CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

In a simple word investment means to invest money to earn interest or to bring profit. Investment in its broadest sense means scarifies of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain.

Investors are those people who invest their money in the capital market for the future earnings. Therefore they are known as the backbone of the capital market. Generally there are three types of investors in the capital market. They are:

1. Risk averter
2. Risk seeker and
3. Risk neutral

Risk averters are that investor who does not like any risk. Risk seekers are those who prefer riskier investment and risk neutral are those who want to invest on securities but do not concern about the risk. The investors having quality of risk averter, risk seeker and risk neutral are the nature of the investors that depends upon the investor’s perception. The investor’s perception plays a vital role on the investment at the capital market.

Securities market plays a very important role in the developing countries economy. As well all know that Nepal is a capital deficit economy need a huge amount of invest able money in productive sector for the rapid economic development. So the financial market becomes the important sector for the fostering the different productive activities in the economy.

The financial market consists of the money market and capital market. The trading of stocks takes place in the stock market. Nepalese stock market is very small as compares to other countries. Further Nepalese capital market is highly concentrated on the financial sector. Banking, non-banking, finance and insurance company occupy 90% of total market capitalization of the market.

Stock market is an institution, area and process where stocks and other securities are bought and sold continuously. Principally stock market that is the secondary market for quoted securities where primary market refers to the market in which newly created securities are sold by open offer. The trading of shares of stocks takes place in the stock market on one hand it directly provides liquidity to the investors who provides fund for the establishment of the production enterprises and on the other hand it encourage the savers to save more and more enterprising economic units to starts the productive ventures.

The major function of stock market is to provide steady and continuous market for purchase and sale of securities at a competitive price by importing marketability and liquidity. It is also a medium through which scattered savings and scare resources are transferred into productive areas that ultimately help to the economic development and industrialization of the country. The basic function of the stock market are to provide the allocate capital fund to the organization with profitable investment opportunities and to offer and avenue of liquidity for individuals to invest current income or borrow against future income and there by achieve their preferred time pattern of consumption. Because of investing involves uncertainty, capital market provides a means for transferring risk among the parties to these transaction. The stock market and economic activities move into similar direction. In the Nepalese economy the demand for and supply of money for investment in productive enterprises is low due to the absence of mechanism for transferring risk which in turn may be attributed to the absence of well developed stock market.

There are many parties involved in the transaction of securities in the securities market. Investors are one of the main parties among them fro whom the corporation acquires the fund. Investors are those people who invest their savings in the securities to take the risk and return. On the investment in other properties, investors cannot get dual benefits as from the investments in stocks. The investors get capital as well as dividend from investing in the stocks. There is only one securities market to liquidate the stocks in Nepal, which is NEPSE. So investors are keys to the success of securities market for the development of the economy.

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 and return trade off, company's future prospects, government rules and regulations, the direction of Nepal Rastra Bank. But because of the poor corporate governance and lack of timely information the investors depend upon some available experts for the analysis of the stocks price. Beside the individuals investors dominate the market whose speculative behavior make the price fluctuate. This makes the potential investors depends on the whim and rumor in stock trading. So this research study will try to evaluate the investors' awareness and the ways to be more effectively aware regarding the stock exchange.

1.1.1 Development of Stock Market in Nepal

The Concept of stock Market in Nepal is very new. It is in infancy stage through it begun with the flotation if shares by Nepal Bank Limited and Biratnagar Jute Mill in 1937 under the company act 1936. At that time, the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family. Consequently the expansion of the capital market to the desire level had been restricted. No significant attempts had been made in fourth five years plan to reform the capital market. The establishment of securities exchange center (SEC) in 1976 was the first and most important attempt made by the government to develop the stock market. Initially the SEC limited its functions for trading the government bonds and national saving certificates only. Then it acted as an issue manager for corporate securities and started to list and provided market for the corporate stocks from fiscal year 1984/85 under the securities exchange act 1983. Thus the SEC served to promote the primary as well as secondary market for the government and corporate securities from fiscal year 1984/85. Although the growth of stock market in the national economy is still very low due to the negligible size of the corporate sector.

The incorporation of the securities board Nepal (SEBON) under the securities exchange act, 1983 and conversion of the SEC into the Nepal stock exchange (NEPSE) under the government policy in capital market reforms has greatly contributed to the development of primary as well as secondary market for the corporate securities were observed immediately after the incorporation of the SEBON and NEPSE for one year only. This has positive and immediate impact on the primary market. But after a year again downward trend in the primary as well as secondary market is observed and this phenomenon has been continuing still now.

1.1.2 Milestones in Nepalese Stock Market

1937- Floatation of shares by Biratnagar Jute Mills & Nepal Bank Limited.

1964- Introduction of Company act.

1964- First issuance of Government Bond

1976- Establishment of Securities Exchange Limited

1983- Securities Exchange Act enacted for the first time

1984- Securities Exchange Act became effective

1992- First amendment to the Securities Exchange Act

1993- Publication of Securities Exchange regulation establishment of Securities Board of Nepal conversion of Securities Exchange center into Nepal Stock Exchange Limited (NEPSE)

1994- NEPSE opened its trading floor in 13th January, directives issued for allotment of Securities.

1995- First amendment in the Securities Exchange regulations guidelines for registration and issue approval of securities.

1997- Second amendment to Securities Exchange Act Securities Investment Trust Act.

1998- Second amendment to Securities Exchange Regulation Securities Board discloses strategic plan for five years.

1.2 Focus of the Study

Investors are those people who invest their saving by buying securities for future benefits. Thus the role of the investors can be understood as a backbone of capital market. Similarly stock market is an important constituent of capital market. So both the investors and stock market is the life-blood of business and dynamic part of economy as well.

Without focusing their current set up, we could not justify this research. Hence this research is mainly focused on the current security trade system in NEPSE. Beside it this research is also focused on investor's awareness towards the trade and transaction system of stock in NEPSE.

1.3 Statement of the Problem

One serious weakness facing Nepal's stock market is the low participation of investors in Securities transaction. Majority of the investor's participation in the exchange is from Kathmandu valley. Since there is only one stock exchange in the country and it is located in the capital, and there is no another alternatives available, participation of the investors from outside the valley is very low. In the present trading system (centralized open out cry trading system) all brokers should gather in the trading floor of the Nepal Stock Exchange (NEPSE) to affect the deal. No electronic system has been developed yet that could help the investors to participate in the transaction electronically from different parts of the nation. It is not only a problem of implementation: the existing Acts are silent on the electronic trading system. What is being followed now here is a system borrowed from Sri Lanka. But though electronic trading system and central securities depository system have been already introduced in Sri Lanka, Nepal is still following the same old system.

The current problems of the capital market are stated as follows:

- The sufficient and timely information relevant to the listed companies stock has not been regularly informed to the general public. So the securities investment is not so satisfactory popular to the general public in Nepal.
- Some of the companies have issued artificial and misleading information while issuing the shares in the primary market.
- There is lack of transparency in the period of stock exchange.
- There is not available of the risk and return components and level in the Nepal stock exchange centre.
- There is not available of inquiry section in the stock exchange centre for the new investors.

1.4 Objective of the Study

The main objective of the study is to find out the major factor that influences the investors in investment decision-making regarding security trading. Besides, also aims to find out whether the investors are aware about the stock market.

The main objective of the study is as follows:

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

1.5 Significance of the Study

There are various economic institution ploughed in the poverty alleviation program in Nepal such as capital market, banks, financial companies and institutions in private sector; NGO, INGO and various other interested national and international institutions. Among all capital market is one of the important sources for the economic development, untimely its potential investors is the biggest asset. Hence this study targets to explore the investors awareness in the securities market in Nepal and how far it leads to growth of stock market. This study is conducted to provide some information about the present level of investor's awareness in the Nepalese securities market. It focuses on the impact of present existing situation faced by the general investors while making investment decision. This study will also be helpful for other researchers to the concerned fields to some extent.

1.6 Limitation of the Study

Any types of research work have certain limitation. So this research study will also carry some of the following limitations:

1. This study concern only on common stock trading on the primary and secondary market.
2. The study is based on the published data of only eight different companies listed under NEPSE.
3. This study is done for the partial fulfillment of the requirement for the degree of master in business studies.

1.7 Organization of the Study

This study has been organized into five chapter's viz. Introduction, Literature review, Research Methodology, Data Presentation, Interpretation and Analysis and summary conclusion and recommendation.

Introduction is the first chapter where subject matter is introduced, the problem is defined, and objectives, limitations and organization of the study have been presented.

The second chapter: Review of Literature deals with conceptual framework of the study. The related studies, books, journals and unpublished thesis have been reviewed that have been supporting view and coherence with the present study.

The third chapter: Research Methodology explains all the methods of collection and analysis of data. It comprises research design, population and sample, data collection procedure and methods of analysis and presentation.

Chapter four is the main body of the study that includes data presentation, interpretation and analysis. The chapter analysis the primary data collected from individual investors to adjudge their awareness on different aspects of the stock market. The secondary data are analyzed in terms of risk and return.

In the last chapter the statement of all four preceding chapters has been summarized and the study is concluded with major findings. The suggestion with the package of recommendation to improve efficiency of the investors and stock market has been presented.

A bibliography and appendices are enclosed at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is second step of researcher after selection of topic. It is the way to develop concepts, ideas to select the area of study by reviewing the related materials. Review of literature is conducted separately through review of article, books, journals, dissertations, company prospectus etc. The review is done on the topic INVESTORS' AWARENESS IN NEPALESE STOCK MARKET. My review will be in four sections, first:- Conceptual review for knowledge and skill to analysis. Second:- Historical background of Securities Market in Nepal review for drawing strong and weakness activities of them. Third:-Review of Related studies to find out their uncovered area and problems. Forth:- Research Gap describe what is gap on other research and my research originate.

2.1 Conceptual Review

The success of every investment decision matters more than the investment itself. "Making sound investment decision requires both conceptual knowledge for stimulating conditions and skill to analysis. Skill is needed to evaluate risk and return associated with investment decision knowledge is regarding the complex investment alternatives available in the economic environment".

Investment should be based an information lack of this result in disaster. For the knowledge, the investment process can be financially rewarding and exciting. Investor should select most suitable alternatives among various alternatives. Thus conscious investor should consider some factor in choosing among investment alternatives.

2.1.1 Introduction

Over time, stocks have proved to be good long-term investments. Bonds, while providing lower than stocks, are less risky. Often, the best investment for an individual is some combination of stocks and bonds that provides good returns at acceptable risks. Stocks and bonds are basic financing building blocks, which help meet the financial needs of companies, governments, and investors. Business requires capital (money) to grow, and without capital from outside investors, a company's growth potential is limited. Corporate business sells stocks and bonds to raise money. Government agencies canal so raise money for operations and improvements by selling bonds. Stock exchange is the heartbeat of much of the corporate, governmental and public financial activity in the world today. Stocks and bonds are bought and sold in these open markets under careful regulation, which protects companies, governmental agencies and individuals alike. Such markets are essential in raising financial capital for our economy. Investors buy stocks and bonds with the intentions of getting back their entire investment and making a profit. This booklet presents basic information about these familiar financing building blocks and discusses the pertinent issues about investing in stocks and bonds.

2.1.2 Understanding Stocks

Selling shares of stock to investors is a practical way for corporations to obtain long-term Funding for projects such as financing a new factory or designing and testing a new product. Buying stock allows individual investors to participate in the growth of country and foreign corporations and to benefit by sharing in a company's profits. Corporations sell fractions of the company's ownership to investors for which investors pay cash. The investors who purchase ownership of the company have their names and ownership record in the corporation's stock book. A company's investors, who have purchased pieces of company ownership, share in company profits from the receipt of cash dividends or by the increase in the value of stock. The investor's ownership is known as "share". The investors are called "shareholder". They may also receive stock certificates showing the number of shares owned.

Money from stock sales is known as "equity" financing. Equity differs from debt financing because money from stock sales represents long-term financing which the company does not have to repay. The company benefits by not having to repay money it receives from the sales of stock and investors benefits by participating in the growth of the company and sharing in its profits for as long as they own the stock.

2.1.3 Stocks as an Option

Corporations sell two different kinds of stocks, which provide investors with significantly different benefits. The word "common" is used to describe the more widely recognized stocks. "Preferred" stocks are not as widely known. Both raise money for the corporation, and both are considered "equity" financing. Their differences are found in the "rights" each provides to the investors.

2.1.4 Common Stock

Common stocks stand for the pieces of ownership in a company ("shares") which give the Investors legal rights. Common stockholder:

1. May Receive Dividends: The corporation's board of directors may vote to share all or a portion of company profits with its shareholders in proportion to the number of shares each owns. Dividends are not paid if the company is not profitable or if the board of directors decides to pay for expansion with the profits. Corporations are not legally required to pay dividends on common stock.
2. May share in Growth and Increased Value: Stock is ownership of the company. Stock ownership allows investors to share in the increased value of the company if it is successful. Likewise, if the company performs poorly, the value of an investor's shares is likely to drop. Investors expect their largest rewards from appreciation in the price of their stock, but there is no guarantee that the value of the stock will always increase.
3. May Transfer Ownership: Common shareholders are able to freely sell or give their stock to others unless they own stock in "private" companies, which may resale restrictions. Ownership of investor's shares is easily transferred in the corporation's stock book.
4. Have Right to Information: Common shareholders are entitled to receive annual reports, which provide important financial and management information pertaining to the company's operations.
5. Have Right to Vote: Common shareholders have the right to vote at shareholder's meeting in person or absentee using a proxy (an instruction on how a vote is to be cast).
6. Is Junior in Rank: Dividends are paid to common shareholders after interest is first paid on all debts and dividends are paid to preferred shareholders. If the

company is liquidated creditors, bondholders, and preferred shareholders all must be paid before any remaining money is distributed to common shareholders. There are stocks in many different U.S. and foreign corporations and all common stocks generally share these six attributes. However, investors should still insure that these attributes are present before buying any stock.

2.1.5 Preferred Stock

Investors may want regular payment of dividends and better safety of principle than common stock provides. Some corporations sell "preferred stock" to give investors more predictable dividend returns and more stable prices of their shares. Preferred stock ownership rights include:

1. Priority on Dividends: Preferred shareholders receive their dividends after interest on debt, but before dividends are paid to common shareholders. In liquidation, creditors are paid first, then preferred shareholders are paid and common shareholders are paid last.
2. Fixed Dividend: Preferred stock dividends are generally paid at a fixed rate similar to interest on a bond or a certificate of deposit. Although the rate is fixed, preferred dividends may be decreased or omitted at the discretion of the company's board of directors (unlikely interest on bonds). If profits are

insufficient to pay both preferred and common dividends, the dividends will be paid to prefer shareholders before common shareholders receive anything.

3. Cumulative Dividends: Should the directors not pay the full dividend, the omitted dividends are recorded and must be made up before any common stock dividend may be paid.
4. No Voting Rights: Since preferred shareholders are shown preference on dividends, most companies do not allow preferred shareholders to vote at shareholder meetings. In rare circumstances, preferred shareholders may be allowed to vote after dividends have not been paid for a period of time.
5. Participates in Growth and Increased Value: Preferred stock grows in value as the value of the company increases; however, preferred stock has a more modest price appreciation potential than common stock.
6. Ability to Transfer: Preferred shareholders may freely sell or give their stock to others. This assumes, of course, that a buyer for the stock can be found. The ownership of the shares is easily transferred in the corporation's stock book.
7. Right to information: Preferred shareholders receive annual reports providing information about the company's financial and management performance for the prior year.

Preferred Stock has some characteristics of debt and some of equity therefore it's called a Hybrid Security.

2.1.6 Buyer of Stocks

Stock ownership is very widespread among a variety of investors including individuals, Corporations, institutional investors (such as banks, insurance companies), mutual funds, and securities broker dealer firms.

2.1.7 Causes of Buying Stocks

Investors buy stocks as building blocks used in creating their financial portfolio. Stock offers investors the opportunity for their money to grow at the same rate as the company. Ownership of the stock in several companies provides an investors the opportunity for their money to grow at the same rate as the economy, which is made up of many companies. Therefore, owning stocks protects investors from the loss of purchasing power due to inflation. As prices rise due to inflation, company assets and revenues appreciate and investors' stock prices rise too. Unlike stocks, savings accounts and bonds return only a fixed amount and may not provide protection from inflation.

Stock prices do not always go up. Investors must be aware that stocks can go down in price if companies are not profitable. Successful investors invest in stock as long_ term investments. Over many years, gaining in the value of the stock usually make up for short-term price declines.

Stocks may also benefit investors by paying "stock dividends". Occasionally, companies may desire to promote their stock while conserving company capital. In such cases, a company’s directors may give shareholders additional shares instead of cash dividends. The new shares have value, but the company's stock price usually falls slightly to adjust for the greater number of shares that will participate in the company's profits.

Investors occasionally receive stock splits. Stock splits reflect substantial growth in a company's stock price. In a split, the outstanding shares of a company are divided into more shares. A 2 for 1 split of one hundred shares presently owned results in two hundred shares being owned after the split. Investors hold twice as many shares, and the price of each share is "split" to half its former price. Stock splits are used in a rising market to reduce the stock price down to an amount investors perceive as reasonable. Investors hope for a stock split, which reflects strong growth by the company.

2.1.8 Causes of Fluctuation of the Stocks Price

Chiefly, stock price reflects how profitable a company is. If a company loses money over a period of several months, the stock price will likely to fall. If a company is successful and has sustained earnings, the company's stockholders share in more money so the stock price rises to reflect greater investor returns.

Earnings are influenced by a variety of factors. These may be grouped into three categories.

1. Company Related: Market share, product position and potential, management, and cost of operation influence individual company earnings. An example is Chrysler, the automobile manufacturer. Its stock price declined sharply due to poor car sales and poor earnings. Subsequently, stock prices recovered due to better management, improved products and sales and better earnings.
2. Industry Wide: Foreign competition, technology, consumer perceptions, and price of raw material can influence earnings and stock prices of all companies within an industry. A good example is airline fare wars during which lower fares on all flights mean lower earnings for all companies in the airline industry. Stock prices for all airlines may fall as profits are squeezed.

3. Market Wide: Wars, high rates of inflation, monetary exchange rate fluctuations, and the national debt may influences prices of stocks in markets around the world. An example of stock price fluctuations in the market as a whole were seen in 1994 as unprecedented increases in interest rates caused stock prices in all industries to fluctuate.

Successful investors pay very close attention to the underlying factors of a company's profitability. They buy stocks, which have strong "fundamentals" such as a large market share for well-known products, sound management and strong history of corporate earnings.

2.1.9 Place of Stock Trade

Most investors buy stocks through financial middlemen. Stock markets rely heavily on individual investors, so every efforts is made to provide an easy, safe means for investors to buy stocks.

2.1.10 Brokers-Dealers Firms

Investors generally purchase stocks from securities broker-dealer firms, which buy and sell stocks for investors. When investors place an order to buy or sell stocks, the broker-dealer accepts their money and "fills" the customer's order from stock held in inventory

or the broker may go to a securities exchange to "fill" the customer's order Broker-dealer charge a fee, called a commission, for buying and selling stock for investors. Commissions usually amount to a small percentage of the stock value purchased or sold. Since commissions are charged both for buying and for selling stocks, investors are generally better off holding their stock and not selling frequently. Unless stock prices appreciate very quickly, commission may offset any profits made over a short period of time.

2.1.11 Security Exchanges

Investors rely on the ability to buy and sell stocks easily and quickly. Securities exchanges, like the Nepal Stock Exchange (NEPSE), New York Stock Exchange (NYSE), The American Stock Exchange (AMEX) etc provides places where buyers and sellers of stocks get together to make trades. There are dozens of stock exchanges located in major cities around the world.

Exchanges maintain "liquidity" in the stocks they trade. Liquidity is the ability to sell when investors desire without wide price fluctuations. Exchanges help standardize prices of stocks throughout the world. Many safeguards are imposed by exchanges to prevent fraud.

2.1.12 Dividend Reinvestment Plans

Many Companies offer their shareholders the ability to reinvest their cash dividends in additional shares of stock. This is an easy way for investors to accumulate more stock. Dividend earnings are credited to shareholders, but at the shareholder’s option, the money may be used to purchase more shares directly from the company. Purchasing stock through a dividend reinvestment plan does not involve a securities broker dealer. The dividend is reinvested in company stock without payment of a commission. Some dividend reinvestment plans charge a free for selling shares held in the plan. Dividend reinvestment plans may allow an investor to purchase additional stock directly from the company. No commission is charged for purchasing additional shares; however, purchases can generally be made only during certain periods.

2.1.13 Sources of Information

Successful investors research information about stocks before buying. Once they buy stocks, they review their stocks' performance regularly. Stock guides and quotations provide timely information.

2.1.14 Stock Guides

Stock guide provides financial information about the company, information about the company's business and the industry it serves. Guides may provide dividend information, current earnings and names of officers and directors, and high and low stock prices over the preceding weeks. Some stock guides rank or classify stocks giving investors an indication of earnings and dividend growth and stability.

Stock guides are available at many libraries, from broker dealer firms, and now through on-line computer services. Investors should never purchase stock without first reading what the stock guides have to say about a company's stock.

2.1.15 Quotations

Newspapers, television cable channels and computer on-line services all provides timely information about stock prices. Unlikely stock guides which provide lots of information on a weekly or monthly basis, quotations contain essentials information on a timelier basis usually listing the highest and lowest prices over the past weeks; the dividends amount; the number of shares traded; and the high, low and closing price for the day.

2.1.16 Selection of Stock

There is no single stock that is best. Depending upon a person's needs, there are stocks, which meets those needs and others, which would be entirely inappropriate.

2.1.17 Growth Stocks

Stocks whose prices are expected to appreciate are called growth stocks. These are usually modestly capitalized companies, which do not pay dividends because they are using profits to fund expansion. Investors look closely at the profit potential and earnings performance of growth stocks since earnings determine how much and how fast the stock price may grow, if at all.

2.1.18 Income Stocks

Income stocks are stocks, which pay dividends on regular basis. These are usually well-established companies with substantial earnings. The stock prices of these "cash cows" usually move slowly over longer time periods. Investors watch company earnings closely since dividends are paid out of profits, and declining earnings may force the company to reduce its dividend.

2.1.19 Blue Chips Stocks

These are stocks in top tier companies, which are very well capitalized. Thousands of shares in blue chip companies trade every day. Their stock prices tend to be stable and do not usually present the opportunity for rapid or dramatic price appreciation. While not all blue chip stocks pay high dividends, most pay regular dividends.

2.1.20 Small-Cap Stocks

These are stocks in companies which are modestly capitalized, but which are not yet top tier companies. Investment in small-cap stocks often involves higher risk to the investor than purchasing blue chip stocks because small-cap stock prices are generally more volatile. Not all small-cap stocks have the earnings potential for rapid or dramatic price appreciation. Most do not pay dividends.

2.1.21 Penny Stocks

This is a category of stocks having a price of less than five dollars per share often trading only on computer “bulletin boards” or in publications referred to as “pink sheets”. The term is often used to describe low priced stocks, which are of dubious quality. Limited financial information, if any is available, often reflects losses instead of earnings; lack of hard assets like cash and equipment; and lack of operations all make penny stocks very risky and truly speculative rather than predictable investments.

2.1.22 Factors to be considered before Investing in Securities

Investors who want to invest their money in the stock first go to the exchange market. They invest their money by seeing prospectus of concern company and others public notice which are published by the company. While investment policies needed to be formed the investor needs to consider many factors to be consider in the investment planning decision.

Investing is all about making money by investing in the stock market rationally. If the investors are not well informed about the share of the company which S/he is buying or is not prepared by analyzing the company's both current and future prospects then S/he will hurt him/herself by investing in the share of that company. "Investing without first learning all you can about an opportunity is like running through an unfamiliar room with your eyes closed." Says Dina Ohman, Wyoming's secretary of state, "You're going to hurt yourself. People do not have to see the securities as only an alternative way to invest their money in." more than anything else, no one has anything to hang their hats on." What reason do they have to buy stocks?" The following things are basis for the investment to meet the criteria of stability and strength. Let's review the typical investments considered by most. The following are the criteria investors will apply to each investment choice:

1. Security of principal
2. Liquidity
3. stability of income
4. Strength (leverage)
5. Information
6. Cash flow
7. Mobility
8. Limited management requirements

2.1.23 How to Make a Good Investment in the Stock Market

Investing in securities is like investing in a business. The objective is to get a good return. This could be either to get a regular income by way of dividends or to get a profit by way of capital appreciation of the securities or both.

An investor who is interested in getting regular dividends from the company must look at the company's dividend policy carefully. Where a company has not stated their dividend policy they could make an assessment of this by analyzing the companies past dividend record and its pattern of payment. There are several ratios that may be used in investment analysis. Most commonly used ratios are as follows:

Calculating the dividend yield on the basis of the last annual dividend can give an investors an idea of what the percentage return he could expect by way of dividend *(Dividend yield = Dividend per share/ Market price of a share x 100)*

The dividend cover is a guide to the company's financial background indicating the total dividends covered with respect to available earnings.

(Dividend cover = Profit/Dividends)

Dividend payout ratio is also useful to ascertain whether the company is retaining sufficient funds for future development and growth. A high ratio indicates that a shareholder is receiving a large part of the earnings that the company is not retaining much by way of reserves. This may mean that a shareholder can not expect much by way of capital appreciation.

(*Dividend payout ratio = Dividend per share/Earning per share x 100*).

The earning per share (EPS = Profit of the company/ Total number of securities issued) may be calculated for the last five years and should ideally show an upward trend (or an overall trend that is continuing to rise). An increase in earning should ideally be accompanied by an increase in dividend when analyzed over a period of five years. The price earnings ratio indicates the expectation about the future of the company. It is a measure of investor confidence. Higher the PE ratio, the more popular the share.
(PE ratio = Market price per share/ Earning per share).

2.1.24 Aware of Risks

All investors must be aware of the risks attached to investing in securities. The securities of a company could fluctuate in value due to the business risks as well as financial risks. Business risk may arise from fluctuation of profits due to changes in demand (new and better products coming into the market, competitors increasing its strength, the overall economic activities) or supply (new methods of production, varying costs of labor or raw materials). Financial risks can be measured by the return to shareholders and the probability of the company having to go into liquidation brought about by the inefficient use of borrowed funds or by borrowing more than what the company could service. The higher the proportion of borrowed funds, the higher the capital gearing. This gearing ratio (gearing ratio = borrowed funds / total funds) must be considered along with the current ratio (current ratio = current assets / current liability). If this is also high then the risk is greater. If the company has not made profits, the directors will not be able to declare a dividend. An investor may minimize the risks by making a fully informed decision. He could obtain the advice of his broker or else S/he could make a decision himself by reading the annual reports of the company carefully and in addition considering the following factors: economic factors of the country and future trends, performance of the industry, quality of the company's management, reputation of the board of directors, company's current trading position, strengths and weaknesses of the company and the business risks involved. An investor must not be guided by rumors. To minimize risk, he may invest in securities of several companies, preferably operating in different industries. Investors should invest in securities only after having considered all of the above factors. By investing in securities traded on the stock market there is a possibility of getting a higher return by way of dividends and/or capital appreciation. Therefore to increase your income, trading in securities on the stock exchange may be advantageous.

2.1.25 Ten Tips For Buying Stocks

1. Buy stocks from local broker-dealer. Be very careful if you cannot find a current quotation for the stock listed in the journal.
2. Be prepared for the price of the stock to fluctuate up and down. Do not buy stock if you cannot risk loss of any money.
3. Remember the rule of thumb, which states, "when interest rates are high, stock prices die, and when interest rates are low, stock prices grow!"
4. Keep in mind that investors demand higher returns from stocks when taking on higher risks. If you are told of a stock with a high profit potential, realize the stock probably carries a higher than normal amount of risk.

5. Consider the source of “hot stock tips.” What may be a promising stock for one person may be too risky for another. Once you hear of the stock tip, chances are that everyone else has heard the same information.
6. Understanding a stock’s risks before buying allows the investor to say, “No, I’ll pass up buying this one.” Buying stocks before their risks are known is like paying for a car you have never seen.
7. Research a stock’s earnings, dividend history, and price range in a stock guide to determine whether the stock meets your investment needs.
8. Make sure there is an active trading market where the stock may be easily sold.
9. Buy stock with the idea of holding it for the long term. If its price appreciates rapidly, so much the better, but most stocks benefits investors over the long term.
10. Do not take on too much risk when buying stock. Invest wisely and be able to sleep well at night.

(*http:/saswy.state.wy.us/security/investor/stock/stocks.htm*)

2.2 Profile of Securities Market In Nepal

2.2.1 Background of Securities Market in Nepal

The history of secondary market in Nepal is not too long. Almost two and half decade’s ago government issued Treasury bill for first time in 1962 and development bonds in 1964. Until the establishment of securities marketing centre under the company Act in 1976, there was no secondary market to provide liquidity for those bonds. So the establishment of securities marketing centre is considered as cornerstone for the institutional development of the securities market in Nepal. But it mainly confined its activities to provide liquidity for government bonds in the secondary market. Another remarkable event of that period is establishment of Securities Marketing Centre (SMC) in 1976. It is the first institution establishment for the purpose of developing securities market in Nepal. Although the centre confined itself mostly in trading government securities, it, nevertheless, carried out few important steps in the development of securities market. It for the first time worked as the issue manages for primary issue of few companies, carried out studies on public limited companies and most importantly supported Government of Nepal in formulating policies and in acting legislations for the development o f securities. Under the Securities Exchange Act 1983, the Securities Marketing Centre was covered into the Securities Exchange Centre in 1984. Now it began to carry out primary and secondary market services for the corporate securities except trading in government securities. At that period Securities Exchange Centre managed to issue about two dozens new stocks inclusive of three joint venture banks by 1992. It increased the activities of the Securities Exchange Centre to some extent. Until that period Securities Exchange Centre was performing both the role of regulation and operation of securities trading in the capital market.

2.2.2 Establishment of NEPSE

Securities Exchange Centre was covered into Nepal Stock Exchange from the second amendment in the Securities Exchange Act in 1993. The incorporation of the Securities Board, Nepal (SEBON) under the Securities Exchange Act, 1983 and conversion of the SEC into NEPSE in 1993 under the Government Policy on capital market reform has greatly contributed to the development of primary as well as secondary market for the corporate securities. Before conversion into stock exchange it only capital market institution undertaking the job of brokering underwriting, managing public issue, market making for the government bonds and other financial services. The Securities Board was set up for the development of the securities market and to enhance the degree of investor's protection.

2.2.3 Role of Stock Exchange

Stock market is an institution where stocks, share and others securities are bought and sold continuously. Principally, stock market that is the secondary market for quoted securities whereas primary market refers to the market in which newly created securities (not previously listed) are sold, by open offer in secondary market to make transaction, primary role is performed by the broker who acts as an intermediary an behalf of client and receive certain commission. Or stock market is that market where second hand securities are bought and sold investment of speculative purpose. It provides facilities of trading in listed securities.

Stock exchange also called stock market or an organized market for the sale and purchase of securities. The trading of shares takes place in the stock market. It directly provides funds for the establishment of the productive enterprise and encourages savers to save more and enterprising economic units to start productive venture. The markets predominantly deal in stock or equity share. The enable owners of shares to sell their holdings readily ensuring liquidity. Once new issue (securities available for the first time) has been purchased by investors, they change hands in the secondary markets. There are actually two broad segments of the secondary markets. The organized exchange and the over the counter market. Organized exchanges are physical marketplaces where the agent of buyers and sellers operate through the auction process. In other words, Stock Exchange is an organized market, where listed securities are purchases and sold regularly and systematically.

The major function of stock market is to provide ready and continuous market for purchases and sales of securities at a competitive price by importing future market ability and liquidity. As a vital part of economical activities and development, stock markets mobilize savings, as well as protect the interest of investors. The stock market is a leading indicator of barometer of the economy’s health, and there is a demand for a summary statistic to measure the market’s current assessment of the economy. In the recent years the role of stock exchange is being increasing recognized by the authorities. Stock exchange is not and has at no been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slums which attracted so much attention. The stock exchange as the market for securities guesses every body access to a number of difference opportunities as far as any buyers and sellers of securities as possible. From general point of view the stock exchange constitute the core of the capital market. It has put its finger on then pulse of the economy and gives it diagnoses to the public in the from of quotation.

The stock market plays a notable part in the economic life of the country acting as a free market for securities, where the forces of supply and demand determine prices. The function of a stock exchange is not only to provide a market for securities but also assist in the raising of funds for government and industry. Thus a market free and active market is stock and shares have become a pre-requisite for the mobilization and distribution and distribution of a nations saving as to support modern business.

2.2.4 Regulatory Activities of NEPSE

The stock exchange has two important functions: it ensures their liquidity and allocates capital among firms by determining prices that reflect the true investment value of a company’s stock. It provides an important allocative function by analyzing the funds to those who can make the best use of them presumably, the most productively. A securities market is to allocate resources optimally. A securities market with this characteristic is said to be allocatively efficient. An operationally efficient market, on other hand, is one with the lowest possible prices for transaction services.

The stock exchange provides an auction market in which members of the stock exchange participate to ensure continuity of price and liquidity to investors. The good performance and outlook for equities in the stock exchange imparts buoyancy to the new issue market. The basic function of stock market is the creation of a continuous market where securities are traded in volume with little variation in current market price as trades succeed one another.

The major function of stock market is to provide ready and continuous market for the trading of the securities at a competing market for the trading of the securities at a competing price. Among all the economical and financial market the stock market is pivotal institution in the financial system of a country. The role played by the stock market in any country’s economy is to finance long-term capital for the corporate place for making investment and contribution to an efficient management of the economy. NEPSE perform several types of regulatory activities including market surveillance and the on-going supervision of brokerage firms. Some of the functions of NEPSE are:

- Trade
- Listing

- Clearing and settlement
- Market surveillance

2.2.5 Securities Board of Nepal & Its Functions, Duties, and Authorities

Securities Board of Nepal was established on June 7, 1993 as an apex regulator of securities market in Nepal. As per the securities Act, 2006, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor's right. The duties and responsibilities of SEBON are as follows.

- Register securities and approve prospectus of public companies.
- Provide license to operate stock exchange.
- Provide license to operate securities business.
- Give permission to operate collective investment scheme and investment funds.
- Draft regulation, issue directives and guidelines, and approve bylaws of stock exchanges.
- Supervise and monitor stock exchanges and securities business activities.
- Take enforcement measures to ensure market integrity.
- Review reporting of issuer and listed companies, and securities businesspersons.
- Conduct research, study and awareness programmes regarding securities market.
- Coordinate and cooperate with others domestic as well as international regulators.
- Frame policies and programmes relating to securities markets and advise the Government of Nepal in this regard.

2.3 Review From Related Studies

2.3.1 Review of Articles and Journal

The various international and national article and journals related with this topic have been reviewed in this section.

Ning Zhu (2002) in his article "The Local Bias of Individual Investors" investigates individual investors' bias towards nearby companies. "Various measurements show that individual investors exhibit significant bias towards the companies that are close to their residences. Our sample individuals exhibit a stronger home bias than the mutual fund managers in Coval and Moskowitz (1999). Investors' holding foreign securities exhibit significantly weaker local bias than those not holding foreign securities, suggesting that international home bias and domestic home bias is correlated. Unlike institutional investors' choices, individual investors' local bias is less related to advantageous information. Investors with stronger local bias do not outperform those with weaker local bias. Information such as accounting number has less impact on the individual investors' local bias than on that of institutional investors. Instead, individual investors' local bias is negatively related to the advertising intensity of companies. These findings cast doubts on the hypothesis that advantageous information drives individual investors' local bias. Instead, they support that investors tend to invest in companies with which they are familiar even though such familiarity isn't particularly helpful to their equity investment.

Behavioral theory on decision heuristics and the mechanism of advertising can explain part of puzzle.

Evidence from investors' response to earnings announcement over additional support to the behavioral hypotheses. Local investors cannot predict earning surprises better than remote investors, which contradict the advantageous information explanation. Rather, local investors are more responsive than remote investors to the same earnings surprises after earnings announcement. Investors' overreaction to information on local companies can, in part, explain their tendency to invest locally. Results in this study show that investor behavior varies significantly across investor classes, which motivates future research on the impact of investor clientele upon asset prices (Barberis, Shleifer and Wurgler, 2002). It is also important to examine whether investors respond directly to the same information under other circumstances and to incorporate such phenomena into future theoretical frameworks".

Tuomo Vuolteenaho (2002) attempted to know what drives the firm level of stock return. He used a vector auto regressive model (VAR) to decompose an individual firm's stock return into two components: change in cash flow expectation (i.e. cash flow news) and change in discount rates (i.e. expected return news). From the research it was found that "The VAR yields three main results. First firm level stock returns are mainly driven by cash flow news. For a typical stock, the variance of cash flow news is more than twice than have expected return news. Second, stocks to expected returns and cash flows are positively correlated across firms, while cash flow news can largely be diversified away in aggregate portfolio".

Terrance Odean (1998) in securities market, the feedback is often slow and noisy. There may even be a trade off between speed and clarity of feedback where by short term traders get quicker, but noisier, feedback, and long term traders receive a clearer feedback but must wait for it. This paper looks at what happen in financial market when people are confidence and concluded that overconfidence is costly to society. Overconfidence traders do not share risk optimally, they expand too many resources on information acquisition and they trade too much. These are dead weight losses. Overconfidence increases trading volume and market depth, but decreases the expected utility of overconfident traders. An overconfidence trader increases volatility, though overconfidence market makers may dampen it. Price taking traders, who are overconfidence about their ability to interpret when there, are many overconfident traders, market, and trend to under respect to the information of rational traders. Under-reacts to abstract, statistical and highly relevant information and overreacts to salient, but less relevant information. Like those who populate them, markets are predictable in their biases.

M. Angeles de Fructos and Caroline manzano (2002) ‘Risk aversion, Transparency and market performance’, concluded that “using a model of market making with inventories based on Biais (1993), we find that investors obtain more favorable execution prices, and they hence invest more, when markets are fragmented. In our model, risk averse dealer use less aggressive price strategies in more transparent markets (centralized) because quote dissemination alleviates uncertainty about the prices quoted by other dealers and hence reduces the need to complete aggressively for other flow. Further, we show that the move toward greater transparency (centralization) may have determinable effects on liquidity and welfare".

Raghu Palat (1991) "If a man loses his money in the stock market it is almost always because of his greed, stupidity or gullibility. It is certainly never the fault of the exchange, and it is very rarely the fault of his broker".

Prem Ratna Sakya (1997) "These days the interest of investors is gradually fading away. Investors have been discouraged with the shares market running at a snail's pace. There is no room for satisfaction for investors. Although the country has adopted liberal market polices to receive the economy, it has been applied into concrete actions in Nepalese context. Brokers have been reporting since long about from government. The government has been able to regulate the companies, and the corporate culture is also not being developed among companies, brokers observed".

A research was done by Radhe Shayam Pradhan (2003) in the topic "Stock market behavior in a small capita market: a case of Nepal". "The overall study of his research suggests that profitability, liquidity, leverage, assets turnover and interest coverage are related to dividend payouts. The study is based on pooled cross sectional data of 17 enterprises whose stocks are listed in stock exchange center and traded in the stock market".

Another article written by Pradhan (2004) in the topic: The efficient market hypothesis and the behavior of shares prices in Nepal. "The current market price of share in Nepal is useful to make buy and sell decision, to predict future average return, and to predict future prices. The main factor affecting share price as perceived by the respondents are dividends are dividends, retained earnings, bonus shares and right issue. The share prices have been found more volatile then expected dividends. Similarly, publicly available information is useful in identifying over or undervalued securities. Nepalese investors are not really indifferent towards makings or non makings of information public.

Fatta Bahadur K.C and Nayan Krishna Joshi (2004) in their journal "These evidences of the study would question the efficiency of Nepal stock exchange; however they are not necessarily embarrassments. This may be also due to market imperfections. The index used for this study encompasses companies, which trade during that particular day from the period (February 1, 1995 to January 31, 2004). Such a small sample period may mislead the findings of the study. In addition the effects of Maoist insurgency lasting for nine years that caused politically uncertainty and lack of confidence among the investors should be undertaken not only to conform the results of the present study but also to investigate microstructure and operational procedure of Nepal stock exchange. Another fruitful area of research is to investigate whether reported anomalies are valid for individual shares or not. Further whether a trading strategy based on these "seasonality's" is profitable out of transaction costs or not should also be investigated".

2.3.2 Review of Previous Dissertation

Thesis entitled "Public Response to Primary Issue of Share in Nepal" submitted by

Laxman Pandey (2001) was objectively conducted to analyze the pattern of public response to shares and concluded that public response is high due to lack of opportunities for investment in other fields. Despite this, public are attracted towards shares then other sectors, basically to increase their value of investment, dividend, capital gain or bonus share. Due to delay in allotment, refund of money delivery of certificate and listening of shares in the stock exchange, people are starting to lose confidence. Some companies have not been listed even after the prescribed time period. For example Oriental hotel limited has not been listed even after 8 months of having closed its issue. He also found that the dynamism of the stock market has been greatly reduced by the domination of the long term shareholders, who prefer holding the shares with hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market. The investors have been very few rather no alternative to holding shares.

A thesis entitled “Protection of Investors in the Capital Market in Nepal” submitted by Tek Raj Pathak (2003), has concluded to know that how far the investors are protected and what extend it could be changed in the rule and regulation of the listed companies for the safeguarding of the investors’ interest and development of the capital market. These two elements are interdependent of the capital markets automatically protested. So listed companies, concerned authorities and associated investors’ organizations have to think to change present situation of the capital market for the progress and prosperity of the investors and capital market too.

Thesis titled “Current Status and Problems of Stock Market in Nepal” submitted by Rekha Pant (2004) concluded that investor’s confidence in Nepal stock market relatively low because of the stock market volatility, low return on investment inadequate information, lack of financial markets instruments and investors knowing about the risk of stock market investment. She focused her study mainly on the secondary sources of data.

A thesis titled "Dividend Decision and Its Impact on Stock Valuation" submitted by Ram Hari Bhattrai (2005) was objectively conducted to analyze those variables such as profit, dividend, retained earnings, growth rate and other relevant variables to show the relationship between the value and other ingredients affecting it. In his study the researcher had found out that the dividend payment is not regular in Nepalese companies. So there was negative correlation between market price of shares and stockholders required rate of return. Since most of the banking sector is managed by the foreign management companies under the technical and management contract so it may be the research subject to find out whether the investors are mainly focused on banking sectors mainly because of the dividend reason that is regular in this sector or there is more than that. He also concluded that the market price is considerably higher then actual net worth in Nepalese companies. But Bhattrai had taken only ten companies (four banks, two insurance/finance companies and four manufacturing/ trading) sector and concluded that investors do not have adequate knowledge on how to evaluate value of shares before investing on it. Besides he found that investment policy is not disclosed to the shareholders of the organization and government is silent on inefficiency of companies and no legislation is passed regarding dividend. So he concluded by saying that investors have high perception of protection of their interest by joint venture companies established under foreign collaboration in comparison to other sectors.

The thesis entitled “Dynamics of Stock Market in Nepal” submitted by Bharat Prasad Bhatta (2006) has focused on the behavior of stock price in Nepalese Stock Market. His research was objectively conducted to find out the impact of the secondary market on primary market and vice-versa. In order to evaluate stock prices, the price earning information was not made available timely to the investors. The investors could not identify the good and bad stocks. The only speculative behavior of the investors regarding, the future stock period led to set the stock prices in the market lack of value judgment to determine the stock prices is the serious problem of the Nepalese Stock Market. This is mainly due to the inability of the regulatory bodies of the stock market to regulate the market mechanism and failure to win the faith of investors. This problem can be solved only hen the real determination of stock prices are diagnosed and identified. He has also concluded that the liquidity in the Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks takes place in stock exchange when the market is in boom. Bhatta in his research said that the variation in the data was also found when comparing with different sources. He primarily based his analysis on secondary data. He also did not use any of the primary data collecting tools. He tremendously used different ratios to calculate the financial status of the companies under study.

Another research has performed by Prasad Dangol (2007) entitled “A Study on Investors’ Perception in Nepalese Stock Market”. The main objective of his research is to “examine the impact on the stock market as per the change of investors’ perception and to examine whether investors perception leads to growth of the stock market”.

His study contributes to the importance of the investors' perception and shows the change of investors' perception impacts on the stock market and how the perception on investors leads to growth of the stock market. It shows that there is a negative impacted on the Nepalese stock market as per the changes of investors' perception because there has been a negative effect on the perception on investors. This is also a main cause of the negative growth of the stock market.

A study conducted by Mr. Mukti Aryal (2008) on the "The Behavior of Stock Market Price". The prime objective of the study was to find the laws of price fluctuation in the stock market. The general behavior of twenty one security prices on Nepal Stock Exchange is remarkably for to that, mainly the assumption of independence as predicated by random walk model of security (speculative) price behavior. Thus, the model of such kind has been refuted at least for Nepal stock market operation. Here this rejection of hypothesis makes clear that the knowledge of past now becomes useful in preceding the future movement of stock market price, than investors, on the floor of exchange of securities can make higher expected profit in the future based solely on those historical prices under certain systematic trading scheme (i.e. market average return) of the general market for securities. Therefore, anomaly of weak from tests of efficient market hypothesis has an important implication bearing interpreting behavior of security price variations in the past and in performing future research in this field. Of broadly speaking the implications with respect to conclusions derived by the study are of two natures statistical and economic. Government actions, companies developments that causes abrupt price changes, ultimately the value of standard deviations for individual price changes has been higher consequently platykurtic character of distribution observed i.e. too few relative frequencies are contained near to mean of the price changes in the central bell and all the relative frequencies are concerned within higher limits of standard deviation from the mean of the price changes. Finally, with respect to distribution of price changes, from the investor point of view, the sole interest is in the shape of distribution, that only information needs to make meaningful investment decisions.

A study conducted by Suraj K. Shrestha (2008) on the "Public Response to primary Issue of Shares in Nepal" reveals that the scope of primary market in recent days in burgeoning by leaps and bounds. Event the general investors are boisterously pumping up their saving in the new issue of shares causing over subscription to a great deal. He found that capital market is encouraging since many public limited companies including joint venture banks have been successful in taping capital through the flotation of shares to the general public. The positive response of investors to the companies is a direct manifestation of the growing public confidence in the primary market.

A thesis entitled "A Study on Investors' Consciousness in Nepalese Stock Market" submitted by Sameer Thakur (2008) was objectively conducted to analyze the pattern of public response to shares trading system and level of consciousness in Nepalese stock market. He found that most of the investors are investing their money on securities, highly influenced by whim and rumor related to share price. They don't have theoretical and technical knowledge to evaluate common stock of related companies. It means that the level of investors' consciousness is quite low. He also found that there are no transparency and openness of transaction system in Nepalese stock market at present. It means that the stock transaction system is not satisfactory. His research is based on primary as well as secondary data from fiscal year 2001/02 to 2006/07.

2.3.3 Research Gap

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

Study on the behavior of stock market was only started from Mr. Pradhan in 1993. But at that time the capital market in Nepal is very small. After that time, many researchers have performed many researches in similar topics. 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 these weaknesses can be turned into the strength of the stock market. This will help to make the existence of the stock market more robust. Further more, by being able to point out the weaknesses; more investors can be made to contribute for the growth of Stock Market.

A thesis entitled “A study on investors’ awareness in security market in Nepal” prepared by me in 2008. The main objective of this research is to explore the stock transaction system in Nepal and to examine whether the investors are fully aware or not in the share trading system in Nepalese stock market 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, I have 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 general people, staffs of non banking and finance sectors by consulting them and 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 fulfill the objective of the study, I have also used historical data and presented numerically using different financial tools and techniques.

At last, I conclude that the stock transaction system is not satisfactory. There are no transparency and openness of transaction system in Nepalese stock market at present. It showed that there is a negative impact on the Nepalese stock market. Even aware investor can't assess during investing at share price due to lack of required information. I also found that most of the investors are investing their money on securities, highly influenced by whim and rumor related to share price. They do not have theoretical and technical knowledge to evaluate common stock of related companies. They only shows share price published at magazine by Nepal Stock Exchange and compared market value with par value of share. It means that the level of investors' awareness is quite low.

CHAPTER-III

RESEACH METHODOLOGY

This chapter relates to the overall approach to the research process. Research methodology is the way to solve a research problem systematically. It describes the methods and process followed in the entire research process. Hence this chapter deals with the method and process applied for this research study. This study covers quantitative methodology in a greater extent and also uses descriptive methods based on both technical and logical aspects. On the basis of historical data, different financial and statistical tools are used for the analysis of different variables. Component of research methodologies are described as follows.

3.1 Research Design

Generally research design means definite procedure and technique which gives to study and provide ways for research viability. It describes the general framework to collect and analyze the data. To achieve the objective of the study, descriptive and analytical research design has been used. Some financial and statistical tools have been adopted to evaluate awareness of investors in Nepalese security market.

This research work is done on recent available historical data from various sources covering a period of 5 years, i.e. from 02/03 to 06/07. It deals with the common stock of the companies as research on the basis of available information.

3.2 Study of Population & Sample

The population for this research is infinite. For primary data, the numbers of investors within the country is the population of the study. Among all fifty from primary market and thirty from secondary market are as a sample.

Similarly for secondary data, there are more than one hundred companies are listed in Nepal Stock Market Ltd., Which can be regarded as size of population for this study. It is not within the capacity of this study to include them all for analysis. Therefore the companies whose financial statements are available in NEPSE and whose current share price is high have been selected for this study.

Only eight companies have been selected as a sample for this study out of total listed Companies in NEPSE. The sample is taken from banking sectors. The name of the sample companies selected for the study is presented in table shown below.

Table No.3.1

Name of the sample Banks from total listed companies.

S.N	Name of The Sample Company	Operation Date	Listing Date
1.	Nabil Bank Ltd.	2041/03/29	2042/08/09
2.	Himalayan Bank Ltd.	2049/10/05	2050/03/21
3.	Nepal Investment Bank Ltd.	2042/11/16	2043/04/07
4.	Standard Chartered Bank Nepal Ltd.	2043/10/16	2045/03/20
5.	Bank of Kathmandu Ltd.	2050/11/28	2054/04/02
6.	Everest Bank Ltd.	2050/07/01	2052/12/25
7.	Nepal SBI Bank Ltd.	2050/03/23	2051/10/03
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	2052/09/09

3.3 Nature and Sources of Data

The required data for the study are collected from both primary and secondary sources. Secondary data needed for the study are collected from different publications of NEPSE and SEBON and selected companies. Primary data are collected by means of structured questionnaire and interview. The fifty individual investors from primary market and thirty individual investors from secondary market are asked to fill up the set of questionnaire. For the purpose of questionnaire and interview, the investors are selected randomly. The views of the official of NEPSE, SEBON and the selected companies and the brokers are also considered on the course of study through an unstructured interview.

3.4 Data Presentation and Analysis System

For the fulfillment of the objective of the study, I have gone through the primary as well as secondary data. The views of the concern officer of NEPSE are presented in descriptive manner. Similarly, the outcome came from the structured questionnaire is presented in quantitative manner. Lastly the collected historical data is presented numerically using different financial tools and techniques. In some extent, to clarify the all, I have presented different figures, graphs and tables.

3.5 Necessary Tools and Techniques for the Study

Different financial statistical tools have been used for the analysis of the collected data. They include:

3.5.1 Market Price of Stock (Pt)

Market price of a share is the price of the stock on which, it can be traded on the market. The data provided by the NEPSE contains three types of market prices high, low, and closing. For the present study, closing market price i.e. the market price of the stock at the end of each fiscal year is taken into consideration.

3.5.2 Total Dividend (Dt)

Dividend is relevant during computation of rate of return, which is reward to the shareholders for their investment, which can be given in different form, for instance cash dividend and stock dividend etc. If company declares only cash dividend, there is no problem while taking the exact amount of dividend that is relevant. But if the company declares stock dividend (Bonus share), it is difficult to obtain the amount that really shareholders gained. In this case, they get extra number of shares as dividend and simultaneously price of the stock declines as a result of increased number of stocks. To get a real amount of dividend following model has been used through out.

In case of Stock Dividend:

Total Dividend for the year (D_t) = C_t + % of stock dividend x Next year's MPS

In case of "Right Share" issued at par

Total Dividend for the year (D_t) = C_t + % of right share x (Next year's MPS-PV)

These models are developed after several discussions with teachers, NEPSE staffs and private investors.

3.5.3 Market Index (It)

NEPSE index is the market index of all the securities listed in Nepal Stock Exchange. Market indices are generally constructed to get the performance of the overall securities traded within a given time frame.

Market index is used to calculate expected return on market. For the calculation of return on market, closing NEPSE index of the particular year is considered.

3.5.4 Market Return (Rm)

Yearly return on market is the percentage increase in the NEPSE index. In other words, yearly market return is the average return of the market of the market as a whole. The yearly return on market is calculated as,

$$R_m = \frac{I_t - I_{t-1}}{I_{t-1}} \times 100\%$$

Where,

I_t = Ending Market index

I_{t-1} = Beginning Market index

3.5.5 Expected Return on Market ($\overline{Rm}$)

Expected Return on market is the future return expected by the market. It is calculated here, by dividing the sum of market return of past years, divided by no. of years.

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

Where, $\sum R_m$ = Sum of the Annual Market Return

N = Total Number of Years

3.5.6 Yearly return on Stock (Rj)

Yearly return on stock is also known as single period rate of return. It is the rate gained by the investors after a period or year. The single period rate of return (Rj) is calculated by adding the change in the market price with total dividend and then dividing by market price of previous year as,

$$R_j = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}} \times 100\%$$

Where, P_t = Ending Market Price of Stock

P_{t-1} = Beginning Market Price of Stock

D_t = Total Dividend

R_j = Yearly Return on Stock

Increasing Yearly Return on Stock is Profitable.

3.5.7 Expected Return on Stock ($\overline{Rj}$)

Expected return on particular stock is the future return expected by the investors of that particular stock. Expected return is obtained hereby dividing the sum of periodic it returns of past years by the number of periods or years.

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

Where, $\sum R_j$ = Sum of The Annual Return

N = Total Number of Years

$\overline{R}_j$ = Expected Return on Stock

Expected Return on Stock is higher than cost of stock is profitable.

3.5.8 Standard Deviation (σj)

Standard deviation is the square root of the variance of the rate of return. The variance of stock's return equals the sum of the products of the squared deviations of each possible rate of return divided by the no. of observation decreased by one. The standard deviation measures the total risk of the particular stock.

$$\sigma_j = \sqrt{\frac{\sum(R_j - \overline{R}_j)^2}{N-1}}$$

Where, R_j = Annual Return on Stock

$\overline{R}_j$ = Expected Return on Stock

N = Total Number of Years

σ_j = Standard Deviation of Stock

The standard deviation is measuring total risk of stock. Higher the standard deviation denotes total risk of stock is higher.

The standard deviation of market is also calculated by using same formula, as,

$$\sigma_m = \sqrt{\frac{\sum(R_m - \overline{R}_m)^2}{N-1}}$$

Where,

R_m = Annual Market Return

$\overline{R}_m$ = Expected Market Return

σ_m = Standard Deviation of market

3.5.9 Coefficient of Variation (CV)

Coefficient of variation is the relative measure of risk with return. It measures the risk per unit of return denotes the risk per rupee. Hence it is the ratio of standard deviation to the expected return of that particular of stock, multiplied by 100.

$$CV_j = \frac{\sigma_j}{\overline{R}_j} \times 100\%$$

Where,

σj = Standard Deviation of Stock

$\overline{R}j$ = Expected Return on Stock

A low C.V. has less risky but higher will be the uniformity, or consistency.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is the main part of the whole study. So the data collected from various sources are presented and analyzed in detail in this chapter. This chapter is divided in two parts. Analysis of primary data is examined in first section and analysis of secondary data is examined in second section.

4.1 Security Transaction System in NEPSE

In order to full fill the first objective of this research, the needed data is collected from different respondent like officers of the NEPSE & SEBON, existing legal aspects and different views of intermediary's officers. An overview on it is presented below:

4.1.1 Current Trading System

If an investors wants to purchase or sell securities from security market than they has to go through listed Stock Brokers. Initially investors have to fill the details about the number wants to purchase or sell and price of the stock. After receiving the details from investors, stock broker issued a certificate to investors by mentioning registration number and date and then stock broker write all those things to the board of NEPSE.

NEPSE has adopted an "open out-cry" system. It means transactions of securities are conducted on the open auction principle in the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The buying price will change when any other broker increases it and the selling price will change when someone will be ready to sell at low price. When the price matches the broker declares the quantity and the selling brokers either accept it or announce the quantity.

4.1.2 Trading Days and Hours

In Nepalese stock market shares has been trading in particular time by the particular day. The presented table can give us the clearer picture of it.

The trading timing of NEPSE is mentioned in the table below:

Table No: 4.1

Trading schedule and timing given by NEPSE

Types of Trading	**Days**	**Time**
Regular Time	Sunday to Thursday	12.00 AM to 3.00 PM

(Sources: Annual report of NEPSE)

4.1.3 Board Lot

NEPSE has fixed the board lot of 10 shares if the face value is Rs. 100 or 100 shares if the face value is Rs.10. The transactions on the regular trading should be done for at least one board lot. The transaction of less than 10 shares is permitted only on odd lot trading hours.

4.1.4 Price Regulation

The opening price of any day shall not be more or less than 5 percent of the previous trading day’s closing price. Once transactions are done within this range the price can be changed within a limit of 2 percent in each consecutive transaction.

4.1.5 Settlement

NEPSE has adopted a T+3 systems which mean that settlement of transactions should be done within 3 working days following the transactions day. Settlement will be carried on the basis of paper verses payment. The ratio of brokerage on equity transactions range from 1 percent to 1.5 percent depending on the traded amount.

4.1.6 Present Situation of Stock Market

Out of 143 listed companies more than 85 percent of the transactions took place in the stock exchange related to the securities of the commercial banks and financial institution. Present government is taking more seriousness to develop the securities market in the country. Currently operation has been operating through manually. There are no custodians. The government has given higher priority to strengthen the capital market and launched corporate financial governance project for the trading automation under the assistance of Asian Development Bank.

4.2 Analysis of the Level of Investor's Awareness

The primary data needed for analysis is collected through the structured questionnaire. As the objective of this analysis is to know the view and awareness of investors towards the Nepalese stock market, the needed data are collected from the investors of NEPSE which has been chosen randomly from the queue in the stock market.

The structured questionnaires were distributed to the eighty investors. The presentation and analysis of primary data collected through the questionnaire (Apendix-1) are presentation below.

4.2.1 Investor's Objective on Stock Investment

It is found that most of the investors want to invest in shares of companies basically for price appreciation. From the rank wise responses shown in the appendix_1.a, they invest for earning dividend as their second priority objective. They give last priority for social status while making investment.

4.2.2 The sector wise Preference of Investors

From the question that which sector they give preference for investment, it is found that they are more interested to invest in banking sector. From the rank wise responses shown in the appendix_1.b, their second priority sector is found as finance and insurance. They are found less interested to make investment on manufacturing and trading and other sectors.

4.2.3 Views of Investor's on Factor Affecting MPS of Stock

The investors were asked that which factor affect the MPs of the securities. According to their responses shown in the appendix_1.c, they think net worth as a most important factor that affect MPS, by giving rank first. They think EPS as a second important factor, DPS as third one and company's goodwill as the least important factor.

4.2.4 The Views of Investors about Factor Affecting the Stock Return

The investors were asked to rank the factors that affected the return on stock most. From their response shown in the appendix_1.d, they think EPS as an important factor that affected their stock return, by giving first rank. The return of the stock is also affected by MPS as they place second rank to MPS. They think Net worth as a third important factor and company's goodwill as a last one that affected their stock return less than EPS and MPS.

4.2.5 The Investor's Preference in Different Area of Investment

The investors were asked that which area they think more attractive. From their response shown in appendix_1.e, it is found that most of the investors prefer to invest on fixed deposit. They give second priority to invest on real estate. Securities are the third prioritized alternative of investment and the bullion is a least prioritized alternative of investment as they give third and last rank to securities and bullion respectively.

4.2.6 Factors Given Priority for Measuring Company's Performance

The investors were asked to rank the given alternative as their preferred performance measure. From their response shown in appendix_1.f, most of the investors perceived on issue of bonus and right shares as an indicator of measuring company's performance. They give second rank on declaration of dividend, third rank on timely AGM and last rank on systematic flows of information respectively. Declaration of dividend is a second preferred indicator of measuring company's performance than that of timely AGM and systematic flows of information.

4.2.7 Driving Factors for Investment in Initial Public Offering

The investors were asked to rank the factors that drive them to the market at the time of initial public offering. From their response shown in the appendix_1.g, it is found that sector is a most important driving factor that drives them to the market at the time of initial public offering. They think founder and management of the company is second important factor, future plans of the company and capital structure are found less important factor as these factors are ranked on third and fourth rank.

4.2.8 Driving Factors for Investment in Secondary Market

Investors were asked to rank the given alternative that drives to the secondary market. From their response shown in the appendix_1.h, it is found that sector of investment i.e. banking; finance etc is the most important factor that drives investors to the secondary market. They give second priority to MPS to MPS with second highest rank. They give goodwill of the company third factor and DPS as a least important driving factor by giving third and fourth rank respectively. Hence it is clear that investors first look the sectors than MPS and then goodwill of the company and at last the dividend.

4.2.9 Suggestions for Protection of Public Interest

Investors were also asked to suggest ranking the ways for improvement to be done to protect public interest in stock market. From their response shown in the appendix 1.i, they think more representation of public on board of directors is quite necessary to protect the interest of public on board. They give next more weight on regular flows of information is to be managed by the company management. Investors' awareness program by the government authorities has given third priority and they feel increase shareholders' activism is less effective way to protect their interest on stock market. From their response in the given question it can conclude that the

search easy way to be secured from fluctuations of stock market rather to be more rational investors as they give less weight to the awareness program and their activism.

4.2.10 The Nature of Risk in Stock Investment

The investors' awareness about the nature of risk in the stock investment is also analyzed by asking them about the nature of risk on stock investment. From their response in the following table it is found that about 35 percent of investors think the nature of risk as a manageable factor, 31.25 percent investors think it as an unknown factor, 30 percent think it is predictable and rest 3.75 percent think the risk factor as a known factor.

Table No. 4.2

Investors Thinking About the Nature of Risk on Stock Investment

S.N.	Response	No. of Investor	Percentage
1	Predictable	24	30
2	Manageable	28	35
3	Known	3	3.75

4	Unknown	25	31.25
	Total	**80**	**100**

(Sources: field report)

4.2.11 The Risk Aversion Nature of Investors

From the question, to know if they are risk averter or risk seeker, it is found that most of the investors want to invest in moderate return. The portion of risk averter investors are 55 percentages, where as 37.5 percentage investors are found risk seeker. They want to invest on such assets of high return with high risk.

Table No. 4.3

Investors' Risk Aversion

S.N.	Response	No. of investor	Percentage
1	High Risk with High Return	30	37.5
2	Moderate Risk with Moderate Return	44	55
3	Low Return with Low Risk	6	7.5
	Total	**80**	**100**

(Sources: field report)

7.5 percent investors rejected any level of risk. They want to invest on such asset which has low risk with low return.

4.2.12 Consultation Habit of Investors before Investing In Shares

It is also tried out to know, how far investors consult others before investing in shares. From the data collected shown in the following table it is found that most of the investors consult their friends i.e. 41.25 percent.

Table No. 4.4

Investors Consultation Habit

S.N.	Response	No. of Investor	Percentage
1	Broker	21	26.25
2	Professional	11	13.75
3	Friend	33	41.25
4	Self Decision	15	18.75
	Total	**80**	**100**

(Sources: field report)

26.25 percent investors consult with broker where as 18.75 percent investors make their decision themselves without consulting others and only 13.75 percent investor consult professionals for making investment decision. It is thus analyzed that broker's and professional service is not expanded to that extent of investors' excess.

4.2.13 Sources of Information about Stock Market

The respondents were asked from which sources they usually informed about stock market. From the data collected presented in the following table it is found that 45 percent investors are informed through newspaper. Thus newspaper is the main sources of information through which most of the investors are getting stock market related information.

Table No. 4.5

Sources of Stock Market Information

S.N.	Responses	No. of Investor	Percentage
1	Brokers	23	28.75
2	Newspaper	36	45
3	Friends	16	20
4	Electronic Media	5	6.25
	Total	**80**	**100**

(Sources: field report)

Stock brokers are the second main sources through which about 28.75 investors are getting information about stock market by making relation to them. These investors are basically from secondary market. 20 percent investors are informed through their friends where as electronic media is less effective in this regard as only 6.25 percent investors are getting information through it.

4.2.14 Investors' Reaction on Increasing Trend of Market Price per Share

Investors were asked for their response on increasing market price per share. Their response is shown in the following table.

Table No. 4.6

Investors' Reaction on Increasing Trend of MPS

S.N.	**Response**	**No. of Investor**	**Percentage**
1	Buy	13	16.25
2	Sell	40	50
3	Don't Trade	27	33.75
	Total	**80**	**100**

(Sources: field report)

Most of the investors want to sell their shares i.e. 50 percent while 33.75 percent investors don't trade at the time of increasing MPS. And only 16.25 percent investors are found who purchase shares at the time of increasing MPS. Thus it is quiet clear that investors are found fear on price fall and thus they want sell their shares on such a situation.

4.2.15 Investors' reaction on Decreasing Trend of Market Price per Share

Investors were also asked for their response on decreasing market price per share. Their response is shown in the following table.

Table No. 4.7

Investors Reaction on Decreasing Trend of MPS

S.N.	Response	No. of Investor	Percentage
1	Buy	25	31.25
2	Sell	36	45
3	Don't Trade	19	23.75
	Total	**80**	**100**

(Sources: field report)

If there will be decreasing trend of market price, most of the investors i.e. 45 percent sell their stock while 31.25 percent investors buy shares from stock market and rest 23.75 percent investors do not trade on such a trend of decreasing trend of MPS. It can be understood that investors want to sell their shares fearing from further decrease in shares price. Due to lack of adequate knowledge of trading mechanism and to get more benefit from stock trading from secondary market, most of the investors go through selling their shares so that they don't bear any additional loss from falling price.

4.2.16 Investors' Participation Pattern in Annual General Meeting

From the question that how far investors participate on company's annual general meeting, the summarized from of response colleted from investors' has been shown in the following table.

Table No. 4.8

Investors' Participation Pattern on AGM

S.N.	Response	No. of Investor	Percentage
1	Regular	36	45
2	Sometimes	24	30

3	By Proxy	12	15
4	No participation	8	10
	Total	**80**	**100**

(Sources: field report)

From the above table it is found that most of the investors i.e. 45 percent participate in AGM each year, 30 percent investors participate sometimes on their free and favorable time. Some investors about 15 percent participate indirectly by giving proxy to other and rest 10 percent investors have no interest to participate in AGM. Investors are not found serious to use AGM as a democratic platform of investors' right protection. As only 42 percent investors are found regular participants.

4.2.17 Investors' Response Information in Prospectus

Investors were asked that how do they react on the statement published by the company before going to publish. Response from investors has been shown in the following table.

Table No. 4.9

Investors' Response on Information of Prospectus

S.N.	**Response**	**No. of Investor**	**Percentage**
1	True Statement	13	16.25
2	False Statement	31	38.75
3	More Optimistic	36	45
	Total	**80**	**100**

(Sources: field report)

From the data of above table it is found that major portion of investors' (i.e. 45 percent) think the given information published in the prospectus is less reliable and more optimistic. 38.75 percent investors believe the printed statement as a false statement. Only 16.25 percent investors believe the printed statement as a true one. It is thus conclude that the published statement on prospectus is failed to attract investors' attention positively. Thus this has been done to fulfill formalities while issuing shares.

4.2.18 Opinion about Existing Rules and Regulations

Investors were asked for their opinion about existing rules and regulations of stock market in Nepal. The response of investors has been shown in the following table.

Table No. 4.10

Investors Opinion on Existing Rules and Regulation *(Sources: field report)*

S.N.	Response	No. of Investors	Percentage
1	Adequate	17	21.25
2	Satisfactory	26	32.50
3	Poor	37	46.25
	Total	**80**	**100**

From their response shown in the above table, it is found that most of the investors (i.e. 46.25 percent) think that the existing rules and regulations are poor, 32.50 percent investors believe as satisfactory and only 21.25 percent investors think the current rules and regulations are adequate. From the views of investors, it can be conclude that the present rules and regulations are not satisfying investors as most of the investors think the existing rules and regulations are poor.

4.2.19 Management Attitude towards Public Shareholders

From the question that what do investors feel about management attitudes towards public shareholders, their response has been shown in the following table.

Table No. 4.11

Investors' perception on Management Attitude

S.N.	Response	No. of Investors	Percentage
1	Positive	13	16.25
2	Satisfactory	31	38.75
3	Poor	36	45
	Total	**80**	**100**

(Sources: field report)

From the investors' response shown in the above table it is found that most of the investors' (i.e. 45 percent) perceived the management attitude as poor. 38.75 percent investors perceived as satisfactory and only 16.25 percent investors think as positive attitude towards them. It is thus concluded that investors are not fairly treated by management.

4.2.20 Investors' Response on Current Performance of Stock Market

The last question to the investors was asked for their response on current performance of stock market. The investors' response regarding current performance has been shown in the following table.

Table No. 4.12

Investors' Response on the Stock Market Performance

S.N.	Response	No. of Investors	Percentage
1	Satisfactory	33	41.25
2	Poor	43	53.75
3	Excellent	4	5
	Total	**80**	**100**

(Sources: field report)

From the above table, most of investors (i.e. 53.75 percent) perceived stock market performance is poor whereas 41.25 percent investors consider as it is satisfactory and the rest 5 percent investors think the performance of stock market is excellent. From the response of investors, it can be concluded that stock market is not performing well as it would be. The reason behind poor performing of stock market may be lack of new technology and information flow mechanism. The stock market should be able to address the investors' expectation.

4.3 Position of Risk & Return of Nepalese Commercial Banks

The secondary data collected from secondary sources like publication of NEPSE, annual report of SEBON and other related sources are presented and their interpretation and analysis is carried out in this section. The secondary data includes MPS and Dividend paid on the selected securities for various years. Beside it NEPSE index of various years is also taken for the study. Here closing market price is taken into consideration. Appropriate diagrams and tables are presented to make this analysis more simple and understandable.

The selected securities are from banking sectors. All selected eight companies are listed in NEPSE and their MPS, DPS, and other related data are presented in table and analysis is made accordingly using appropriate methodology.

In this section the selected securities of listed commercial banks are analyzed separately in terms of risk and return. Different financial tools and techniques have been adopted during the calculation. Side by side appropriate diagram and table is also used.

4.3.1 NABIL Bank Ltd.

Nepal Arab Bank Ltd is the first joint venture commercial bank established in 1984 A.D (2040 B.S) in Nepal. Initially, Dubai Bank Ltd.(DBC) invested 50% equity share of NABIL. The shares owned by DBC was transferred to Emirates Bank International Ltd.(EBIL), Dubai. Later on EBIL sold its entire 50% equity holding to National Bank

Ltd, Bangladesh (NBLB). NBLB is managing the bank in accordance with the technical services agreement signed between both banks on June, 1995. 50% equity shares of NABIL Bank Ltd are held by NBL and out of another 50% shares 20% shares has been sold by financial institutions and remaining 30% shares were issued to general public to Nepal. The data of market price per share, cash dividend, stock dividend, total dividend per share, annual return, expected return, standard deviation and coefficient of variation are presented in the following table below.

The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

Table No. 4.13

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of NABIL

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return (R_j)
	High	Low	Closing	Cash	Stock	Total	
01/02	1500	465	735	-	-	-	-
02/03	875	700	740	50	-	50	0.0748
03/04	1005	705	1000	65	-	65	0.4392
04/05	1515	1000	1505	70	-	70	0.5750
05/06	2300	1500	2240	85	-	85	0.5448
06/07	5050	2025	5050	100	40%	2210	2.2411
N=5						ΣR_j	3.8749
Expected Return ($\overline{R}j$)							0.7750
Standard Deviation (σ_j)							0.8434
Coefficient of Variation (CV)							1.0883

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 06/07 = Rs 100 + 0.40 x 5275* = Rs 2210

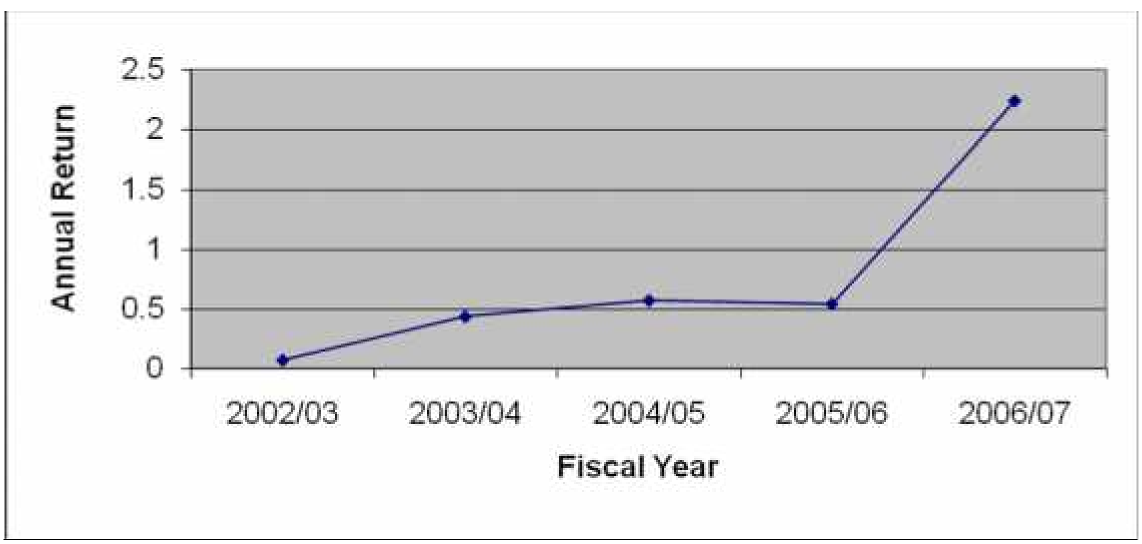
* Closing market price of the stock in the fiscal year 07/08 is Rs 5275.

The closing market price of NABIL is higher in the year 06/07 i.e. Rs.5050 and minimum in the year 02/03 i.e. Rs.740. The NABIL bank has given cash dividend through out the presented years which is high in the year 06/07 i.e. Rs.100. It also declares 40% stock dividend in the fiscal year 06/07. The range of yearly return on the common stock of Nabil is from 7.48 percent in the year 02/03 to 224.11 percent in the year 06/07. The trend of yearly return is increasing up and significantly increased to 06/07 by 224.11 percent. The expected return for the stock is found to be 77.50 percent and the standard deviation on the stock is found 0.8434 and the CV of the same stock is found to be 1.0883 which indicates that investors has to bear 1.0883 unit of risk to earn one additional unit of return.

To make a comparison easily understandable the annual return on common stock of NABIL bank are also presented on diagram.

Figure No: 4.1

Yearly Return on Common Stock of NABIL Bank Ltd.



4.3.2 Himalayan Bank Ltd.

Himalayan Bank Ltd was incorporated in 1992 by the distinguished business personality of Nepal in partnership with employee provident fund and Habib Bank Limited. One of the largest commercial Bank of Pakistan, Banks operation was commenced from January 1992. It is the first commercial Bank of Nepal with maximum share holding by Nepalese private sector. Promoter's shareholders are 51%, Habib Bank 20%, Employee provident fund 14%, and Nepal public shareholders 15%. Besides commercial activities the bank also offers industrial and merchant banking.

The market price per share, cash dividend, stock dividend, total dividend, annual return, expected return, standard deviation, and coefficient of variation are presented in the table below.

Table No. 4.14

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of HBL

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return
	High	Low	Closing	Cash	Stock	Total	(R_j)
01/02	1530	610	1000	-	-	-	-
02/03	950	750	836	1.32	23.68%	200.23	0.0362
03/04	1010	600	840	-	20%	184	0.2248
04/05	1181	855	920	11.58	20%	231.58	03709
05/06	1200	900	1100	30	5%	118	0.3239
06/07	1760	950	1760	15	25%	510	1.0636
N=5						ΣR_j	2.0194
Expected Return ($\overline{R}j$)							0.4038
Standard Deviation (σ_j)							0.3904
Coefficient of Variation (CV)							0.9668

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 02/03 = Rs 1.32 + 0.2368 x 840 = Rs 200.23.

FY 03/04 = Rs 0 + 0.20 x 920 = Rs 184.

FY 04/05 = Rs.58 + 0.20 x 1100 = Rs 231.58.

FY 05/06 = Rs30 + 0.05 x 1760 = Rs 118.

FY 06/07 = Rs 15 + 0.25 x 1980* = Rs 510.

* Closing market price of the stock of the stock for the fiscal year 07/08 is Rs 1980.

The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

The closing market price of HBL is higher in the year 06/07 i.e. Rs.1760 and minimum in the year 02/03 i.e. Rs.836. The HBL has given cash and stock dividend through out the presented years.

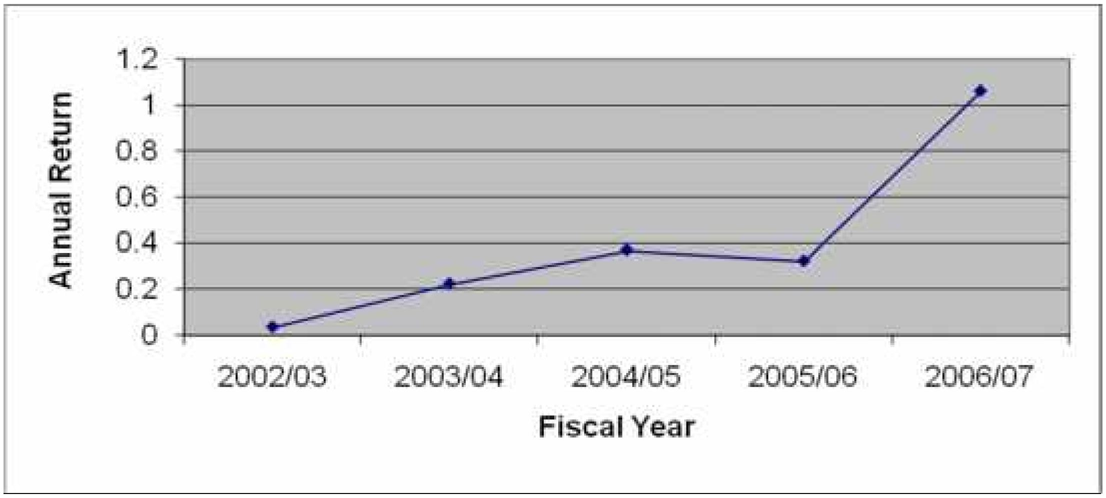
The range of yearly return on the common stock of HBL is from 3.62 percent in the year 02/03 to 106.36 percent in the year 06/07. The trend of yearly return is rapidly growing up.

The expected return for the stock is found to be 40.38 percent and the standard deviation is found to be 0.3904 while CV of the same stock is 0.9668 units which mean that investors has to bear 0.9668 units to earn one additional unit of return.

To make a comparison easily understandable the annual return on common stock of HBL bank are also presented on diagram.

Figure: 4.2

Yearly Return on Common Stock of HBL



4.3.3 Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd. was established on 21st January 1986 as a third joint venture bank under the company act1964. The bank is managed by Banque Indosuez, Paris in according with joint venture and technical services agreement signed between it and Nepalese promoter's and shareholders. The group of the companies is holding 50% of the capital, RBB holding 15% of the capital, Rastriya Beema Sansthan holding 15% of capital. The general public is holding the remaining 20%. It has been awarded by Bank of the year Award-2005.The market price per share, cash dividend, stock dividend, total dividend per share, annual return, expected return, standard deviation and coefficient of variation are presented in the table below.The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

Table No. 4.15

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of NIB

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return
	High	Low	Closing	Cash	Stock	Total	(R_j)
01/02	1150	575	760	-	-	-	-
02/03	890	635	795	20	-	20	0.0723
03/04	942	745	940	15	-	15	0.2012
04/05	1430	760	800	12.5	-	12.5	-0.1356
05/06	1265	762	1260	20	35.46%	643.75	1.3797
06/07	1759	1000	1729	5	25%	617.5	0.8861
N=5						ΣR_j	2.4037
Expected Return ($\overline{Rj}$)							0.4807
Standard Deviation (σ_j)							0.6320
Coefficient of Variation (CV)							1.3147

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 05/06 = Rs 20 + 0.3546 x 1759 = Rs 643.74.

FY 06/07 = Rs 5 + 0.25 x 2450* = Rs 617.50.

* Closing market price of stock in the fiscal year 07/08 is Rs 2450.

The closing market price of NIB is higher in the year 06/07 i.e. Rs.1729 and minimum in the year 02/03 i.e. Rs.795. The NIB has given cash dividend in the presented years and also stock dividend 35.46% and 25% in the fiscal year 05/06 and 06/07 respectively.

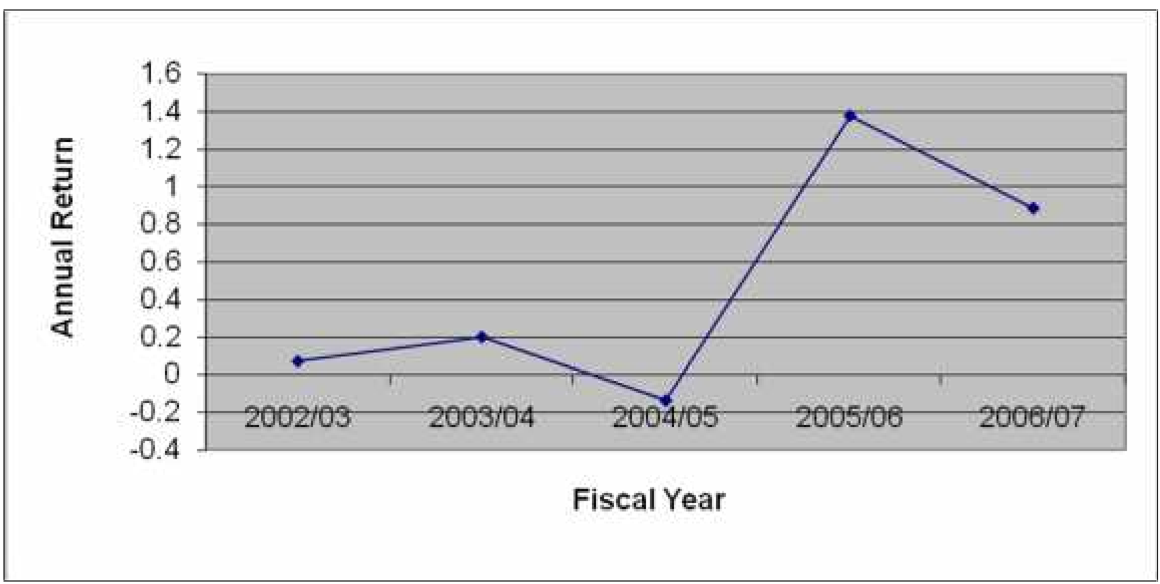
The annual return on common stock of Nepal Investment Bank Ltd. are also presented on diagram.

The range of annual return on the common stock is from negative return 13.56 percent lowest in the year 04/05 to highest 137.97 percent in the year 05/06. The annual return is highly fluctuated in the respected years. From the above data expected return is 48.07 percent. The total risk of NIB i.e. standard deviation is 0.6320 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 1.3147 which means for earning one unit of return the investors has to bear 1.3147 unit of risk.

To make a comparison easily understandable the annual return on common stock of NIB bank are also presented on diagram.

Figure-4.3

Yearly Return on Common Stock of NIB



4.3.4 Standard Chartered Bank Nepal Ltd.

SBNL was established in 1985 as a second joint venture bank under company act 1964. Standard chartered Bank, England is managing the bank under joint venture and technical services agreement signed between bank and Nepalese promoters.

Its ownership is 75% of the shares held by Standard Chartered Grindlays Bank, 25% of shares by local ownership. Standard Chartered plays an active role in supporting these communities in which its customers and staffs live. The focus of all the Standard Chartered group is on project that assists needy children, particularly in the area of education and environment. The Bank has been the pioneer in introducing consumer focused product and services in the country.

The market price per share, cash dividend, stock dividend, total dividend per share expected return, standard deviation, and coefficient of variation are presented in the table below.

Table No. 4.16

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of SCBNL

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return
	High	Low	Closing	Cash	Stock	Total	(R_j)
01/02	2100	1000	1550	-	-	-	-
02/03	1760	1380	1640	110	10%	284.5	0.2416
03/04	1800	1520	1745	110	-	110	0.1311
04/05	2350	1553	2345	120	-	120	0.4126
05/06	3775	2200	3775	130	10%	720	0.9168
06/07	5900	3058	5900	80	50%*	3495	1.4887
N=5						Σ Rj	3.1908
Expected Return ($\overline{R}j$)							0.6382
Standard Deviation (σ_j)							0.5626
Coefficient of Variation (CV)							0.8815

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 02/03 = Rs 110 + 0.10 x 1745 = Rs 284.50.

FY 05/06 = Rs 130 + 0.10 x 5900 = Rs 720.

FY 06/07 = Rs 80 + 0.50 x 6830* = Rs 3495.

- Closing market price of the stock in the fiscal year 07/08 is Rs 6830.

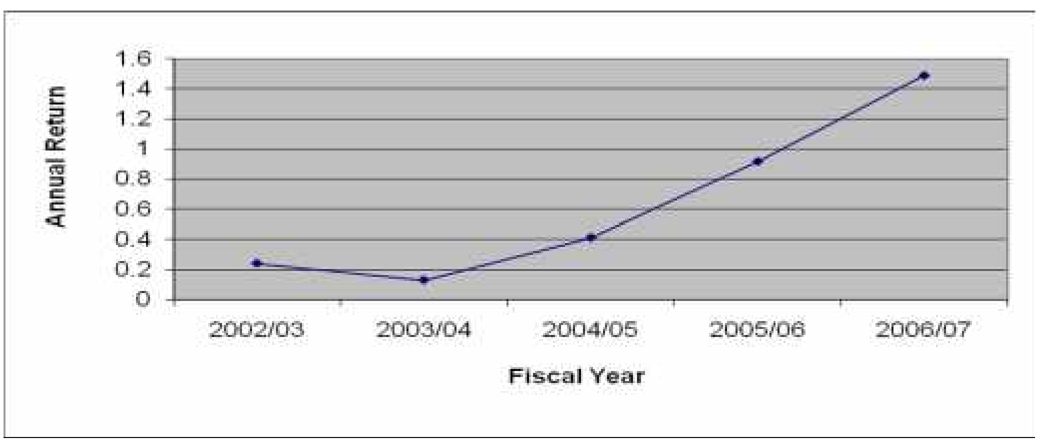
The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

The closing market price of SCBNL is higher in the year 06/07 i.e. Rs.5900 and minimum in the year 02/03 i.e. Rs.1640. The SCBNL has given more than 100 percent cash dividend throughout the presented year and also provided stock dividend 10%, 10% and 50% in the year fiscal year 03/04, 05/06 and 06/07 respectively.

The range of annual return on the common stock of SCBNL is from 12.16 percent in the year 02/03 to 148.87 percent in the year 06/07. The trend of yearly return is gradually in increasing trend. From the above data expected return is 63.82 percent. The total risk of SCBNL i.e. standard deviation is 0.5626 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 0.8815 which means for earning one unit of return the investors has to bear 0.8815 unit of risk.To make a comparison easily understandable the annual return on common stock of SCBNL bank are also presented on diagram.

Figure: 4.4

Yearly Return on Common Stock of SCBNL



4.3.5 Bank of Kathmandu Ltd.

Bank of Kathmandu is seventh joint venture bank established in 1993A.D.(2050 B.S), in collaboration with the SIAM Commercial Bank PCC, Thailand situated in Kamaladi, Kathmandu. The SIAM Commercial Bank out of its 30% holding diluted its 25% holding to the Nepalese citizens in 1998. Only 5% shares capital has been held by the SIAM Commercial Bank with the dilution of Thailand while 45% of share Capital has been in control of Nepalese promoters and remaining 25% is held by the general public of Nepal. The market price per share, cash dividend, stock dividend, total dividend per share, annual return, expected return, standard deviation and coefficient of variation are presented in the table below.

Table No. 4.17

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of BOK

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return
	High	Low	Closing	Cash	Stock	Total	(R_j)
01/02	850	225	254	-	-	-	-
02/03	300	195	198	5	-	5	-0.2007
03/04	310	175	295	10	-	10	0.5404
04/05	472	280	430	15	-	15	0.5084
05/06	881	422	850	18	12%	183	1.4023
06/07	1375	691	1375	20	-	20	0.6412
N=5						ΣR_j	3.2930
Expected Return ($\overline{R}j$)							0.6586
Standard Deviation (σ_j)							0.5762
Coefficient of Variation (CV)							0.8748

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 05/06 = Rs 18 + 0.12 x 1375 = Rs 183.

The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

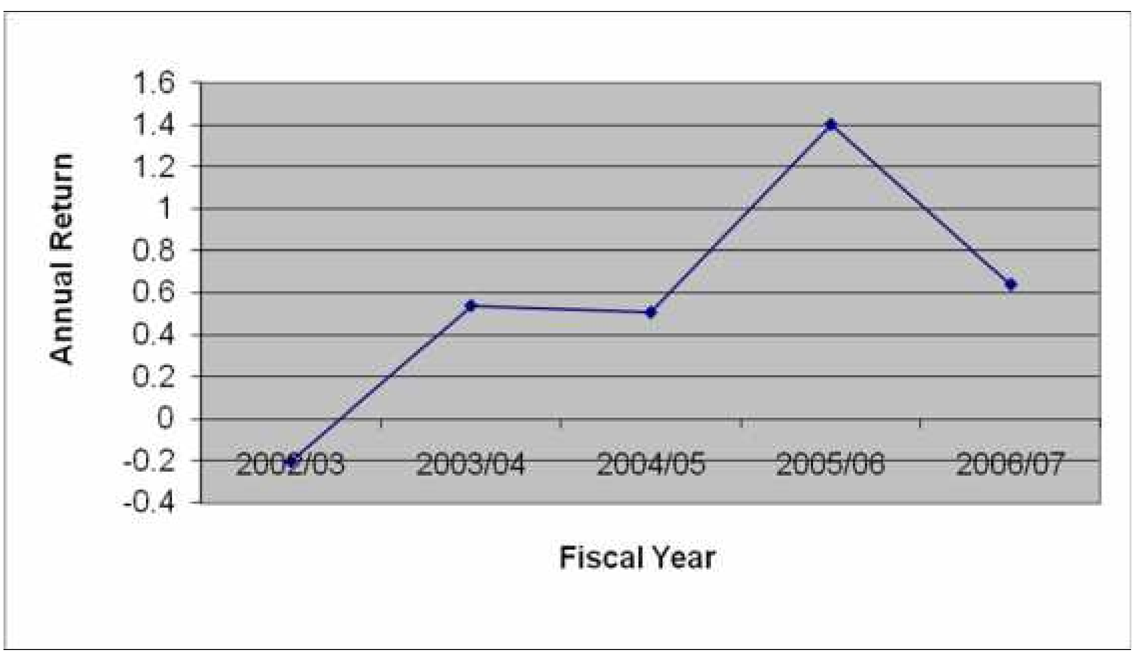
The closing market price of BOK is higher in the year 06/07 i.e. Rs1375 and minimum in the year 02/03 i.e. Rs.198. The BOK has given cash dividend throughout the presented year and also provide stock dividend in the fiscal year 05/06.

The range of annual return on the common stock of BOK is found negative 20.07 percent in the year 02/03 and maximum 140.23 in the year 05/06. From the above data expected return is 65.86 percent. The total risk of BOK i.e. standard deviation is 0.5762 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 0.8748 which means for earning one unit of return the investors has to bear 0.8748 unit of risk.

To make a comparison easily understandable the annual return on common stock of BOK bank are also presented on diagram.

Figure: 4.5

Yearly Return on Common Stock of BOK



4.3.6 Everest Bank Ltd.

Everest Bank Limited is the seventh joint venture bank established in 1993 A.D. under the company act1964. with the joint venture of Punjab National Bank Limited India. Overall management of the bank is managed by the foreign counterpart.

It has a main policy is to grant a loan as possible rate and through easy procedures, beside many others commercial activities. The local Nepalese promoters holds 50% stake in the bank's equity, While joint venture partner of Punjab National Bank contributes 20% of equity whereas the public holds remaining 30%.

The market price per share, cash dividend, stock dividend, total dividend per share, annual return, expected return, standard deviation and coefficient of variation are presented in the table below.

Table No. 4.18

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of EBL

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return
	High	Low	Closing	Cash	Stock	Total	(R_j)
01/02	740	325	430	-	-	-	-
02/03	490	349	445	20	-	20	0.0814
03/04	723	400	680	20	-	20	0.5730
04/05	905	625	870	-	20%	275.80	0.6850
05/06	1410	800	1379	25	-	25	0.6138
06/07	2430	1100	2430	10	20%	636.40	1.2236
N=5						ΣR_j	3.1768
Expected Return ($\overline{R}_j$)							0.6354
Standard Deviation (σ_j)							0.4060
Coefficient of Variation (CV)							0.6390

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 04/05 = Rs 0 + 0.20 x 1379 = Rs 275.80.

FY 06/07 = Rs 10 + 0.20 x 3132* = Rs 636.40.

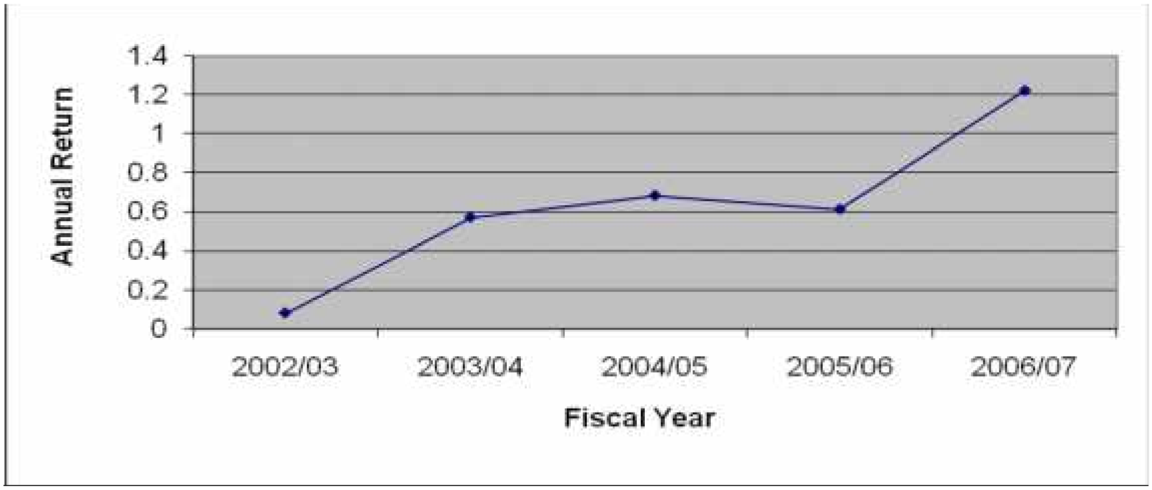
* Closing market price of the stock for the fiscal year 07/08 is Rs 3132.

The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology

The closing market price of EBL is higher in the year 06/07 i.e. Rs.2430 and minimum in the year 02/03 i.e. Rs.445. The market price of EBL is in increasing trend. EBL has given cash dividend in the presented years and also provided stock dividend 20% each in the fiscal year 04/05 and 06/07.The annual return on the common stock of EBL is minimum 8.14 in the year 02/03. The highest return is 122.36 percent in the year 06/07. From the above data expected return is 63.54 percent. The total risk of EBL i.e. standard deviation is 0.4060 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 0.6390 which means for earning one unit of return the investors has to bear 0.6390 unit of risk.To make a comparison easily understandable the annual return on common stock of EBL bank are also presented on diagram.

Figure: 4.6

Yearly Return on Common Stock of EBL



4.3.7 Nepal SBI Bank Ltd.

Nepal SBI Bank Limited is another joint venture bank was incorporated in 1993 A.D. under the company act1964. It is managed by the State Bank of India under joint venture and technical services arrangement signed between it and Nepalese promoters. State Bank of India is holding its 50% of equity shares. The main objectives of bank is to carry out modern banking business in the country under commercial bank act 1974. The bank is one of the largest shareholders based company.The market price per share of SBI, cash dividend, stock dividend, total dividend per share, annual return, expected return, standard deviation and coefficient of variation are presented in the table below.The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

Table No. 4.19

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of SBI

FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return (R_j)
	High	Low	Closing	Cash	Stock	Total	
01/02	1600	300	401	-	-	-	-
02/03	410	255	255	8	-	8	-0.3441

03/04	307	231	307	-	-	-	0.2039
04/05	480	315	335	-	-	-	0.0912
05/06	689	335	612	5	-	5	0.8418
06/07	3301176	505	1176	12.59	35%*	541.44	1.8062
N=5						ΣR_j	2.5990
Expected Return ($\bar{R}_j$)							0.5198
Standard Deviation (σ_j)							0.8348
Coefficient of Variation (CV)							1.6062

(Sources: Annual report of SEBON)

Calculation of total dividend:

FY 06/07 = Rs 12.59 + 0.35 x 1511* = Rs 541.44.

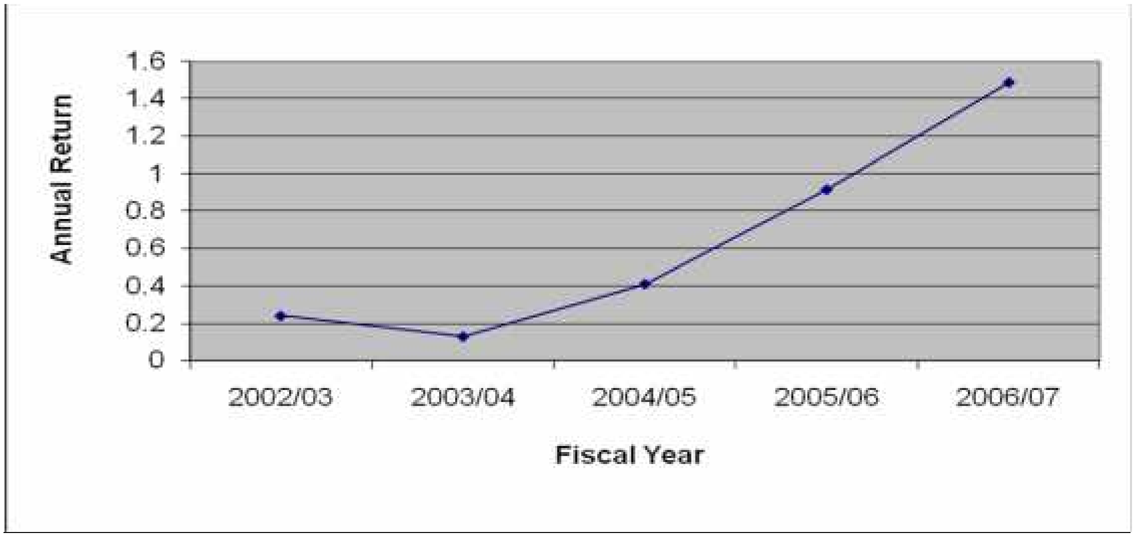
* Closing market price of the stock for the fiscal year 07/08 is Rs 1511.

The closing market price of SBI is higher in the year 06/07 i.e. Rs.1176 and minimum in the year 02/03 i.e. Rs.255..SBI has given cash dividend in the fiscal fears 02/03,05/06 and 06/07 and also provided stock dividend 35% in the fiscal year 06/07.The range of annual return on the common stock of SBI is found negative 0.3441percent in the year 02/03. The highest return is 180.62 percent in the year 06/07. From the above data expected return is 51.98 percent. The total risk of SBI i.e. standard deviation is 0.8348 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 1.6062 which means for earning one unit of return the investors has to bear 1.6062 unit of risk.

To make a comparison easily understandable the annual return on common stock of SBI bank are also presented on diagram.

Figure: 4.7

Yearly Return on Common Stock of SBI



4.3.8 Nepal Bangladesh Bank Ltd.

Nepal Bangladesh Bank a joint venture bank with International Finance Investment and Commerce Bank (IFCI) Ltd; of Bangladesh, was established in june, 1994 under the company act 1964. The bank is managed by IFIC bank Ltd, Bangladesh in accordance with the joint venture and technical services agreement between it and Nepali promoters. 50% of its share capital have been hold by IFIC Bank Ltd. Of Bangladesh and 20% of the share capital have been hold by Nepali Promoters and remaining 30% by public shareholders. With the objectives of facilitating the reliable, prompt, and high standard of banking services adopting the latest version banking technology in compliance with the need and demand of market. The market price per share of NBB, cash dividend, stock dividend, total dividend, annual return, expected return, standard deviation and coefficient of variation are presented in the table below. The total dividend, expected return, standard deviation and coefficient of variation are calculated as per the tools mentioned earlier in the research methodology.

Table No. 4.20

MPS, DPS, Annual Return, Expected Return, Standard Deviation and CV of NBB

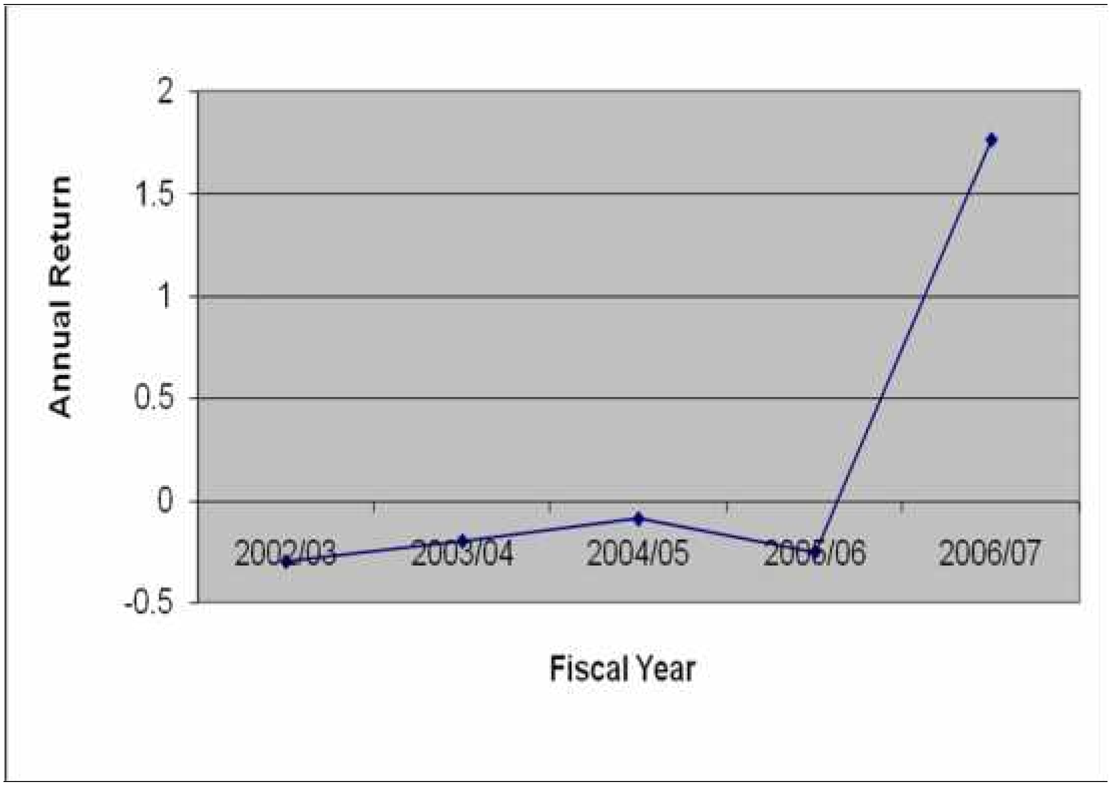
FY	Market price per share (P_t)			Dividend per share (D_t)			Annual return (R_j)
	High	Low	Closing	Cash	Stock	Total	
01/02	1200	340	510	-	-	-	-
02/03	535	341	360	-	-	-	-0.2941
03/04	477	290	290	-	-	-	-0.1944
04/05	324	214	265	-	-	-	-0.0862
05/06	300	152	199	-	-	-	-0.2490
06/07	550	198	550	-	-	-	1.7638
N=5						ΣR_j	0.9404
Expected Return ($\overline{R}j$)							0.1880
Standard Deviation (σ_j)							0.8842
Coefficient of Variation (CV)							4.7032

(Sources: Annual report of SEBON)

The closing market price of NBB is higher in the year 06/07 i.e. Rs.550 and minimum in the year 05/06 i.e. Rs.199. The market price of NBB has fluctuated randomly over the period then smoothly increasing at the end of the presented years. NBB has not provided any cash and stock dividend in the presented years. The range of annual return on the common stock of NBB is found negative in the year 02/03 to 05/06 and in the year 06/07 it is positive i.e. 176.38 percent. From the above data expected return is 18.80 percent. The total risk of NBB i.e. standard deviation is 0.8842 and the relative measure of dispersion based on standard deviation i.e. CV is found to be 4.7032 which means for earning one unit of return the investors has to bear 4.7032 unit of risk.To make a comparison easily understandable the annual return on common stock of SBI bank are also presented on diagram.

Figure: 4.8

Yearly Return on Common Stock of NBB



4.4 Internal Security Comparison

In this section, the comparison between different securities taken as a sample for this study is compared. The comparison is made in terms of expected return, standard deviation and the coefficient of variation.

Table: 4.21

Expected Return, Standard Deviation and Coefficient of Variation of Selected Companies.

Securities	Expected Return	Standard Deviation	Coefficient of Variance	Remarks		
				Return	Risk	C.V.
NABIL	0.7750	0.8434	1.0883	Highest	-	-
HBL	0.4038	0.3904	0.9668	-	Lowest	-
NIB	0.4807	0.6320	1.3147	-	-	-
SCB	0.6382	0.5626	0.8815	-	-	-
BOK	0.6586	0.5762	0.8748	-	-	-
EBL	0.6354	0.4060	0.6390	-	-	Lowest
SBI	0.5198	0.8348	1.6062	-	-	-
NBB	0.1880	0.8842	4.7032	Lowest	Highest	Highest

In the above table, the expected return of NABIL has maximum and minimum of NBB. From the return point of view, investors should invest their money to buy securities of NABIL. If we analyze the risk of sample companies, NBB has highest risk whereas HBL has lowest risk. From the risk point of view, it is better to invest in securities of HBL. In sum, if investor has a desire to invest their money by analyzing both risk and return then they should go for EBL because EBL has low coefficient of variation comparing to other sample companies.

4.5. Analysis of Market Index

In this section, overall return of market is computed on the basis of closing NEPSE index.

Table: 4.22

Computation of market return based on closing NEPSE Index

Year	NEPSE INDEX (I)	Market Return (R_m)	$R_m-\overline{R}_m$	$(R_m-\overline{R}_m)^2$
01/02	227.54			
02/03	204.86	-0.0997	-0.3782	0.1430
03/04	222.04	0.0838	-0.1947	0.0379
04/05	286.67	0.2911	0.0126	0.0002
05/06	386.83	0.3494	0.0709	0.0050
06/07	683.95	0.7681	0.4896	0.2397
Average Market Return		0.2785		
Market Standard Deviation		0.3262		
Coefficient of Variance		1.1712		

(Sources: Annual report of SEBON)

The trend of market return shows that at the first year the overall market return is negative i.e. -9.97 for the year 02/03 and the market return for the year 04/05 increased significantly to 29.11 percent and it again increased to 34.94 percent in the year 05/06 and increased to 76.81on year 06/07. The trend shows that the market return is in increasing trend. From the market return of five year, the expected return on market is calculated as 27.85 percent and the standard deviation is found as 0.3262. By relating the market return with the market standard deviation, market CV i.e. risks per unit of return is calculated as 1.1712. Hence in the market as a whole, for 100 percent return, the risk shall be more than one times i.e. 1.1712 percent.

4.6. Comparison of Individual Securities Return with Market Return

In this section, the comparison of individual stock return with market return is presented. The market return, calculated on the basis of closing NEPSE index is used in this section.

Table: 4.23

Comparison of Individual Securities with Market Return

Securities	Expected Return	Standard Deviation	Coefficient of Variance
NABIL	0.7750	0.8434	1.0883
HBL	0.4038	0.3904	0.9668
NIB	0.4807	0.6320	1.3147
SCB	0. 6382	0.5626	0.8815
BOK	0.6586	0.5762	0.8748
EBL	0.6354	0.4060	0.6390.
SBI	0.5198	0.8348	1.6062
NBB	0. 1880	0.8842	4.7032

Market Return	0.2785	0.3262	1.1712

In the above table, the expected return of NABIL has maximum i.e. 77.50 percent and minimum of NBB i.e. 18.80 percent respect to other sample companies which is lower than the market return i.e. 27.85 percent. All the sample companies has higher return in comparison to market return except NBB. As there is high return of NABIL among all those companies, there is high risk for the investors to invest their money. HBL has the low standard deviation among the all sample companies so by considering the risk factor investing in HBL is appropriate for the investors. The coefficient of variation of the market is determined as 1.7212, which indicates that there are 1.7212 units of risk in order to get, earnings 1 more unit of return. NBB has higher CV respect to other sample companies while EBL has the lower among all.

CHAPTER-V

MAJOR FINDINGS, SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is the final body of this research. It contains major findings of this study, summarize description of the research., conclusion drawn from this research and the recommendations to correct some aspects to improve the position of the Nepalese stock market is also presented in this chapter.

Major Findings

The study was based mainly on primary data, collected by using questionnaire. In addition, secondary data have also been used to full fill the objectives of this research.

Some of the major findings of this analysis from both primary and secondary data are summarized and presented as follows:

- From the collection of the primary data using the questionnaire it was found that investors feel the investment on popular common stock since it provide sufficient return in comparison of other field of investment. But some also showed their dissatisfaction and regarded others sector of investment as better than investing in shares. So the companies established in the sector of manufacturing, trading, service and others should also try to provide sufficient yearly dividend and held Annual General Meeting on regular basis to attract the investors in share investment.
- From the questionnaire the investors were found to be at very low level as far as the awareness in share trading is concerned. They are also found to be very highly influenced by the whim and rumor related to share prices. Investors should aware regarding securities trading mechanism, price formation, legal provisions, theoretical knowledge of investment etc. The investors' awareness plays vital role in development of fair securities market. More aware investors can protest themselves. In developed countries investors are more aware and it is very difficult to cheat them by any party but investors in under-developed countries like Nepal are little aware of securities investment that's why they can easily be cheated.
- Therefore, investors of our capital market need more protection. Awareness can be raised educating investors through interaction, programs, seminars and publication of booklets. The more investors are aware, the more they are

protected. So NEPSE, SEBON and others companies should conduct the investors awareness programs regularly to attract investors in share investment.

- Investors believed that the real and timely information should be provided to the investors to maintain the efficient share trading in the market. They said that the flow of financial information from the trading, manufacturing and service companies were especially at very poor level. That was why mainly the lack of information was hampering the efficient in the stock market. Because of the lack of education and technical qualification, most of the investors acted as “I too shareholders”. No one used to analyze before they invest in share they only analyze the market supply and demand factors.
- The only factors that was crucial in price formation in Nepalese share market was the demand and supply of share of a particular company. Investors did not analyzing others factors while investing their money into. They wanted to buy the shares of the company whose demand was very high in the market. So that they could make speculative profit by buying the shares of that particular company at lower and selling them in higher price.
- The price of the stock depends upon the voice of the broker. The brokers activities play a little role to some extends only. The price information depends upon actual information given by the company.
- Investors to know what types of services they were presently getting from the brokers and the companies. It is most thinks to put their mind in first before taking investing in shares over the brokers’ advice.

- The return is the income received on a stock investment, which is usually expressed in percentage. Expected return on the common stock of NABIL is maximum (77.50% which is very high rate of return). In reality this rate exists only due to the effect of unrealistic annual return because of issue of banks shares and increase in share price. Similarly expected return of the common stock of NBB is found minimum i.e. 18.80%.
- Risk is the variability of returns which is measured in term of standard deviation. Common stock of NBB is most risky since it has high standard deviation i.e. 0.8882. Similarly the common stock of HBL is least risky because of its lowest standard deviation i.e. 0.3904. in the other hand, we know that coefficient of variation (CV) is more rational basis of investment decision. Which measures the risk per unit of return on the basis of CV; Common stock of EBL is the best among all banks. EBL has 0.6390 unit of risk per 1 unit of return. But common stock of NBB has the highest risk per unit of return i.e. 4.7032.

Most of the investors invest only keeping the return on the mind but they are found unable to calculate the risk factors of the security. Most of the Nepalese private investors invest in single security. Some of the investors use their fund in two or more securities. But it is sound that they do not make any analysis of portfolio before selecting security. They invest their fund in different securities on the basis of expectation and assumption of individual securities rather than analysis of the effect of portfolio. I have seen that they do not knowledge of the risk diversification by using portfolio of their investment. Investors fears on decrement of the stock price when it is in increasing trend, hence they want to sell the stocks and when there is decreasing trend of MPS of stocks, they predict market price further decrease and want to sell the stock. Most of the investors want to invest in moderate level of risk with moderate return. Investors thinking about risk, analyzing the investment before and their consultation habit with experts and professionals is not satisfactory. Investing without analyzing and taking expert's opinion may increase the risk.

Summary

Fair and timely information disclosure is essential ingredient to function the security market efficiently. Information deficiency in the capital market may be one of the reasons for determination of share price by excessive speculation. This may lead to the domination by the gamblers and speculators in the capital market. The regulatory norms on submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investor protection.

The first chapter of this research concludes background of the study, focus of the study, statement of the study and limitation of the study. This study was conducted to analyze the investor's awareness in Nepalese stock market. The first objective was to explore the present transaction system of stock market. Similarly, second objective of this research was to examine whether the investors are fully aware or not in the share trading system. Third objective of this research was to analyze and evaluate the risk and return of common stock of some selected banking and finance companies. Finally the last objective was to give suggestion and recommendation to the concern persons and office.The second chapter is review of literature. The review is done on the topic INVESTORS' AWARENESS IN NEPALESE STOCK MARKET. Review of literature is conducted separately through review of article, books, journals, dissertations, company prospectus etc. In this chapter the major terms as well as tools has been described briefly. Similarly review of different research, articles and journals are also presented in the chapter.

The third chapter is research mythology. It relates to the overall approach to the research process. Research methodology is the way to solve a research problem systematically. It describes the methods and process followed in the entire research process. Hence this chapter deals with the method and process applied for this research study. This study covers quantitative methodology in a greater extent and also uses descriptive methods based on both technical and logical aspects. On the basis of historical data, different financial and statistical tools are used for the analysis of different variables. Component of research methodology are also presented to give clearer picture.

In the fourth chapter, different data collected has been presented separately. This is the main body of the research which gave the different output to fulfill the objective of the research. To fulfill such objective, I have collected both primary as well as secondary data and analyze it in my best knowledge. Primary data has been collected by structured questionnaire. It has been distributed to the 80 investors randomly and gathered different opinion from them.

Beside it, I have gathered verbal information from different respondent of Nepal Stock Exchange and Security Board Nepal. It has been presented in the same chapter to know the current transaction or trade system of stocks.

Similarly, I have gathered secondary data from current annual report of SEBON. It is risk and return of different selected banks and finance companies. The collected data has been analyzed and presented by using different financial and statistical tools in the same chapter.Further, overall return of market is computed on the basis of closing NEPSE index. Side by side the comparison of individual stock return with market return is presented in the same chapter.The study was based mainly on primary data, collected by using questionnaire. In addition, secondary data have also been used to full fill the objectives of this research. At the end of the chapter, some of the major findings of this analysis from both primary and secondary data are summarized and presented.

Conclusion

The awareness of investors about the company in which they are investing is not satisfactory as they give more emphasis on banking sector for investment. Investing without knowledge about capital structure, founder and management and future plan of the company may leads the investment towards the wrong way and there will be greater probability of suffering loss. There is high chance of exploitations of the investors by the market intermediaries, as the awareness of investors about the rules and regulations on the behalf of them is not satisfactory. Due to the high degree of dissatisfaction to the rules and regulations among investors, it is concluded that the existing rules and regulations are not appropriate and in favor of investors. 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. There is prevalent belief that buying share is a sure shot way of making profit. They do not think the decrement of share price from its par value. 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.

Recommendations

There is no doubt that the level of awareness of investors in Nepalese capital market is quite low. It is thus necessary to increase the level of awareness of individual investors towards various aspects of capital market. Based on the finding of the study, the following recommendations have been made.

- The transparency and openness of transactions, quality of professional service and improved legal regulatory and supervisory frameworks are the urgent needs to build up the confidence of the potential investors in Nepalese capital market. This requires an integral plan of action not piecemeal effort.
- Policy should be adopted to attract the investors towards the secondary market to mobilize high liquidity of market.

- Investors should make a proper analysis or consultation with experts before selling or purchasing the securities. NEPSE and SEBON should manage the sufficient, updated and relevant information about the listed companies that would help the investors in their investment decision making.
- Investors should be aware about the rules and regulation and the function of stock exchange and capital market to protect them from being exploited. The rules and regulation should be timely updated and its implementation should be effective.
- Policy should be adopted to reduce the exploitation of the investors by the market intermediaries and to stop manipulation practices. Effective measure should also be taken to make the market more efficient.
- Investors should be adopted to reduce the exploitation of the investors by the market intermediaries and to stop manipulation practices. Effective measure should also be taken to make the market more efficient.
- Investor should analyze the financial performance of the company, its current position and future plans before investing in its securities. This is one game where self-knowledge, superior forecasting ability and understanding about the information can give a winning edge to the investor.
- Although SEBON has been trying to enhance the understanding of the existing stock investors and the potential investors by disseminating the information using various media and its own publications, it is not enough and satisfactory. Investors outside Kathmandu valley are facing various difficulties in getting information regarding securities market. So it should make necessary

arrangements to increase the participation of investors outside of kathmandu valley.

- As investors are less informed and less aware there will be greater chance of exploitation. In this regard, suitable packages of information for investor's should be developed and awareness program should be lunched through different media.
- To protect investor's interest on capital market, the government should promulgate the suitable policies. The amendment of concerned act and its regulations should be made.
- Market professionalism should be developed. Research on emerging issues on capital market should be conducted. Programs should be lunched to educate investors. There should be effective contribution of public companies on investor's awareness program.
- Investors should consult brokers and professionals before making investment decision. Investors should change their perception about banking sector as an always profitable one. They must search other sectors that can provide high return with low risk. Brokers and professional services on stock market should be expanded.
- Investors should invest by making portfolio of different sectors to minimize risk and maximize return. Portfolio should be constructed on negatively correlated assets to reduce significant level of risk.
- Informed and well aware investors are the back bone for the development of capital market. They should define their priorities themselves. Every investor should read journals and newspapers as well as there publications related to stock

market issues of different organization. They should keep record of daily stock price and trading volume published by NEPSE.

- In the age of modern developed technology, the trading system of NEPSE needs to be modernized. It needs to develop efficient and effective information channel to provide updated data and related information. NEPSE needs to initiate different programs for investor's education through investor's meetings and seminars in different subject matters of stock market.
- As a main regulatory body SEBON needs to take quick action against breaking rules and regulatory by any company or any other components of stock markets. Situation of getting benefit in breaking rules and regulation should be avoided. SEBON should examine the company's performance before giving approval to issue shares to the general public. Presentation of fake information and artificial data should be controlled and that should be punished to protect investors from exploitation.