CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal a small land locked country situated between two giant countries India and China is striving for the industrial growth since the saturation of democracy. The effective mobilization of capital resources is the productive sectors in the base of development. So the financial market becomes the most important sector for fostering the different productive activities in the economy.

The financial market consists of the money market and capital market. The capital market discharges the important function of transfer of savings, especially of the household sector to the companies, government and public sectors. Capital market refers to the links between lenders and borrowers of the funds, arranging of funds transfer process to seek others benefits (Philips, 1979:3-5).

Capital markets, which deal with securities such as bonds and stocks, are associated with financial resource mobilization on a long term basis. Securities transaction is a major component of the capital market system. Securities market exists in order to bring together buyers and sellers of securities meaning their mechanisms are created to facilitate the exchange of financial assets. In the securities market, various security instruments such as, common stock, preferred stock, debenture, bonds etc. are trade (Sharpe and Bailey, 2003:12-13). It can be further classified as primary market and secondary market.

"Securities" means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Government of Nepal and it includes the securities issued under full guarantee of Government of Nepal or securities as prescribed by Government of Nepal a notification published in the Nepal Gazette or receipts relating to deposits of securities as well as rights and relating to securities.

The market whereas the corporation acquires the long term capital fund by issuing the security to the general public through Initial Public Offering (IPO) and right issue is known as primary market. The secondary market is that market where the once-issued stocks of the corporation are traded. The advantage of secondary market is to provide liquidity and investment opportunities to investor and to make certain assets more attractive to buyers and sellers.

Under the Enhanced Structural Adjustment facility with the first amendment of the 'Security Exchange Act' in 1992 A.D. the government initiated the policy to reform capital market with amendment in the Act. The Security Board of Nepal was established to regulate and develop the transaction of securities. Likewise Nepal stock Exchange Ltd (NEPSE), as the successor or Securities Exchange Centre was established to facilitate the transaction of the stocks in its floor through its member intermediaries such as, brokers, security dealers and market makers. NEPSE started its organized open –cut- cry system in its floor on 13 Jan 1994. However, so for the government securities are not allowed to the transaction the floors of NEPSE. There are 176 companies' securities listed on NEPSE till 16th July 2010 of fiscal year 2009/2010 including merge of National Finance Ltd and Narayani Finance Ltd to be Narayani National Finance Ltd

There are many parities involve in the transaction of securities in the securities market. Investors are one of the main parities among them from whom the Corporation acquires the funds. Investment process is concerned with how an investor should proceed in making decision about what marketable securities to invest in, how extensive these instruments should be made (Winfield & Curry, 1985:1). Investors are those people who invest their savings in the securities to take the risk and return. On the investment in other properties, investor can't get duel benefit as from investment in stock. The investors get capital appreciation as well as dividend appreciation from investing in the stocks.

There is only one Securities Market to liquidate the stocks in Nepal, which is NEPSE. So investors play vital role in the development of capital market. Investors are the key to the success of securities market for the development of the economy. A process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus consumption is the current period foregone in order to obtain a greater return in the future. Investment is the investor's decision to channels the savings into a venture with the expectation of some extra return in the future. Investor scarifies the present certain for the future uncertain additional benefit. The increased amount that one gets from the investment, as its return, is termed as profit. The profit is always characterized by the uncertainty and this uncertainty or return is termed as risk. Risk prevails not only in profit but also for the return of principal. Return and risk are, therefore, the two basic components of the investments.

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

There are many factors that should be considered while taking investment decision in the securities market. Some of these are the book value of the stock, risk-return trade off, companies' future prospects, government rules and regulation, the direction of Nepal Rastra Bank (NRB) and Securities Board of Nepal (SEBON). But because of the poor governance and lack of timely information the investors depend upon some available experts for the analysis of stock price. Besides individual investors dominate the market whose speculative behaviour make the price fluctuate. This makes the potential investors depend on whim and rumour in stock trading. So this research study will try to evaluate the investor's awareness and to be more effectively aware regarding the Nepalese Securities Market.

1.2 Statement of the Problem

For any reliable transaction, the price and the value of commodity should be matched to reflect the rationality of the investors. The reliable price is possible to calculate only when the investors are provided with sufficient, authentic information necessary to calculate the real value of securities and the future prospects of its growth. But using limited flow of information, insufficient knowledge and poor education; the investors could not identify the good and bad stocks among many.

Further, there is required the adequate number of organized investors to analyze the information regarding the performance of the companies in the stock market in Nepal. According to Lord, Ross and Lepper, in securities marketing analysts and investors generate information for trading through means such as, interviewing management, verifying rumours and analyzing financial statements that can be executed with varying degrees of skill. If as investor overestimates his ability to generate information or to identify the significance of existing data that others neglect. He will under estimate his forecast error. Traders could instead be over confident about the way they interpret information rather than about the information in self. They overweight information that is consistent with their existing beliefs, are prone to gather information that support these reliefs and readily dismiss information that does not.

The investor is also tended to rely on the explanatory information and do not show interest on the statistical data and technical analysis. Since the sufficient information of financial performance of the listed companies has not been disseminated to the general public, the health and dynamism of the stock market suffers due to the lack of transparency. Brokers' role is one of the main sources for making aware to the shareholders in securities trading. In NEPSE, the brokers are not able to provide various services related to the trading of the stocks as compared to brokers of the stock market in other countries.

Investors need to make the technical and fundamental analysis while making investment in stock. The technical analysis theory of share price behaviour is based on past market information. On the assumption that history tends to repeat itself, it is believed that knowledge of past patterns of share prices will help to predict future prices under similar circumstances. It involves the study of past market behaviour with reference to various financial and economic variables to forecast the future.

Investors are not context to follow the crowd, although investors do not mind the crowd and momentum investors buying shares that investors already own. Investors believe it is difficult to make money chasing the hottest trend, and investors often do the opposite of the fashionable trade. The current problems of securities market are stated as follows:

- Are the investors getting relevant information and do they analyze those information while making investment?
- The investors should have the analysis technique to make the rational decision.
- Are the Nepalese investors making the investment by analyzing the different analysis techniques?
- Are the investors making the rational decisions regarding their investment in securities market?
- How the investors make their investment, do make their decision on the basis of whim, rumour and intuition or consider other factors?
- Whether the investors are aware of the securities market or not. Do they know about the investment procedure and analyze the factors affecting investment decisions?

1.3 Objectives of the Study

The main cause of this study are Nepalese investors' are not aware of the different other instruments or the stock market. This studying tries to evaluate the investors' awareness in the securities marker in Nepal. After stating the various problems following are the specific objectives of the study are as follows:-

- To see whether the investors are adequately aware or not in the Securities trading system.
- To see how the investors take investment decision in securities market.
- To see the investment trend in the security market of Nepal.
- To give suggestion and recommendation to the concern person and office

1.4 Significance of the Study

This research is very useful to all the parties who are involved in the securities market. It is also very helpful to the university graduates and undergraduates who are curious to have knowledge about the investors' awareness in the securities market in Nepal.

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

Investment in stock markets play crucial role on economy. It affects the whole economic environment of the nation. Securities market being one of the prominent sources for the economic development, ultimately its potential investors is the biggest asset. Hence this study targets to explore 'the investors awareness in securities market in Nepal'. As it is known that investors Nepal to invest by imaginary unreal risk. This study is conducted to provide some information about the present level of Investors awareness in Nepalese securities market.

The prime motive of securities market is to uplift the economy from stagnation to develop the financial and industrial sectors through the effective mobilization of the funds. The acquisition of the funds by different companies of different sector depends on the investment decision and flow of investors in particular sector. It is seen that the majority of the Nepalese stock investors are trended towards the shares of financial and banking sector except some manufacturing and others. When any new company (especially of banking and financial sectors) issues share through primary market, large no of applicant apply for owner's certificate.

Since investor are regarded as the master of their own decision, it is the duty of corporate official and stock market intermediaries to accelerate favourably to accumulate the needed fund by eliminating the bad signs and signals of the weaker sector of the economy. So this study tries to find out the different influential factors of investors decision and to recommend the necessary activities to be carried out to enhance the rationality of the investors by creating the awareness among them for the fair transaction of the securities and to highlight the growing importance of this particular topic for the acquisition of the required fund for different corporate sectors. This study also to focuses on the impact of present existing situation faced by the general investors while making investment decision.

1.5 Limitation of the Study

This research is not that easy to evaluate generally, there are some limitations in every study so the limitations of the study are as follows:

- This study area is limited. It is oriented to only the Kathmandu valley.
- This research study is limited only on common stock trading on the primary market and secondary market.
- This study is based on the last 5 years data beginning from 2005/2006 to 2009/2010.
- This study is based on the secondary sources of data as well as primary data. Primary data are acquired mostly by using the questionnaire, personal interviews from three sources viz. investors, brokers, staff of NEPSE and SEBON
- In this study, only selected financial and statistical tools as well as techniques are used.

1.6 Organization of the Study

The main objective of the study is to find out Investors’ awareness in the Securities Market in Nepal within the listed companies. This study has been divided into five chapters. They are as follows:

The first chapter is 'Introduction' where the general introduction, statement of the problem, need of the study, objectives of the study, limitation of the study and organization of the study is included.

The second chapter is 'Review of Literature'. Here the previous study done by different persons both individually and institutionally are reviewed is reviewed. Similarly different articles, journals, books and periodical are also to be reviewed.

The third chapter deals with the ‘Research Methodology'. In this chapter different statistical and financial tool, which are used to tabulate and analysis the data available from the primary and secondary sources are discussed.

The fourth chapter is the main body of research. It deals with presentation and analysis of data.

Finally the fifth chapter provides summary, conclusion and recommendation of the study. This chapter presents the major finding and recommends the suggestions to impact the level of the general public as discovered from the research study. The appendices and bibliography will also be incorporated at the last.

CHAPTER - II
REVIEW OF LITERATURE

This chapter refers with the review of related studies and different aspects of the topic "A study on investor's awareness in the securities market in Nepal" in more detail and descriptive manner. For this study various books, journals such as articles, previous thesis, some research reports articles and memorandum of the particular selected listed companies are consulted and reviewed.

2.1 Conceptual Framework

Currently most of the investment sectors are influencing from the worldwide globalization and liberalization. The incident in order of the world brings the changes in the whole word. The individual investors are always searching for better investment alternatives that can maximize their wealth and ensure their better financial futures. The investors are in expectation of financial freedom in their life. Financial market with its wide range of security provides investors investment alternatives that can make their cash flow secure and build strong financial base. Investor invests in securities on the basis of public information that should provide every details of company. Investing is not at all a race or gambling but it is a planned phenomenon of assuming certain risk on behalf of issuer.

The most important means for ensuring investors' awareness is to make rational investment decision one have to be familiar with the whole investment environment and their mechanisms.

2.1.1 Investment

Investment, in its broadest sense, means the sacrifice of current Rupees (dollars) and resources for the sake of future Rupees (dollars) and resources. 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 (Sharpe, 2006:1).

Investment in its simplest form means employing money to generate more in future. It is the sacrifice of current rupees for future rupees. Return is the primary motive of investments, but it always entails some degree of risk. Buying common stocks, bonds of a company, depositing money into bank account, buying a piece of land, gold or silver are examples of investment. All these examples involve sacrifice of current rupees in expectation of future maximize the wealth of an investor.

An investment is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains certain. Therefore, every investment entails some degree of risk (Francis, 1986:3). In the growing investment scenario in Nepal, investors are the backgrounds of the capital market and they expect return in future by this is what the management of companies is not realizing. Although investment in real asset is also important however investment in the financial securities is what is mean here the true meaning of the investment.

Investment, we do not mean the purchase of existing paper, securities, bonds, debenture, or equities but the purchase of new factories, machines and the like (Baron and Holmstrom; 1980: 42-43). "By investment is meant an addition to capital such as occurs when a new house is built. Investment means making an addition to the stock of goods in existence (Aharony, Chi-Wen and Wong, 2000:107). "Investment expenditure includes expenditure for producer's durable equipment, new construction and the change in inventories" (Peterson, extracted from Paul, 1999:67).

Generally, investment is distinguished from speculation based on time- horizon and risk and return characteristics of investment. The true investor's is interested usually in long term investment with a good rate of return, earned on a consistent basis. Such investors are normally not willing to take high risk and expect moderate rate of return. In practice, most investors have irrational behaviour due to lack of intelligent speculation in the sense information from market to investigation and decision of investment is important. This is what that regulating authority is drawing the attention of investors to have investigation before investing.

2.1.2 Investment Process

A discussion of an investment process deals with:-

- How to make an investment decision?
- What marketable securities to invest in?
- When to invest?

Therefore, the investment process includes how an investor makes decision about what securities to investment in, how extensive the investments should be, and when they should be made.

The investment procedure for making these decision forms the basis of the investment process

- **Set investment Policy**

The initial step in setting an investment policy involves determining the investment objectives and the amount of one's investable wealth. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. It also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, investable wealth, tax considerations etc.

- **Performing Security Analysis**

It is the second stage of an investment process which involves the analysis of securities, which are identified in the previous stage of the process. The main purpose of analyzing securities is to find out the miss-priced securities. There are many approaches can be used to analysis the securities. Technical analysis and Fundamental analysis are most used approaches. Technical analysis involves the study of market price in an attempt to predict the future price movement. By examining the past prices, the pattern of price movements is studied and thus expected future price is forecasted. Sometimes, Technical analysis is called chartists.

Fundamentals analysis, the second approach to security analysis, tries to identify the real and true value of financial assets. The fundamental analyst attempts to forecast the timing and size of these cash flows, and then converts them into their equivalent present value by using an appropriate discount rate.

- **Portfolio Construction**

It is the third step of our investment process. At this stage, we identify assets in which to invest, as well as determining the proportion of the investor's wealth to put in each one. While constructing a portfolio, the selectivity, timing and diversification need to be addressed by the investor.

- **Portfolio Revision**

Portfolio Revision means representing previous three steps of the process. That is, over the period of time, the objectives of the investor may change and the current portfolio may no longer be optimal. The investor can sell some unattractive securities and introduce attractive ones to form a new optimal portfolio. Some securities that are initially unattractive may turn out to be attractive later and vice versa.

- **Portfolio Performance Evaluation**

The last and final step of investment process is portfolio performance evaluation. 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. Investor should evaluate the portfolio performance periodically. To evaluate the performance, appropriate measures and standards are needed (Sharpe, Alexander and Bailey, 2006:11-14).

2.1.3 Investment Decisions

Gross investment is determined by two main factors: the real interest rate and expected profit rate. The higher the expected profits rate on capital, the greater is the amount of investment, other things remaining the same. To decide whether to undertake an investment, a firm compares the expected profit rate with the opportunity costs of funds. This opportunity cost is the real interest rate. The lower the real interest rate, the greater is the amount of investment undertaken, other things remaining the same (Parking, 1996:202).

To make investment decision, it needs lots of information related to financial assets. Situation of market, risk and return factors involved to the stocks other opportunities available in the market, interest rate of bank, government current policies, tax laws regulations as well as attitudes of investors are the determinant of whether the investment be made.

2.1.4 Investment Risk and Return

In every investment there is certain risk and return. The degree of risk and return depends depend upon the kind of the securities. Corporate securities are risky securities where as Government securities are risk less securities. The securities having the high risk yield high return. The trade of between risk and return is directly proportional as higher the risk, higher will be return and vice – versa.

2.1.4.1 Investment Risk

Risk is defined as the probability of suffering form of loss or damage. It is the chances of unfavourable even. An event is one more of the possible outcomes of doing something. The term applies to outcomes that cannot exactly predict. A risk seeker is one who prefers risk. The risk averter would select the less risky investment. The person who is indifferent to risk would not care which investment he or she received numerous factors usually mentioned are business risk, financial risk, liquidity risk, default risk, interest risk, management risk and liquidity risk.

2.1.4.2 Investment Return

Return is the income from an investment. It is the primary motivation for making investment. The return is the total income or loss on an investment over a giving period of time. The single period rate of return is one of the most important concepts in measuring return. It relates the total rupee return during a period to the original investment. Holding period return of the expected value of all the of the security's cash flow from the current date until a given future date related to the current market price of the securities. Every investor is return conscious and average investor must know how to calculate return on investment and to interpret data as an input to his\her investment decision (Gitman, 1998:44).

2.1.5 Factors to consider in choosing among Investment Alternatives

Investors do not invest in all investment alternatives available in the market. They choose a few among them. While choosing, they consider the following factors (Shrestha, Poudel, and Bhandari, 2003:11).

- **Investment Objectives**

All investors have some purpose of investing. Some invest to children's education some for ensure regular income for retirement age, some for emerging fund. In the context of Nepal, investors do not seem to have clear-cut investment objective. At present, however, slowly some investors are found objective focus in investment alternative choice.

- **Investment horizon**

It means the length of time for which the investment is mad. It is closely related to the investor's objective of investment. The investment horizon depends on the nature and type of investment alternative. In the context of Nepal, investors have not yet considered the investment horizon.

- **Taxes**

Government taxes income received from most investment alternatives. Further, taxes to be paid also depend on the tax status of the investor. In Nepal, tax implication of investment income should be simple harass the investors without creating investment environment although in public speech the speck the investors to protect.

- **Rate of Return**

An investor begins his selection process by looking at the past rate of return of the alternatives. Therefore, investors should estimate the expected rate of return of the alternatives under consideration.

- **Risk Analysis**

Risk is understood as the possibility of suffering some form of loss or damage. It is the chances of unfavourable events. In the context of Nepal, investment is the chances of incurring losses. Strictly speaking, the risk is the changes of incurring losses, but we define it as the variability of returns, because the analysis of risk in terms of variable return produces same result, as the analysis of chances of incurring losses.

- **Investment Strategies**

Investment strategies are a combination of select timing and diversification. It plays a vital role take an investment decision.

- **Investment Selection**

Investors have various alternatives investment. Due to imperfect market, investors are not found selective in their investment decision.

- **Timing**

It is also an important factor the influences investment decision. Appropriate time is required to invest the amount of money.

- **Diversification**

Diversification is a process of reducing of reducing risk. An individual investor should make a diversified portfolio. There are various alternatives of portfolio. So the investors should identify possible alternatives and select the best one. Hence, diversification also affects the investment decision.

2.1.6 Sources of Investment Risk

Every investment that we have made certain as they are made under uncertainty even fixed income securities. There are certain risks that are associated with the time value of money. The sources of uncertainty that contribute to investment risk are as follows.

- **Interest Rate Risk**

The interest rate risk is defined as variability return caused by changes in the market interest rate. If the market interest rate rises, the value of assets (bond) will decrease and vice versa.

- **Purchasing Price Risk**

Purchasing price risk is the variability of return investor suffers because of inflation. Inflation erodes the purchasing power of the rupees and increase investment risk. The rate of inflation is measured by percentage change in the consumer price Index (CPI) the period.

- **Bull Bear Market Risk**

The various market forces make securities price upward and downward. The upward trend of market price (Bull market) and downward trend of market price (Bear market) create a long lasting source of investment risk.

- **Management Risk**

All these decisions made by the management materially affect the risk faced by investors. Sometimes, the management may make a decision, which turns out to be wrong later on. For e.g. the poor management of Nepal Bank Limited arouses the investment risk to the shareholders. The share price continuously fell and had de-listed from the Nepal stock Exchange. This has been creating risk to the investors.

- **Default Risk**

The risk is that risk which is closely related to the financial condition of the company issuing the security and the security is rank in claims on assets in the event of a default or bankruptcy.

- **Liquidity Risk**

Liquidity risk is associated with uncertainty created by the inability to sell the investment quickly for cash. The return variability will increase if price discounts and sales commission are to be given in order to liquidate assets in time. If the liquidity is less then the risk will be high.

- **Political Risk**

Political risk is the assets total variability of return caused by changes in the political environment. The current Nepalese political environment has made a significant impact on the investment to increase losses.

- **Industry Risk**

The industry is a group of business that operates in same environment, which are affected by some factor. For e.g. The Nepalese textile industry is facing the same industry risk in the near future because the quota provided by the US is going to expire (Lui and Wende, 2001: 34).

2.1.7 Investment Alternatives

Numbers of investment alternatives are available to the investors in market. Broadly, alternatives to invest may be classified as financial and real assets alternatives. Common stock, preferred stock, bond, as financial assets. But with the increase in financial market, concept and principals, a lot of other financial alternatives have mushroomed. Gather financial assets that serve as investment alternatives are convertibles, warrants, rights, commodity futures, financial futures, options etc. Real estate, precious metals, collectibles (diamond, stamp etc) are the some of the examples of real assets alternatives.

Nepal's capital market is too small to provide various investment alternatives. Common stocks and government securities are popular alternatives but bond and preferred stocks can rarely be found. Other investment alternatives like options, rights, futures, convertibles, warrants are not in practice yet. There are some investment alternatives available in the business world such as listed below.

- Direct Investment Alternatives:-

1. Fixed Principal investment:-
   - Cash
   - Saving account
   - Savings certificates
   - Government
   - Bonds
   - Corporate and debentures.
2. Variable Principal securities:-
   - Preference share
   - Equity share
   - Convertible Debenture or preference securities
   - Non Security Investment
   - Real Estate
   - Mortgage

- Commodities
- Business Ventures

- Indirect Investment Alternatives:-
    - Pension fund
    - Investment companies
    - Provident fund
    - Mutual Fund
    - Unit trust and other trust funds
    - Insurance

Direct investments are those where the individual makes his own choice and investment decision. Indirect investments are those where the individual has no direct on the amount he invests. He contributes his savings to certain organizations like life insurance or unit trust and depends upon them to make investments on his and other people's behalf. So there is no direct responsibility.

- **International Alternatives**

International investment is the investments by individuals in debt or equity securities by organization outside the country of residence of the investor. International investments are traded in organized exchange and OTC market.

- Multinational corporations stock and bond.
- Foreign stocks traded on a local exchange.
- American depository receipts (Booth and Chua, 1995: 296-297).

2.1.8 Financial Markets

A financial market is a mechanism for trading financial assets. Financial markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of institutions are made without the direct knowledge of the suppliers of funds or savers. "Suppliers in the financial markets do not know where their funds are being lent or invested. The two financial markets are the money market and the capital market. Transactions in short term debt instruments or marketable (bonds or stocks) are traded in capital market" The financial market can be categorized into two types according to their nature in time duration of contract (Gitman, 1988:30).

2.1.8.1 Money Market

The money market is created by a financial relationship between supplier and demand maker of short term funds, which have maturities of one year or less (Gitman, 1987:31). As for as money is concerned, banking institutions are at the helm of monetary activities for this reason; it is also called the short term financial market. It is the act of supplying short term debt or working capital needed for industries, business or incorporated body etc. In generally money market refers in debentures, commercial papers, government short –term debentures, business bill etc.

2.1.8.2 Capital Market

The capital market is created by a financial relationship between a number of institution and arrangements that allows the supplier and demand makers of long term funds, which have maturities of more than one year to make transactions. In capital markets financial transactions are made for mostly longer period. In capital market different types of financial securities such as ordinary share, preference share, treasury bills and debenture are traded. The capital market can be divided in to two parts:

- Non securities market
- Securities market

2.1.8.2.1 Non Securities Market

Non –Securities Market is also that type of market where financial transactions are carried out between the lender and borrower for a longer period without issuing any securities in the form of share, bonds and debenture. Financial transactions between the term lending institutions such as development banks and the business houses and individuals between the contractual savings institutions and individuals or business houses etc. come under non securities market. The contract between parties of capital exchange has less liquidity due to restriction of liquidation of these loans in secondary security market.

2.1.8.2.2 Securities Market

Securities market interchangeably known as the integral part of capital market is in fact basis of the economy. The most effective use of idle and surplus resources can be bought into practice only by means of market mechanism. This indicates the structural network of the savers and users groups of fund presumably garnered for long term financing. But the formation of network originates via conversion process of saving in to investment outlet. Thus the security market upholds the attempts particularly concerned with the collection and mobilization of savings. Saving meticulously diverted towards the regenerating activities, in essence financialization and industrialization activities will result in the repercussion favourable to the economy as a whole (Khatiwoda, 2055:16).

There are two important functions of securities market, namely the raising of funds in the form of shares and debentures and trading in the securities already issued by the companies. While the first aspect is obviously much more important from the point of view of economic growth, the second aspect is also considerably, important. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital is considered assistant for the buyer of a new issue of securities are abundant, the raising of new capital is considered assistant for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer without much difficulty.

Security market sets a price for the securities it trades and makes it easy for a people to trade them. Securities market facilities that sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and seller of financial assets to facilitate trading. In other words, the securities market is known as the market where all types of securities are traded. Security market is a broad term embracing a number of markets in which securities are bought and sold. Securities market includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hopes the payment of federal personal income taxes on the profits from the transaction (Fisher and Jordon, 1992:16).

Security market is the place or market where the long term exchange of capital takes place. The user issues security for the capital it raises through the suppliers. The issuer issue different type of security instrument like common stocks, preference share, debentures, bond etc to raise fund from the market. The server provides supplies of capital by buying this instrument as their financial instruments. The securities market can be further divided into two parts:

- Primary Market
- Secondary Market

2.1.8.2.2.1 Primary Market

Primary market is a place or market where the original securities are issue for the first time in public. The securities of different companies come to life from this market. The company i.e. raising funds or capital for its operations issues certain type of securities through an agent called its authorized selling agent called underwriter.

The company has no register its shares in the SEBON (security board) to get valid authority to the issuance of the shares or (securities). The primary markets provide an important allocate function by channelling the funds to those who can make the best use of them- presumably, the most productive. The primary market is the place where the security is distributed among the interested investors. The primary market further deals with types of issue the can be divided into two types. They are:-

Seasoned Issue

This type of issue is made by already existing corporate securities to raise additional capital for its operation.

Unseasoned Issue

This type of issue, which is initially issued by the newly operating corporate bodies. This is also called initial public offering or IPOS. The distribution in primary market can be done by private placement, which is done by most private limited companies and public placement which is done by advertising it’s issues openly to general public.

2.1.8.2.2.2 Secondary Market

In the secondary market the shares or securities once issued in the primary market are traded. After the public issue the securities are listed in security market that shows acceptability of such securities to be exchanged. After the security comes to existence and listing in the stock exchange the owner of security can easily sell their security with the current offered price. The security exchange provides a floor for the buy and sell of primary issue securities through a prescribed procedure. The investors who are interested to invest in existing securities can by desired securities through the secondary market.

The secondary market liquidates the shares and provides the opportunity between the investor and seller of the securities. The company must list the securities in the security market for the transaction process. The secondary market provides enter and exit channel for the investor. The investors can enter the investment and when they fell the investment profitable and can exit as they feel it worthless. However the transactions in the secondary market do not gives any cash flow to the issuing company, but it is important as the exchangeability provides liquidity to the instrument and it makes the security investment attractive to investors (Booth and Chua, 1995: 296-297).

2.1.9 Characteristics of Different Secondary Markets

A secondary market is a place where outstanding securities are traded but the differences in the secondary markets exist around the world on the basis of their operation system and regulations. The following are the characteristics of different secondary markets:-

a) Intertemporal Consolidation of Traders

Under this characteristic the secondary market can be divided into two types: Call market and Continuous market. In call market, trading is allowed only at certain specified times. This market accumulates clients trading orders, which arrived over a period of time, into batches that are executed simultaneously. In continuous markets, on the other hand, trades may occur at any time during the trading day.

b) Spatial Consolidation of Trades

Some secondary markets like New York Stock Exchange (NYSE) collect orders from around the world and execute them on the floor. Such a market is called geographically consolidation market where as some markets operate within a limited area and trade limited financial assets. Such a market is called a geographically fragmented market.

c) Maximum Daily Price Change Limitation

Some of stock exchanges around the world allow the prices of securities to fluctuate freely. But some stock exchanges limit kit in some range. If the price of any stock changes more them that exchange's maximum daily limit, trading is stopped – usually for the rest of that day.

d) Margin Requirements

The initial margin requirement in different countries ranges from a very tiny down payment to 100%. There is no similarity in the margin requirement in the secondary market around the world and there is difference even in the same secondary market on the basis of type of securities (Loughran, Ritter and Rydqvist, 1994: 116)

2.1.10 Inter Relationship between Primary Market and Secondary Market

The primary market and secondary market have a symbolic relationship. While the primary market creates long- term securities the secondary market gives liquidity to the security. The new issues are influenced by existing securities of same kind in secondary market. The high price appreciation possibility and prosperity of security in secondary market motivates investment among the institutional and individual investors to subscribe a new issues.

It is because of presence of secondary market investors are not afraid to put their money in to market. As because whenever they feller like to make them cash they can do it easily in secondary market. In other word it will be suitable to be described as a seasoning provided to securities to make them more attractive. Again when an existing security performs well in secondary market it will help to build goodwill and hence helps to make the seasoned or additional issues of securities popular and demanding among public. Secondary market provides an exist channel to the investors in security market. Also it helps to make a back flow of fund from capital market in the economy. The high investment in capital market will result in low supply of money in the market resulting less money to be spent in other expenses.

2.1.11 Types of Investors

Investors are anyone who makes the investment in the securities. Though there is not much attraction of investor's towards the world of financial instruments. There are various types of investors in the market. On the basis information, individual investors and institutional investors are the most important investors in the financial market.

a. Institution Investors

Institution investors are those investors, which is an institution or organization. Their base is very small to mobilize saving in a cost effective manner for individual savers who otherwise might not participate in the stock market. The growth institutional investor portfolios had a bearing on many of the financial instruments and investment management techniques. The security markets have been dominated by the institutional investors as they have large capital available to invest. The institutional investors take an advantage from the various profits available from the security market. The security market have been a good place to invest for institutional investors as it gives an opportunity to institutes to make their capital works or decrease nonperforming assets.

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

Analytical bulk buying is rendered possible through such institutional buyer which in turn help make the market less volatile than at present, Malla observed. There are two dozen-plus commercial banks and about 45 finance companies that are potential institutional buyer. "Investors awareness is a healthy stock market overall, there is a big lack of relevant and updated information about companies in the market" said Prof Dr. Manohar Krishna Shrestha. The institutional investors seek to derive the necessary information are stock recommendations, earning forecasts, written reports and overall performance sources before taking investment decisions.

b. Individual Investors

Individual owns a portfolio of securities and becomes investor. But individual investors are part timer, they are businessman government worker, doctors, lawyers and even housewives students and unemployed adults. When an individual buys a security holds them and gets dividend or profit through price appreciation the cash flow becomes income to the people.

Although we see very few well known successful investors in Nepal we can get very good examples of successful investors in our neighbouring country an well known international icons like warren Buffet, John Templeton, Peter lynch, George Soros, David Dreman etc. The well-known Indian Investment Gurus Chandra Kant Sampat, Nemish Shah are people who took investment as their carrier. The average investor in securities is a part- timer, with neither the ability nor the time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing. Individuals have opportunity cost obtaining investment information, such as reading publication, tracking stock price, and building files on securities. This opportunities cost is the time and resources for gone that could have been used in other endeavors (Jones, 1988: 36).

2.1.12 Factors to be considered before Investing in Securities

Stock investors who want to invest in the stock market. Stock investors do not invest directly in corporation. At first, they come in stock exchange market them investment on the information base of prospectus of company and other public notice and details, which are published by the company. While investment policies needed to be formed, the investor needs to consider many factors. Usually these are the factors to be considered in the investment planning decision (Shim and Siegel, 1989:256).

Investment is all about making multiplying and making money to earn money by investing in available alternatives rationally. If anybody just invest in market without a proper knowledge it will be as foolish as going to unknown places. “Investors without first learning all you can about an opportunity is like running through an unfamiliar room with your closed” Says Diana Ahman, Wyoming's secretary of states, you are going to hurt yourself people do not have to see the securities as only an alternative ways to invest their money in. “More than anything else, no one has anything to hand (g) their hats on". What reason do they have to buy stocks?"

As investment in securities done with longer planned procedure and with short planned or with the situational attitudes the actions of the investor can be divided in to two types.

- Investors
- Speculator

Investors

Investor is one which has written long term planning for investment. His/her period of investment or holding security will be minimized of one year. This type of player generally uses his/her own funds.

Speculator

While speculator does not have plans and investment in short period. He/she just take an advantage of the move of stock market. This type of players usually uses borrowed funds of capital market which can be very substantial to his/her personal resource.

Investment Consideration to Potential Investors in the Primary Security Market

Investors should be able to manage their investment from beginning of planning for investment till the security is liquidated. While buying in initial market or primary market the investor should be aware of different aspect of the securities issued.

Rules and Regulation alone would not be able to protect the interest of investment. Investors should be able to analyze and evaluate the different aspects of the company before taking their investment decisions. Investors should select those company's shares, which are regarded as well operating and good future prospect, protective provision of in debenture, reliable management, beneficial sector or high growth before they finally invest.

The investors who invest in stock, they must compare price and the value of share in the market and should select shares which have lower market price in comparison to its intrinsic value. The investors who invest in bond and debenture should find out the provision of repayment of principle in case of default.

The investors are to be informed about the following before making investment in the Initial Public Offerings (IPO) (SEBON, 2058:11).

- The investors should take necessary information about companies such as, promoters, size of company, growth of company, company's environment, Board of Directors (BOD), and the past and forecasted statement (Performa Balance Sheet) etc from the prospects, Articles, memorandum of the concerned company, and company's promoters.
- The investors should make a Public Announcement made by the company in national daily newspaper before 7 to 15 days the opening of the issue of shares.

Investment Consideration to the Potential Investors in the Secondary Market

- Investor should keep the information of the companies return to the shareholders in the form of cash dividend, stock dividend, Bonus share etc. They should keep timely information about companies Earning per share (EPS), Book price of share (BPS), Price earning ratio (P\E ratio), future plan and growth expectancy of the company, Quarterly and half yearly performance report, Profit and Loss account, Balance sheet and annual reports etc.
- Investors should follow and read the act and regulation concerning to the shareholders right.
- Investors should learn at analyze information (price sensitive and other information) notified to the investors in the notice board of SEBON and NEPSE about the listed companies.
- To study the articles related to the trading to the trading of shares and economics matters published in the different newspaper and magazines and the annual reports and other information published by SEBON.
- To study the trading statements and financial analysis of the listed companies published by NEPSE.
- The investors should update. Knowledge of different sources, which provides information about stock and securities market, like websites of SEBON (www.sebon.gov.np) and NEPSE (www.nepalstock.com).

The investor's first step in establishing a satisfactory relationship with the broker is to choose a firm that is suitable for his needs and to select representive of firm with whom he can work. In practice it is hard it separate the two choices, for if one has chosen a satisfactory firm but is unhappy with the representive, it is embracing to shift one's account to another representive with in the some firm. The brokerage firm should be a well- known and long established institution. In selecting a firm an investor can ask for recommendations from his bank or form friends whose opinions he trusts. The representative should be able to furnish the investor at all times, on reasonable notice, information on any specific company's securities (Fisher and Jordon, 1992:17).

The reprehensive should not be the type who is always trying to sell the investor something, on the other hand, he should be aware of the securities held by the investor and should inform him of any news that is relevant to these holding. Basically, the function of the representive is to given service and information to the investor so that the latter can make investment decisions and for a mutually satisfactory business relationship between his own investing philosophies and goals quite clear so that he representive will be able to offer the type of service desired.

Most investors have access to investment information in the form of oral and written form their brokers. Brokers are most active trading agents of capital market. Stockbrokers are backbone of stock market growth and its smooth function.

The intrinsic value so arrived at is then compared with the security's current market price. If every investor must be able to calculate the intrinsic value of security and if market price available below the intrinsic value, the purchase should be made. Conversely, a sell is recommended in opposite situation.

2.1.13 Need of Securities Market to the Less Developed Countries

In the view of many economist capital is regarded not only central position to the process of economic development but also as strategic. According to Dr. R. S. Mahat "Capital which is itself the product of the human labour with the collaboration of the nature in the past is one of the ingredients in the process of production. It is required to start and run any productive operations. It is more so industry where the capital intensity is normally higher than in agriculture."

We know that the capital information is playing a key role for economic development. But capital information capacities of Nepalese are very poor. On the other hand, they expenses collected savings on the unproductive channels such as real estate, precious metals, inventories, foreign exchange etc. in place of financial assets. The individuals who hold such assets are not necessarily those who are willing or capable to hold productive assets because ownership of productive fixes assets entail entrepreneurial and managerial function as well. Therefore, they will not use it for productive purposes. In this case, the security market helps to the unproductive issues to the productive one.

Economic development demands transformation of savings or invertible resources into actual investment. People who initiate actual investment are not necessarily those who have funds for the purpose. The process of industrial development starts in modern lines self- financing becomes insufficient to support it. Private means of finance becomes not only limited but also even uneconomic therefore, it becomes necessary funds. There are other people generally households who have surplus funds but do not have the desire and or capability to utilize them for investment activity. The market, which performs this function, is the capital market Laving ton an authority of British Capital Market opines that its function to enable control over resources to pass into the hands of those who can employ them most effectively thereby increasing productive capacity.

In underdeveloped countries generally comes across a situation where entrepreneurs do not find resources or productive investment while savers invest their money in real assets or relatively low social productivity. The financial institutions remedy such a situation by soliciting the resources from savers by offering them a variety of financial securities differentiated in maturity yield provide them to the most efficient users. Thus a more efficient allocation of invertible funds results.

In this way to the conclusion we say that the need of securities market is still greater in an underdeveloped country like Nepal where a host of traditional social and psychological between surplus units and deficit units (Loughran, Ritter and Rydqvist, 1994: 115).

2.1.14 Benefits of the securities Market

The benefits of the securities markets are as follows:-

1) Promote Efficient Financial System

Securities markets break the oligopoly that would be enjoyed by the banks in the absence of securities markets. The governments do not automatically have privileged and subsidized access to funds and must complete on equal terms. Securities markets provide impetus for the established of financial prices based on scarcity values rather than on administrative fiat. Such market determined financial prices and investment options, in circle of innovation and mobilization that contributes to the overall efficiency of the financial system.

2) Allow Deconcentration of Ownership

Equity sales provide for a wider participation in enterprise management and for a wider distribution of corporate profits these factors would help allay the fear that a few individuals or groups linked to the ruling party would dominate the private sectors. Wider distribution of corporate profits develops a general sense of ownership and an assumption of responsibility on the part of the citizen. People how will be united by their common defines of their business interests and ethnic and religious differences would gradually dissipate.

3) Helps Privatizations Efforts

Public investments vastly exceed private investment in transitional economics. Economists widely believe that privatization of state enterprises will reduce losses and create efficiency. However, transitional economies generally lack the financial infrastructure and the legal framework to engender privatization efforts. One of the most notable problems associated with privatization of state enterprises is the lack of well developed domestic equity markets. An inadequate supply of capital due to low savings, low gross national product and limited access to international capital markets has been an impediment. One of the main challenges for transitional economies is, therefore, to improve the quality of financial intermediaries and resources allocation to contribute to a more rapid rate of economic growth that would lead to higher levels of savings and investments.

4) Help Term Transformation and Improve Capital Structure

Healthy debt\equity ratios are important for a robust economic system. Corporations in many developing countries are undercapitalized. In the absence of equity markets, debt\equity ratios inevitably rise. First in growing companies, retained earnings and fresh cash injections from the controlling shareholders usually can't keep pace with the needs for more capital, thus slowing growth. Second, outside investors require liquidity and some sense of security that can be provided only by an organized market place. When active secondary markets for securities exit, savers can be induced to provide the long term funding that corporations seek because savers and assures that the markets can provide them with liquidity.

5) Improving Accounting and Auditing Standards

Securities purchases rely in part on corporate information provided in financial reports to make their investment decision. The development of securities markets in usually accompanied by increased reporting standards and requirements, which contribute to the efficiency of the markets and their mobilizing and allocating functions. A regular disclosure of adequate, reliable and timely information makes it possible to compare performance of various companies. The development of widely accepted accounting procedures, checked by independent external auditors is also an important benefit derived from the development of securities markets. Availability of good information helps corporations make better decision and provides better statistics for economic policy makers. Good information may even help tax authorities collect taxes in a more efficient and equitable fashion. The need for disclosure of financial information is strong incentive for the improvement of accounting and auditing standards (Datar and Mao, 1998: 123-124).

2.1.15 Regulation of Securities Market

Securities market in Nepal, till the recent past, has all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulation. However, after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

A details legislative code has been adopted by the government to protect the investors' interests. The Securities Exchange Regulation, 1993, provides for those reforms in stock exchange trading methods and practices. The regulation has added further functions, powers and duties of the securities Board, Nepal (SEBON). The regulation has authorized the SEBON for internal housekeeping mater, made provision regarding licensing Stock Exchange and their subsequent operation, specified requirements for the registration and listing of securities along with authority for the registration of the market intermediaries such as brokers, market makers, dealers and issue manager. The regulation, different provision regarding allowances and benefits as well as duties, powers and functions of chairman of SEBON funding, accounting and auditing are also specified by the regulation. The company Act, 2007, marks an important stage in the development or corporate enterprises in Nepal. The provisions made under this act especially relevant to the securities market are provisions regarding the issuance and publication of the prospectus, which is necessary for public issue of securities. As per this provision, the details of the content of prospectus are prescribed and the prospectus is to be approved by the Companies Registrar's Office (CRO). Under this act, different provisions have been made for the establishment of a company (either public or private) and its liquidation, conduction of Annual General Meeting (AGM), incorporation of Memorandum and Articles of Association, issue of shares and debentures, preparation of annual accounts and their audit and the annual report.

Securities Exchange Act, 1983 (Second Amended) provides reforms in securities marked regulating practices. It can be taken as the very important legislation of the securities market. The act has been formulated to systematic and regularizes the stock exchange in order to maintain the economic interest of the people. It also contributes to the development of the country, to protect the interest of the investors and to increase the participation in the industrial sector. For this purpose, this act provides legal framework for the securities regulatory system by establishing SEBON as an apex regulatory body. As per this act, SEBON provides license for the operation of stock Exchange, registers securities and grants approval, supervises and monitors stock Exchange and market intermediaries. This act also enables SEBON to issue directives and make by – law and guidelines and also allow the Stock exchange to frame by – laws.

In order to manage sales and promotion of Securities and make the sales and issue manager accountable for their services, SEBON has issued the Securities Management Guidelines, 1998. This guideline has need made as per the provision of section 35 if the Securities Exchange Act, 1998 (Second Amendment). The guideline further specified various provisions regarding disclosure, application for registration of Securities, agreement between issue Manager and issuing companies, execution procedures of the sales management and code of conduct to be specified etc. Similarly, share Allotment Guidelines, 1994, issued by SEBON make the share allotment procedures fair the transparent. The directives were intended to create broader ownership according to the mass participation policy.

Thus, from the foregoing brief discussion, it is clear the securities Exchange Act, 1983 (Second Amendment) and securities Exchange Regulation, 1993 set up a general framework for regulating securities market, which has facilitated and encouraged the development of securities market in Nepal (Datar and Mao, 1998: 123-124).

2.1.16 Costs and Environmental Requirements of the Securities Market Development

The costs and environmental requirements of the securities market development are as follows:-

1) Interest Rate Fluctuations

The fluctuations in interest rates, which occur in a financially competitive environment, make planning more difficult for both borrowers and savers. The additional efforts required for information gathering and decision making in such environments, together with the need for borrowers and savers to adjust their positions more frequently overtime, constitute costs brought about by a liberalized financial system.

2) Market Cycles

During the early stages of securities markets developed the supply of stocks and bonds is limited, manipulated is relatively easy, investors are unsophisticated is underwriters and brokers are in experiences and securities legislation often has loopholes. As a result, economic cycles are most difficult to predict. Thus, the job of a financial analyst would be very difficult during the early years of development.

3) Income Inequalities

While securities markets provide wider investment choices for savers and also serve to spread ownership in companies, it is likely that in the initial stages of securities market development, the benefits of securities ownership will accrue to a limited group of investors. According to Wai and Patrick (1973), until a wide range of firms (in terms of size) and savings units (in terms of distribution of income and wealth) participate in the securities markets directly or indirectly (through mutual funds, pension funds, insurance companies, etc.) the development of the capital market particularly the market for equities, is likely to increase the inequality of income and wealth distribution. A vigorous program of wealth distribution through higher progressive income taxation is one counter – measure, although it is fraught with its own problems.

4) Intermediation and Regulation

The institutions and individuals that constitute the securities markets fall into the following categories.

- Participants who are the savers and users of capital (individuals, corporations and governments).
- The financial institutions and intermediaries that channel capital form savers to users.
- Supporting and supervisory entitles which are typically government bodies that facilitate and regulate the activities of the participants.

The markets it has two levels:

- The primary market where newly issued securities of newly created or existing enterprises trade.
- The secondary market where trading in outstanding shares is alone.

The specialized services of financial intermediaries in securities markets are costly, yet indispensable. The strategic position that financial intermediaries hold in the market system in terms of access to information and control over transactions can lead to profiteering behaviour that decreases the benefits accruing from the mobilizing and allocating functions of the securities markets system as a whole. The reporting requirements also represent costs to participants firms. In addition, firms have incentives to falsify such reports, which results in distorted investment decisions on the part of securities purchasers that may lead to the organization and function of regulatory agencies as securities commissions, stock exchanges and administrative organs represent monitoring costs associated with the control of securities abuses.

2.1.17 Role and Significance of Securities Markets in the Economy

Securities Market is recognized as an effective way of raising capital for raising capital for commercial enterprises and at the same time providing an investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities market are extremely important for the efficient allocation of capital within economies. The securities markets are requisite for the sound development of an economy because it not only provides stable long term capital for companies and an effective savings vehicle for the public. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. In other words, well-developed capital markets enable high quality firms to increasing finance themselves from securities rather than from bank loans.

Securities markets play a crucial role in the economy by channelling investment where it is needed and by putting it to best use (Liberman and Fergussion, 1998). The securities markets help to channel public savings to industrial and business enterprises. Securities Markets agents manage liquidity and productivity risk by eliminating premature capital liquidation, which increases corporate sector productivity. Securities Markets also accelerate growth indirectly by reducing liquidity risk which encourages firm investment. More liquid markets reduce the disincentives to investing in long duration projects because investors can easily sell their stake in the project if they need their savings before the project matures. Enhanced higher return projects that boost productivity growth.

Securities Markets help investors it copes with liquidity stock to sell their stake to other investors. The result is that capital is not prematurely removed from firms to satisfy short term liquidity needs. More, securities markets play a key role effect on the economy in aggregate. The development of the securities market is a necessary factor for modern day economy. There should be no doubt regarding the significance of securities market as it is clear that countries having developed securities market mechanism are developed and countries with poor securities mechanism are undeveloped (Dhungel,2001,April\May). Securities markets must function well for the sustainable economic development. If the investment is required for new technology for the projects with long – gestation period, premature liquidation of the capital is always inevitable without the existence of liquid and well functioning securities markets. Securities market forms dynamic functioning of the economy and in promoting industrial and economic development of a country (Lui and Wende, 2001: 45).

Securities market plays a crucial role in mobilizing a constant flow of saving and channelling these financial resources for expanding productive capacity in the countries. Thus, securities markets assume a greater role and significance in the present day economies.

2.1.18 Government Securities

Government issues securities to finance their activities. Revenues collects by the government seldom cover expenses and the differences have been financed primarily by issuing debt instruments. New instruments are issued to repay the old debt. Various types of securities are issued to raise necessary fund, some securities have short term, where as other are long term. Treasury bills, Development bond, National saving bonds, Citizens saving certificate and Special bond are some examples of government debt instruments. Various types of government securities are:-

A. Treasury Bill

Treasury bills, often referred to as T- bills, are securities with a maturity of one year or less, issued by national governments. T-bills are issued on a discount basis and government pays the face value at maturity. T-bills are issued in discount; however, the difference is treated as interest income for tax purpose. All bills are sold by auction and bids may enter on either a competitive or non competitive basis. The total fund to be raised may be spitted into two parts: competitive and non competitive. Under competitive bid investors must bid the price they are willing to pay by undoing the bank discount computation and under non competitive bids, the average price in the accepted competitive bids will be charged.

Similarly, Treasury notes, treasury bonds, saving bonds, zero coupon bond etc. also government securities. Treasury notes are issued with maturities from one to ten years in US and generally make coupon payments semi-annually. Treasury bonds have maturities greater than ten years at the time of issuance savings bonds are non marketable and offered only to individual and selected organization.

B. Development Bond

It is a long term government bond. It has normally five years maturity period. Individual and institutions can purchase it. It can be used as collateral when taking loans. The holder normally begins 90% amount of total value if he keeps them on collateral. It has also fixed minimum interest percentage. The interest amount will be paid in semi-annual basis. The income from these bonds is taxable. The developments bonds are also major sources of government funds. Nepal Rastra Bank, the central bank of Nepal has been issued these bonds in the market on behalf of the government.

C. National Saving Bonds

It is a long term government bond normally matures in five years period. It has fixed interest rate and can be transferred from one person to another. It has also semi-annual interest payment. It can be purchased as promissory note. The bond holder gets the principal after a certain maturity period. These bonds are normally tax free bonds and have higher interest rate. The national savings bonds have large trading in the market.

D. Citizen Saving Certificate

Citizen Saving Certificate is also long term government security. It has normally five years maturity period. It is issued for only generally public in open market. The citizen saving certificate has fixed interest rate. The interest amount is paid on semi-annual basis. Individual and institutional buyers can purchase it. It is also taxable government bond. Development bond and National Savings can be used as collateral if holder needs funds immediately but citizen saving certificate can’t be used as collateral.

E. Special Bond

Special bond is a security issued by the government in order to acquire fund necessary for financing special project carried on by the government in special condition. Such types of bond are not issued for general public so, it is not required to provide information regarding the issue of special bond.

2.2 Reviews of Journal and Articles

2.2.1 Reviews of Articles in International Perspective

An article by Kent Daniel, David Hirshlaifer and Avanidhar Surahamanyam (1901),*"Investor Psychology and Market Under and Overreactions"* concluded that securities market and overreactions based on two well-known psychological biases, investor over confidence about the precision on private information and biased self attribution, which causes asymmetric shifts in investor's confidence as a function of their investment outcomes. According to them overconfidence implies negative long-term auto-correlation, excess volatility and when managerial actions are correlated with stock miss-pricing, public event based return predictability. Biased self attribution add positive short lag auto-correlation "momentum", short run earning "drift" but negative correlation between future returns and long term past stock market and accounting performance.

The article written by Brad Barber, Reuven lehavy, Maoreen McNichols, and Brett and Trueman (2001*),"Can Investors Profit the Prophets?"* assess that examines whether investors can profits from the publicity available recommendations of security analysis. Academic theory and Wall Street practice are clearly at odds regarding this issue. On the other hand, the semi – strong form of market efficiency posits that investors should not be able to trade profitable on the basis of publicity available information such as analyst recommendation. On the other hand, research departments of brokerage houses spend large sums of money on security analysis, presumably because these firms and their clients believe its use can generate superior returns.

The article written by Phelim Boyle and Tan Wang (2001*),"Pricing of New Securities in an incomplete Market"* assess that there are two distinctly different approaches to the valuation of a new security in an incomplete market. The first approaches taken the prices of the existing securities as fixes and uses no-arbitrage arguments to derive the set of equivalent martingale measures that are consistent with the initial prices of the traded securities. The price of new security is then obtained by appealing to certain criteria or on the basis of some preference assumption. The second method prices the new security within a general equilibrium framework. It claries the distinction between the two approaches and provides a simple proof that the introduction of the existing securities. They are left with the paradox that a genuinely new derivative security is not redundant but the dominant pricing paradigm derivative security pricing is the no-arbitrage approach, which requires the redundancy of the security.

The article written by Asrat Tessema (2003)," *Prospects and Challenges for Developing Securities Markets in Ethiopia"* assess that an analytical review of the prospects and challenges of developing countries markets in Ethiopia. With the full of communism and emergence of capitalism, many countries around the world are moving toward market – oriented economies and securities markets are spring up on all continents around the globe securities markets have come to symbolize to many the essence of capitalistic economic relations. When studying the economies of developing countries, the first thing that becomes apparent in the existence of immense and, to a considerable extent, unemployment human resources as well as an acute development. Recognizing the role that securities markets play in mobilizing capital more than a dozen African countries have established stock markets. Ethiopia is not one of them. There is little current research which focuses on Africa's securities markets. This study helps to contribute to that effort by focusing on Ethiopia the second largest country in sub – Saharan Africa plagued with major economic problems. It concludes by recommending the establishment of a stock market and providing suggestions on how to do it.

The article written by Peter Montagnon (2004)," *The Governance Challenge for Investors"* assess that it examines how and why corporate governance has come to be of particular interest to investors, locating, the discussion in an international context, yet focusing also on the issues raised for the UK, particularly in the light of the Higgs report. It argues that observation and monitoring of corporate governance, with a concern to see well – governed companies, could proud a wise strategy for investors.

The article written by Megumi Suto and Masashi Toshino (2005),"*Behavioral Biases of Japanese Institutional Investors"* assess that it examines the behavior biases of Japanese institutional investors and discusses implication for their role in corporate governance, based on the findings of a questionnaire survey of a fund managers carried out in 2003.Statistical analysis of the survey result reveals a short term bias in fund manager's investment time horizons, herding and self- marketing to improve the appearance of portfolio performance under the procedure either of customers or of institutional restraints. The writer concludes that institutional investors' behavior contradicts their role as shareholders.

The article written by MU Haw, Kyung Joo Park, Daging Qi, Woody Wu (2006)," *Securities Regulation, the Timing of Annual Report Release, and the markets Implications"* assess that using a sample of earnings announcements of Chinese firms in the fiscal years 1994-1999, covering the periods before and after the annual reports, they reassess the relation between earnings news and the timing of earnings announcements. They find that even though the reporting lag and the timing of have significantly shortened as a result of the regulation, the pattern whereby good news is announcements earlier than bad news persists. Then they examine the behavior of stock prices before earnings announcements and find some indication of information leakage. These findings suggest that the regulation has the expected effect of reducing reporting delay and earnings release clustering. Yet, it did not appear to reduce the extent of the preannouncement leakage of information.

2.2.2 Reviews of Articles in Nepalese Perspective

Lack of adequate and effective trading mechanism with Nepal Stock Exchange, the only secondary market in the country for securities transaction, is virtually, blocking an early issuance of newer financial instruments into the capital market. Even official at the securities board, the regulatory authority governing the stock market operations in the country conceded that lack of proper set up has prevented new entrants into the financial markets and marked the development of capital markets (The Kathmandu Post, May13, 2003).

An article by Rabindra Bhattrai (2003*),"Debenture are Welcome"* discusses the future prosperity of debentures. Bhattrai recognized that debentures have good future market potentiality, though its market size is small in the present context. Followings are the significant results of his article.

- The bond market in Nepal is very lean. Very few companies have issued bond in the market.
- Bottler's Nepal limited made the first issuance of corporate bond issue. When it issued 18% rate coupon rate of corporate bonds is as five as five years.
- Though the government bonds are not available in the stock exchange floor, corporate bonds are being made available. The issuance of the 8.5% Himilayan Bank Limited 2009 bond and it's listing in the secondary market with separate trading system became a milestone in his regard.
- Corporate bond issued by the bank is highly oversubscribed where as bond issued by the manufacturing is heavily under-subscribed.
- Overall debentures have good future prospects.

The article written by Nabaraj Adhikari (2004)*,"Securities Market in Nepal"* assess that there is no clear provisions regarding the entry and process of securities business persons in the Securities Markets. As mentioned by him, the Membership of Stock Exchange and Transaction by laws, 1998 states that companies interested to operate as securities business persons can apply for membership only when NEPSE publishes a notice for the same. Whereas, the Securities Exchange Act, 1983 states the Stock Exchange can only grant membership to those companies registered as securities business persons in SEBO. He further addressed that full fledge brokerage firm are yet to be developed in the markets.

In concluding remarks Adhikari said that there are some of major issues of Nepalese securities markets that need to be addressed to make it an important alternative for capital mobilization. The article written by Nabaraj Adhikari (2005)," Securities Market Development in Nepal" assesses that the Nepalese securities market is in an underdeveloped stage. Weak regulation, insufficient market infrastructures, poor corporate governance, inefficient trading system, low instrument diversification, low involvement of institutional investors are the major issues of Nepalese Securities

Markets. These issues should duly be addressed to develop the markets as an important venue for funds mobilization in Nepal.

The article written by Rabindra Bhattarai (2006),*"Shining Days Ahead"* assesses that stock market showed a good shine with the change in political scenario in the country. A bearish market since the early march turned bullish increasing the NEPSE index by 6.66 points in April 25, the days after the King's announcement of reinstating the House of Representatives. Now this political change is likely to bring a boom in the stock market similar to that seem during early February 2005. The market increase by so much on a single day despite the 19 days political tension in the investor about the country's economy with the development of sound political environment.

However this is not only a case of the changing confidence of the investor with the change in the political environment. The current increase in the market is influenced by other fundamental factors as well. The third quarter financial reports of the bank and finance companies to be published in the near are expected to show better performance of banks, the major companies in the stock exchange. The banks had reported improved performance also in the previous quarter.

2.3 Review of Previous Thesis

There are many dissertations written by various researchers in past years. Among them some dissertations are reviewed here for analysis of literature.

Pokharel (2001), had studied entitled *"Legal Provisions to the Protection of Investors Under the Nepalese Law and Analytical and Critical Study"*.

The objectives of his study are:

- Identifying the investor and focus on the find out title legal lacunas and weakness of execution bodies in regards to investor's protection and legal provision are sufficient to the investors.

The major findings are:-

- In his study, Investment and investing process both are separate but interrelated due to the present modern era of investing patterns. Investor's protection belongs to the various rights of invests as like to make an action against the insider trader proud defaulter and malpractice over the investors. Nepalese investors are not governed under the corporate norms and values due to lack of proper knowledge of their rights. They can be victimized but they do not complain at concerned authority. Rules and regulations alone would not be able to protect the interest of investors.

Finally, we found that Nepal legal provisions are not sufficient to protect the interest of investors and other hand; there is existing the genuine legal lacunas and loopholes. Besides these, existing legal provisions are not properly exercised due to weak implementing mechanism; contradiction on Jurisdiction and lack of awakes of investors about their rights and obligations themselves. So the legal provision for protection of the investors and its practical impact is in weak condition in Nepal.

Joshi (2002), has studied on topic of the *"Investors' Problems in Choice of Optimum, Portfolio of in Nepal Stock Exchange"*.

His objectives were:

- Analyzing the trend of NEPSE,
- Analyzing the problems and finding out some resolution for the problems, sub-testing the measures for the improvement of the stock market as well as for better meet of investors and trying to find out the best portfolio of NEPSE to invest.

The major findings are:-

- The conclusion of his study is that the investor does not know in which stock to invest not to portfolio constructed. He also stated that "even many stocks – holder does not give the information to the investors. Investors are purchasing and selling their stocks mostly on the pressure of broker. Due to lack of sufficient information the decision or purchase and sell of stock are difficult. It needs special knowledge as well adequate skills small change in proportion of investment may change the risk and return in very large scale. So it is difficult tasks".

Pokharel (2003), has conducted the thesis *"A Study of Securities Market in Nepal"*.

The main objectives of this study are:

- To examine and analysis the trend as well as the risk and return of different sectors listed in securities market.
- Study pointed about the risk and returns trend of the different sectors i.e. Banking, Finance, Insurance and Manufacturing and service organizations.

The major findings are:-

- According to her "Among all sectors listed in the securities market, banking sectors has the highest expected return (50-33%) followed by the finance sector with (47-36%). The sectors having lowest expected return are the one categorized as others with just 10.3% and the trading sector with 10.65%.

Pokhrel has used the different tools and techniques to analyze and interpret the data to meet the concrete report about securities market but she has not centralized her study on specific subjects matter.

Joshi (2004), has studied entitled *'Role of NEPSE'* in the securities market.

The objectives of the study are as follows:-

- Introduction of security market, composition of primary and secondary market and its performance behaviour.
- To prescribe ways and means by which secondary market would be more effective and meaningful.
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To assess the past and present behaviour of business operations in NEPSE market. Study on legal provisions relating to protection of investor interest.

The major findings are:-

- Public response is high due to lack of investing opportunity in other field.
- The dynamism of the stock market has been greatly reduced by the domination of the long term shareholder's.
- The secondary market, which presented as institutional mechanism that was

inadequate, non transparent, hardly regulated and rarely geared to investors protection, has also witnessed no table development.

- The performance of banking group is highly attractive and liquid.
- The stock price should indicate the direction in which community's saving should be invested. Price system established on share exchange provides guidance to investors and helps them in directly the flow of fund in to firms having prosperous and bright future.

Upadhaya (2005), has studied on topic of thesis *"Investor's Preferences and Financial Instruments in Nepal"* was mainly centred with the investors' preferences and the financial instruments in Nepal.

The objectives of his study are as follows:-

- To study the preferences of the investors in the financial instruments.
- To assess investors' awareness regarding the investment decision in selecting securities and to analysis the investment trend in the security market of Nepal.
- The study was mainly based on the primary analysis. The research was conducted by pooling the views of the different groups by applying survey method.

His majors finding in the study are:-

- The majority of the Nepalese investors preferred the equity share for investment. They preferred government securities after common stocks.
- The debenture and preferred stocks are least preferred, among the various sectors, investors preferred the banking sector for investment.
- The trend of investment is highly in the common stock.
- The equity share including rights shares covers about 90% of issued approval made and majority of investors is unaware regarding their investment alternatives.

Bajracharya (2006), had studied entitled *"Individual Investor's Preference and Financial Instruments in Nepal."*

The objectives are as follows:

- To understand investment procedure and behaviour of individual investors for their investments.
- To justify how individual investors select specific type of instruments to invest their savings.
- To identify the element of investment that is considered important by individual investors in a preferential scale.
- To identify whether personal factors like age, sex, education and occupation of investors play significant role in their investment behaviour.

His majors finding in the study are:-

Bajracharya has concluded that majority of people takes preference share as the median alternatives for their investment preference.

- They give moderate preference to preference share.
- The individual investors gives high preference to investments like real estate, common stocks, fixed deposit, bank and debenture while they gives less preferences to personal money lending, mutual funds, precious metals and collectibles.

Maharjan (2007), had studied entitled, *"Investors' Awareness in the Securities Market in Nepal"* .

The objectives are as follows:

- Investors are adequately aware or not in the stock trading,
- Investors are examining investment decision in Stock market and to analyze the investment trend in the stock market of Nepal.
- The study was mainly based on the primary and secondary analysis.

His majors finding in the study are:

- Norm's regulatory submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investor protection.
- For those investors having little knowledge, broker's role becomes one of the sources of information for their investment.

- They are not well aware of the fact that investing in shares involves risk.
- They have little knowledge of the trading procedures and price information mechanism in NEPSE.

At that time, there is a general lack of investor awareness about listed companies, the operation and potential role of securities market, techniques of financial analysis and risks and rewards of holding securities.

Chaudhary (2008), has studied entitled, *"Investors' Awareness in Nepalese Stock Market"*

The objectives are as follows:

- To explore the stock transaction system in Nepalese stock market at present,
- To examine whether the investors are fully aware or not in the share trading system, To analyze and evaluate the risk and return of common stock of selected companies and to give suggestion and recommendation to the concern person and office.

His majors finding in the study are:

- Most of the investors are not satisfied with the management attitudes towards them and thus it is concluded that the current attitudes towards public share holders is not appropriate. They are not agreeing with the current performance of stock market and thus stock market performance is not adequate as it would be.
- Most of the investors prefer to invest in the banking sector. They do not like to invest in other sector because of their lack of sufficient knowledge.
- Most of the investors are buying shares of banking sectors only and making portfolios from the same sector. Since both the quality of information available to the investors and their rationality is low, they have very little knowledge of trading procedures, price formation mechanism and risk diversification. The lack of investor’s education training and research has made capital market least prioritized sector of the state.
- Most of the investors in Nepalese capital market do not believe on statement published on prospectus by the company before going to public. Despite this fact they put their application for higher price in future.

Pokrel (2009), *"Investors Performance in Choice of Financial Instrument in Nepal"* was mainly concerned to analyze the financial instruments used in Nepal and find out the investor's performance.

The objectives are as follows:

- To explore widely used financial instrument of Nepal.
- To examine the primary issue in Nepalese financial market.
- To analyze the performance of different investors of Nepal and do know what types of instrument the investors prefer the most.

The major findings are:-

- The history of Nepalese Capital market shows the only three types of securities are issued at various periods.
- Nepalese securities market is completely dominated by common stock investors do not have more choice of investment securities so they are complete to invest on money on limited investment opportunities.
- Commercial bank , Financial Companies and Insurance sectors were found to be the most preferred sectors.
- All types of investors like hotel & trading are lest preference sectors

Poudel (2010), had studied entitled, *"Investors response to Initial public offering (IPO) of financial and non financial sectors in Nepal."* This study focus on the public response to the initial public offering or primary market issue of shame issued in both the financial and non financial sectors in the prospective of Nepal.

The main objectives are as follows:

- To assess the growth of IPO, To analyze the problem of public response to IPO as a whole,
- To analyze the investors response towards IPO of financial and non financial sectors, To Evaluate the performance of the investment Banker (Issue Manager) in the process of IPO.

His majors finding in the study are:

- The study is mainly base on Capital Market in Nepal. Most of the investors primary market is involved from Kathmandu valley due to the only one stock

Exchange have located in and do not have sufficient information regarding the investment but they are still interested to invest money in the primary market, so the most of the securities are over subscription.

- This is good sign to the expansion of the primary market. Due to this most of the companies are issued only common stock where bond, preference and convertible share are rarely practices but option and warrant are still not in practice.
- This shows that securities market is dominated by common stock. Almost sectors are good response from public especially financial institution and insurance sectors are more preferable for public then non financial sectors.

2.4 Research Gap

There have been several researches done before in the topics Nepalese Stock Market and Investors behaviours. All of those researches have many useful findings and their own limitations.

These researches are helpful in different areas. The findings of previous researches are equally important. The main focus of the research will be analyzed the performance, investors views, growth and downfalls of the stock market. This will help to analyze whether the stock market is in increasing trend or in decreasing trend. Similarly, it analyzes the investors view towards Nepalese stock market. By analyzing these aspects, focuses can be set on the weakness. So that in future this weakness can be turned into the strength of the stock market. This will help to make the existence of the stock market more robust. Furthermore, by being able to point out the weaknesses; more investors can be made to contribute for the growth of Stock Market.

This thesis entitled “Investors’ awareness in security market in Nepal” in 2011. The main objective of this research is to analyze whether the investors are adequately aware or not in the Securities trading system, to examine how the investors take investment decision in securities market. to analyze the investment trend in the security market of Nepal and to give suggestion and recommendation to the concern person and office at present. There are many thesis performed by many students in the similar related topics. But the thesis performed by me is different from them in the manner of objectives and research design.

To meet the objectives of the research, This study has given more priority to primary research. It is very difficult to collect data from primary sources. Most of the respondents neither give time nor provide actual data. It also takes more time and it is expensive. I have collected the views of many respondents, such as investors, staffs of banking and finance sectors, concerned officers of NEPSE and SEBON by providing them structured questionnaire. The outcomes of respondents are analyzed by using most acceptable tools and techniques and presented in quantitative manner. To fulfil the objective of the study, I have also used historical data and presented numerically using different financial tools and techniques.

At last, investors are very suffering form the securities market because of market decline day by day. Government agencies are not awareness programme in the market, there is a lack of investor awareness about listed and non listed companies, the operation and potential role of securities market, techniques of financial analysis and risks and rewards of holding securities. The lack of investor’s education training and research has made capital market least prioritized sector of the state. The rumor and whim is highly responsible in influencing the decision of the investors in share investment. Rather than analyzing to find out whether the company is worthwhile or not, they run behind the rumors and whim of the market.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter deals with the research methodology, which are used in the period of research. Research means to research the problems again and again to find out something more about the problems. Similarly, methodology refers the various steps that are generally adopted by a researcher in studying his research problems along with the logic behind it. Thus research methodology is away too systematically so that we can solve the research problem.

In this regard this chapter explains not only research methods but also considers the logics behind this method which we use in our study. This chapter deals to the research methodology adopted and implied for the resources used in achieving the predetermined objectives as stated in the earlier chapter. Thus this chapter contains research design, nature and sources of data, data collection techniques and finally statistical tools used. According to the topic," Investor's awareness in the securities market in Nepal" primary and secondary data are used to show the present trend and market responses present situation of the market.

3.1 Research Design

Well defined research design is necessary to fulfil the objective of the study. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigators will do form writing hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme of the operation of the variables.

To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate awareness of investors' in Nepalese Securities Market.

3.2 Sources of Data

In order to satisfy our objectives we need a relevant data which must be studied interpreted and analyzed for the meaningful thesis work. In this thesis, we used primary as well as secondary sources of data. Secondary data that are collected from trading report of Nepal Stock Exchange 2009/2010 and annual report of SEBON. Similarly, primary sources of data are based on interviews, queries and questionnaire. Besides this some well known information magazines, newspaper, journal and other empirical studies also have been reviewed in this study. The libraries, offices and other connected departments have been consulted for the additional information www.nepalstock.com, www.sepon.gov.np and www.nrb.org.np was the relevant website and provided us with the useful information for our study.

3.3 Population and Sample

Nepal Stock Exchange (NEPSE) has categorized the total listed companies into eight headings. All of these companies made the total market portfolio. The sampling data had been taken from 11 companies' fiscal year 2009/2010 from eight sectors among the 172 the total listed companies 16 th July 2010, whose shares were transacted in the fiscal year. The name list of sample companies selected for the study in presented in Table 3.1

Table 3.1

Samples Companies

S.No	Sectors	No. of Listed Companies	No. of Co Sample	Sample of Companies
1	Commercial Bank	23	2	Nabil Bank Ltd Bank of Kathmandu Ltd
2	Development Bank	40	2	Sanima Bikash Bank Ltd Ace Development Bank Ltd
3	Finance Companies	62	2	Om Finance Ltd Standard Finance Ltd
4	Insurance Companies	19	1	Nepal Insurance Co. Ltd
5	Hotels	4	1	Soaltee Hotel Ltd
6	Manufacturing & processing companies	18	1	Unilever Nepal Ltd
7	Trading Companies	4	1	Bishal Bazar Co. Ltd
8	Hydro power & Other	6	1	Chilime Hydropower Co. Ltd
	Total	176		

Source: Annual Report of SEBON 2009/10

3.4 Analysis and Presentation of Data

Methods of analysis are applied as simple as possible. Results are presented in tabular form and clear interpretations on it are given simultaneously. Detail calculations are presented in Appendices at the end of this study.

3.5 Tools for Analysis

To attain the above mention objectives on the basis of secondary and primary data collected from questionnaires, quires, and interviews. The statistical and financial tools are used as required by the study.

3.5.1 Financial Tools

3.5.1.1 Qualitative Analysis

Regarding the primary data, the qualitative analysis is done, rather than quantitative analysis. Qualitative analysis is restricted only up to classification and portions the views of the respondents. As qualitative analysis, the issues relating the subject matter is discussed according to the theoretical accepted standard and the support formed through the data collected from field survey to form a rationalized implementation of the issues.

3.5.1.2 Market Price of Stock

One of the major data for this study is market price of stock .Hence, the closing price is used as market price of stock, which has a specific time span of one year and the study has focused in annual basis.

3.5.1.3 Expected Return of Common Stock

This study also aims to find out the expected return on investment in common stock. Usually this rate is obtained by arithmetic mean of the past year's return. Symbolically,

$$\overline{R} = \frac{\sum R}{N}$$

Where, $\overline{R}$ = Expected return on common stock

N = No. of year

Σ = Sign of summation

3.5.1.4 Return of Common Stock Investment

Return is the income received on an investment plus any change in market price, usually expressed as a percentage of the beginning market price of the investment. The return is the total gain or loss experienced on an investment over a period of time. It is commonly measured as the change in value plus any cash distributions during the period, expressed as a percentage of the beginning of period investment value. Symbolically; Return can be expressed as follows:-

$$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$$

Where P_{t-1} = Beginning Price of stock

P_t = Ending price of stock

D_t = Dividend

3.5.1.5 Required Rate of Return

The required rate of return on an individual security is represented by a risk- free rate of interest plus a risk premium. Capital market theory shows the risk premium to be equal to the market shows the risk premium to be equal to the market premium. E [(R $_m$ -R$_f$], weighted by the index of the systematic risk, b of the individual security. The required rate of return is calculated to find out the status of the share of the company comparing it with the expected rate of return of the company. The expected rate of return is the average return of the company whereas the required rate of return is calculated as;

$$E(r_j) = R_f + [E(R_m) - R_j]\, b_j$$

3.5.1.6 Beta Coefficient

The beta coefficient is an index of systematic risk. Beta measures the systematic risk of a company's stock. It assumes that the total market risk is equal to1. Beta indicates the risk association with the market risk. If beta is positive, it indicates that the market risk and return tends to move positive with the risk and return with calculated percentage. If the beta is negative, it indicates that the market risk and return tends to move negatively with the market risk and return with calculated percentage.

Beta is a measure of risk. It captures systematic risk common to the entire economic system the market. It measures the sensitivity of a stocks return on the market portfolio. Beta is a famous statistic in finance. It is functionally related to correlation and covariance between the security and the market portfolio.

3.5.1.7 Calculation of Risk Free Rate of Return

Calculating the effective annual interest rate on Treasury Bills by Nepal Rastra Bank does the calculation of Risk free rate. Adding the five years total rate and then dividing by the number of years, which are five in this case, calculate the average risk free rate.

The effective annual interest rate is calculated as under to convert the 91days Treasury bills rate to the annual risk free rate. The risk free rate and the market risk premium (the excess of the market return over the risk free) are economic wide measure. Effective Annual Risk Free Rate of Return = $(1+\text{peridoic rate})^n - 1$

3.5.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individual or groups of observation from a single individual. The figures provide detail descriptions and tabulate as well as analysis data without subjectively but only objectively. Data have been simply presented and simple average, simple pie diagram and graphic presentation have also been depicted in the text. On the basis of historical data, using both financial and statistical tools performs detail analysis of different variables.

3.5.2.1 Percentage Analysis

The percentage analysis is done to compare the two of more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors.

3.5.2.2 Standard Deviation

Standard deviation is a measure of dispersion and may tell about the variability associated with expected cash flow in terms of degree of risk. The standard deviation is derived so that a high deviation or variance represents a large dispersion and is a high risk. On the other hand, a low standard deviation is a small dispersion and represents low risk. Standard deviation of the likely divergence of an actual return from an expected return. It is statistically measure of the variable of a distribution of return around its mean. Mathematically, it is denoted by's

$$\sigma = \sqrt{\frac{\Sigma[R_j - E(R_j)]^2}{n-1}}$$

3.5.2.3 Variance of Stock

The variance is a measure of dispersion from the average value. It is the squared deviations from the mean deviations are measured from the mean, so one degree of freedom is lost.

$$\sigma^2 = \frac{\Sigma[R_j - E(R_j)]^2}{n-1}$$

3.5.2.4 Coefficient of Variance (CV)

Coefficient of variance is a measure of relative risk that is useful in comparing the risk of assets with differing expected returns. Symbolically, c v can be expressed as;

$$CV = \frac{\sigma}{E(R_j)}$$

3.5.2.5 Covariance

Covariance is a statistical measure of relationship between two random variables. It measures how two random variables such as returns on securities j and market return are related to each other. A positive value for indicates that the securities returns tend to be move in the same direction with other. A negative value of Covariance indicates a tendency for the returns to offset one another. A relatively small or zero value for the covariance indicates that there is little or no relationship between the returns for the two securities. It is calculated as:-

$$Cov\ (R_m, R_j) = \frac{\Sigma[R_j - E(R_j)]\ [R_m - E(R_m)]}{n-1}$$

3.5.2.6 Correlation

The Greek letter 'rho' denotes the correlation coefficient between return on two securities. The correlation coefficient is defined as the covariance between the dependent and independent variables, divided by the product of their standard deviation. The correlation coefficient is relationship between market return and stock return. It also rescales the covariance to facilitate comparison with corresponding values for other pairs of random variables. It always lies between -1 and +1. A value of -1 represents perfect negative correlation and a value of +1 represent perfect positive correlation. It is calculated as:-

$$\text{Correlation} = \frac{\mathrm{Cov}\,(R_m\,.R_j\,)}{\sigma R_m\ \sigma R_j}$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter includes presentation and analysis of data. The basic objective of this chapter is to analysis and evaluates the collected data from the various sources. Analysis is based on both primary as well as secondary data. This chapter is divided into three sections. The first section includes the presentation and analysis of secondary data. The second section includes the presentation and analysis of primary data. And third section includes the major finding of the study.

4.1 Presentation and Analysis of Secondary Data

This section includes presentation and analysis of secondary data. Secondary data also helps to support the study. Under the various published data from different sources such as SEBON annual reports have been used. The main purpose of the study is to examine the trend of investor's awareness in the securities market in Nepal.

4.1.1 Price Analysis

In this section the pricing of the shares of the sample companies are analyzed and interpreted. The result derived from the calculation by using Security Market Line equations are presented in appendix and data from 2005/06 to 2009/10 have been taken.

Table 4.1

Status of the Stock of Company

S.N.	Sectors	Name of Company	Required Rate of Return	Expected Rate of Return	Status of Stock of company
1	Commercial Bank	Nabil Bank Ltd Bank of Kathmandu Ltd	22.60 21.52	24.06 30.56	Undervalued Undervalued
2	Development Bank	Sanima Bikash Bank Ltd Ace Development Bank Ltd	31.75 19.10	45.34 14.75	Undervalued Overvalued
3	Finance	Om Finance Ltd Standard Finance Ltd	17.21 33.37	6.94 58.67	Overvalued Undervalued
4	Insurance	Nepal Insurance Co. Ltd	6.85	-2.22	Overvalued
5	Hotel	Soaltee Hotel Ltd	19.91	44.95	Undervalued
6	Manufacturing & Processing Co.	Unilever Nepal Ltd	10.48	22.25	Undervalued
7	Trading	Bishal Bazar Co. Ltd	3.49	12.08	Undervalued
8	Hydropower & other	Chilime Hydropower Co. Ltd	27.31	42.27	Undervalued
	Sample Company	11			

Source: Appendix I to XI

From Table 4.1, it can be seen that among the sectors of two samples companies of Commercial Banking, Nabil Bank's expected rate of return is 24.06, which is higher than the required rate of return is 22.60, so it's MPS is underpriced. Similarly Bank of Kathmandu's expected rate of return is 30.56 in which is higher than the required rate of return is 21.52, so it's MPS is underpriced.

From above table 4.1 it is seen that among the two samples of Development bank’s, Sanima Bikash Bank's expected rate of return is 45.34 which is higher than the required rate of is 31.75, it's MPS is underpriced. Ace Development bank's expected rate of return is 14.75 which is lesser than the required rate of return is 19.10, so it's MPS is overpriced.

Similarly, from above table it is seen that among the two samples of Finance Companies, Om Finance Ltd's expected rate of return is 6.94 which is lesser than the required rate of is 17.21, so it's MPS is overpriced. Standard Finance Ltd's expected rate of return is 58.67 which is higher than the required rate of return is 33.37, so it's MPS is underpriced.

From Table 4.1, it is observed that among the sample company of Insurance sector, Nepal Insurance Company's expected rate of return is -2.22 which is lesser than the required rate of return is 6.85, so it's MPS is overpriced. In the same table, it can be seen that Sample of Hotel Sector, Soaltee Hotel Limited's expected rate of return is 44.95 which is higher than the required rate of return is 19.91, so it's MPS is underpriced.

Lastly, Table 4.1 shows the same table shows that the sample company of Manufacturing Sector, Unilever Nepal Limited's expected rate of return is 22.25 which is higher than the required rate of return is 10.48, so it's MPS is underpriced. Then, the same table shows that Sample Company of Trading Sector, Bishal Bizar Company's expected rate of return is 12.08 which is higher than the required rate of return is 3.49, so it's MPS is underpriced. And Sample Company of Hydropower Sector, Chilime hydropower Company's expected rate of return is 42.27 which is higher than the required rate of return is 21.93, so it's MPS is underpriced.

The stock valuation of the sample companies can be summarized in below Table 4.2

Table 4.2

Summary of the Status of the Market Price of the Shares of the Sample Companies

Sectors	Status of the Market Share Price of Sample Companies
Commercial Bank	2 Undervalued
Development Bank	1 Undervalued and 1 Overvalued
Finance	1 Overvalued and 1 Undervalued
Insurance	1 Overvalued
Hotel	1 Undervalued
Manufacturing & Processing Co.	1 Undervalued
Trading	1 Undervalued
Hydro power & other	1 Undervalued
Total	8 undervalued and 3 overvalued

From the 11 samples companies taken from different sectors, Commercial Bank's consists of two in which two is undervalued. Likewise each of two Development Bank and Finance Companies are one undervalued and one overvalued. Hotel, Manufacturing & processing and trading companies samples are all undervalued and insurance sectors were found overpriced. So, in total among the 11 companies taken as sample eight companies are seen to have underpriced while the shares of three companies were found overpriced. This shows that market was very inefficient in Nepal.

As per investment decision's Buy and Sell rules, investors should buy the underpriced shares so among the 11 sample companies, investors are recommended to buy eight under-priced companies stock. The securities of above mentioned companies should be bought and held in order to profit from price gains that should occur in the future. Since the three sample companies are overpriced so investors should sell overpriced stock. Above mentioned three overpriced securities should be sold if they are owned in order to avoid losses when their price falls down to the level of its value. If the securities are not owned, then it may be sold to profit from the expected price decline.

4.1.2 Annual Trend Analysis

One of the important and suitable techniques of data analysis is annual trend analysis. For this purpose NEPSE Index of 17 years were taken, i.e. from 1993/94 to 2009/10. Tabular as well as graphical measure considered for presenting and analyzing the data.

Table 4.3

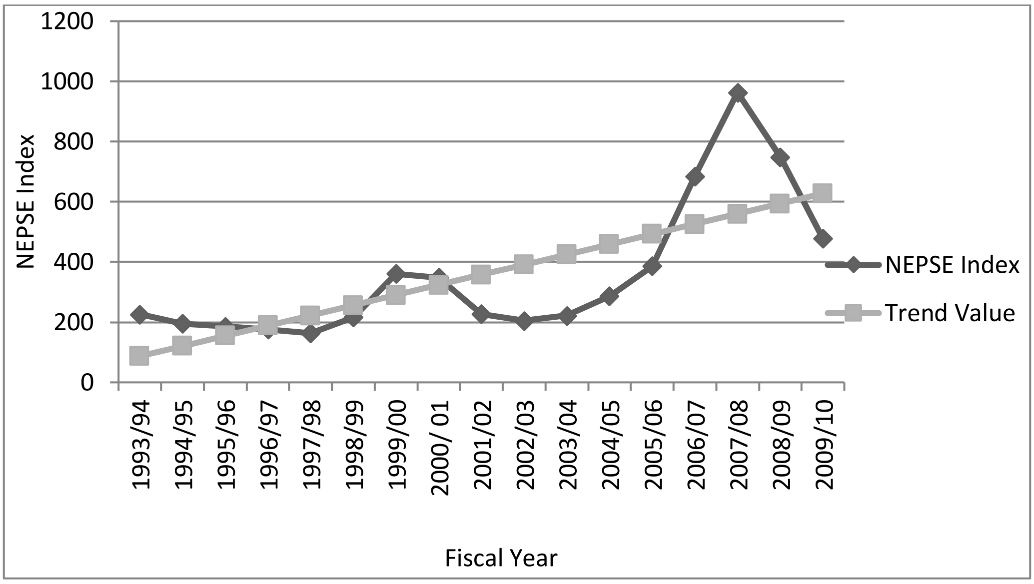
Annual Trend Analysis from Year 1993/94 to 2009/10

Fiscal Year	NEPSE Index	Trend Value
1993/94	226.03	87.27
1994/95	195.48	121.03
1995/96	185.61	154.79
1996/97	176.31	188.55
1997/98	163.35	222.31
1998/99	216.92	256.07
1999/00	360.70	289.83
2000/ 01	348.43	323.59
2001/02	227.54	357.35
2002/03	204.86	391.11
2003/04	222.04	424.87
2004/05	286.67	458.63
2005/06	386.83	492.39
2006/07	683.95	526.15
2007/08	963.36	559.91
2008/09	749.10	593.67
2009/10	477.73	627.43

Source: SEBON Annual Report 2009/10 and Appendix XII

Figure 4.1

Annual Trend Analysis



In 1993/94 NEPSE Index remained at 226.03 point. NEPSE Index started to decrease in the year 1994/95 and it continued till 1997/98 to 163.35 points. There is slight improved in NEPSE Index in the year 1999/00 and it reached to the point 360.70. Then onwards NEPSE Index is on decreasing trend and reached to 204.86 points in fiscal year 2002/03 and the data showed some improved NEPSE Index in the year 2007/08 which had risen to highest point 963.36. Finally in the year 2009/10 NEPSE Index showed decrease to 477.73. As one of major economic indicator, the decreasing trend of NEPSE Index indicates that the economic performance of the nation is not satisfactory.

4.1.3 Monthly Trend Analysis

One of the suitable techniques for analyzing price trend is monthly trend analysis. Tabular as well as graphical measures are considered for presenting and analyzing the data as follows:-

Table 4.4

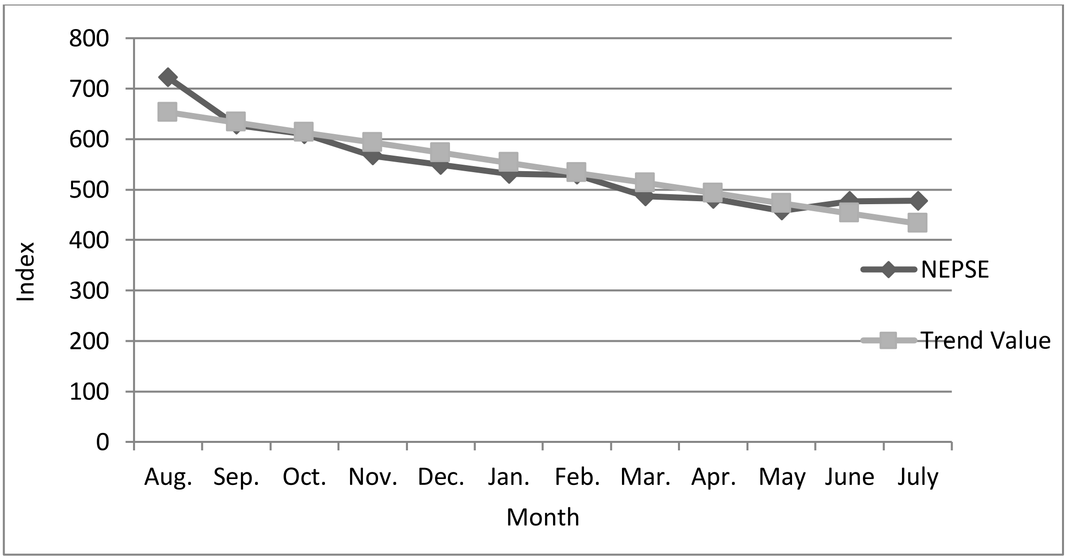
NEPSE Index of Different Months during the Year 2009/10

Month	NEPSE	Trend Value	Month	NEPSE	Trend Value
Aug.	721.95	653.13	Feb.	528.90	532.89
Sep.	628.34	633.09	Mar.	486.25	512.85
Oct.	609.55	613.05	Apr.	481.19	492.81
Nov.	566.94	593.01	May	457.81	472.77
Dec.	548.61	572.97	June	476.69	452.73
Jan.	530.96	552.93	July	477.73	432.69

Source: SEBON Annual Report 2009/10 and Appendix XIII

Figure 4.2

Monthly Trend Analysis



From the above table and figure NEPSE index trend is fluctuating way till August to June decrease then slightly increases in July and again it fluctuated in the last period of the study.

4.2 Presentation and Analysis of Primary Data

This section includes the presentation and analysis of primary data collected from different respondents. The primary data have been collected by providing the questionnaire to the different sectors of respondents such as investors, students of related field and jobholders from different sectors. The collected data have been analyzed.

1. **Frequently watching the share price**

Table 4.5

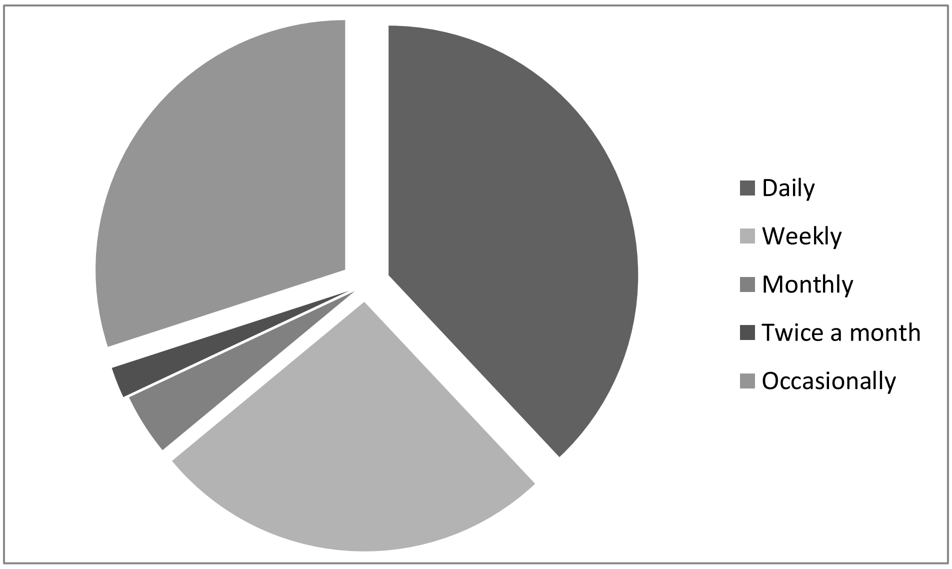
Frequently Watching the Share

Options	No. of Investors	Percentage
Daily	19	38
Weekly	13	26
Monthly	2	4
Twice a month	1	2
Occasionally	15	30
Total	50	100

Source: Survey

Figure 4.3

Frequently Watching the Share Price



In response to the question related to frequency of share price, it was found from the interview of 38% respondent among 50 was agreeing that the share price is daily. But 26%,4%, 2% and 30% respondents watched the share price weekly, monthly , twice a month and occasional respectively.

2. Trading Procedure in NEPSE

Table 4.6

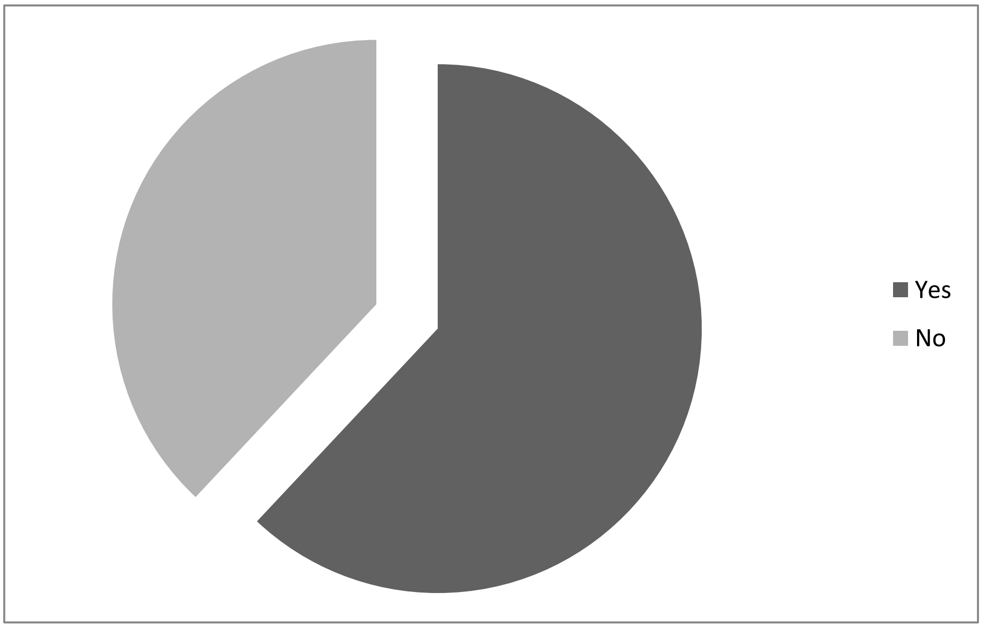
Knowledge of Investors in the Trading Procedure in NEPSE

Option	No. of Investors	Percentage
Yes	31	62
No	19	38
Total	50	100

Source: Survey

Figure 4.4

Trading Procedure in NEPSE



In response to the question related to the information whether investors know about the trading procedure in NEPSE or not. From the questionnaire it is found that 62% have the knowledge of trading procedure in NEPSE while 38% have not the knowledge of trading procedure of NEPSE.

3. Timely Information of Nepalese Securities Market

Table 4.7

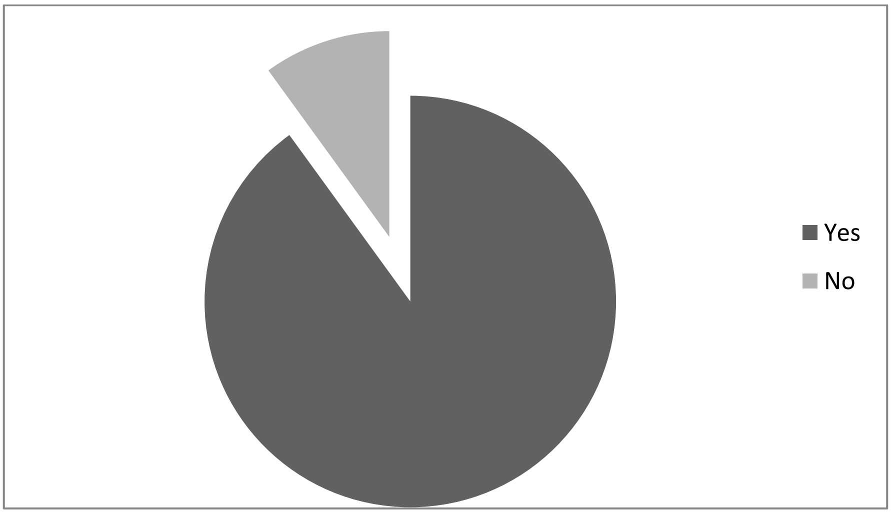
Opinions of Investor's on Timely Information about the Nepalese Securities Market

Option	No. of Investors	Percentage
Yes	45	90
No	5	10
Total	50	100

Source: Survey

Figure 4.5

Timely Information of Nepalese Securities Market



In response to the question related to timely information is valuable of the listed company or not. 90% investors think that it is necessary to get the timely information of the share to make the investment and 10% investors do not think that it is necessary to get the timely information of listed companies.

4. Role of Whim and Rumor influencing the Decision of Investors in Share Investment

Table 4.8

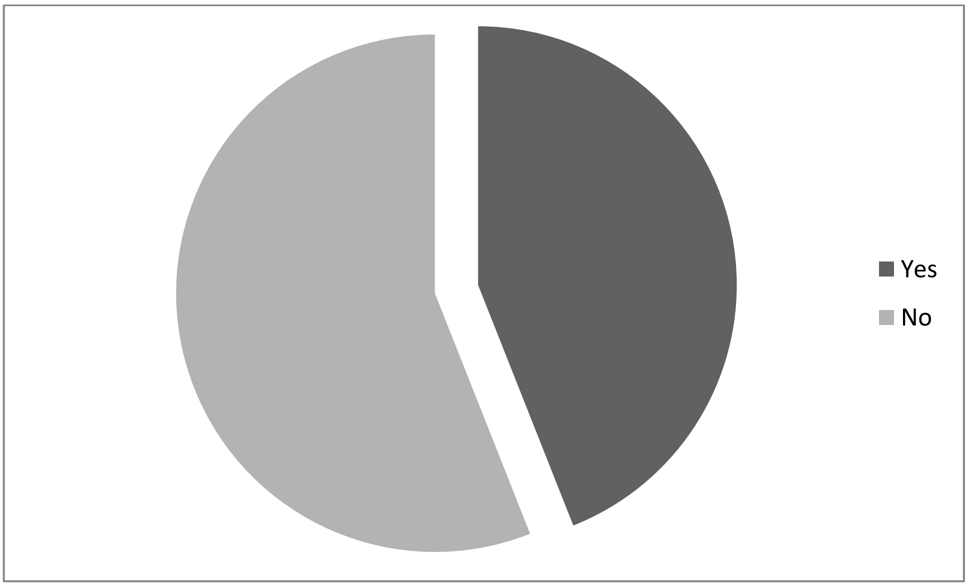
On the view of investors decision about the share investment

Option	No. of Investors	Percentage
Yes	22	44
No	28	56
Total	50	100

Source: Survey

Figure 4.6

Role of Whim and Rumour Influencing the Decision of Investor's in Share Investment



The question was related to acquire the information about the influence of whim or rumour in the decision of investors while investing their savings into the securities. Among 50 investors, 44% of the investors responded that they make their investment on the basis of market whim and rumour whereas 56% investors responded that they do not make their investment on the basis of whim and rumour.

5. Consultancy of Professionals

Table 4.9

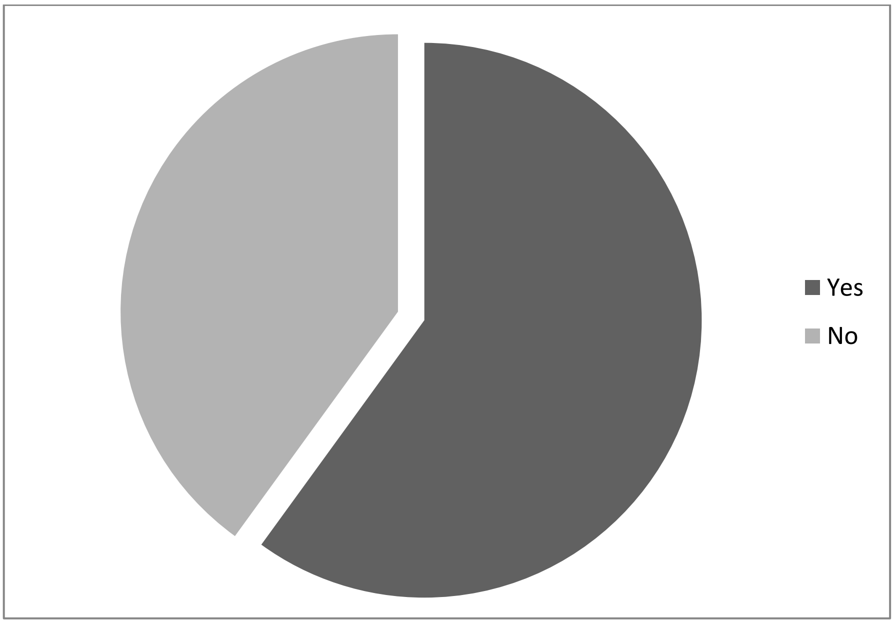
On the view of Investors in Consultancy of Professionals

Option	No. of Investors	Percentage
Yes	30	60
No	20	40
Total	50	100

Source: Survey

Figure 4.7

Consultancy of Professionals



The question was related to find whether investors consult the professionals or not before making investment in shares of listed companies. 50 investors were given the response. Among them 60% investors gave positive answer that means they consult the professionals before investing in shares and 40% responded negatively that means they do not consult any professionals while making investment in shares.

6. Analysis of Risk and Return Factor

Table 4.10

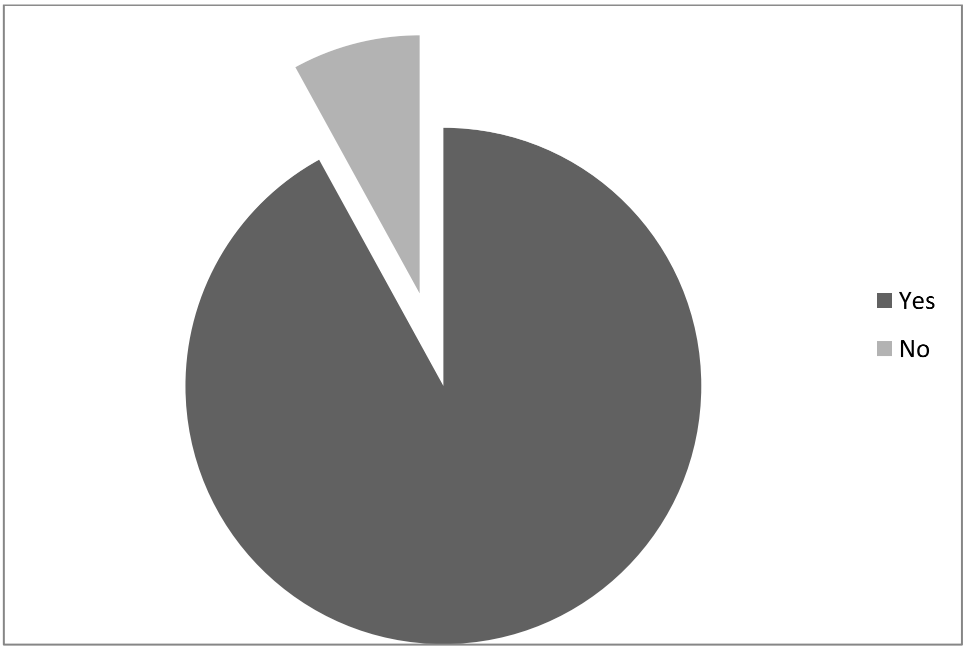
On the view of Investors in Risk and Return Factor

Option	No. of Investors	Percentage
Yes	46	92
No	4	8
Total	50	100

Source: Survey

Figure 4.8

Analysis of Investors in Risk and Return Factor



Regarding the analysis of risk and return 92% of the respondent gave positive answer that means they analysis the risk and return factors before investing in shares and 8% gave negative answer that means they do not consider the investing factor while making the investment.

7. Is share market considered while investing in shares?

Table 4.11

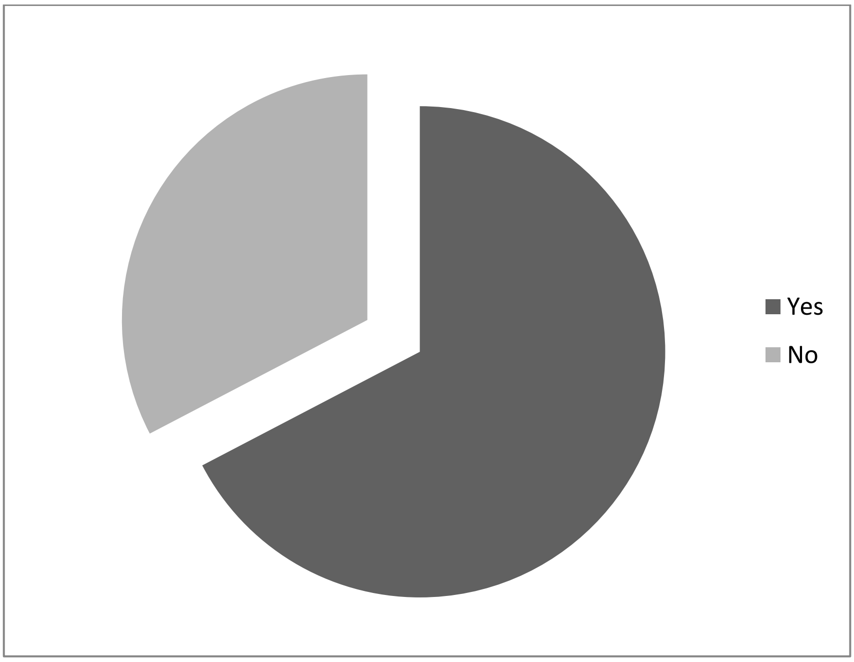
Opinions of Investors Investing in Shares to Consider the Share Market

Option	No. of Investors	Percentage
Yes	33	67
No	16	33
Total	49	100

Source: Survey

Figure 4.9

Investors Investing in Shares to Consider the Share Market



The next question was related to the factors considered while making investment in shares of a particular company. Among 49 respondents, 67% investors gave positive answer that they consider different factors which influence the investing decision in securities and rest of the investors gave negative answer which shows that they do not consider the different factors which influence the share market while investing in shares.

8. Financial Health of Company

Table 4.12

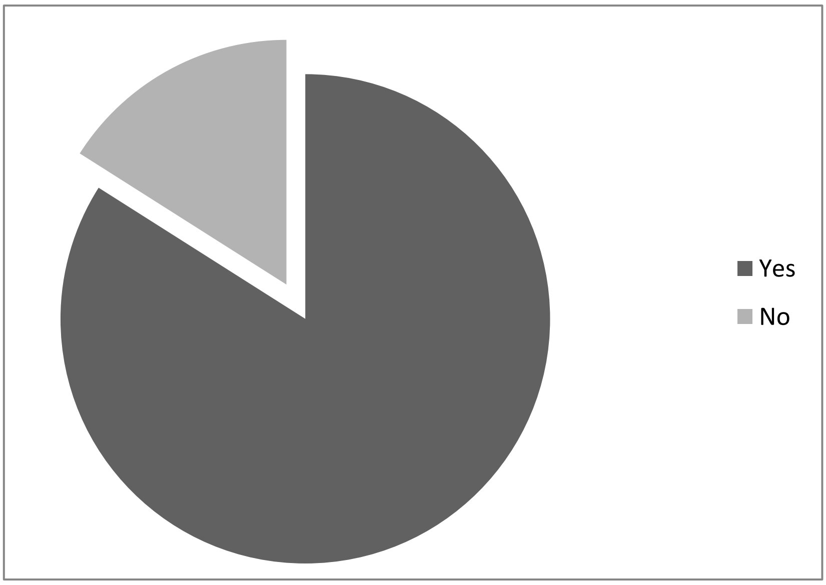
Opinions of Investors in Financial Health of Company

Option	No. of Investors	Percentage
Yes	42	84
No	8	16
Total	50	100

Source: Survey

Figure 4.10

Financial Health of Company



The question was asked whether the investors keep the knowledge about the financial health of the company in which they are going to make the investment. Out of the total investors, 84% investors responded that they clearly study the financial health of the company before investing in the shares of the company but 16% of then do not study the financial health of the company before investing in the shares of the company.

9. Suggestion of Brokers

Table 4.13

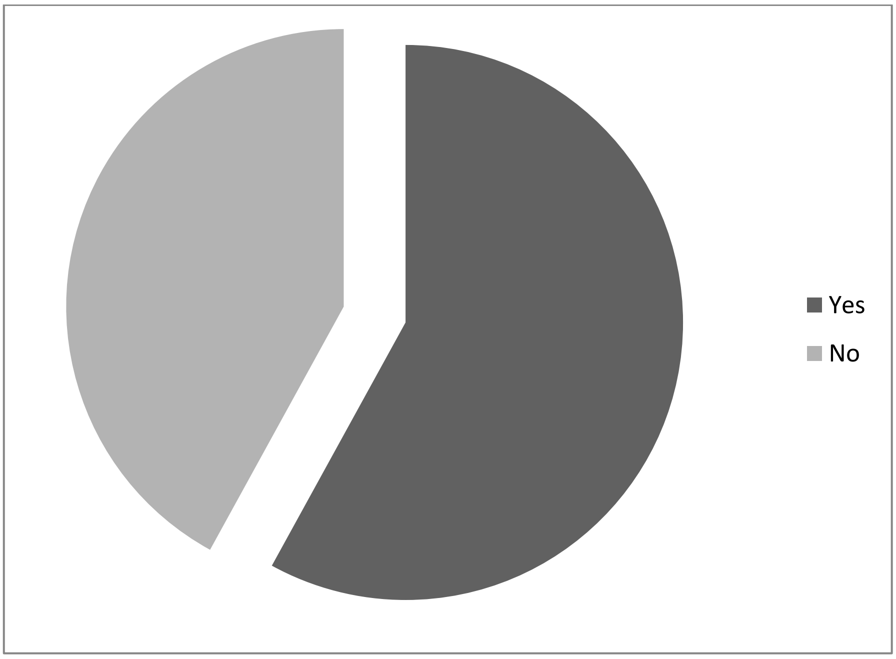
On the View of Investors in Suggestion of Brokers

Option	No. of Investors	Percentage
Yes	29	58
No	21	42
Total	50	100

Source: Survey

Figure 4.11

Suggestion of Brokers



The question was asked whether the investors take the suggestion of brokers or not before investing in shares trading activities. 58% of investors take the suggestion from the brokers while 42% of investors do not take the suggestion from the brokers before making investment in shares.

10. Diversification of Shares

Table 4.14

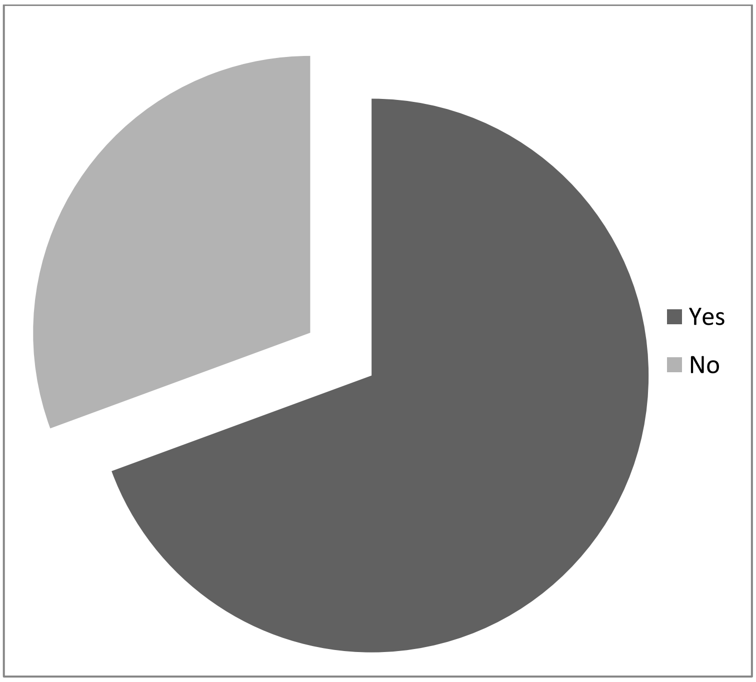
Opinions of Diversification of Shares

Option	**No. of Investors**	**Percentage**
Yes	34	69
No	15	31
Total	49	100

Source: Survey

Figure 4.12

Diversification of Shares



The question was related to the information whether the investors make the investment in a single sector or diversified sector of the securities market. From the questionnaire it is found that 69% of investors have invested their saving into diversified sector i.e. more than one sectors while remaining has made the investment in the single sector of securities of the listed company.

11. Analysis of Information of Securities Sources

Table 4.15

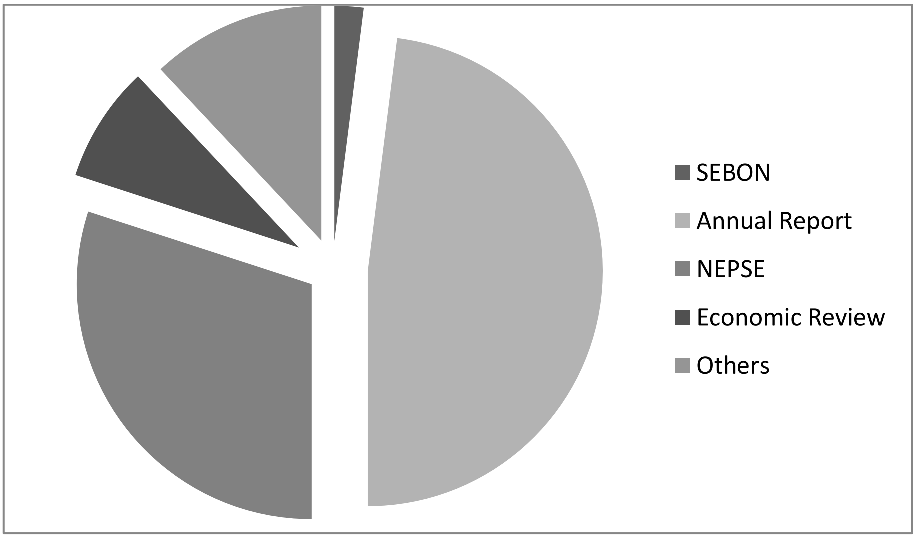
Under the View of Information of Securities Sources

Option	No. of Investors	Percentage
Local government	-	-
SEBON	1	2
Annual Report	24	48
NEPSE	15	30
Economic Review	4	8
Others	6	12
Total	50	100

Source: Survey

Figure 4.13

Analysis of Information of Securities Sources



The question was asked whether the investors follow the information before investing in securities sources. From the questionnaire it was found that 30% investors follow the information of NEPSE before investing in security. In the same way 2% investors follow the information of SEBON then 48%, 0%, 8%, and 12% get information from Annual report, Local Government, Economic Review and others respectively.

12. Analysis the Investors Satisfied with the Return

Table 4.16

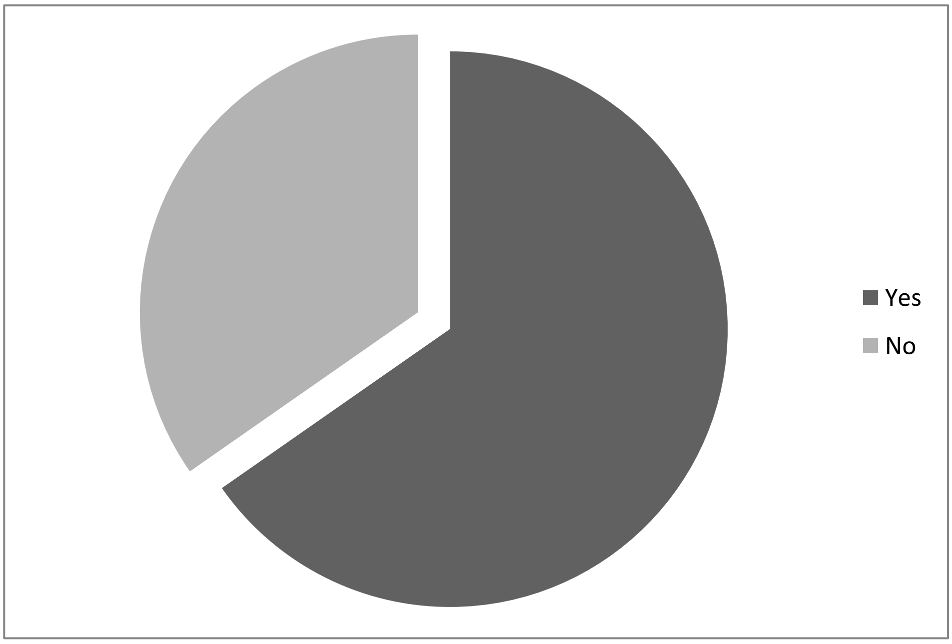
On the View of Investors Satisfied with the Return

Option	No. of Investors	Percentage
Yes	32	65
No	17	35
Total	49	100

Source: Survey

Figure 4.14

Investors Satisfied with the Return



The question was related to satisfaction of investors with the return from their investment decision in the security market. 49 respondents answer this question. 65% of the respondent gave positive answer that means they are satisfied with the return from their investment decision in the security market and 35% gave negatively that means they do not satisfied with the return from the security market.

13. Government Rules and Regulations

Table 4.17

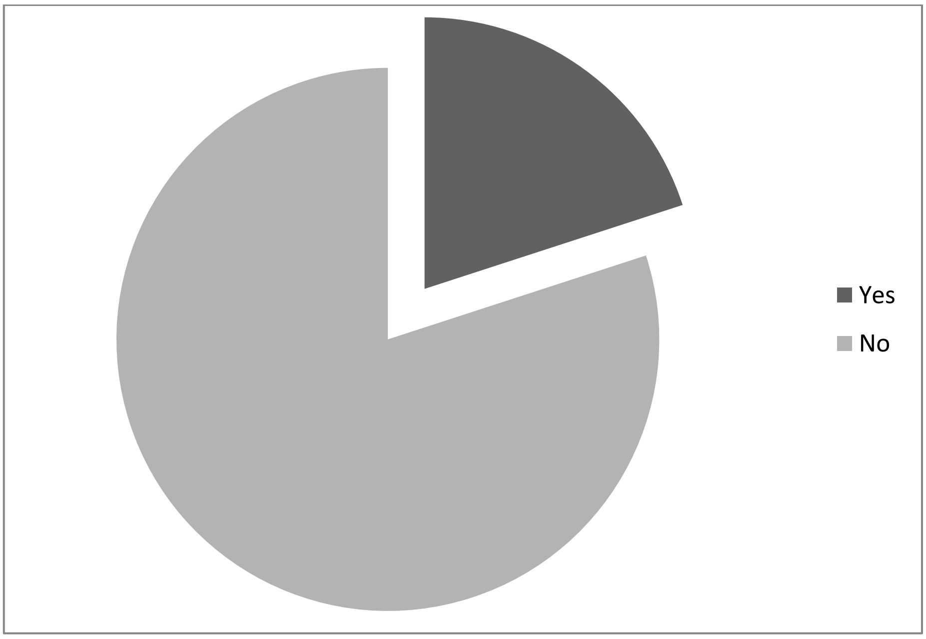
Opinions of Government Rules and Regulations

Option	No. of Investors	Percentage
Yes	10	20
No	40	80
Total	50	100

Source: Survey

Figure 4.15

Government Rules and Regulations



The respondent was asked whether the existing rules and regulations of the government sufficient or not to protect the investors' investment in securities market. Among of them 20% respondents concluded that the rules and regulations are sufficient to the protection of investing in security market but rest of them replied that the rules and regulation are not sufficient for the protection if investing in security market.

14. Analysis Investors Invest in Securities

Table 4.18

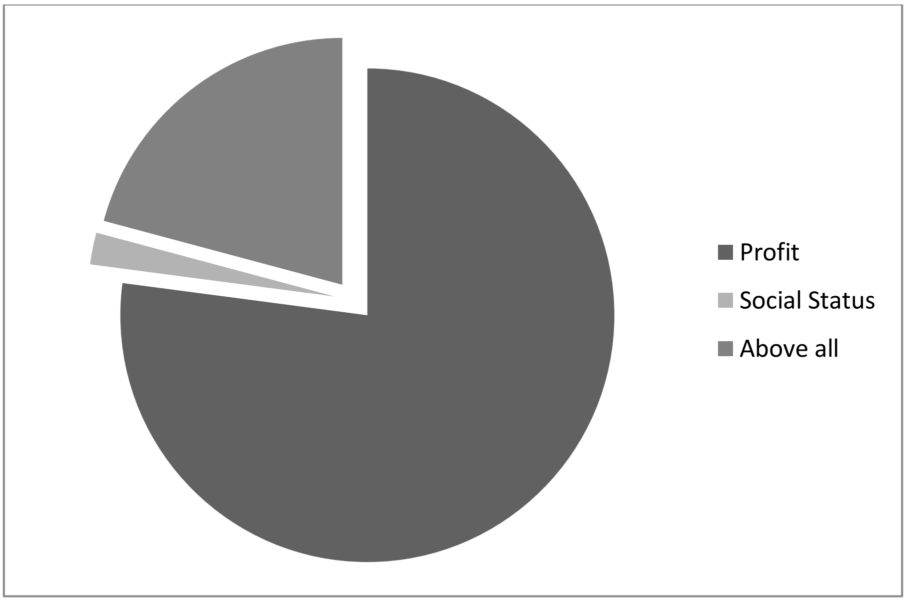
On the View of Investors Invest in Securities

Option	No. of Investors	Percentage
Marketability	-	-
Profit	37	77
Social Status	1	2
Above all	10	21
Total	48	100

Source: Survey

Figure 4.16

Analysis Investors Invest in Securities



The majority of the respondents i.e. 77% opinions revealed the profit from the investment is the main purpose of the investors. Only 2% opinions revealed that the investors make investment in the securities for social status and 21% respondents stated that they invest for above all. But the investors do not make investment in the securities for marketability.

15. Participate in the Annual General Meeting

Table 4.19

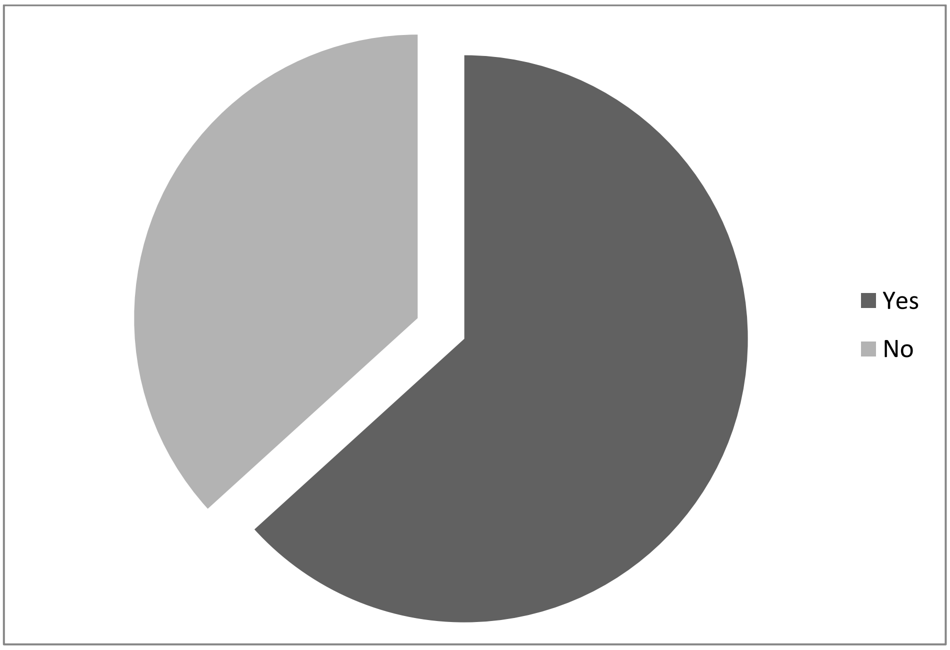
On the View of Investors Participate in the AGM

Option	No. of Investors	Percentage
Yes	31	63
No	18	37
Total	49	100

Source: Survey

Figure 4.17

Participate in the AGM



The next question was asked to find whether the investors interested in participating in the Annual General Meeting (AGM) of the company. 49 investors responded the questionnaire. Among of them 63% gave positive responses that they participate in the AGM but 37% of the investors gave negative answer which denotes that they are not interested to take participating in the AGM of the company.

16 . Analysis of Different Techniques before Investing

Table 4.20

Under the View of Investors Analysis the Different Techniques

Option	No. of Investors	Percentage
Yes	42	86
No	7	14
Total	49	100

Source: Survey

Figure 4.18

Analysis of Different Techniques

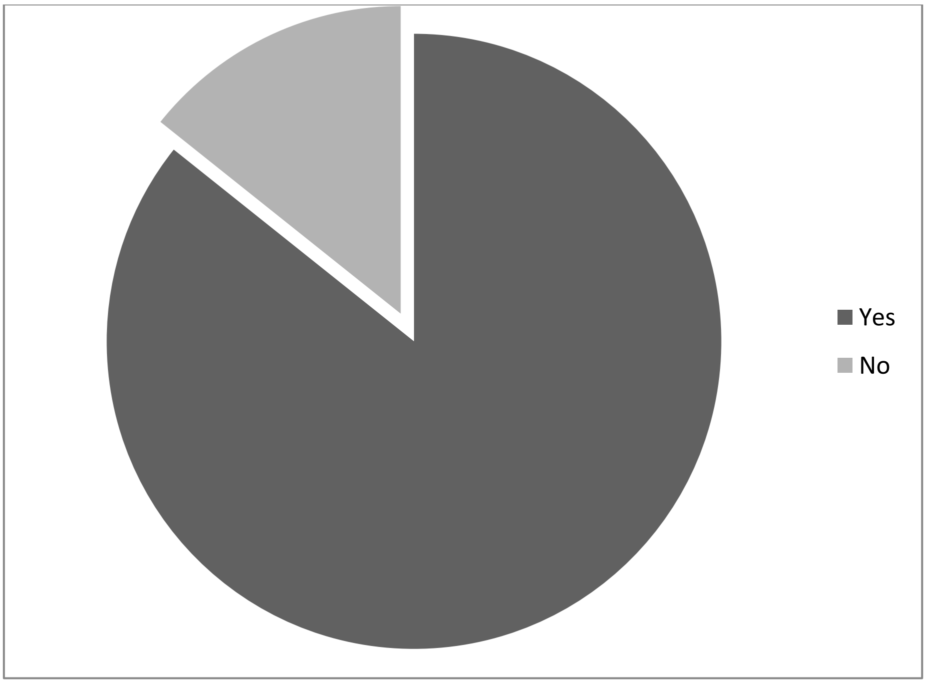


Table 4.21

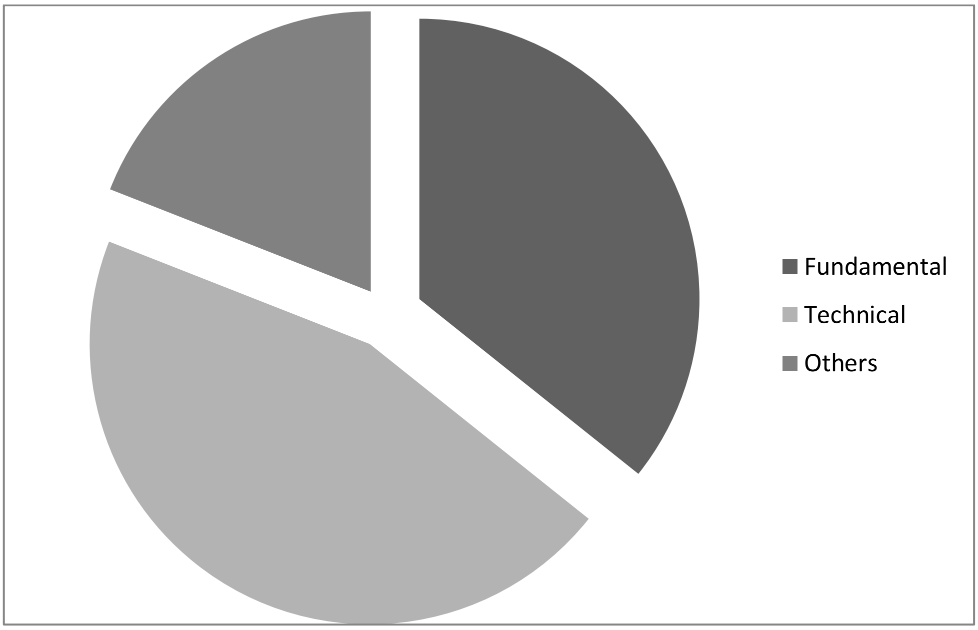
Types of Techniques Under the View of Investors

Option	No. of Investors	Percentage
Fundamental	15	36
Technical	19	45
Others	8	19
Total	42	100

Source: Survey

Figure 4.19

Types of Techniques



The question was related to analyze the different techniques before investing in stock or not and if yes then, which one is used i.e. Fundamental, Technical and Others. 49 investors responded the questions. Among them 86% of the respondent gave positive answer that means they analysis the information before investing in shares. 14% gave negative answer that means they do not consider the information of the listed company while making investment in shares. The majority of respondents i.e. 36% stated the investors follow the fundamental analysis before making investment. 45% opinions revealed that the investors carryout the technical analysis. According to the 19% opinions, some of investors adopt any other measure to make investment other the fundamental and technical analysis.

4.3 Major Finding of the Study

4.3.1 Major Finding of the Secondary Data

Studying the annual trend analysis of Nepalese Stock price market, it was found that stock price trend is decreasing from some years as smoothly. Among the selected Commercial Bank's consists of two in which two is undervalued. Likewise each of two Development Bank and Finance Companies are one undervalued and one overvalued. Hotel, Manufacturing & processing, Trading and Hydropower companies samples are all undervalued and Insurance sectors were found overpriced. So, in total among the 11 companies taken as sample eight companies are seen to have underpriced while the shares of three companies were found overpriced. This shows that market was very inefficient in Nepal.

4.3.2 Major Finding of the Primary Data

- Most of the investors were found to be aware about the securities market i.e. they have the knowledge of the securities market. But it was also found that though most of the investor's response positively toward the awareness about the securities market. They seem to be unaware of the trading procedure in NEPSE.
- Share price is also one of the reliable factors for testing the rationality. Most of the investors were found, who watch the share price daily rather than the weekly, monthly, occasional and twice a month.
- Most of the investors think that it is necessary to get the timely information of the listed company.
- They were also found to be taking participation in the Annual General Meeting of the company in which they have invested.
- According to the major proportion of the respondents, it was found that government rules and regulation are not sufficient to protect the investor's investment in the securities market.
- Large numbers of investors who have invested on the basis of market whim and rumour even do not know the procedure of share trading and the factors influencing the share investment. For those investors having little knowledge, they were taking suggestion from the brokers. In the same way they were also consulting with the professional for their investment.

- For getting a profit, most of the investors follow the information of the annual report rather than NEPSE, SEBON, Economic Review and Others while investing in the Securities. Investor's analyses the different information before investing in stock but most of them were using technical analysis.
- Investors have invested their investment into the single stock they have not diversified their investment in different securities of the different sectors.
- Most of the investors study the financial health of the company before investing their savings in the shares of the company. Before making investment in shares, most of the investors analysis the risk and return factors and they were also satisfied with the return from their investment decision in the security market.
- Majority of respondent agree to analyze the different technique while investing in stock. Among the different technique technical analysis is popular in Nepal.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Security Market in Nepal is infancy or growing stage. There is no long history of development of securities market in Nepal. Capital markets, which deal with securities such as stocks, bonds etc are associated with financial resource mobilization on a long term basis. Securities transaction is a major component of the capital market system. Securities market exists in order to bring together buyers and sellers of securities. In the security market, various security instruments such as, common stock, preference share, debenture, bonds etc. are traded.

Investment rationality in securities market is crucial to the investor and it requires a specific investment decision process, analysis of securities, making appropriate investment strategies as well as construction of efficient portfolio etc. The investment rationality includes the kinds of marketable securities that exist and where and how an investor should make decisions about what marketable securities to invest in, how extensive the investments should be, when the investments should be made. The factors affecting investment decisions must be viewed in the light of the investor's requirements and circumstances. Investors need to analyze basic information about the returns from and risk of investing in common stocks. Technical analysis also be essentials part of current securities market investors.

Nepalese financial market consist varied types of investors from very small to large investors. There are those investors who are completely unwaged of market mechanism on the other hands there are professional players of security market also. In such scenario, this study is conducted to analyze the investors, awareness in the Securities Market in Nepal. The study period covered the period of 5 years beginning from the fiscal year 2005/2006 to 2009/2010. The Security Market Line equation is used to test the status of the pricing of the shares of eleven sample companies taken form the eight sectors for the study.

From the eleven samples companies taken from different sectors, Commercial Bank's consists of two in which two is undervalued. Likewise each of two Development Bank and Finance Companies are one undervalued and one overvalued. Hotel, Manufacturing & processing, Trading and Hydropower companies' samples are all undervalued and Insurance sector was found overpriced. So, in total among the eleven companies taken as sample eight companies are seen to have underpriced while the shares of three companies were found overpriced. This shows that market was very inefficient in Nepal.

For the primary data, only 50 questionnaires were collected. The data thus obtained are analyzed using percentage and pie chart. 90% of the investors said that it is necessary to get the timely information of the listed companies while 10% of the investors not necessary to get the timely information. Only 48% investors follow the information of Annual Report before investing in security. Most of the investors were not seemed to watch the share price regularly. Among 50 investors, only 38 % investors were found regularly look at the share price. 44% of investors make their investment whim and rumour while 56% do not make the investment on the basis of whim and rumour. Most of the investors were analyzing the technique. 86% investors were using technique before making investment in the securities. From the different technique, technical analysis is the most popular. About 84% investors were found to study financial health of the company that means they go through all the statements of the company before making their investment.

Among the respondents, 63% investors participate in the AGM of the company but 37% investor's responses that they are not interested to take part in the AGM of the company. About 92% investors responded positively that means they are analyzing the risk and return factor while making their investment. But all of them do not consider all other factors which influence the investment decision. Investors responded that they do not make the analyzing of different factors while making the investment in the share of particular company. Among investors, only 67% investors were found who make the analysis of different factors before investing in shares of the particular company. Only few investors were found to diversify their savings into the stock. Most of the investors have invested their investment into the single stock. They have not diversified their investment in different securities of the different sectors. Those investors who are not aware of the analysis technique were also not found taking the consultancy services of the professional person. Most of the investors are not satisfied for the government rules and regulation of the securities market. Most of the investors were invested in the securities for the earning profit.

5.2 Conclusion

Fair and timely information disclosure is essential ingredients to function the securities market efficiently. Information deficiency in the market may be one of the reasons for the "Investors' Awareness in the Securities Market in Nepal". Norm's regulatory submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investor protection. For those investors having little knowledge, broker's role becomes one of the sources of information for their investment. There is lack of professional investors in Nepalese Stock Market. People, in Nepal, simply invest in shares mainly on the basis of whim and in a single sector rather than diversified sector. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares. Since the quality of information available to investors, the rationality of investors' in Nepal is to be at lowest level. They have little knowledge of the trading procedures and price information mechanism in NEPSE. Considerable efforts should be given to expand the role of training and certification institute to include research economically variable function to be offered by securities firms or investment banks in the next several years.

At present, investors are very suffering form the securities market because of market decline day by day. Government agencies are not awareness programme in the market, there is a lack of investor awareness about listed and non listed companies, the operation and potential role of securities market, techniques of financial analysis and risks and rewards of holding securities. The lack of investor’s education training and research has made capital market least prioritized sector of the state. The rumor and whim is highly responsible in influencing the decision of the investors in share investment. Rather than analyzing to find out whether the company is worthwhile or not, they run behind the rumors and whim of the market.

5.3 Recommendations

The transparency and openness of transactions, quality of professional service and improved legal and regulatory and supervisory frameworks are the urgent needs to build-up the confidence of the potential investors of Nepalese stock market. This requires an integral plan of action, not piecemeal effort. There must be sufficient updated and relevant information flow from the listed companies to the investors at the joint initiatives of the Ministry of Finance, Nepal Rastra Bank, NEPSE and SEBON.

Inactive securities should be de-listed companies not meeting disclosure requirement or not-holding Annual General Meeting (AGM) timely be de-listed. The NEPSE should be exposed to the lasted concepts and techniques that are employed within the region. Tax system should be simplified and rationalized to encourage the private sector capital information and there should be no capital gain tax on securities transactions to encourage long –term investment through the stock market.

Stock market investment is a risky venture. To win in the strengths, weakness, needs, desires, risk taking capabilities and how to react on different and ever changing market conditions. This is one game where self-knowledge, superior forecasting ability, sound understanding on the information of stock market can give a winning edge to the investors.

The corporate body should give attention towards the fresh reliable information and the present economic position of the company. Otherwise it would not fruitful for the company in general and for the shareholders. The following recommendations are made to the different sectors trading to share trading and regulations on the basis of the findings and the conclusions.

Recommendation to the Investors

Investors should not act on impulse. They should not buy the shares of a company until they knew details about it.

- The first thing investor should define the priorities. What is it he seek-is it capital appreciation, safety or income. It is this should determine his/her choice of shares' which to buy and which not to buy. It is extremely important that s\he define these priorities because your entire strategy win have to be based on this.

- Every investor should follow different sources which could provide information Only one source either NEPSE or SEBON is not sufficient for the investors Others sources of information Economic review, annual report of listed companies. Journals should be referred frequently. It provides extensive statistical data, financial news, and even a bit of humour.
- Investors should always be aware of the daily stock price and volume figures of stock price record, published by NEPSE.

Recommendations to the concern Authorities

- The related bodies should understand their respective roles and play their roles with sincerity.
- The stock Exchange should have speed settlement and clearance system, investors-friendly environment, well equipped office and well trained brilliant and hard working staff.
- The government, concerned bodies and individuals have to work hard to make the investment insecurities preferable to investors by implementing the rules, regulations, policies and activities more strictly. The regulatory of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.
- The listed companies should fulfil their liabilities of providing the financial status of the companies timely and comprehensively and they should hold the AGM regularly.
- Although SEBON has been trying to enhance the understanding of the existing stock investors and the potential investors as well by disseminating the information related to the share market and trading activities by using various Medias and its own publications, it could not be regarded as satisfactory. Most of the investors out of the Kathmandu valley are facing various difficulties in taking information regarding to securities market. So, it should make the necessary arrangement to increase the participation of the investors who live out of the valley.

- The development of stock market is also depending on political stability of the nation. So government should try to maintain the political stability to develop the securities market.
- The government should promulgate suitable policies to foster the development of corporate sectors in the economy.
- Brokers should help regulatory bodies to perform their activities by providing the financial statements and other required information in time and regularly. They should strictly obey the ruled and regulations made for them help the regulatory bodies in creating the effective price information on security market. Brokers should open their offices in the place easily accessible to the present and potentials investors as it was seen during the observation period that almost all of the brokerage offices are not opened in easily seen place.

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APPENDICES

Appendix – I
Company: - Nabil Bank Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	2240	386.83	3.95	48.84	34.94	24.78	16.11	399.21	614.05	259.53
2007	5050	683.95	3.50	125.45	76.81	101.39	57.98	5878.59	10279.93	3361.68
2008	5275	963.36	5.49	4.46	40.85	-19.60	22.02	-431.59	384.16	484.88
2009	4899	749.10	6.06	-7.13	-22.24	-31.19	-41.07	1280.97	972.82	1686.74
2010	2384	477.73	7.85	-51.34	-36.22	-75.40	-55.05	4150.77	5685.16	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 120.28	$\sum R_m$= 94.14			11277.95	17936.12	8823.33
			E(R_f)= 5.37	E(R_j)= 24.06	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= $[R_j - E(R_j)]$ and Y= $[R_m - E(R_m)]$

$$\text{Var.}(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{17936.12}{5-1} = 4484.03$$

$$\text{Var.}(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{4484.03} = 66.96$$

$$\text{S.D.}(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov}(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{11277.95}{5-1} = 2819.49$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov}(R_m . R_j)}{\sigma R_m \, \sigma R_j} = \frac{2819.49}{66.96 \times 46.97} = 0.90$$

$$\text{Bata }(b_j) = \frac{\text{Cov}(R_m . R_j)}{Var.(R_m)} = \frac{2819.49}{2205.83} = 1.28$$

Required rate of return = $R_f + (R_m - R_f)b_j$ = 5.37 + (18.83 – 5.37) ×1.28 = 22.60

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{120.28}{5} = 24.06$$

Appendix – II

Company: Bank of Kathmandu Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	850	386.83	3.95	97.67	34.94	67.11	16.11	1081.14	4503.75	259.53
2007	1375	683.95	3.50	61.76	76.81	31.20	57.98	1808.98	973.44	3361.68
2008	2350	963.36	5.49	70.91	40.85	40.35	22.02	888.51	1628.12	484.88
2009	1750	749.10	6.06	-25.53	-22.24	-56.09	-41.07	2303.62	3138.24	1686.74
2010	840	477.73	7.85	-52.00	-36.22	-82.56	-55.05	4544.93	6816.15	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 152.81	$\sum R_m$= 94.14			10627.18	17059.70	8823.33
			E(R_f) =5.37	E(R_j)= 30.56	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{17059.70}{5-1} = 4264.93$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D. }(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{4264.93} = 65.31$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m , R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{10627.18}{5-1} = 2656.80$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m . R_j)}{\sigma R_m \ \sigma R_j} = \frac{2656.80}{65.31 \times 46.97} = 0.87$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m . R_j)}{Var.(R_m)} = \frac{2656.80}{2205.83} = 1.20$$

Required rate of return = $R_f + (R_m - R_f) b_j$ = 5.37 + (18.83 – 5.37) ×1.20 = 21.52

Expected return on stock $= \frac{\sum R_j}{N} = \frac{152.81}{5} = 30.56$

Appendix – III
Company: Sanima Bikash Bank Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006		386.83	3.95		34.94	-45.34	16.11	-730.43	2055.57	259.53
2007	450	683.95	3.50		76.81	-45.34	57.98	-2628.81	2055.57	3361.68
2008	1430	963.36	5.49	217.78	40.85	172.44	22.02	3797.13	29735.55	484.88
2009	783	749.10	6.06	-45.24	-22.24	-90.58	-41.07	3720.12	8204.74	1686.74
2010	497	477.73	7.85	-36.53	-36.22	-81.87	-55.05	4506.94	6702.70	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 136.01	$\sum R_m$= 94.14			8664.95	48754.13	8823.33
			E(R_f) =5.37	E(R_j)= 45.34	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{48754.13}{3-1} = 24377.07$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D. }(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{24377.07} = 156.13$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{8664.95}{3-1} = 4332.48$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m . R_j)}{\sigma R_m \, \sigma R_j} = \frac{4332.48}{156.13 \times 46.97} = 0.59$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m . R_j)}{Var.(R_m)} = \frac{4332.48}{2205.83} = 1.96$$

Required rate of return = $R_f + (R_m - R_f)b_j$ = 5.37 + (18.83 – 5.37) × 1.96= 31.75

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{136.01}{3} = 45.34$$

Appendix – IV
Company: Ace Dev. Bank Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	320	386.83	3.95	27.49	34.94	12.74	16.11	205.24	162.31	259.53
2007	459	683.95	3.50	43.44	76.81	28.69	57.98	1663.45	823.12	3361.68
2008	856	963.36	5.49	86.49	40.85	71.74	22.02	1579.71	5146.63	484.88
2009	588	749.10	6.06	-31.31	-22.24	-46.06	-41.07	1891.68	2121.52	1686.74
2010	280	477.73	7.85	-52.38	-36.22	-67.13	-55.05	3695.51	4506.44	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 73.73	$\sum R_m$= 94.14			9035.59	12760.02	8823.33
			E(R_f) =5.37	E(R_j)= 14.75	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m–E (R_m)]

$\text{Var.}(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{12760.02}{5-1} = 3190.01$

$\text{Var.}(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$

$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{3190.01} = 56.48$

$\text{S.D.}(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$

$\text{Cov}(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{9035.59}{5-1} = 2258.90$

Correction ($P_{j,m}$) = $\frac{\text{Cov}(R_m . R_j)}{\sigma R_m \, \sigma R_j} = \frac{2258.90}{56.48 \times 46.97} = 0.85$

Bata (b_j) = $\frac{\text{Cov}(R_m . R_j)}{Var.(R_m)} = \frac{2258.90}{2205.83} = 1.02$

Required rate of return = $R_f + (R_m - R_f)b_j$ = 5.37 + (18.83 – 5.37) ×1.02 = 19.10

Expected return on stock = $\frac{\sum R_j}{N} = \frac{73.73}{5}$ =14.75

Appendix – V

Company: Om Finance Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	204	386.83	3.95	-18.40	34.94	-25.34	16.11	-408.23	642.12	259.53
2007	345	683.95	3.50	69.12	76.81	62.18	57.98	3605.20	3866.35	3361.68
2008	500	963.36	5.49	44.93	40.85	37.99	22.02	836.54	1443.24	484.88
2009	390	749.10	6.06	-22.00	-22.24	-28.94	-41.07	1188.57	837.52	1686.74
2010	238	477.73	7.85	-38.97	-36.22	-45.91	-55.05	2527.35	2107.739	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 34.68	$\sum R_m$= 94.14			7749.43	9734.20	8823.33
			E(R_f) =5.37	E(R_j)= 6.94	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var.}(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{9734.20}{5-1} = 2433.55$$

$$\text{Var.}(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{2433.55} = 49.33$$

$$\text{S.D.}(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov}(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{7749.43}{5-1} = 1937.36$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov}(R_m . R_j)}{\sigma R_m\ \sigma R_j} = \frac{1937.36}{49.33 \times 46.97} = 0.84$$

$$\text{Bata }(b_j) = \frac{\text{Cov}(R_m . R_j)}{Var.(R_m)} = \frac{1937.36}{2205.83} = 0.88$$

Required rate of return = R_f + (R_m -R_f)b_j = 5.37 + (18.83 – 5.37) × 0.88 = 17.21

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{34.68}{5} = 6.94$$

Appendix – VI
Company: Standard Finance Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	111	386.83	3.95	2.78	34.94	-55.89	16.11	-900.39	3123.69	259.53
2007	243	683.95	3.50	118.92	76.81	60.25	57.98	3493.30	3630.06	3361.68
2008	930	963.36	5.49	282.72	40.85	224.05	22.02	4933.58	50198.40	484.88
2009	340	749.10	6.06	-63.44	-22.24	-122.11	-41.07	5015.06	14910.85	1686.74
2010	178	477.73	7.85	-47.65	-36.22	-106.32	-55.05	5852.92	11303.94	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 293.33	$\sum R_m$= 94.14			18394.47	83166.94	8823.33
			E(R_f) =5.37	E(R_j)= 58.67	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{83166.94}{5-1} = 20791.74$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{20791.74} = 144.19$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m , R_j) = \frac{\sum[R_j - E(R_j)]\ [R_m - E(R_m)]}{n-1} = \frac{18394.47}{5-1} = 4598.62$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m .R_j)}{\sigma R_m\ \sigma R_j} = \frac{4598.62}{144.19 \times 46.97} = 0.68$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m .R_j)}{Var.(R_m)} = \frac{4598.62}{2205.83} = 2.08$$

Required rate of return = $R_f + (R_m - R_f)b_j$ = 5.37 + (18.83 – 5.37) ×2.08 = 33.37

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{293.33}{5} = 58.67$$

Appendix – VII

Company: Nepal Insurance Co. Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	400	386.83	3.95		34.94	-2.22	16.11	-35.76	4.93	259.53
2007	390	683.95	3.50	-2.50	76.81	-0.28	57.98	-16.23	0.08	3361.68
2008	429	963.36	5.49	10.00	40.85	12.22	22.02	269.08	149.33	484.88
2009	367	749.10	6.06	-14.45	-22.24	-12.23	-41.07	502.29	149.57	1686.74
2010	360	477.73	7.85	-1.91	-36.22	0.31	-55.05	-17.07	0.10	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= -8.86	$\sum R_m$= 94.14			702.31	304.01	8823.33
			E(R_f) =5.37	E(R_j)= -2.22	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{304.01}{4-1} = 101.34$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{101.34} = 10.07$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{702.31}{4-1} = 234.10$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m . R_j)}{\sigma R_m\, \sigma R_j} = \frac{234.10}{10.07 \times 46.97} = 0.49$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m . R_j)}{Var.(R_m)} = \frac{234.10}{2205.83} = 0.11$$

Required rate of return = R_f + (R_m -R_f)b_j = 5.37 + (18.83 – 5.37) × 0.11 = 6.85

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{-8.86}{4} = -2.22$$

Appendix – VIII
Company: Soaltee Hotel Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	55	386.83	3.95	10.00	34.94	-34.95	16.11	-563.04	1221.50	259.53
2007	126	683.95	3.50	129.09	76.81	84.14	57.98	4878.44	7079.54	3361.68
2008	236	963.36	5.49	87.30	40.85	42.35	22.02	932.55	1793.52	484.88
2009	207	749.10	6.06	-12.29	-22.24	-57.24	-41.07	2350.85	3276.42	1686.74
2010	229	477.73	7.85	10.63	-36.22	-34.32	-55.05	1889.32	1177.86	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 224.73	$\sum R_m$= 94.14			9488.12	14548.84	8823.33
			E(R_f) =5.37	E(R_j)= 44.95	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var.}(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{14548.84}{5-1} = 3637.21$$

$$\text{Var.}(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{3637.21} = 60.31$$

$$\text{S.D.}(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov}(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{9488.12}{5-1} = 2372.03$$

$$\text{Correlation}(P_{j,m}) = \frac{\text{Cov}(R_m . R_j)}{\sigma R_m\, \sigma R_j} = \frac{2372.03}{60.31 \times 46.97} = 0.84$$

$$\text{Bata}(b_j) = \frac{\text{Cov}(R_m . R_j)}{Var.(R_m)} = \frac{2372.03}{2205.83} = 1.08$$

Required rate of return = $R_f + (R_m - R_f)b_j$ = 5.37 + (18.83 – 5.37) ×1.08 = 19.91

Expected return on stock $= \frac{\sum R_j}{N} = \frac{224.73}{5} = 44.95$

Appendix – IX

Company: Unilever Nepal Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	2500	386.83	3.95	53.37	34.94	31.12	16.11	501.34	968.45	259.53
2007	3400	683.95	3.50	36.00	76.81	13.75	57.98	797.23	189.06	3361.68
2008	4100	963.36	5.49	20.59	40.85	-1.66	22.02	-36.55	2.76	484.88
2009	4250	749.10	6.06	3.66	-22.24	-18.59	-41.07	763.49	345.59	1686.74
2010	4149	477.73	7.85	-2.38	-36.22	-24.63	-55.05	1355.88	606.64	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 111.24	$\sum R_m$= 94.14			3381.39	2112.50	8823.33
			E(R_f) =5.37	E(R_j)= 22.25	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j − E (R_j)] and Y= [R_m −E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{2112.50}{5-1} = 528.13$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{528.13} = 22.98$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{3381.39}{5-1} = 845.35$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m . R_j)}{\sigma R_m\ \sigma R_j} = \frac{845.35}{22.98 \times 46.97} = 0.78$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m . R_j)}{Var.(R_m)} = \frac{845.35}{2205.83} = 0.38$$

Required rate of return = R_f + (R_m -R_f)b_j = 5.37 + (18.83 – 5.37) ×0.38 = 10.48

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{111.24}{5} = 22.25$$

Appendix – X
Company: Bishal Bazaar Co. Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	2400	386.83	3.95	24.35	34.94	12.27	16.11	197.67	150.55	259.53
2007	2575	683.95	3.50	7.29	76.81	-4.79	57.98	-277.72	22.94	3361.68
2008	2201	963.36	5.49	-14.52	40.85	-26.68	22.02	-587.49	711.82	484.88
2009	3264	749.10	6.06	48.30	-22.24	36.22	-41.07	-1487.56	1311.89	1686.74
2010	3100	477.73	7.85	-5.02	-36.22	-17.10	-55.05	941.36	292.41	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 60.40	$\sum R_m$= 94.14			-1213.74	2489.61	8823.33
			E(R_f) =5.37	E(R_j)= 12.08	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var.}(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{2489.61}{5-1} = 622.40$$

$$\text{Var.}(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{622.40} = 24.95$$

$$\text{S.D.}(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov}(R_m, R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{-1213.74}{5-1} = -303.44$$

$$\text{Correlation } (P_{j,m}) = \frac{\text{Cov}(R_m . R_j)}{\sigma R_m\ \sigma R_j} = \frac{-303.44}{24.95 \times 46.97} = -0.26$$

$$\text{Bata } (b_j) = \frac{\text{Cov}(R_m . R_j)}{Var.(R_m)} = \frac{-303.44}{2205.83} = -0.14$$

Required rate of return = R_f + (R_m -R_f)b_j = 5.37 + (18.83 – 5.37) × - 0.14 = 3.49

Expected return on stock = $\frac{\sum R_j}{N} = \frac{60.40}{5}$ =12.08

Appendix –XI

Company: Chilime Hydropower Co. Limited

Year	MPS	Index	R_f	R_j	R_m	X	Y	XY	X^2	Y^2
2006	400	386.83	3.95		34.94	-42.27	16.11	-680.97	1786.75	259.53
2007	940	683.95	3.50	135	76.81	92.73	57.98	5376.49	8598.85	3361.68
2008	1562	963.36	5.49	66.17	40.85	23.90	22.02	526.28	571.21	484.88
2009	1296	749.10	6.06	-17.03	-22.24	-59.30	-41.07	2435.45	3516.49	1686.74
2010	1101	477.73	7.85	-15.05	-36.22	-57.32	-55.05	3155.47	3285.58	3030.50
			$\sum R_f$= 26.85	$\sum R_j$= 169.09	$\sum R_m$= 94.14			10812.72	17758.88	8823.33
			E(R_f) =5.37	E(R_j)= 42.27	E(R_m)= 18.83					

$R_j = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$ and $R_m = \frac{(P_t - R_{t-1}) + D_t}{P_{t-1}}$

X= [R_j −E (R_j)] and Y= [R_m−E (R_m)]

$$\text{Var. }(R_j) = \frac{\sum[R_j - E(R_j)]^2}{n-1} = \frac{17758.88}{4-1} = 5919.63$$

$$\text{Var. }(R_m) = \frac{\sum[R_m - E(R_m)]^2}{n-1} = \frac{8823.33}{5-1} = 2205.83$$

$$\text{S.D.}(R_j) = \sqrt{\frac{\sum[R_j - E(R_j)]^2}{n-1}} = \sqrt{5919.63} = 76.94$$

$$\text{S.D. }(R_m) = \sqrt{\frac{\sum[R_m - E(R_m)]^2}{n-1}} = \sqrt{2205.83} = 46.97$$

$$\text{Cov }(R_m , R_j) = \frac{\sum[R_j - E(R_j)]\,[R_m - E(R_m)]}{n-1} = \frac{10812.72}{4-1} = 3604.24$$

$$\text{Correlation }(P_{j,m}) = \frac{\text{Cov }(R_m . R_j)}{\sigma R_m \, \sigma R_j} = \frac{3604.24}{76.94 \times 46.97} = 1$$

$$\text{Bata }(b_j) = \frac{\text{Cov }(R_m . R_j)}{Var.(R_m)} = \frac{3604.24}{2205.83} = 1.63$$

Required rate of return = R_f + (R_m -R_f)b_j = 5.37 + (18.83 – 5.37) ×1.63 = 27.31

$$\text{Expected return on stock} = \frac{\sum R_j}{N} = \frac{169.09}{4} = 42.27$$

Appendix –XII

Annual Trend analysis from year 1993/94 to 2009/10

Fiscal Year	X	NEPSE Index(Y)	$x = X-\overline{X}$	x *Y	x^2
1993/94	1	226.03	-8	-1808.24	64
1994/95	2	195.48	-7	-1368.36	49
1995/96	3	185.61	-6	-1113.66	36
1996/97	4	176.31	-5	-881.55	25
1997/98	5	163.35	-4	-653.40	16
1998/99	6	216.92	-3	-650.76	9
1999/00	7	360.70	-2	-721.40	4
2000/ 01	8	348.43	-1	-348.43	1
2001/02	9	227.54	0	0	0
2002/03	10	204.86	1	204.86	1
2003/04	11	222.04	2	444.08	4
2004/05	12	286.67	3	860.01	9
2005/06	13	386.83	4	1547.32	16
2006/07	14	683.95	5	3419.75	25
2007/08	15	963.36	6	5780.16	36
2008/09	16	749.10	7	5243.70	49
2009/10	17	477.73	8	3821.84	64
Total	**153**	6,074.91		**13,775.92**	**408**

$\overline{X} = \frac{\sum X}{N} = 9$ $\quad$ $a = \frac{\sum Y}{N} = \frac{6074.91}{17} = 357.35$ $\quad$ $b = \frac{\sum XY}{\sum x^2} = \frac{13775.92}{408} = 33.76$

Substituting the value of ‘a’ and ‘b’ the equation of the trend line is Y = a + b x

Y = 357.35 + 33.76 x

Calculation of trend value

1993/94 = 357.35 + 33.76 × -8 = 87.27
1994/95 = 357.35 + 33.76 × -7 = 121.03
1995/96 = 357.35 + 33.76 × -6 = 154.79
1996/97 = 357.35 + 33.76 × - 5 = 188.55
1997/98 = 357.35 + 33.76 × -4 = 222.31
1998/99 = 357.35 + 33.76 × -3 = 256.07
1999/00 = 357.35 + 33.76 × -2 = 289.83
2000/01 = 357.35 + 33.76 × -1 = 323.59
2001/02 = 357.35 + 33.76 × -0 = 357.35
2002/03 = 357.35 + 33.76 × 1= 391.11
2003/04 = 357.35 + 33.76 × 2 = 424.87
2004/05 = 357.35 + 33.76 × 3 = 458.63
2005/06 = 357.35 + 33.76 × 4= 492.39
2006/07 = 357.35 + 33.76 × 5 = 526.15
2007/08 = 357.35 + 33.76 × 6 = 559.91
2008/09 = 357.35 + 33.76 × 7= 593.67
2009/10 = 357.35 + 33.76 × 8 = 627.43

Appendix –XIII

NEPSE index of different months during the year 2009/10

Month	X	NEPSE Index(Y)	$x = X-\bar{X}$	x *Y	x^2
August	1	721.95	-5.5	-3970.73	30.25
September	2	628.34	-4.5	-2827.53	20.25
October	3	609.55	-3.5	-2133.43	12.25
November	4	566.94	-2.5	-1417.35	6.25
December	5	548.61	-1.5	-822.92	2.25
January	6	530.96	-0.5	-265.48	0.25
February	7	528.90	0.5	264.45	0.25
March	8	486.25	1.5	792.38	2.25
April	9	481.19	2.5	1202.98	6.25
May	10	457.81	3.5	1602.34	12.25
June	11	476.69	4.5	2145.11	20.25
July	12	477.73	5.5	2627.52	30.25
Total	**78**	6514.92		**-2865.66**	**143**

$\bar{X} = \frac{\sum X}{N} = 6.50$ $\quad$ $a = \frac{\sum Y}{N} = \frac{6514.92}{12} = 542.91$ $\quad$ $b = \frac{\sum XY}{\sum x^2} = \frac{-2865.66}{143} = -20.04$

Substituting the value of 'a' and 'b' the equation of the trend line is Y = a + b x

Y = 542.91 + (-20.04) x

Y = 542.91- 20.04 x

Calculation of trend value

August = 542.91 - 20.04 × -5.5 = 653.13
September = 542.91 - 20.04 × -4.5 = 633.09
October = 542.91 - 20.04 × -3.5 = 613.05
November = 542.91 - 20.04 × -2.5 = 593.01
December = 542.91 - 20.04 × -1.5 = 572.97
January = 542.91 - 20.04 × -0.5 = 552.93
February = 542.91 - 20.04 × 0.5 = 532.89
March = 542.91 - 20.04 × 1.5 = 512.85
April = 542.91 - 20.04 × 2.5 = 492.81
May = 542.91 - 20.04 × 3.5 = 472.77
June = 542.91 - 20.04 × 4.5 = 452.73
July = 542.91 - 20.04 × 5.5 = 432.69

QUESTIONNAIRE

Dear Sir/Madam

I hereby request you to fill up the questionnaire prepared by me for collecting the precious data, which will be prepared for facilitating the research conducted for the partial fulfilment of the requirement of the Master Degree in Business Studies on the topic "Investors' Awareness in the Securities Market in Nepal". Your valued responses are crucial for completing the research study. I would like to thank you for sparing your valuable time and kind cooperation. You are requested to put the tick marks (√) on the answer you feel suitable.

Umesh Lamsal
Researcher
Master of Business Studies
Shanker Dev Campus, T.U.

....

About the Respondent

Name:-

Address:-

Signature:-

Date:-

All the information given will be kept confidential

1. Do you frequently watch the share price?

a) Daily c) Monthly e) Occasional

b) Weekly d) Twice a month

2. Do you know the trading procedure of securities in NEPSE?

a) Yes b) No

3. Do you think it is necessary to get the timely information of listed company?

a) Yes b) No

4. Most of the investors invest in the shares of the company on the basis of whim or rumour. Do you think you are one of them?

a) Yes b) No

5. Do you consult any professional before making investment in shares?

a) Yes b) No

6. Do you analysis the risk and return factors before making investment in shares?

a) Yes b) No

7. Do you consider different factors which influence the share market while investing in shares?

a) Yes b) No

8. Do you make the study of the financial health of the company before investing your savings in the shares of the company?

a) Yes b) No

9. Do you take suggestion of brokers before investing in shares?

a) Yes b) No

10. Do you believe that investment should be diversified rather than investing in a single stock?

a) Yes b) No

11. Which sources do you follow for the information before investing in security?

a) NEPSE c) Annual Report e) Economic Review

b) SEBON d) Local government f) others

12. Are the investors satisfied with return from their investment decision in the security market?

a) Yes b) No

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

a) Yes b) No

14. For what status do the investors want to invest in securities?

a) Profit c) Social Status

b) Marketability d) above all

15. Do you participate in the Annual General Meeting of the company?

a) Yes b) No

16. Do you make the analysis of different techniques before investing in stock?

a) Yes b) No

If yes whish type of analysis can be used?

a) Fundamental Analysis

b) Technical Analysis

c) Others