stock and other (mutual funds and fixed deposits) etc. this study is mainly exploratory as it attempts to explore the status of investors' attitude toward securities. The important inferences have been drawn on the basis of sample size of 60 respondents applying different statistical tools and techniques of analyzing and presenting the data. Every constituent of the capital market may take advantage of this study for restructuring the operational and policy issues in respect to the capital market. Main findings of the study can be summarized in the manner below:

- I. Study of investors' preferences toward particular securities reveals that common stock is the kind of security that is most preferred by the investors, followed by preferred stock, debenture/bonds, government bonds and other (mutual fund and fixed deposit).
- II. Analysis to identify the objective of holding particular security shows that out of the given kind of objectives "sufficient return" is the kind of objective for which investors attach most in comparison with others. The second most important objective for them is less risk; as the median value of this option is least of all the option expect that of the first option. So less risk is another important aspect next to sufficient return. After the sufficient return and less risk investors want security having features of good marketability and thereafter they seek security that enhances social status.
- III. The analysis that has performed to find out the considerable factors for taking investment decision shows that most of investors consider earning per share

(EPS), rate of return and dividend per share (DPS) as most important factors and remaining are important factors.

- IV. The main motivating factor to invest is security is that entitles holders the dividend among the various factor the most preferred factor is that dividend. Next to this, capital gain is the second factors and bonus share is the third factor in terms of the perceived importance of Nepalese investors in this way liquidity, right share and voting right are in fourth , fifth, and sixth priority. Social status/prestige is in last to attract the investors to invest in security.
- V. The analysis that has preformed to find out reason for less or on use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provision of handsome return that compensates the perceived risk of investors. In this way the second thing investors agree upon is that these securities have lack of professional practices. The reason that these securities are illiquid and less marketable. Investors tend to have negative attitude towards these securities. Of course these are no provisions for investors who do require adjustable return as per the market rate of return. As a result they also agree that the securities provide stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Among the various disadvantages investors are less vexed at the overburden of legal formalities lack of professional practices and legal insecurity.
- VI. Given the option of different type of debt securities most investors like such bond that is participates in profit and loss i.e. income bond. on the other way income bond is most favored bond followed by simple interest bond, floating rate bond and mortgage bond.
- VII. The most important feature of government securities to propel investors to purchase these securities is it is risk free, advantageous to construct portfolio as it can there by provides more wide risk return space. Likewise as per the overall ranking, high interest rate is in third ranking. Less legal formality and protection against legal malpractices is less attractive features inhered in the government security.
- VIII. Analysis of attractiveness of industry sector shows that for Nepalese investors most attractive sector is bank sector, as the median value for this sector is the

lowest of all. Insurance company is the next most attractive sector to banking sector. This finding supports the growing tendency of investment in this sector.

- IX. Among the investors 54 (90%) investors set investment policy and remaining don't. likewise 49 (82%) investors analyze security before making investment decision remaining 18 percent don't. the most of the respondents around 48 (80%) construct portfolio, similarly respondents who revise and evaluate their portfolio are minimum. Here out of the total respondents only 58% revise portfolios 25% don't and still another 17% of investors even don't know about the last step in investment process is portfolio performance evaluation. Regarding this step too, Nepalese investors seem alienated, as there are only 53% of respondents who evaluate performance of portfolio and other 30% don't evaluate and remaining 17% don't know about it.
- X. The analysis that has performed to find out general awareness of investors towards security market and its functioning of security market in the country.

5.2 Conclusions

This study is mainly exploratory as it attempts to explore the status of investors' attitude toward securities. In the basis of the whole study following conclusive end can be provided to this study:

- I. Analysis of investors' preferences toward the financial securities paves the way to conclude that Nepalese investors' most preferred security is common stock. The most important characteristic that attracts investors to this security is that it allows investors to actively prefer this security more as compared to other security, for it being more marketable.
- II. It is imperative to conclude that investors seem to be less concern over social status and to be concern over sufficient return and less risk so far as the matter of investing in securities is concerned.
- III. Earnings per share (EPS), rate of return, dividend per share (DPS) and management of company are the consideration factor those can be regarded as the most important factor determining their choice of security.
- IV. Dividend, capital gain, bonus share and liquidity are the major motivating factors for investors to invest in securities, whereas right share and voting rights is only important factors.

- V. The debt and preferred stock in Nepalese securities market have no provision of handsome return that compensates the perceived risk of investors. So, investors are less inclined toward these securities. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities.
- VI. Government bond is less risky and this attributes of the security attracts to invest in. Next to this, investors favors this security for it being advantageous to construct portfolio as it can be used more wide risk and return space.
- VII. For Nepalese investors banking sector is most attractive sector for investment. Next most attractive sector is insurance company, followed by finance company, manufacturing and processing company, trading company hotel and other.
- VIII. Most of the investors set the investment policy while investing in securities. Most of the respondents do not revision their portfolio also they does not evaluate performance of portfolio, and most of the Nepalese investors don't know the process of the investment. Without knowing the investment process there is major chance of loss. Those way investors should know the investment process before investment in the securities.
- IX. Investors are less aware towards the general functioning of security market in the laundry. This result is as dismal as few respondents are concern over the general information as to the security market and it's functioning.
- X. In july 2012 Sudarshan Kandariya have done the research in a topic of "factors affecting investor decision making: A case of Nepalese capital market". There was big different in major finding between this thesis and the research done by Sudarshan Kadariya. There were no any match between this two research.

5.3 Implications

- I. To issue common stock as source finance is relatively easy for Issuer Company since investors like to hold common stock as compare to other securities. However, debt market should be upgraded so that issue of debt capital would be easy as any company with equity capital only cannot take advantages of leverage. Also companies should have to issue more mutual funds because small investors also interested in the investment.

- II. Debt and preferred stock are the kind of securities that are also less preferred by Nepalese investors because lack of handsome returns that compensates the perceived risk of investors. This demand for dynamic debt market with a good rate of return of the debt securities for this policy making body and other related institution should pay their attention.
- III. Investors prefer to invest in those securities whose overall company performance is outstanding. This suggests that development of security market is not only the matter of investors' awareness but also a thing of companies' performance. This calls for the new initiatives from the part of Nepalese companies to enhance their performance.
- IV. Nepalese broker company should make aware to investors about portfolio constriction after that they can invest indifferent sector, which are in Nepalese capital market
- V. Investors seem to be less aware as to security market and its functioning, this calls for the intention of the awareness program to make prospective investors fully aware and informant to the security market.
- VI. Investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market.
- VII. Current condition of stock trader and market seems lacking professionalism hence it needs to be professional in trading stock in the market, likewise security services are bounded in the capital city only. This need in outskirts to that propels all the people in the country to participate in the investment activities that may result into the more developed security market.

5. Others.....
 (Mutual funds, Gold and fixed deposits etc.)

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

- 1. Sufficient return
- 2. Less risk
- 3. Marketability
- 4. Social status
- 5. Other, if any

3. Following are some considerable factors for taking investment decision. Please make tick mark in the cell as per following scheme?

1= Most Important 2= Important 3= All Right 4= Less Important
 5= Least Important

S. N.	Statements	1	2	3	4	5
1	Earnings per Share (EPS)					
2	Dividend per Share (DPS)					
3	Book Value per Share (BVPS)					
4	Market Price per Share (MPS)					
5	Rate of Return					
6	Capital Structure					
7	Nature of Company					
8	Management of Company					

4. There are some basic motivating factors for investment as mentioned in the table. Please make tick mark in the cell based on given scheme?

1= Most Important 2= Important 3= All Right 4= Less Important
5= Least Important

S. N.	Statements	1	2	3	4	5
1	Capital Gain					
2	Liquidity					
3	Dividend					
4	Right Share					
5	Bonus Share					
6	Voting Right					
7	Social Status / Prestige					

5. How far do you agree/disagree with the following reasons of not using debt and preferred stock as frequently as a common stock? Please make a tick mark in the appropriate number as per the following scheme:

1= Strongly Agree, 2= Agree, 3= All Right, 4= Disagree,
5= Strongly Disagree

S. N.	Statements	1	2	3	4	5
1	No provision of handsome return that compensates the perceived risk of investors.					
2	These financial instruments provides only certain return					
3	Overburden of legal formalities					
4	Due to the lack of professional practices.					
5	Lack of marketability and liquidity					

6	No legal protection in favor of investors					
7	Due to the lack of wide varieties in these kinds of securities					

6. If you prefer bond, what are the types do you prefer most? Please rank them in order of their importance.

S.N.	Types Of Bonds	Rank
1.	Bond that gets you participates in profit and loss. (Income Bond)	
2.	Bond that adjusts promised interest rate according to the rate in the market. (Floating Bond)	
3.	Bond that is pledged against the firm's assets (Mortgaged Bond)	
4.	Simple debt that pay regular interest. (Simple Interest Bond)	

7. What are the main attraction of government securities? Please rank in order of their importance.

- 1. Risk free/safe
- 2. Advantages for portfolio construction
- 3. High interest rate
- 4. Less legal formalities
- 5. Protection against mal practices

8. How would you rank the following investment sectors in order of their attractiveness for investment? (Rank between 1 to 7. 1 for Most attractive and 7 for lowest attractive.)

- Rank
- 1. Bank

- 2. Finance
- 3. Hotel
- 4. Manufacturing and Processing Company
- 5. Insurance Company
- 6. Trading Company
- 7. Others

9. Do you follow the following procedures for investment? Please, make tick mark in the appropriate box.

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

10. What sort of information do you generally take after having filled the order specification? Please make a tick mark.

- 1. Certificate that describes you have submitted the order form to broker
- 2. Information as to the execution of order.
- 3. Financial aspects of the broker company.
- 4. Procedures of transaction of the securities.
- 5. Information about listed company.
- 6. Overall position of the Security market.

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

1. Within 7 or 8 transaction days.
2. Within 8 or 9 transaction days.
3. Within 15 days.
4. Within 23 days.
5. Don't know.

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

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

THANK YOU FOR GIVING YOUR VALUABLE TIME!

APPENDIX II

Statistics

Median	Common stock	1.0000
	Preferred Stock	2.5000
	Debentures/Bonds	4.0000
	Government Bonds	4.0000
	Others	5.0000
	Sufficient return	1.0000
	Less risk	2.0000
	Marketability	3.0000
	Social status	4.0000
	Others	5.0000
	Income bond	1.0000
	Floating bond	3.0000
	Mortgage bond	4.0000
	Simple interest bond	2.0000
	Risk free/safe	1.0000
	Advantages for portfolio construction	3.0000
	High interest rate	3.0000
	Less legal formalities	4.0000
	Protection against mal practices	5.0000
	Bank	1.0000
	Finance	3.0000
	Hotel	4.0000
	Manufacturing and processing company	5.0000
	Insurance company	2.5000
	Trading company	6.0000
Others	7.0000	

Frequency Table

Common stock

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	48	80.0	80.0	80.0
	Preferred	8	13.3	13.3	93.3
	Less preferred	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

Preferred Stock

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	3	5.0	5.0	5.0
	Preferred	27	45.0	45.0	50.0
	Less preferred	22	36.7	36.7	86.7
	Least Preferred	2	3.3	3.3	90.0
	Zero preferred	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

Debentures/Bonds

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Most preferred	3	5.0	5.0	5.0
Preferred	13	21.7	21.7	26.7
Less preferred	13	21.7	21.7	48.3
Least Preferred	20	33.3	33.3	81.7
Zero preferred	11	18.3	18.3	100.0
Total	60	100.0	100.0	

Government Bonds

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Most preferred	3	5.0	5.0	5.0
Preferred	4	6.7	6.7	11.7
Less preferred	15	25.0	25.0	36.7
Least Preferred	28	46.7	46.7	83.3
Zero preferred	10	16.7	16.7	100.0
Total	60	100.0	100.0	

Others

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Most preferred	3	5.0	5.0	5.0
Preferred	8	13.3	13.3	18.3
Less preferred	6	10.0	10.0	28.3
Least Preferred	9	15.0	15.0	43.3
Zero preferred	34	56.7	56.7	100.0
Total	60	100.0	100.0	

Sufficient return

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Most preferred	37	61.7	61.7	61.7
Preferred	21	35.0	35.0	96.7
Zero preferred	2	3.3	3.3	100.0
Total	60	100.0	100.0	

Less risk

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Most preferred	17	28.3	28.3	28.3
Preferred	20	33.3	33.3	61.7
Less preferred	15	25.0	25.0	86.7
Least Preferred	7	11.7	11.7	98.3
Zero preferred	1	1.7	1.7	100.0
Total	60	100.0	100.0	

Marketability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	5	8.3	8.3	8.3
	Preferred	15	25.0	25.0	33.3
	Less preferred	25	41.7	41.7	75.0
	Least Preferred	15	25.0	25.0	100.0
	Total	60	100.0	100.0	

Social status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	1	1.7	1.7	1.7
	Preferred	3	5.0	5.0	6.7
	Less preferred	16	26.7	26.7	33.3
	Least Preferred	31	51.7	51.7	85.0
	Zero preferred	9	15.0	15.0	100.0
	Total	60	100.0	100.0	

Others

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Preferred	1	1.7	1.7	1.7
	Less preferred	5	8.3	8.3	10.0
	Least Preferred	6	10.0	10.0	20.0
	Zero preferred	48	80.0	80.0	100.0
	Total	60	100.0	100.0	

Income bond

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	35	58.3	58.3	58.3
	Preferred	15	25.0	25.0	83.3
	Less preferred	5	8.3	8.3	91.7
	Least Preferred	5	8.3	8.3	100.0
	Total	60	100.0	100.0	

Floating bond

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	7	11.7	11.7	11.7
	Preferred	15	25.0	25.0	36.7
	Less preferred	30	50.0	50.0	86.7
	Least Preferred	8	13.3	13.3	100.0
	Total	60	100.0	100.0	

Mortgaged bond

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	2	3.3	3.3	3.3
	Preferred	7	11.7	11.7	15.0
	Less preferred	19	31.7	31.7	46.7
	Least Preferred	32	53.3	53.3	100.0
	Total	60	100.0	100.0	

Simple interest bond

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	16	26.7	26.7	26.7
	Preferred	23	38.3	38.3	65.0
	Less preferred	6	10.0	10.0	75.0
	Least Preferred	15	25.0	25.0	100.0
	Total	60	100.0	100.0	

Risk free/safe

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	52	86.7	86.7	86.7
	Preferred	4	6.7	6.7	93.3
	Less preferred	2	3.3	3.3	96.7
	Least Preferred	2	3.3	3.3	100.0
	Total	60	100.0	100.0	

Advantages for portfolio construction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	1	1.7	1.7	1.7
	Preferred	28	46.7	46.7	48.3
	Less preferred	21	35.0	35.0	83.3
	Least Preferred	5	8.3	8.3	91.7
	Zero preferred	5	8.3	8.3	100.0
	Total	60	100.0	100.0	

High interest rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	5	8.3	8.3	8.3
	Preferred	21	35.0	35.0	43.3
	Less preferred	6	10.0	10.0	53.3
	Least Preferred	22	36.7	36.7	90.0
	Zero preferred	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

Less legal formalities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Pref erred	3	5.0	5.0	5.0
	Less preferred	25	41.7	41.7	46.7
	Least Preferred	21	35.0	35.0	81.7
	Zero preferred	11	18.3	18.3	100.0
	Total	60	100.0	100.0	

Protection against mal practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	3	5.0	5.0	5.0
	Pref erred	4	6.7	6.7	11.7
	Less preferred	6	10.0	10.0	21.7
	Least Preferred	10	16.7	16.7	38.3
	Zero preferred	37	61.7	61.7	100.0
	Total	60	100.0	100.0	

Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	40	66.7	66.7	66.7
	Pref erred	5	8.3	8.3	75.0
	Less preferred	9	15.0	15.0	90.0
	Zero preferred	2	3.3	3.3	93.3
	6.00	1	1.7	1.7	95.0
	7.00	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

Finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	8	13.3	13.3	13.3
	Pref erred	12	20.0	20.0	33.3
	Less preferred	12	20.0	20.0	53.3
	Least Preferred	14	23.3	23.3	76.7
	Zero preferred	7	11.7	11.7	88.3
	6.00	4	6.7	6.7	95.0
	7.00	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

Hotel

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	3	5.0	5.0	5.0
	Preferred	10	16.7	16.7	21.7
	Less preferred	10	16.7	16.7	38.3
	Least Preferred	18	30.0	30.0	68.3
	Zero preferred	9	15.0	15.0	83.3
	6.00	9	15.0	15.0	98.3
	7.00	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

Manufacturing and processing company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	4	6.7	6.7	6.7
	Preferred	5	8.3	8.3	15.0
	Less preferred	10	16.7	16.7	31.7
	Least Preferred	8	13.3	13.3	45.0
	Zero preferred	21	35.0	35.0	80.0
	6.00	11	18.3	18.3	98.3
	7.00	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

Insurance company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Most preferred	5	8.3	8.3	8.3
	Preferred	25	41.7	41.7	50.0
	Less preferred	11	18.3	18.3	68.3
	Least Preferred	11	18.3	18.3	86.7
	Zero preferred	5	8.3	8.3	95.0
	6.00	2	3.3	3.3	98.3
	7.00	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

Trading company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Preferred	2	3.3	3.3	3.3
	Less preferred	4	6.7	6.7	10.0
	Least Preferred	7	11.7	11.7	21.7
	Zero preferred	13	21.7	21.7	43.3
	6.00	28	46.7	46.7	90.0
	7.00	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

Others

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Preferred	1	1.7	1.7	1.7
Less preferred	3	5.0	5.0	6.7
Least Preferred	2	3.3	3.3	10.0
Zero preferred	4	6.7	6.7	16.7
6.00	5	8.3	8.3	25.0
7.00	45	75.0	75.0	100.0
Total	60	100.0	100.0	

ABSTRACT

The motivation behind his study has been derived from environment of financial sector which has been flourished during the last decade with number of Corporate Governance issues in Nepal. This Thesis aims to identify the dimensions that provoke Corporate Governance and Financial performance of Development Banks in Nepal, to examine and evaluate the relation between Corporate Governance dimensions with different financial performance. The Corporate Governance is a broad descriptive term rather than a normative term. Corporate Governance describes all the devices, institutions and mechanisms by which Corporate Governance.

Corporate Governance is the relationship among various participants in determining the direction and performance of Organization; Transparency, Accountability, Discipline, Independence, Fairness and Social awareness. Good Corporate Governance is the extent to which Companies are run in an open and honest manner is important for overall market confidence. There is no unified code of corporate Governance applicable to all the corporate bodies in Nepal. The code of good Governance for Development banks has been issued by the NRB directives .The alarmingly increasing trend of poor Corporate Governance in Banking and Finacial Institutions has rapidly slashed the trustworthiness. The design and methods have been applied according to the research type which is descriptive. The research is also explanatory since it has been conducted to identify the extent and nature of cause and effect relationships among the dependent and independent variables. The findings of this research were based on the primary survey. The data has been collected by formulating a set of questionnaire which was distributed to the respondents. The findings are completely based on the data and facts provided by the sample respondents, without any form of manipulation. The findings of the research shows that the Corporate Governance is at the slightly agreeableness of the respondents. That indicates that the Nepalese Developments banks do comply with the Corporate Governance in moderate level. There is not much impact of the Coporate Governance in the Nepalese Development Banks. The status of Corporate Governance is not so encouraging in the Nepalese Development Banks. The results of research suggest that Transparency, Independence, Accountability, Fairness, Social Awareness, Discipline and Responsibility have significant effect on banks' financial performance.

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