Investor's Attitude and Anticipation of Earnings

(With Special Reference to Financial Instruments)

A THESIS

Submitted by:

Nani Maharjan Campus Roll No.: 103/060 Exam Roll No.: 1039/062 T.U. Registration No.: 7-1-256-108-97

Submitted to:

Office of The Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirements for the degree of Master of Business Studies (MBS)

> Patandhoka, Lalitpur, Nepal September, 2009

RECOMMENDATION

This is to certify that the thesis submitted by

Nani Maharjan

Entitled

"Investor's Attitude and Anticipation of Earnings (*With Special Reference to Financial Instruments*)" has been prepared as approved by this department in the prescribed format of faculty of Management, T.U.. This thesis is forwarded for examination.

	 Mr.	Krishna	 Badan
Nakarmi (Head of Research Department) Chief)			(Campus
PatanMultipleCampus Patandhoka, Lalitpur			
	••••		

Mr. Yuga Raj Bhattrai (Thesis Supervisor) Programme) Mr. Shiv Prasad Pokhrel (Co-ordinator, MBS

Date :

VIVA–VOCE SHEET

We have conducted the VIVA-VOCE examination of the thesis presented by

Nani Maharjan Entitled

"Investor's Attitude and Anticipation of Earnings (*With Special Reference to Financial Instruments*)" and found the thesis to be original work of the study and written according to be prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master's in Business Studies (MBS).

VIVA – VOCE COMMITTEE

Chairperson, Research Committee	:
Member (Thesis Supervisor)	:
Member (External Expert)	:

Date:

DECLARATION

I here by declare that the work reported in this thesis entitled "Investor's Attitude and Anticipation of Earning (With Special Reference to Financial Instruments)" submitted to Patan Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirements for the Degree of Master's Business Studies (MBS) under supervision of Mr. Yuga Raj Bhattrai, Patan Multiple Campus, Patandhoka, Lalitpur.

Nani Maharjan

ACKNOWLEDGEMENTS

In course of preparing this study in partial fulfillment of the requirements for the Degree of Master of Business Studies, I found myself fortunate enough to obtain the excellent theoretical knowledge in Investor's attitude on financial instrument from different books, brochures and booklets.

I am grateful to, Head of Research Department, Patan Multiple Campus and also grateful to **Mr.Krishna Badan Nakarmi**, Campus Chief, Patan Multiple Campus for his encouragement to prepare this thesis and for his inspirations & suggestions.

This study would probably have not been completed in this form without the invaluable guidance of **Mr. Yuga Raj Bhattrai**, Patan Multiple Campus, T.U.. It is my great pleasure to express my indebtedness to him for undertaking the supervision of my entire research work. I would like to express my deep sense of gratitude to him.

I am also very much grateful to the staffs of NEPSE, SEBO/N and Securities brokers, as well as those investor's who are professionally working in the sector of security market. These institutions and personnel greatly helped me to complete this study.

I also would like to express my heartfelt thanks to my dear brother Mr. Rajesh Maharjan and dear friends Mr. Nagendra Maharjan, Miss. Sujita Shakya and Mrs. Somaya Gurung for their help in collecting required materials from different offices and valuable suggestions to complete this study.

Nani Maharjan Campus Roll No.

Date: September, 2009 :103/060

T.U. Reg. No. : 7-1-256-

108-97

Table of Content

VIVA-VOCE Sheet
Recommendation
Declaration
Acknowledgements
Table of Content
List of Tables
List of Figures
Abbreviation
Chapter-I
INTRODUCTION1
1.1 Background of the Study1
1.1.2 Investors Attitude towards Earning5
1.2 Securities Market in Nepal7
1.2.1 History of Security Market in Nepal7
1.2.2 Nepal Stock Exchange (NEPSE)9
1.2.3 Securities Board of Nepal (SEBO/N)10
1.2.4 Present Status of Stock Market in Nepal11
1.3 Focus of the Study13
1.4 Statement of the Problem14
1.5 Objectives of the Study15
1.6 Significance of the Study16
1.7 Limitations of the Study17
1.8 Organization of the Study17

Chapter-II

REVIEW OF LITERATURE	19
2.1 Conceptual Framework	19
2.1.1 Investment	19
2.1.2 Investment Alternatives (Financial Instruments)	21
2.1.3 Types of Investors	29
2.1.4 Investment Risks	
2.1.5 Investment Process	
2.1.6 Investor's Objectives, Constraint and Preferences	
2.1.7 Security Markets	
2.1.8 Relationship between Risk and Return	
2.1.9 Factors to be considered before Investing in Securities	41
2.1.10 Others Factors Affecting the Investment Decision/Policies	45
2.1.11 Stock Market Information for Securities Investment	45
2.2 Review of Journal and Articles	49
2.3 Review of Unpublished Masters Degree Thesis	

Chapter-III

RESEARCH METHODOLOGY	60
3.1 Research Design	60
3.2 Population and Sample	60
3.3 Source and Collection of Data	61
3.4 Analysis of Data	61
3.5 Statistical Tools	62

Chapter-IV

PRESENTATION AND ANALYSIS OF DATA	64
4.1 Presentation and Analysis of Secondary Data	64
4.1.1 Corporate Securities	
4.1.2 Issuance of Government Securities	66
4.1.3 Involvement of different Sectors in Financial Market of Nepal	68
4.2 Presentation and Analysis of Primary Data	69
4.2.1 Financial Instruments and Investors Preference	69
4.2.2 Investment Sectors and Investors Preference	71
4.2.3 Investor's Purpose of Investment	73
4.2.4 Market Mechanism and Investors Preference	75
4.2.5 Satisfaction from Return	76
4.2.6 Level of Investors' Awareness in Nepalese Security Market	78
4.2.7 Influencing Factors of Investors Preference	79
4.2.8 Availability of Information to Investors from Companies	82
4.2.9 Effect of political situation on the decision of the investors	84
4.2.10 Main Attraction of Common Share	85
4.2.11 Reasons for not Issuing Debenture/Debt and Preference Share by the	ne
Company	87
4.2.12 Main Attraction of Government Securities	88
4.2.13 Attitude toward risk	90
4.2.14 Knowledge of Financial Derivatives and Investors	91
4.2.15 Difficulties to Invest in Securities in Nepalese Security Market	92
4.2.16 Suggestion from Respondents to improve the Security Market of	
Nepal	93
4.3 Major Findings of the Study	94

Chapter-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS	97
5.1 Summary	97
5.2 Conclusion	98
5.3 Recommendations	99
BIBLIOGRAPHY	

APPENDIX

List of Tables

Table 1.1 Securities Market Indicators	11
Table 4.1 Issue of Corporate Securities	64
Table 4.2 Issues of Government Securities	66
Table 4.3 Sector-wise coverage ratio of financial market	68
Table 4.4 Investor's Preference on Financial Instrument	69
Table 4.5 Sector wise Investors Preferences	71
Table 4.6 Investor's purpose of Investment	73
Table 4.7 Investors Preference on Market	75
Table 4.8 Satisfaction from Return	77
Table 4.9 Level of Investors' Awareness in Nepalese Security Market	78
Table 4.10 Influencing Factors of Investors Preference	80
Table 4.11 Availability of Information to Investors	82
Table 4.12 Effect of political situation on the decision of the investors	84
Table 4.13 Main Attraction of Common Share	85
Table 4.14 Reasons for not Issuing Debenture/Debt and Preference Share by	the
Company	
Table 4.15 Main Attraction of Government Securities	
Table 4.16 Attitude toward risk	90
Table 4.17 Knowledge of Financial Derivatives and Investors	91

List of Figures

Figure 2.1	Relationship between Risk and Return	40
Figure 2.2	Security Market Line	41
Figure 4.1	Issue of Corporate Securities	65
Figure 4.2	Chart of Government Issues	67
Figure 4.3	Chart of Sector-wise involvement in Financial Market	68
Figure 4.4	Investor's Preference on Financial Instruments	70
Figure 4.5	Sector-wise Investor's Preference	72
Figure 4.6	Investors Purpose of Investment	74
Figure 4.7	Investors Preference on Market	76
Figure 4.8	Satisfaction from Return	77
Figure 4.9	Level of Investor's Awareness in Security Market	79
Figure 4.10	Influencing factors of Investors Preference	81
Figure 4.11	Availability of Information to Investors	83
Figure 4.12	Effect of Political Situation on the Decision of the Investors	84
Figure 4.13	Main Attraction of Common share	86
Figure 4.14	Reasons for not Issuing Debenture/Debt and Preferred Stock	87
Figure 4.15	Main Attraction of Government Securities.	89
Figure 4.16	Attitude toward risk	90
Figure 4.17	Knowledge of Financial Derivatives and Investors	91

Abbreviations

AGM	Annual General Meeting
ATS	Automated Trading System
BOD	Board of Director
BPS	Book Per share
BS	Bikram Sambat
CAPM	Capital Assets Pricing Model
CD	Certificates of Deposits
CDS	Central Depository System of Securities
CIT	Citizen Investment Trust
d.f.	Degree of Freedom
ECN	Electronic Communication Network
EPS	Earning Per Share
GDP	Gross Domestic Product
GoN	Government of Nepal
GSE	Government Sponsored Entities
i.e	that is
IMF	International Monetary Fund
IPO	Initial Public Offering
Ltd.	Limited
MBS	Master of Business Studies
MoF	Ministry of Finance
NASQAD	National Association of Securities Dealers Automation Quotations
NAV	Net Assets Value
NEPSE	Nepal Stock Exchange Pvt. Ltd.
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
OTC	Over the Counter
P/E	Price Earning
Pvt.	Private
SD	Standard Deviation
SEBO/N	Security Board of Nepal
SEC	Securities Exchange Center
SMC	Securities Marketing Center
SML	Security Market Line
TU	Tribhuvan University
V	Value